

Mock Patent Licensing Negotiation

Global Negotiation Subcommittee

Jan. 28, 2010



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This scenario is adapted from the case study :“Oppoutunity Knocks” of Vantagepartners.

1. Introduction

Air Cushion

Licensor = Kushco

CC Bicycle Seat
Patent License

Licensee = ACI

Daniel / COO

Sam/ CEO

Jenny/ Director

Wendie/ Director

Terms Agreed

Up-front payment: \$500,000

Royalty : 2%

Minimum Royalty: \$10M

Technical Assistance: \$1,000/day

Milestone Agreed

Sep. 1, 2009

Completion of Commercial

Feasibility trials

June 1, 2011

Completion of Market Testing

Jan. 1, 2012

Completion of Manufacturing

Assembly and Design trials

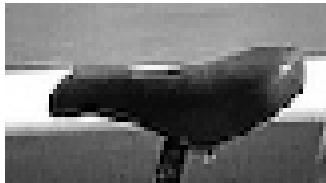
June 1, 2013

Commercial Launch in Asia

Jan. 1, 2014

Commercial Launch Worldwide

Exclusive License in Asia
Sublicense



1. Introduction

1) Licensee Understanding

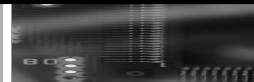
- ◆ Great, but design and manufacture are too expensive for Asian market
- ◆ Want to redesign it to reach larger segment of Asian market
- ◆ Will drain on its profitability due to high per unit royalty and minimum royalty obligation
- ◆ Not much assistance from Kushco on needs and requests
- ◆ Needs Kushco's expertise to reengineer the production lines; takes ten hours a month of a skilled engineer's time
- ◆ Believe new product redesigned create a blockbuster product
- ◆ Profitable in seat business (riders own two seats)
- ◆ Will integrate bicycle seat into BBC's product line, one of the largest bicycle manufacturers in Asia



1. Introduction

2) Licensor Understanding

- ◆ Productive relationship with ACI, although a little secretive about operation and financial data
- ◆ CC Seat sales have lagged: royalty payments lower than expected.
- ◆ Do not know why sales have not taken off: Guess a combination of sluggish economy, lack of brand recognition, ACI lower market share, higher price
- ◆ Not clear how it is doing selling CC Seats



2. Third Party Issue

1) New Wave + ACI Alliance

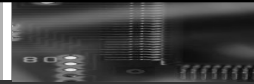
- ◆ Would be co-developing high quality, mid-cost bicycle seat sold to enthusiasts over Internet
- ◆ ACI = Production, NW = building consumer demand

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- ◆ Sam/CEO is not so confident: Kushco is the best bet
- ◆ Fought hard for Kushco alliance to be minimally affected
- ◆ CEO Plans ACI IPO: NW partnership can bolster stock price, and finish the commercial prototype of CC seat with Kushco patent
- ◆ Sam asked not to mention NW alliance to Kushco

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- ◆ A business associate send an article on the alliance: Not heard a word from Wendy → Feel uneasy
- ◆ ACI never thought how to handle partnerships with two competitors
- ◆ Critical information might be passed on to NW: How to protect Kushco interests



3. Phone Consultation

Between Wendie and Jenny

Listen carefully and

Enjoy the role play of GNS Members !  



Kushco negotiation team is flying to Beijing.





4. New Licensing Patent

1) Bi-partite bicycle seat assembly

US Patent : 5725274, EU : EP0734943B1

Assignee : Kushco

Last 14 years

Acquired for a lump sum payment of \$250,000

Further investment : \$300,000 ~ \$700,000 to get into actual production

Not have money or resources to spend on the investment

Looking to licensing the technology



4. New Licensing Patent

2) Potential Licensees

<New Wave>

- . A strong competitor
- . Up-front : \$300,000, Royalty rate : 2%

<BTB Inc>

- . Has international manufacturing locations
- . Up-front : \$450,000, Royalty rate : 2.5%

<ACI>

- . Licensee of CC seat (Former patent)
- . Ready for negotiation

4. New Licensing Patent

3) Comparable Transactions

Kushco hired a consulting firm to conduct a valuation of new patents

Product	Exclusivity	Region	Upfront Fee	Royalty
Seat	Exclusive	Worldwide	\$750,000	3% of sales
Seat	Exclusive	US	\$50,000	6% of sales
Seat	Non-Exclusive	US & EU	\$10,000	1.5% of sales
Seat	Non-Exclusive	Worldwide	\$0	2% of sales
Seat	Exclusive	US	\$50,000	4% of sales

5. Negotiation

Listen carefully and
Enjoy the role play of GNS members !



6. Performers

Producer : Mr. Seung-Ho Lee/ GNS Chairman
Assistant : Mr. Yoon-Hwan Kim

<Kushco>

Daniel Kim : Dr. Young-Gi Kim
Jenny Shin : Dr. Jee-Youn Shin

<ACI>

Sam Kim : Sam-Yong Kim
Wendie Choi : Ms. Hyoseon Choi



Thank You !

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