

2. GET Technology

NEGOTIATE A LICENSING AGREEMENT

AKUSTICA MADE THE RIGHT MOVES GETTING CMU TECHNOLOGY TO MARKET

When Akustica, Inc. was being launched in 2001, it fashioned a key license agreement with Carnegie Mellon University that initially involved four patents covering technology developed at CMU. That type of intellectual property portfolio can be the foundation of a successful startup, putting it ahead of potential competitors and serving as a unique attraction for employees, directors and investors.

"How significant is the agreement? Ten out of 10," says Jim Rock, Akustica Co-Founder and CEO. "It's the heart of the company. Without the technology that we've licensed, Akustica wouldn't exist."

Ken Gabriel, Akustica Co-Founder, Chairman and Chief Technology Officer, thinks of the agreement as a jewel of sorts.

"If you want to get poetic, it's the grain of sand of the pearl that we're building around it," Gabriel says.

From its South Side headquarters, Akustica has moved rapidly along the path to success. It's a pioneer in MEMS, short for microelectromechanical systems, which was developed in the mid-1980s as a way to introduce new functionality to extremely small components. With CMU's MEMS technology, semiconductor materials are etched and layered with microscopic structures to add mechanical capabilities to traditional semiconductor chips.

Akustica's niche is audio devices, and it's planning feature-rich chips that will replace conventional microphones and near-field speakers in such products as cell phones, PCs, cameras, cars and medical equipment. Investors have recognized the vast potential, eagerly participating in Akustica financing that totals about \$13.5 million.

In negotiating its license agreement, Akustica had a distinct advantage; Gabriel not only helped develop MEMS technology while working for CMU, but he's also been called the "architect" of the field. That created an immediate comfort zone for the University.

Akustica and CMU's office of technology transfer needed two-and-a-half months to finalize a mutually satisfactory deal. Here are some insights that Akustica learned during the process

that may help you pursue your bedrock license agreement:

Do your homework.

You wouldn't approach a heavyweight investor without a business plan detailing your company leadership, employees, products, markets and financing – so don't present your would-be technology partner with anything less.

"It's asking a lot to assume that [a technology transfer] office will understand every single market and every single potential business play within that market," Gabriel says. "There's a vast difference between licensing a software play, a biomedical play or a semiconductor play as we are."

Those initial discussions will go more smoothly if you can demonstrate your viability and the ability to attract funding from investors, even at that early stage. It's the old chicken-egg problem, since you no doubt were counting on the license agreement as a major tool on the financing trail – but bootstrapping an initial stake before the negotiations begin is vital. Peter Watt-Morse of Morgan, Lewis & Bockius LLP, the law firm that currently represents Akustica, notes that:

"Once it has its major agreement in place, it is easier for a company to get financing. But you have to do enough fund-raising beforehand to get the major agreement completed."

Involve your attorneys early.

If your lawyers are experienced in the tech sector, chances are they've seen more license agreements than you

have. Rock and Gabriel knew that and had counsel along from the very start.

"It's so complicated – it's not something an entrepreneur could or should do alone," Rock says. "Our attorneys are our business partners, not contract reviewers and writers. You must understand the difference to be successful."

"I've seen many entrepreneurs treat their lawyers like lawyers and call them after they themselves have done a lot of the negotiating. That's a huge mistake."

Progress as quickly as you can.

Here's another paradox of the licensing process: Most will take at least several months to achieve because of their complexity, yet it's in the interest of startups to move as rapidly as possible. Should things turn sluggish, you face the risk that the people across the table will be replaced, sending you back to square one.

"Part of building one of these strategic agreements is finding a champion and hoping your champion stays put," Watt-Morse says. "When you're dealing with a large company or university, people tend to change jobs. It's one of the reasons you want to move quickly. If it drags out and you get a change in personnel, it could kill the deal."

Customize your agreement where necessary.

A university or large corporation may have a license agreement template that doesn't quite fit your business model.

Before you propose any customization, make your partner aware of your needs and why they're different.

"It's important to educate the licensor about who you are and help them understand how to rationally structure an agreement within their framework," Gabriel says.

Akustica, for example, is "fables" — it outsources production of its chip wafers. That means Akustica must share its technology with contractors, an arrangement many license agreements would not accommodate. By familiarizing CMU with this need, Akustica was able to customize the deal accordingly.

"It may not be typical to have those sublicense rights, but in our case, it's absolutely essential," Rock says. "It may be something that CMU would not typically give other companies without certain considerations, so you have that education process, and everybody gets comfortable with the right terms."

You'll also need to educate your technology partner if you're pursuing an unusual royalty structure.

"You have to develop your case for the amount of the royalty, whether it's a dollar number or a percentage, you propose," Watt-Morse confirms. "It's a business discussion rather than just picking a number out of the air."

Consider the agreement the launching pad for a long-term relationship. Akustica was able to suggest addenda to the license agreement because it established a productive relationship with CMU. And the University has reciprocated, even par-

ticipating in Akustica's financing above and beyond its original equity position.

The alternative, a one-and-done deal, could impede you in the long run.

"If you negotiate your first agreement and at the end you hate each other, you won't have a relationship that can evolve," Watt-Morse says. "I've seen companies come out of a negotiation with an agreement that's so restrictive or so expensive they don't have the most important element, the agreement ends up killing them. It's not only important that you get the agreement done, but it also must be something you can live with."

Keep growing your technology base.

Your initial license agreement may be the centerpiece of the business, but circumstances will change as you move to market selection and product development; you'll need new technology as you advance. Akustica and CMU have modified and enhanced their agreement on several occasions to authorize expanded uses of the patented technology, and Akustica hasn't stopped there. Says Gabriel:

"You're building an intellectual property mosaic for your company. You're filling in pieces, sometimes with internal developments, sometimes with pieces that you go back and license from the university. You also may license from third parties — that's something we're looking at. It's a mix that you're constantly evaluating." ●

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