

**TECHNOLOGY LICENSING:
THE HIDDEN REVENUE SOURCE**

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TECHNOLOGY LICENSING DEFINED

Every company relies on its technology, know-how and intellectual property to build its products and services, and to reach its customers to generate revenue. This is the essence of economic activity by corporations, small or large, private or public. This technology, know-how and intellectual property can be a source for additional, very high margin revenue if it is made available to others under a defined strategy. This activity is the domain of “technology licensing.”

EXAMPLES OF TECHNOLOGY LICENSING

A large provider of hand-held wireless devices recently licensed its radio technology, middleware software and thumb-based keyboard to other companies that develop and sell point-of-sale terminals, wireless hand-held devices (including those that are its competitor) in return for significant up-front license fees and on-going royalties. Further, this company receives grant-back on developments of the licensed technology by the licensees. The grant-back here means that the licensor will receive the benefits of the R&D carried out by the licensee and will be able to use the fruits of licensee’s improvements in its own products. In other words, the licensee pays for the R&D and the licensor has the right to incorporate the developments into its own products and services without paying fees in return.

Another large multi-national semiconductor company started licensing its intellectual property and technology, and now generates over US\$800 million a year from this activity. This company uses this revenue to fund all of its R&D efforts without tapping into its product revenue.

A number of companies, such as Qualcomm among many others, started as product companies but later changed to become intellectual property companies. Qualcomm generated US\$3 Billion in FY2002 mainly from its intellectual property and technology.

Every company, small or large, private or public, has such masterpieces in its R&D shop. Most of them are not taking advantage of this technology outside of their core activity of developing products and services, and reaching their customers. Technology licensing opens a new window into revenue generation efforts.

INTERESTING, BUT WHY WOULD I GIVE MY COMPETITIVE ADVANTAGE AWAY?

Technology licensing ensures that the ownership of the masterpiece remains in the mother house. Your company will only allow the use of your technology by third parties in a defined manner. And, you define who these third parties are and what they can do with it. Your company may limit the use of the technology to defined products (i.e. licensee can use your company’s technology in products A, B, C, and not in D or F; these

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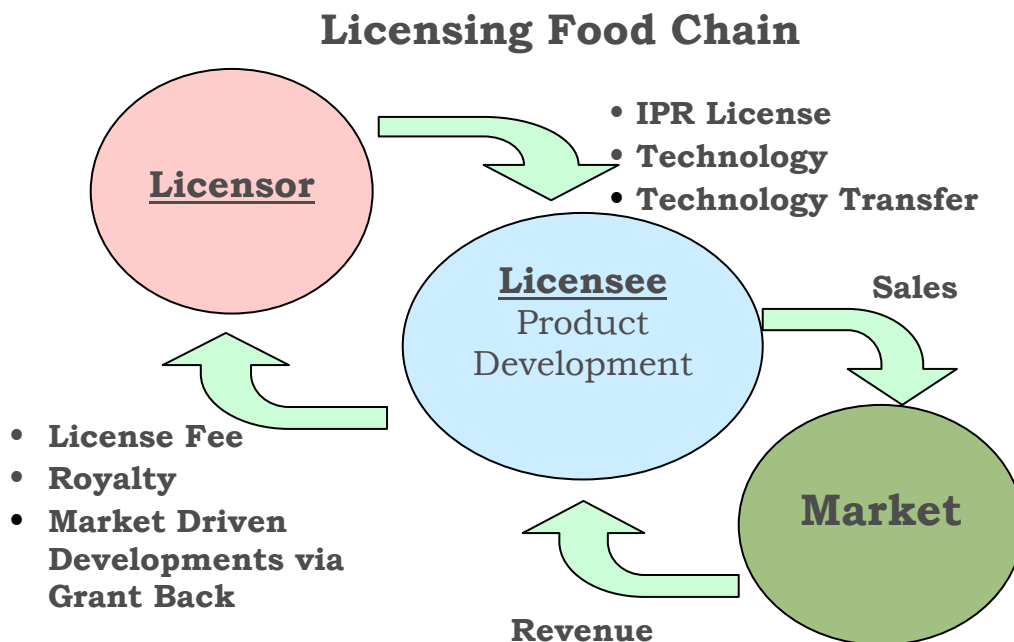
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are termed as “field of use” limitations) so that you do not create competition for yourself. Or, you may not have a reach into a particular territory (e.g. you have no plan or desire to go into the Japanese market with your product and may allow a third party to operate with your technology in that territory; these are termed “limited territory” rights). In certain cases, particularly if you have good market penetration in your territory, you may elect to license your technology to your competitors in a selected fashion and receive a share of their margin in return for the use of your “masterpiece.” For many companies, eating into their competitors margins or having better margins than their competitors is a welcome opportunity. There are many other ways to use technology licensing to generate revenue: You may elect to license a piece of your technology as in the case of radio technology mentioned above. You may just license a particular component. An example of this case would be to license technology associated with speech recognition used in a wireless hand-set but not the design of the hand-set itself.

You may even license a product that you may decide to discontinue. An example again to highlight the opportunity better: A large telecom equipment provider recently decided to license its technology and product information on a set of products it was about to discontinue. The result was enhanced customer satisfaction as customers saw continued support for existing products in their network. The licensee was a small company and this activity resulted in significant revenue increase for them (a classical win-win.) Further, the telecom equipment provider is receiving on-going high-margin revenue (royalties) even though all existing resources are deployed elsewhere, having transferred all customer obligations to the licensee.

TECHNOLOGY LICENSING FOOD CHAIN

The following diagram depicts the Technology Licensing food chain:



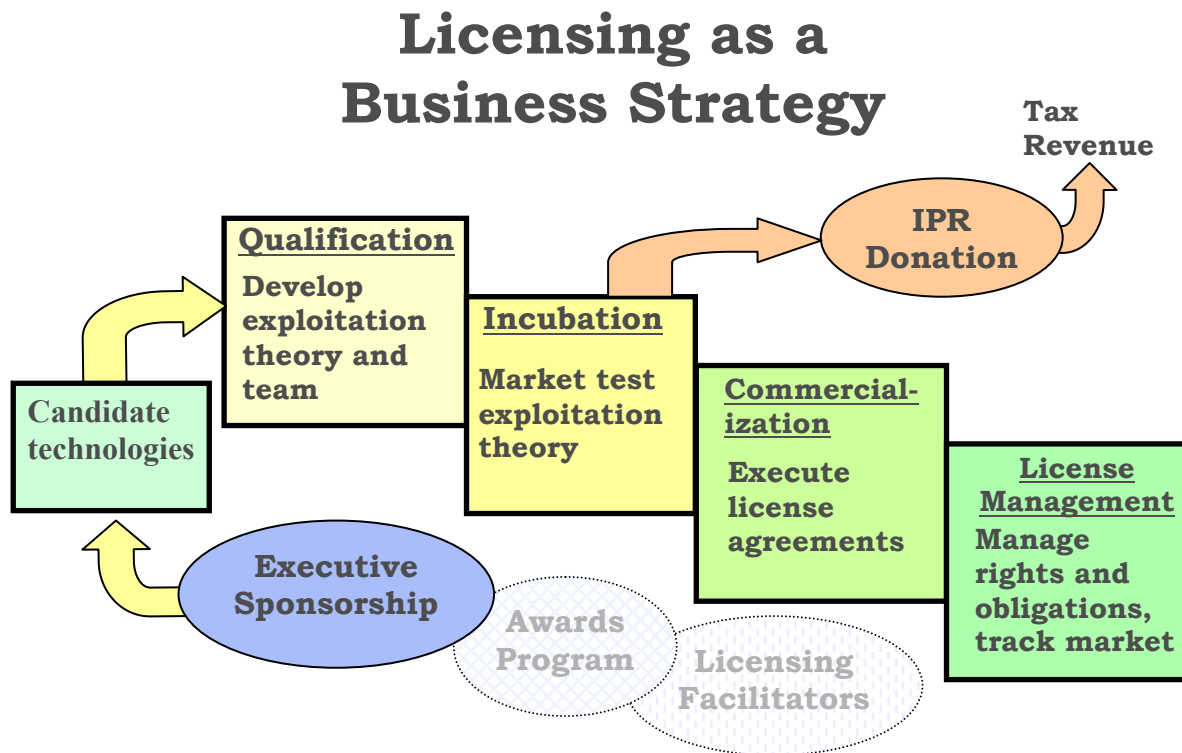
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In this food chain, the owner of technology grants a limited set of rights to the licensee to incorporate the licensed technology in its product(s) and market it in a territory. In return, licensor receives license fees, royalties and R&D grant-back.

TECHNOLOGY LICENSING AS A BUSINESS STRATEGY

For a company to reap the benefits of technology licensing, there is a need to identify what technologies can or should be licensed, and then a tried and true licensing process should be implemented. Here is a diagram that shows the technology licensing process:



With executive sponsorship secured for the technology licensing program, the process starts with the identification of candidate technologies, typically after an intellectual property due diligence effort within the R&D centre. A licensing team is formed which will be headed by a senior individual who is experienced in the field of licensing, typically an outside resource unless required skills exist in the company. The team typically includes R&D resources who know the technology intimately, and potentially other business people such as product management representatives. This team develops a theory for the exploitation of the technology and secures executive approval based on the recommendations it develops. Then comes the field trial phase. Here the objective is to test the market and obtain feedback on the potential success of the program. Once necessary adjustments are made then target licensees are contacted, business terms are defined in a term sheet, and agreements are finalized, most likely with the support of the lawyers.

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In certain cases, donating the technology to a non-profit organization, rather than licensing it to third parties, results in significant tax avoidance-driven revenue. This method is used mostly in the U.S. but there is no reason it can not be used in Canada. Recently a telecom equipment provider donated 23 patents to a university and received US\$23 million benefit in terms of tax write-off.

Industry experience has shown that license management is another key component of the technology licensing process. Here, the objective is to collect all royalties due and to ensure that all grant-backs are received. License management ensures that revenue is collected on time and the relationship with a licensee is managed appropriately.

SOUNDS INTERESTING BUT I WILL BE DIVERTING MY PEOPLE FROM THEIR MAIN FOCUS

For a small or mid-size company, diverting resources away from its main focus is an obvious concern. However, experience has shown that the concern is unfounded. Licensing is a responsibility for a “technology licensing executive” who is typically hired from outside. Most companies today do not have the skills associated with technology licensing and those who do have these skills are using these skills to make the product and the market.

Technology licensing is typically carried out by the technology licensing executives hired from outside. At the start, there will be a number of short-duration meetings to explain to the licensing executive the technologies that exist in the company. Once the licensing program starts, technical and business resources of the company will be involved in the licensing program on an as needed basis. Potential licensees may have technical questions that may need responses from the technical team. Or demonstration of the technology may be necessary upon a visit by the potential licensee. At the end of the licensing process, there may be a need to carry out appropriate technology transfer to the licensees and this activity is best carried out by technical resources of the licensor.

In other words, the technology licensing team does need on-going support and involvement from technical and business resources of the company in a fashion that will divert resources from main focus.

FINAL WORDS

Technology licensing is a gold mine and is being used by many companies to generate significant revenue. It is a very high margin activity. As all the spending associated with the development activity is complete, licensing revenue goes directly to the bottom line, except for the minor expenses associated with the licensing activity itself. I am sure, as the reader of this write-up, you will appreciate that your company has many masterpieces waiting in your R&D center, ready to be exploited through technology licensing. Wouldn't you like to generate significant additional revenue from this untapped gold mine?

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