SUMMER PROGRAM ON BIOENTREPRENEURSHIP 2008

Session 2: Bio-Entrepreneurship: Successful University Licensing

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Steps to Success

1. Get prepared
2. Negotiate a term sheet
3. Option vs License Agreement?
4. Create a Schedule
5. Use the University’s Form
6. Make it win-win—“It’s only the beginning”
GET PREPARED

• Understand what are you licensing
  – patent rights/know-how/software/other

• Evaluate the business opportunity
  – The product
  – Market size
  – Existing players
  – The technology fit
  – Pricing/margins
  – Investment requirements

• Talk to others
  – Colleagues/Friends
  – Attorneys
NEGOTIATE A TERM SHEET

• Allows you to resolve the business issues first
• Avoids getting mired in the weeds
• Who prepares?
WHAT ARE THE KEY ISSUES?

• Scope of the License
  – Subject matter
  – Exclusivity
  – Field
  – Period (Life of patent rights vs. something less)

• Economics
  – Royalty (Rate, Minimums, Basis, Stacking)
  – Upfront (Cash, Equity)
  – Milestone payments (Derisking the opportunity)
  – Sublicensing Revenue Sharing
  – Other (Assignment fees, Patent fees, ...)
WHAT ARE THE KEY ISSUES? (2)

• Diligence
  – Build the business model
  – Objective
  – Give yourself room
  – The issue is not the University, it’s the financiers and the partners

• Other matters
  – Patent prosecution/enforcement
  – Sublicense matters
OPTION VS. LICENSE AGREEMENT

• Option
  – Gives you time to complete additional work/diligence
  – Usually can be completed quickly
  – Can include a term sheet
  – Usually requires that you reimburse expenses

• License Agreement
  – Gives you certainty
  – You’ll have to go there
CREATE A SCHEDULE

• A schedule creates a useful time pressure and sets expectations
• Be realistic
• If you want the other side to meet their schedule, make sure you live by yours
• Communicate often—follow up
USE THE UNIVERSITY’S FORM

• Avoids need for extensive revision (saves time)
  – Addresses University’s needs/concern
  – Often specific language has been mandated

• You will get an opportunity

• Things that are generally required:
  – Indemnification
  – Insurance
  – Diligence

• Things you won’t get:
  – Ownership of university inventions
  – Ability to block publication
  – Extensive representations & warranties
MAKE IT WIN-WIN
(It’s only the beginning)

• Communication is key
• The negotiation/agreement is only the beginning of the relationship
• Stay above the fray—let the attorneys be the bad guys
• Keep perspective—it’s about creating a successful company not getting a perfect license
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Session 2: Bio-Entrepreneurship: How the Pieces Fit Together

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What is a corporation?

- Separate legal entity
- Owned by shareholders
- Controlled by Board of Directors
Why incorporate?

• Avoid personal liability
• Facilitate raising funds
• Easy to divide ownership into bite-size pieces
Why a corporation?

- Easier to issue stock to employees than in LLC
- Customary for investors
- Tax issues
When to incorporate?

- When you get someone else involved in the company
- When you deal with a third party
Who to include?

• People who will be contributing
• Technology providers
• Investors
How to incorporate?

- See a lawyer
- Allocate initial stock
- Select Board of Directors
- Select officers
Corporate Finance 101:

• Common Stock
  – Allocate initial stock
  – Determine vesting

• Preferred Stock
  – Investors prefer it
  – Additional rights and privileges
  – Liquidation preference
  – Anti-dilution rights
  – Voting rights
  – Registration rights
Potential problems:

• Don’t promise a percentage of the company to someone
  – What does this really mean – percentage of what, pre-financing? Post-financing? Forever?

• Even if you promise or grant a fixed number of shares, should it be based on that person remaining involved?

• Don’t promise cash or stock to someone if they help you raise money – what does this really mean?

• Don’t take money from someone without agreeing in writing to all the details

• Don’t authorize just enough stock for the initial issuance – now you need the consent of the shareholders to issue more stock

• Don’t grant the right to provide all future financing to anyone
Putting it all together:

• Right mix of incentives and rewards
• Appropriate allocation of control
• Set the stage for future financings and continued growth