



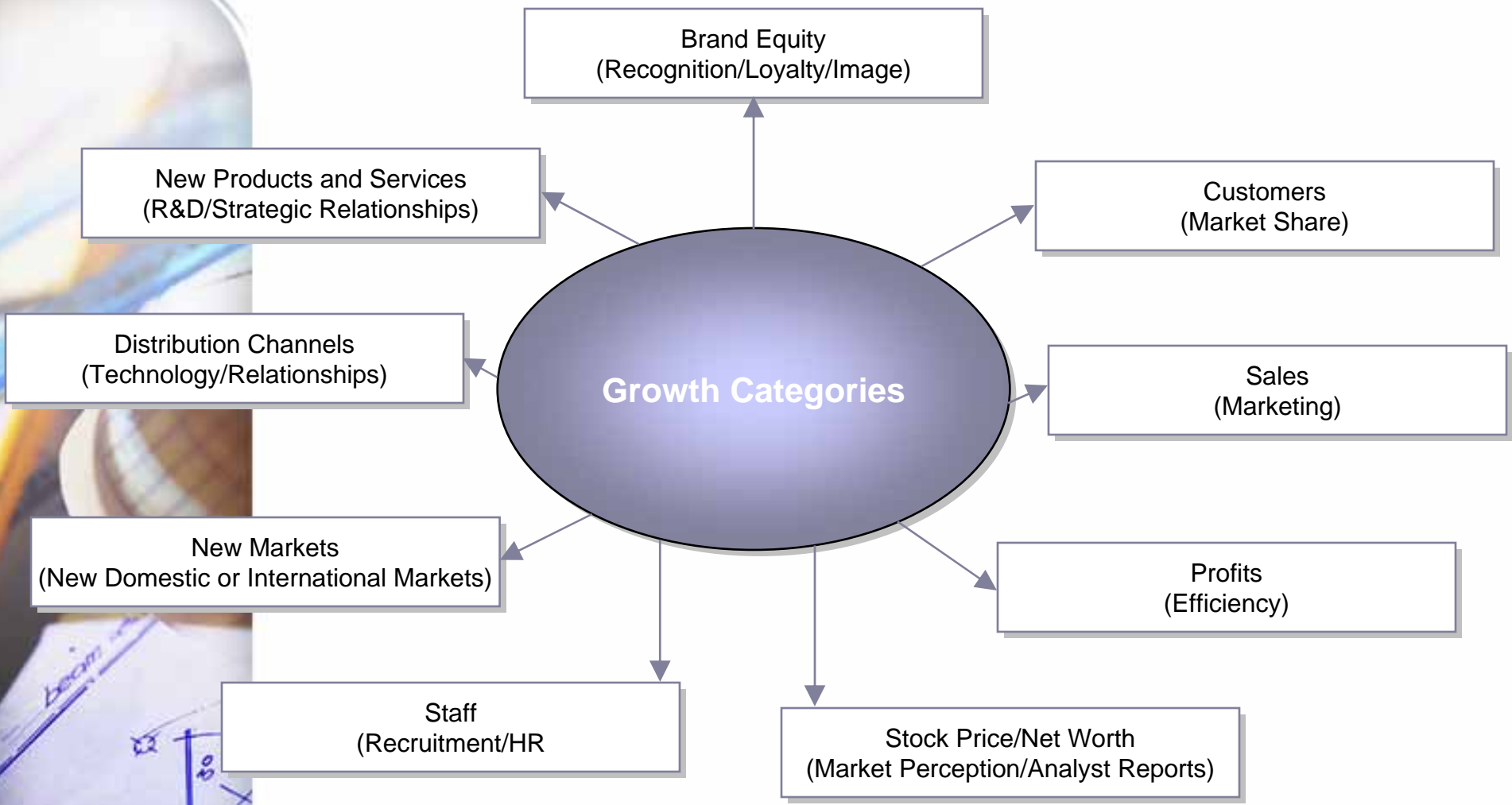
# **Leveraging Intellectual Capital: Building A Foundation and Strategic Plan for Business Growth**

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**Presented by: Andrew J. Sherman, Esq.  
YEO General Counsel and Senior Partner  
McDermott Will & Emery LLP  
600 - 13th Street, N.W.  
Washington, D.C. 20005  
202.756.8610  
[ajsherman@mwe.com](mailto:ajsherman@mwe.com)**

# The Business Growth Path





# Evolving Strategic Views Towards IP Assets

## Traditional View

IP Assets Enhance the Company's Competitive Advantage and Strengthen Its Ability to Defend Its Competitive Position in The Marketplace (IP as a barrier to entry and as a shield to protect market share) **(Reactive and Passive Approach)**

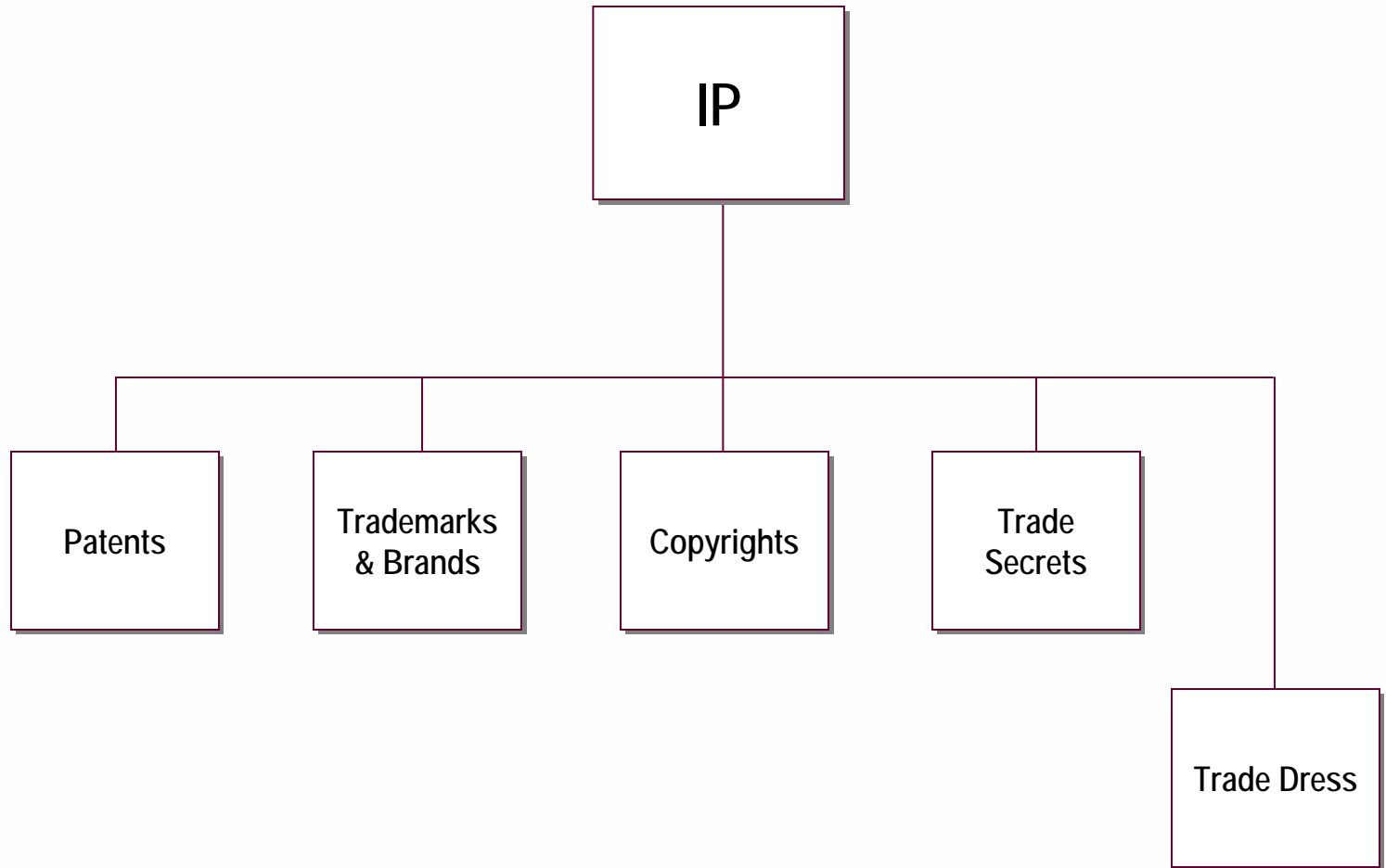
## Current View

IP Assets should not be used merely for defensive purposes but should also be viewed as an important asset and profit center which is capable of being monetized and generating value through licensing fees and other channels and strategies, provided that time and resources are devoted to uncovering these opportunities (especially dormant IP Assets which do not currently serve at the heart of the company's current core competencies or focus) **(Proactive/Systemic Approach)**

## Future View

IP Assets are the **premiere** drivers of business strategy within the company and encompass human capital, structural/organizational capital and customer/relationship capital. IAM systems need to be built and continuously improved to ensure that IP Assets are used to protect and defend the company's strategic position in domestic and global markets and to create new markets, distribution channels and revenue streams in a capital efficient manner to maximize shareholder value **(Core Focus/Strategic Approach)**

# The Branches of Intellectual Property Law





# How Can Companies Continue to Grow and Flourish in a Challenging and Turbulent Global Economy?

- Develop a strong and efficient Intellectual Asset Management (IAM) program
- Develop programs and training to make the most of each company's existing Intellectual Capital (and learn to extract new shareholder value from these already created assets)
- Develop strategic plans for growth which leverage intellectual property assets and establishes a series of interdependent relationships and controlled/motivated distribution channels

# What is Intellectual Asset Management (IAM)?

- IAM is a system to create, organize, prioritize and extract value from a set of intellectual property assets. The intellectual capital and technical know-how of a company are among its most valuable assets, provide its greatest competitive advantages and are the principal drivers of **shareholder value**, yet rarely do companies have adequate personnel, resources and systems in place to properly manage and leverage these assets. IAM also involves monitoring certain developments in the company's marketplace, such as:
  - ⬆ Gathering intelligence on direct, indirect and potential competitors



# What is Intellectual Asset Management (IAM)? (cont'd)

- ⬆ Monitoring developments abroad
- ⬆ Keeping one step ahead of a constantly changing landscape (20,000+ new patents issued per month — and that is just in the United States)
- ⬆ Maintaining license agreements and streams of royalty payments on both an inbound and outbound basis (e.g., Royalty Audits — to ensure against under-reporting (outbound) and overpayments (inbound)) — Are you getting paid? Is there anyone you are paying but shouldn't be? Are performance standards being met? Are you in relationships with the right parties? What could be done to strengthen existing relationships or distribution channels?



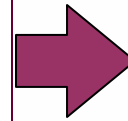
# IP Leveraging is a Critical Strategy for Surviving and Thriving in Today's Economy

- A key strategic challenge is how to keep growing in a slowing economy
  - ⬆ Using IP to protect what you have (defensive)
  - ⬆ Using intangible assets to penetrate new domestic markets, exploit new opportunities or fuel international expansion (offensive)
- Capital-efficient growth is the mandate of many CEO's and CFO's during these turbulent financial markets
- Companies are under pressure to create new revenue streams and profit centers from existing assets (technologies, systems, brands, relationships, know-how, *etc.*)

# There Are Many Sources of Intellectual Assets that Can Drive Growth Strategies and Generate Revenues

## Protectable Intellectual Property

- Patents
- Trademarks (including brands and slogans)
- Copyrights
- Trade Dress
- Trade Secrets
- Distribution channels
- Show-how and know-how
- Databases and customer information
- Software and proprietary algorithms
- Customer and strategic partner relationships
- Proprietary processes and systems
- Knowledge and technical workers



## Possible Revenue Sources

- Spin-off new companies
- Joint Ventures and Alliances
- Technology and software licensing
- Outright sale of new technology
- Co-branding
- Franchising
- Enter new markets
- Develop new products
- Brand-extension licensing
- Technology transfer
- Cooperatives, consortiums
- Outsourcing
- International expansion
- Government contracts

# Strategic Options for Leveraging Intellectual Assets

Integrate

Separate

Integrate the idea into the core

Create a separate unit with parallel reporting to CEO

Spin off the idea as a wholly owned business

Spin off the idea with a venture capital partner

License, franchise or even sell the idea to third parties

Create a separate unit within the same division

Create a corporate incubator

Spin off the idea with a corporate partner

Establish a joint venture with outside incubation



# Key IP Leveraging Strategic Questions

- What patents, systems and technologies have non-competing applications that could be licensed to third parties to create new revenue streams, joint ventures or partnering opportunities, distribution channels or profit centers?
- What brands lend themselves to extension licensing or co-branding opportunities?
- What distribution channels or partnering opportunities can be strengthened if the company has greater control or provided additional support and services to the channel?
- What types of different growth and expansion strategies are being used by the company's competitors? Why?
- Where are the strategic/operational gaps in the company's current licensing and alliance relationships?
- What is the company's online and e-business strategy? How could it be strengthened or improved?

# Example



Patent X

- #1 Direct Use and Application in Company's Core Business
- #2 Licensed For A Parallel, Non-Competitive Use to Third Party (Limited Use)
- #3 Licensed To A Competitor Abroad (Limited Geographic Area)
- #4 Consortium (nonexclusive)
- #5 Research and Development (To User Who Hopes To Find Other Applications Within Non-Competing Industries/Option to License)
- #6 Licensed to Aftermarket Service Provider (Service, Maintenance, Parts, etc.)

# Joint Ventures and Strategic Alliances

- Regardless of the specific structure, the underlying industry or even the actual purpose of the strategic relationship, all successful joint venture and strategic alliance relationships share a common set of **essential success factors**. These critical success factors include:
  - ① a complementary unified force or purpose which bonds the two or more companies together;
  - ① a management team committed at levels to the success of the venture, free from politics or personal agendas;
  - ① a genuine strategy synergy where the “sum of the whole truly exceeds its individual parts” (e.g.,  $2+2+2=7$ );
  - ① a cooperative culture and spirit among the strategic partners which lends to trust, resource-sharing and a friendly chemistry among the parties;

# Joint Ventures and Strategic Alliances (cont'd)

- ① a degree of flexibility in the objectives of the joint venture to allow for changes in the marketplace and an evolution of technology;
- ① an actual alignment of management styles and operational methods at least to the extent that it affects the underlying project (as in the case of a strategic alliance) or the management of the new company created (as in the case of a formal joint venture); and
- ① the general levels of focus and leadership from all key parties that are necessary to the success of any new venture or business enterprise.

# Joint Ventures and Strategic Alliances (cont'd)

- The strategic objectives of these relationships typically include:
  - ⤴ Develop a new market (domestic/ international);
  - ⤴ Develop a new product (research and development);
  - ⤴ Develop/share technology;
  - ⤴ Combine complementary technology;
  - ⤴ Pool resources to develop a production/distribution facility;
  - ⤴ Acquire capital;
  - ⤴ Win a bid for a government contract; and
  - ⤴ Access to a new distribution channel or network or sales/marketing capability.

# Contrasting JV's and Strategic Alliances



	Joint Ventures	Strategic Alliances
<b>Term</b>	Usually Medium to Long-Term	Short-Term
<b>Strategic Objective</b>	Often serves as to Precursor to a Merger	More Flexible and Non-Committal
<b>Legal Agreements and Structure</b>	Actual legal entity formed	Contractual-Driven
<b>Extent of Commitment</b>	Shared Equity	Shared Objectives
<b>Capital Resources</b>	Each party makes a capital contribution of cash or intangible assets	No specific capital contributions (may be shared budgeting on even cross-investment)
<b>Tax Ramifications</b>	Be on the lookout for double taxation unless pass-through entities utilized	No direct tax ramifications



# Preparing a Joint Venture Memorandum of Understanding

- Prior to drafting the definitive joint venture or strategic alliance agreements, it is very beneficial to hammer out a Memorandum of Understanding to reflect a business handshake on all critical points of the relationship and for the lawyers to use a starting point in the preparation of the formal agreements. The Memorandum of Understanding should address the following topics:
  - ① **Spirit and Purpose of the Agreement.** Outline why the partnering arrangement is being considered and what is its perceived mission and objectives. Describe “operating principles” that will engender communication and trust. What are the strategic and financial desires of the participants?

# Preparing a Joint Venture Memorandum of Understanding (cont'd)

- ① **Scope of Activity.** Address what products, services, buildings, or other specific projects will be included and excluded from the venture. Identify target markets for the venture as well as activities, product lines and markets which will be excluded from the scope of the relationship.
- ① **Key Objectives & Responsibilities.** Clarify and specify objectives and targets to be achieved by the relationship, when to expect achieving these objectives, any major obstacles anticipated, and the point at which the alliance will be self-supporting, be brought out, or be terminated. Participants should designate a Project Manager who will be responsible for their company's day-to-day involvement in the alliance.



# Preparing a Joint Venture Memorandum of Understanding (cont'd)

- ① **Method for Decision-Making.** Each partnering relationship will have its own unique decision-making process. Describe who is expected to have the authority to make what types of decisions in what circumstances, who reports to whom, etc.
- ① **Resource Commitments.** Most partnering relationships involve the commitment of specific financial resources, such as cash, equity, staged payments, loan guarantees, etc. to achievement of the ultimate goals. Other “soft” resources may be in the form of licenses, knowledge, R&D, a sales force, contracts, production, facilities, inventory, raw materials, engineering drawings, management staff, access to capital, the devotion of specific personnel for a certain percentage of their time, etc. If possible, these “soft” resources should be quantified with a financial figure so that a monetary value can be affixed and valued along with the cash commitments to this internal commitment. In some circumstances, the purchase of buildings, materials, consultants, advertising, etc. will require capital. These external costs should be itemized and allocated between the partners in whatever formula is agreed.



# Preparing a Joint Venture Memorandum of Understanding (cont'd)

- ① **Financing Requirements.** If any borrowing, entry into equity markets (public offerings, private placements, etc.) or purchase of stock in one of the partners is anticipated, these should be noted. In anticipation of additional equity infusions, the partners should agree about their own ability to fund the overruns, or enable the venture to seek other outside sources.
- ① **Assumption of Risks & Division of Rewards.** What are the perceived risks? How will they be handled and who will be responsible for problem-solving and risk assumption? What are the expected rewards (new product, new market, cash flow, technology, etc.)? How will the profits be divided?
- ① **Proprietary Rights and Exclusions.** Who has rights to Products and Inventions? Who has rights to distribute the products, services, technologies, etc.? Who gets the licensing rights? If the Confidentiality and Non-Competition Agreement have not yet been drafted in final form at this point, they should be addressed in basic form here.



# Preparing a Joint Venture Memorandum of Understanding (cont'd)

- ① **Anticipated Structure.** This section of the Memorandum of Understanding should describe the intended structure (written contract, corporation, partnership, or equity investment). Regardless of the legal form, the terms, percentages, formulas for exchange of stock, if possible at this stage, should be spelled out. Default provisions and procedures should be addressed at least at the preliminary level.



# About the Presenter



**Andrew J. Sherman, Esq.** is an internationally-recognized authority on the legal and strategic aspects of business growth. A summary of his accomplishments include:

- ❑ Mr. Sherman is a senior partner with **McDermott Will & Emery LLP (McDermott)**, an international law firm with nearly 1,000 lawyers worldwide, where he manages a multi-million dollar corporate and transactional practice representing Fortune 500 corporations as well as hundreds of technology-driven, and rapidly growing businesses and government contractors. He is the co-developer and practice leader for the McDermott **Intellectual Property Protection and Leveraging Analysis (IPPLA)** special practice and has written and lectured extensively on intellectual property protection and leveraging.
- ❑ Mr. Sherman is also one of the leaders of the firm's regional Emerging Business and Technology practice group as well as chairs the firm's international Franchising, Licensing and Distribution group. His current and previous clients include Intel, Apple Computer, America On-Line (AOL), Texaco, Panasonic, Chevron-Phillips, Revlon, Beatrice Foods, Caterpillar, Ikea, Invensys, Edison Foundation, Bell & Howell, Rogers Communications (Canada), Sanyo, Tower Records, Bell & Howell, Indian Motorcycles, GAF, Caterpillar, Owens-Corning, Shell Oil, Sears, Metrocall, Bankers Trust, Household Finance Corporation, Pritzker Organization (Hyatt Hotels) and the Western Professional Hockey League.
- ❑ He is the author of twelve (12) books on business growth, capital formation and the leveraging of intellectual property, including the best-selling and critically-acclaimed **Raising Capital** (Kiplingers, 2000), **Mergers and Acquisitions from A to Z** (AMACOM Books, 1998), **The Complete Guide to Running and Growing Your Business**, (Random House, 1997) and **Franchising and Licensing: Two Ways to Build Your Business**, (2<sup>nd</sup> edition) (AMACOM Books, 1999), and the third edition was published in Dec. 2003, and **Fast Track Growth Strategies** (Kiplinger) which was released in January of 2002.



- ❑ He has appeared as a guest and a commentator on all of the major television networks as well as **CNBC's** "Power Lunch," **CNN's** "Day Watch," **CNNfn's** "For Entrepreneurs Only," USA Network's "First Business," and **Bloomberg's** "Small Business Weekly" and various other regional and local television broadcasts as well as national and local radio interviews for **National Public Radio** (NPR), Business News Network (BNN), Bloomberg Radio, **AP Radio** Network, Voice of America, Talk America Radio Network and the USA Radio Network, as a resource on capital formation, entrepreneurship and technology development.
- ❑ He has served as a top-rated Adjunct Professor in the Masters of Business Administration (MBA) programs at the **University of Maryland** for twelve (12) years and at **Georgetown University** for six (6) years where he teaches courses on Entrepreneurship and Business Planning, Growth Strategies and New Venture Financing, and has won various teaching awards including the Krowe Award for Teaching Excellence in 2000.
- ❑ He serves as **General Counsel** to several of the nation and region's leading entrepreneurship and business growth organizations, including the **Young Entrepreneurs Organization (YEO)**, the **Collegiate Entrepreneurs Organization (CEO)**, the National Foundation for Teaching Entrepreneurship (NFTE), the Let's Talk Business Network (LTBN) and the Morino Institute's Netpreneur program, since the inception of these organizations. He was one of the co-founders of the Washington, D.C. regional chapter of the Association for Corporate Growth and serves on the Inner Circle and as a key advisor to the Dingman Center for Entrepreneurship at the University of Maryland. He is the co-founder and **Chairman of the Board** of the newly-formed **Small and Emerging Contractors Advisory Forum (SECAF)**, an education and networking resource headquartered in Washington, D.C. to support small and mid-sized government and defense contractors.



- ❑ Mr. Sherman is a frequent author, serves as a resource and has been quoted for articles in a wide variety of the nation's leading magazines, newspapers and websites including the **Wall Street Journal**, the **New York Times**, **Fortune**, **Investor's Business Daily**, **USA Today**, **Inc.**, **Nation's Business**, **Success**, the **Washington Post**, **Forbes**, **My Business**, **U.S. News and World Report**, **Business Week**, **Money**, **Legal Times**, **Washington Business Journal**, **Crain's**, **Entrepreneur**, **Reuters News Service**, **AP News Wire**, CNNfn.com, Inc.com, Fortune.com, Office.com, MSNBC.com, and the Kauffman Center for Entrepreneurial Leadership's **EntreWorld.org** websites. In the December/January 2002 issue of **Fortune Small Business**, he was recognized as one of the nation's top ten (10) gurus and thought leaders on entrepreneurship and the legal and strategic issues facing small and growing companies.
- ❑ Mr. Sherman is the Chairman of the Professional Advisory Board of the **National Commission on Entrepreneurship** (NCE), the Chairman of the Technology and Innovation Committee for the **Washington Board of Trade's** Potomac Conference, serves on the Board of Directors of Youth Services America, the Editorial Advisory Board of **Inc. Magazine's** latest publication, **International Franchising**, to be launched in January of 2002), the Board of Advisors to the **Collegiate Entrepreneurs Organization (CEO)**, the Research Institute for Small and Emerging Businesses (RISE Business), NFTE (Former Chairman 1993-1995), YEO, the **Washington Business Journal's** Editorial Advisory Board, **Inc. Magazine's** Business Consulting Services Advisory Board, the **Opportunity International** Board of Governors, the **Gazelles/Masters of Business Dynamics** Advisory Board and serves on the advisory boards of several business incubators and early-stage and rapidly-growing technology companies.
- ❑ Mr. Sherman serves as an on-line columnist for two of the internet's leading sites for small and emerging growth companies. He writes the "Can This Business Be Saved?" column for **FortuneSmallBusiness.com** as well as the "View from The Trenches" column for **AOL's Netbusiness.com** and serves as a key member of the **AOL Small and Emerging Business Champions Team**. He is also a frequent contributor to the "Leading Advisors" section of the Kaufman Center for Entrepreneurial Leadership's website, **EntreWorld.org**.



- ❑ He is a frequent national and international lecturer at business conferences where he has delivered speeches and lead seminars on entrepreneurship, capital formation, mergers and acquisitions, the protection and leveraging of intellectual property and business planning for organizations such as **Inc. Magazine** (Growing Your Company, Capital Formation, ThINC.Out Loud and CEO Symposium Conferences), the **MIT/Inc./YEO** "Birthing of Giants" programs, the **Association of Financial Professionals**, the **Young Entrepreneurs Organization** (international meetings and local chapter presentations), the **National Restaurant Association**, **iBreakfast.com**, the **U.S. Chamber of Commerce**, the **New York Venture Group**, the **Dingman Center for Entrepreneurship**, **Netpreneur.org**, the **Baltimore-Washington Venture Group**, the **National Association of Credit Managers**, **PC Expo**, the **International Franchise Association**, **Microsoft's** Small Business Crossing Seminar Series, the **Regional Investment Bankers Association**, the **Collegiate Entrepreneurs Organization**, the **Association for Corporate Growth**, the **American Management Association**, the **Council for Growing Companies**, and various other international and regional business organizations.
  
- ❑ He is the developer and lecturer for several different business growth courses and seminar series, including serving as the author of two workbooks and videos for Kiplinger's, entitled **Growing Your Business** and **Corporate Transition Management and Exit Strategies**, as well as a four-part cyber-conference and workbook on **Mergers and Acquisitions** for the Association of Financial Professionals, a seminar series on **Strategies for Protecting Your Intellectual Property** for Padgett-Thompson, a series of conferences on **Growth-Oriented Distribution Strategies** for the American Management Association and a series of conferences on **Strategies for Doing Business Abroad** for the International Franchise Association.