

strategy

technology

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innovation

HAYNES AND BOONE, LLP

value

results

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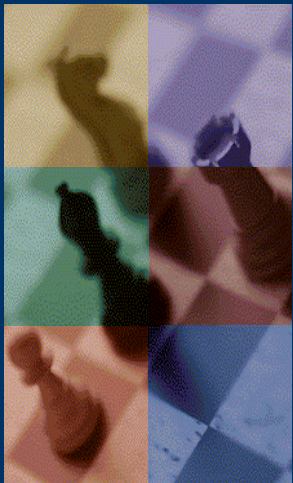
Sales Alliances

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Michael Davis is a Partner in the Business Transactions section and Intellectual Property & Technology Transactions group of **Haynes and Boone, LLP**, a full-service law firm with more than 450 attorneys throughout Texas, Washington D.C., and Mexico City.

Mr. Davis advises clients in protecting, developing and commercializing technology.

In his role as a Partner at Haynes and Boone, he serves as part-time General Counsel of StarCore, a joint venture (co-owned by Motorola, Infineon and Agere) that develops and licenses digital signal processor cores. Previously, he was a lead attorney for IBM at the Somerset PowerPC Microprocessor Design Center, which was a key strategic alliance between IBM, Motorola and Apple.

In patent matters, his areas of expertise include business methods, software, Internet, video/audio standards (MPEG/AC-3), digital and analog circuitry, microprocessor design, and semiconductor manufacturing.

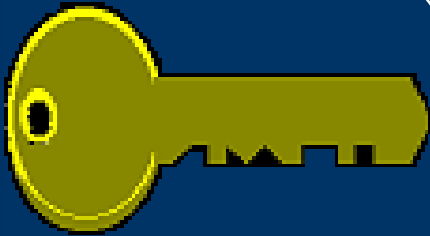
He is a Past President of the Austin Intellectual Property Law Association, founding Chair of the MIT Enterprise Forum of Austin, a Member of the Austin Technology Council's NextWave Planning Committee, and a Board member of the Austin Children's Museum.

He received a B.S. in engineering from Massachusetts Institute of Technology (MIT) and his law degree from the University of Houston Law Center.

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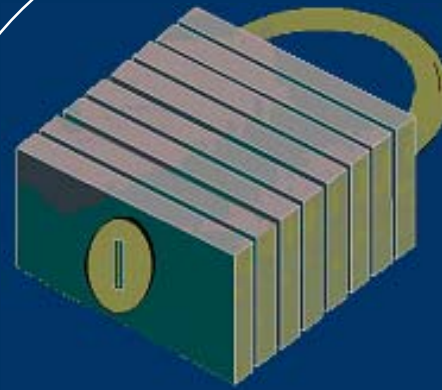
Why?

Product



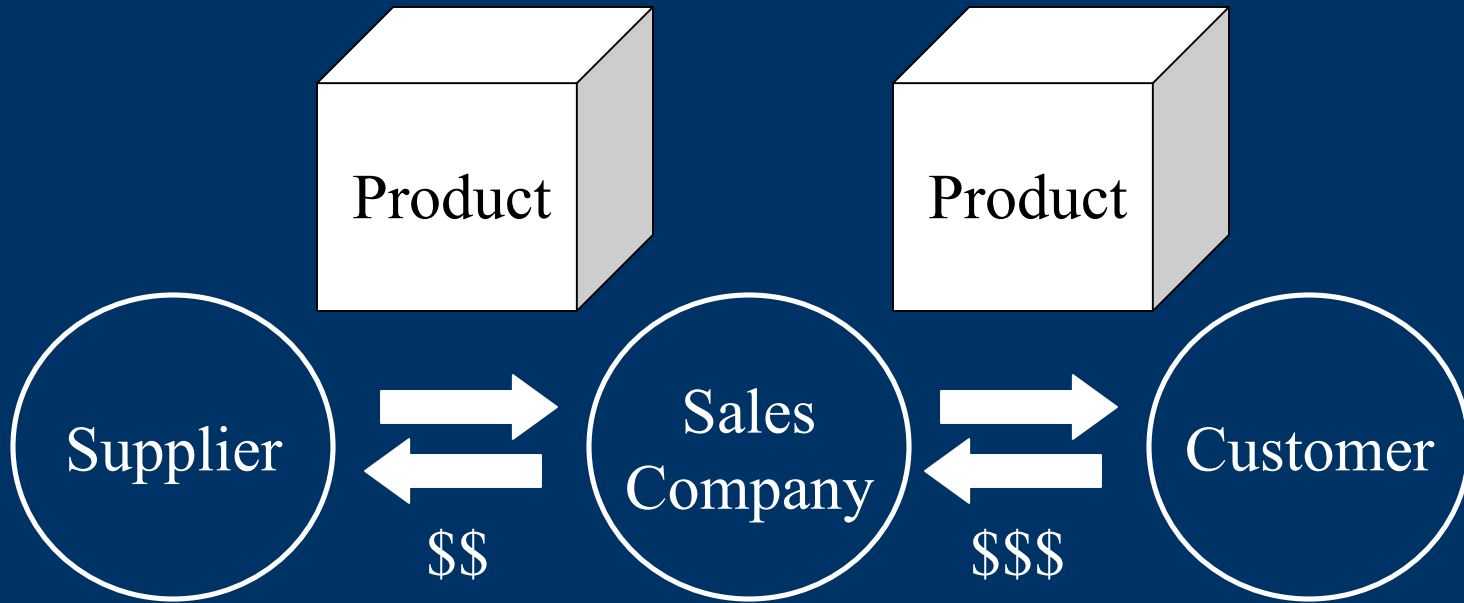
A

Sales



B

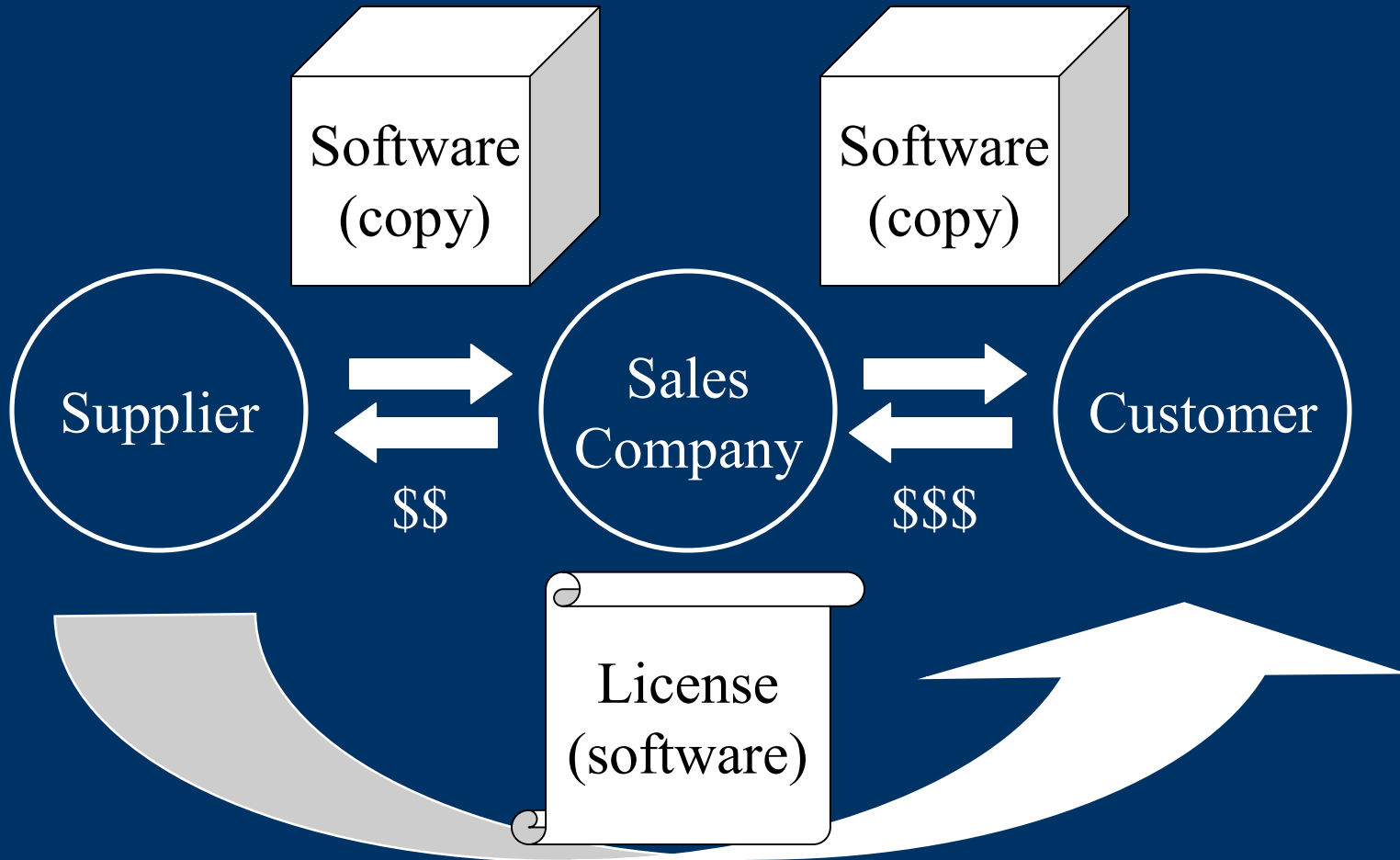
How?



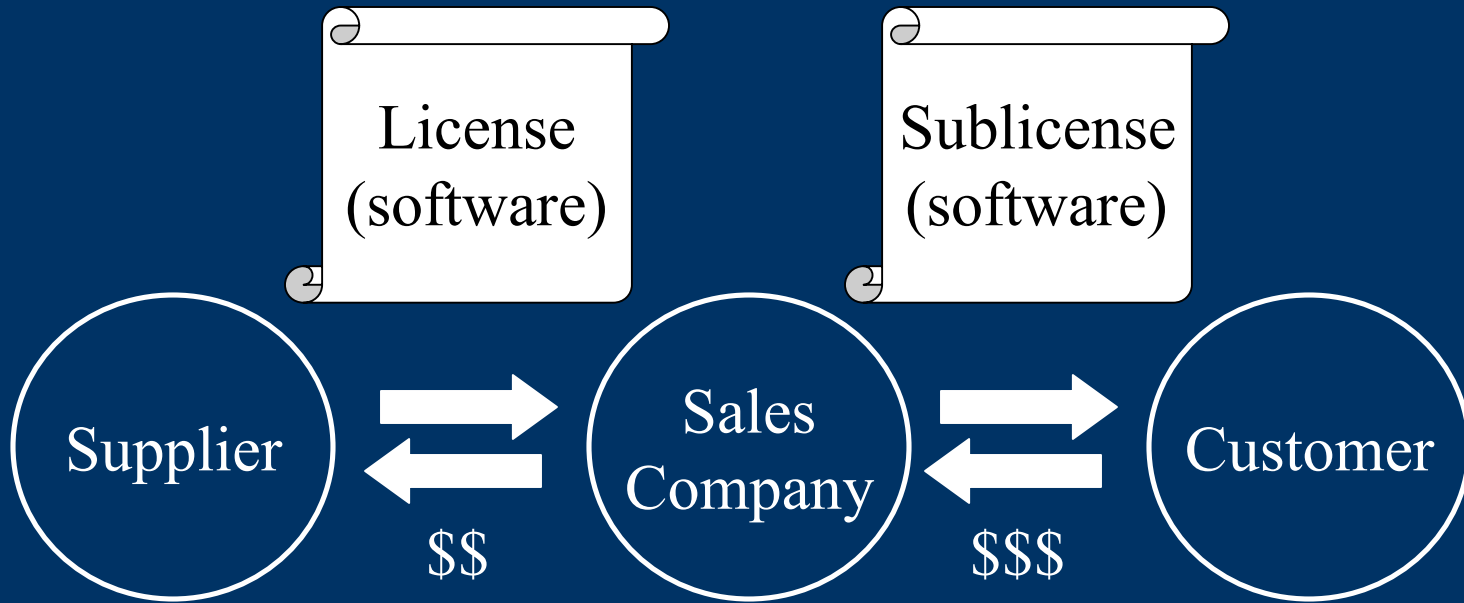
Reseller

(purchase at discount & then resell)

How?

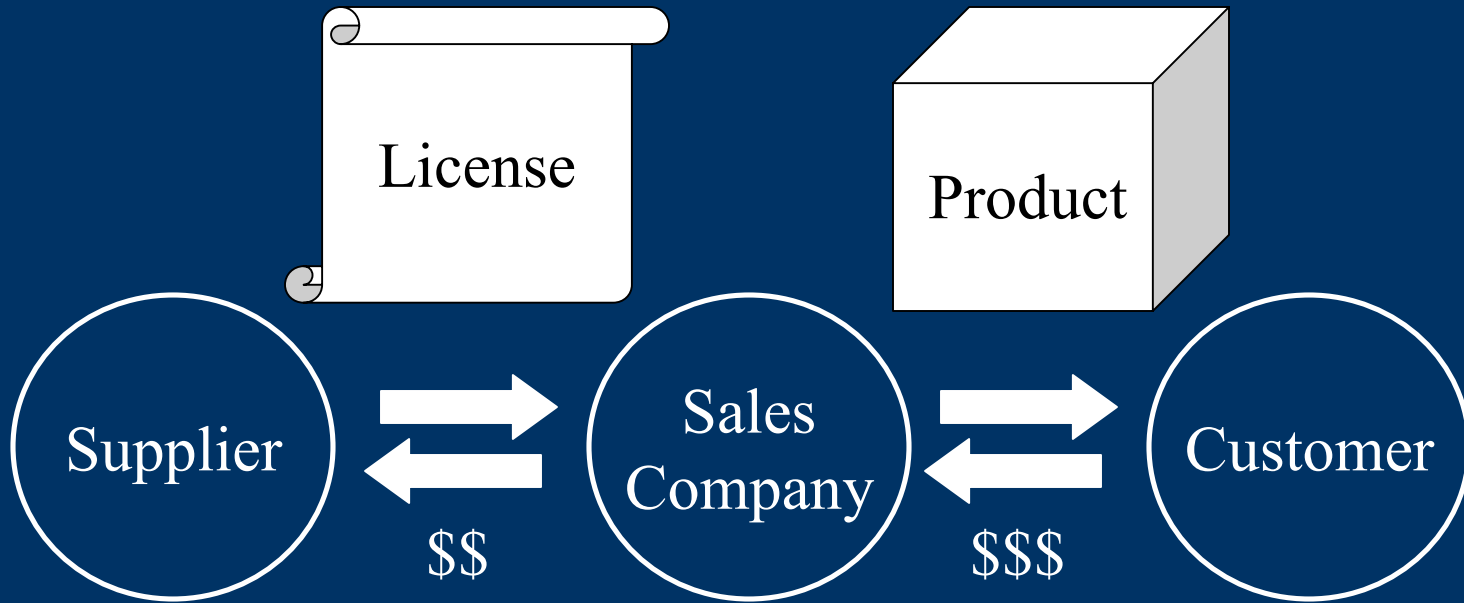


How?



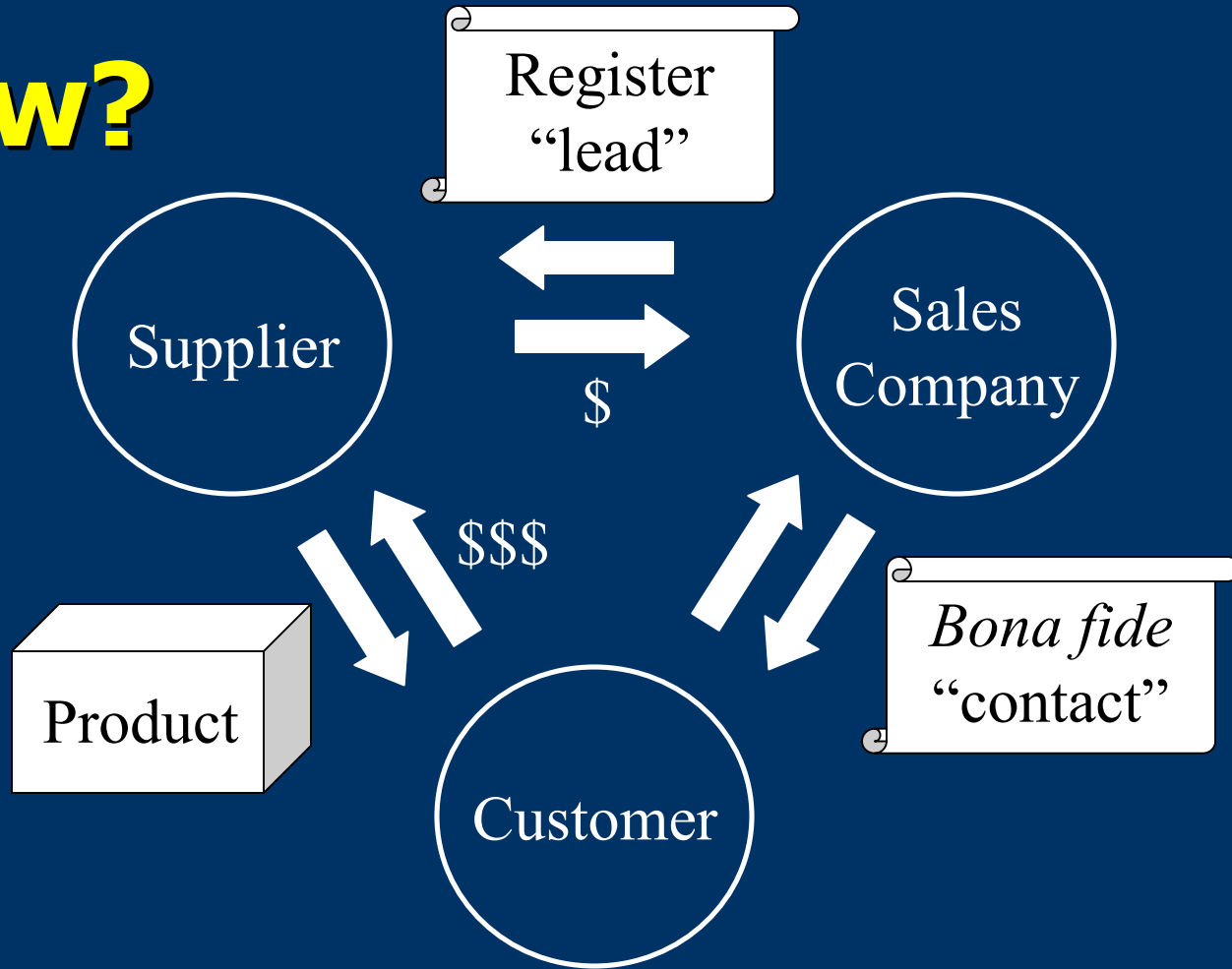
Sublicensor
(OEM, VAR)

How?



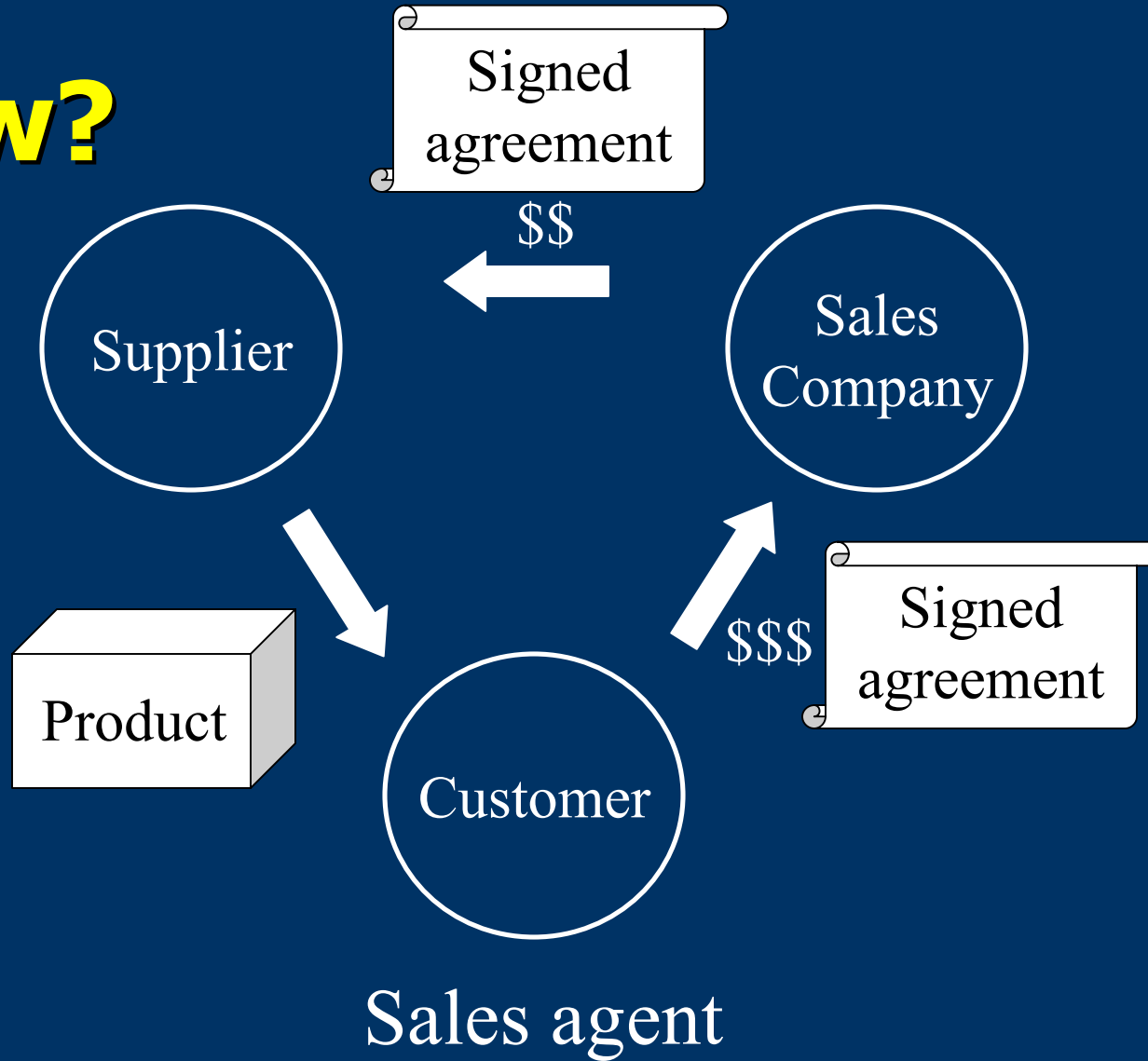
Licensee
(OEM, VAR)

How?

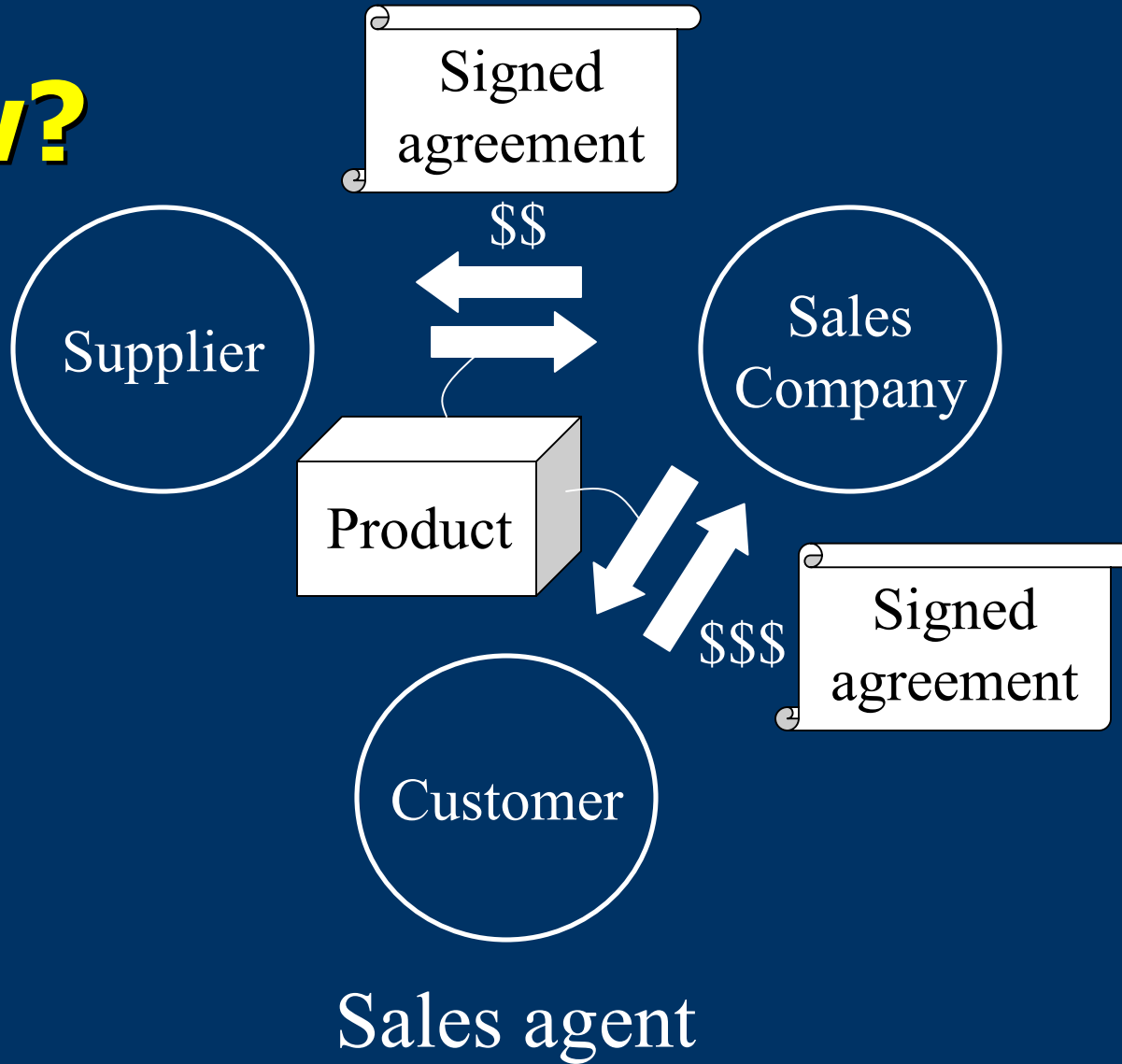


“Lead” generator

How?



How?



Sales agent

How?

Variations

- Sublicensing (need careful restrictions)
- Reseller (pre-payment discount)
- Register/accept “leads” + cooperation
- Sales agent (deliver signed agreement)
- Online “click-through”
- Co-branding

Threshold Questions

- “Who initially receives customer \$\$\$?”
- Pricing to customer (whose discretion?)
- Can the sales company relabel or repackage your product, or integrate your product into another product?
- Does the customer sign your agreement, or the sales company’s agreement?

Royalty & Commission

- What is subject to royalty/commission?
 - Initial license fees
 - Future license fees
 - Customization fees
 - Annual maintenance fees (how long?)
 - Product fees only (or service fees also)
 - Different product sales to same customer

Royalty & Commission

- Commission based on # of units or revenues (actually received or owed?)
- Commission subject to “help with sale”
- Commission subject to post-sale customer satisfaction?
- Is sales company obligated to give commissions to its own sales force?
- Audit procedure?
- Specify “ineligible” or “eligible” accounts?

Decisions

- Exclusive, Nonexclusive, “Leading”?
 - Minimum levels for Exclusive or “Leading”
- Territory limitation (adjustable?)
- Target industry limitation?
- Minimum level of marketing efforts?
- Right to reject customers?
- When do “leads” expire?
- Periodic reports?

Decisions

- When does alliance expire?
- Share advertising expenses?
 - Reserve portion of royalty/commission
- Assistance with trade shows?
- “Cross-sell” obligation?
- Post-sale help with customer support?
- Training (fees, required certification)?

Intellectual Property

- Trademark license
 - acknowledge ownership (especially if foreign distributor)
 - register trademarks & domain names in foreign countries
 - review & approve marketing materials
- Co-branding?

Intellectual Property

- Achieve/maintain technical compatibility? (e.g., if sales company is integrating your product into sales company's product)
- Suggested enhancements & error corrections - Are they licensed?
- Confidentiality?
- Source code escrow? (relevant if sales company has obligation to customer)

Potential Traps

- Failing to be mindful of future M&A or IPO due diligence
(experience both sides)
- Failing to protect your freedom to assign the contract in M&A
- Receiving inadequate licenses
- Granting “generous” licenses

Potential Traps

- Giving exclusivity
- Giving rights of first refusal
- Promising noncompetition
- Promising nonsolicitation
 - Customers
 - Employees

Potential Traps

- Promising to deliver future products without additional fees
- Long term fixed (or capped) prices
- Promising “most favored pricing”
- If grant freedom to sublicense, relying on percentage (%) based royalties without a “price floor”

Potential Traps

- Promising to make software perfect
- Promising to support old versions forever
- Promising to supply undefined amount of future resource (e.g. people), upon demand

Potential Traps

- Failing to prohibit licensee's use of software as a service bureau
- Permitting licensee to sublicense undefined "affiliates"
- Failing to prohibit sharing with a larger entity that acquires licensee
- Failing to preserve "exit" if sales company has "conflict" or tarnished reputation

Potential Traps

- Failing to prohibit licensee's reverse eng'g
- Sharing source code
- Selling (or sharing) ownership of the intellectual property
- Alliances that fail to promote your company's name to customers

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