



FEDERAL LABORATORY CONSORTIUM
FLC
FOR TECHNOLOGY TRANSFER

*The Only Government-wide
Forum for Technology
Transfer*

Technology Licensing Negotiation

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MARK REEVES

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- Oak Ridge National Laboratory, Technology Transfer & Economic Development, Commercialization Manager (2000-present)
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WHAT IS ORNL?

- DOE's largest multiprogram laboratory (Office of Science)
- Premier research programs in areas including advanced materials, leadership class computing, neutron scattering science, advanced energy systems, and systems biology.
- 4,000+ employees (~1500 Ph.D. scientists/engineers)
- Managed by UT-Battelle, LLC for the DOE
- Good neighbor in the east Tennessee community



AGENDA

- What is licensing negotiation?
- Eight steps of licensing negotiation
- Things to do and things to avoid
- Roles and responsibilities
- Questions



DISCLAIMER!

- This is **NOT** a negotiation course
- The course will:
 - Provide tips on what has worked in the past when negotiating licenses and other agreements
 - Share tools that have been successful
 - Help you avoid the effects of misinformation or lack of information
- Not the only way to negotiate
- **PLEASE SPEAK FREELY—DISAGREE, OFFER ALTERNATIVES, ASK QUESTIONS!**



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- **What is licensing negotiation?**
- Eight steps of licensing negotiation
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- Questions



WHAT IS LICENSING NEGOTIATION?

What is Licensing?

- Webster's defines a "license" as:

"...a permission granted by competent authority to engage in a business or occupation or in an activity otherwise unlawful."



WHAT IS LICENSING NEGOTIATION? (Cont.)

What is Negotiation?

- Webster's defines "negotiate" as:

"...to arrange for or bring about through conference, discussion and compromise."



WHAT IS LICENSING NEGOTIATION? (Cont.)

So What is Licensing Negotiation?

- ...to arrange for or bring about through conference, discussion and compromise a permission granted by competent authority to engage in a business or occupation or in an activity otherwise unlawful.
- In the licensing business, it is usually the right to make, use, or sell...based on proprietary rights...for consideration...



WHAT IS “TECHNOLOGY” LICENSING??

For purposes of this discussion, “technology” includes

- Patents
- Copyrights
- Trademarks/service marks
- “Know-How”?



WHAT IS LICENSING NEGOTIATION?

Creating a Win–Win Outcome

We want to create that small piece of common ground upon which both parties can agree

- Several possible outcomes
 - Good deal for both = Good for both
 - Great deal for them = Good for us
 - Lose – Win or Win – Lose = Good for one
 - Good for them = Great for us



WHAT IS LICENSING NEGOTIATION? (Cont.)

Win–Win

*We want to create that **small piece of common ground** upon which both parties can agree*

- Desirable Outcomes
 - Good deal for both
 - Good for them – Great for us



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EIGHT STEPS OF LICENSING NEGOTIATION

Step 1—Preparation

- The most important factor
- You need to understand:
 - The purpose – for both parties
 - Needs, wants, desires
 - Strengths, weaknesses
 - Time frame
 - Priorities
- Commitment by both parties to negotiate



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 1—Preparation (Cont.)

- Ask your side – “When the negotiation is over, what do we want to leave with?”
- What are they thinking? Conceptualize: “*What do they want?*”
- Four types of sessions
 - “*Blind Date,*”
 - “*Initial Session,*”
 - “*In the Heat of*” ...,
 - “*Closure*”
- All require intense preparation



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 2—Strategy

- The second most important factor
- Compose our team (see step 3)
- Understand their team
- Who are their *gatekeepers* and the *decision makers*?
- Strengths, weaknesses
- Time-frame
- Priorities
- Commitment by both parties to negotiate
- What do we want?
 - Write it down!



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 2—Strategy (Cont.)

- Transmit a license application
- Ask for a business plan, balance sheet and income statement
- Manage both parties' expectations
- Be able to respond to changes
- Create options that allow closure
- Define our walkaway position
- Conceptualize: *“What are they thinking?”*
- What do we want?
 - Write it down!



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 2—Strategy (Cont.)

License Application

- General company information—name, type of business, size, etc.
- Description of intellectual property (IP) desired
- Description of license rights desired—exclusivity, field of use, territory, etc.
- Intended commercial applications, products, etc.
- Competitive market, products, services
- Market barriers for entry
- Anticipated investment, ROI, revenue and profit
- Date of prototype, first sale
- Market size and expected capture for 5 years



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Attachment A—Technology-Based Licensing
Strategy Template



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Attachment B—Company-Based Licensing Strategy
Template



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Attachment C—Template Technology License
Application



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 3—Negotiating Team

- May be as few as one per side; two is better for your side
- But too many can be sub-optimal
- Define the leader who will conduct the overall negotiation
 - Who responds to technical issues?
 - Who responds to legal issues?
- Understand their team composition
- Never negotiate with anyone who does not have the authority to do so



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 3—Negotiating Team (Cont.)

Mechanics

- One voice
 - Second team member is observer/note taker/subject matter expert
- The leader conducts the overall negotiation
- Each member of your team understands individual roles
- Take notes
- Develop a time-out signal
- There can only be one leader



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 4—Preparation for Initial Session

- Gather as much information as possible
- Analyze license application, business plan, balance sheet and income statement
- Review and refine our strategy
- Draft and transmit term sheet
- Obtain our team's and decision maker's approval
- Visualize their possible comments and prepare responses
- Understand how our technology fits into their strategic focus
- Who's attending - With or without lawyers?



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 4—Preparation for Initial Session (Cont.)

Term Sheet

- Proprietary rights
- Exclusivity, fields of use, license duration
- Sublicensing rights and consideration
- Gross sales definition
- Patent reimbursement
- Upfront fee, minimum royalty, percentage of sales (equity)
- Diligence provisions
- Sponsored research



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Attachment F—Term Sheet Template



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 5—Initial Session

- Our primary goal is term sheet agreement
- Understand how our technology fits into their strategic focus
- Review license application, income statement, business plan and any draft agreements
- View their comments and prepare responses
- Upon term sheet agreement, prepare draft license
- Conceptualize what they want (*framework of their request*)
- Who's attending - With or without lawyers?



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 5—Initial Session (Cont.)

How to Get Started

- Develop our strategy
- Pre-script our points, priorities and who will speak and when
- Arrive 5 minutes early – Not earlier unless it is expected
- Seating – The two negotiators
- Place no departure deadline on yourself but do not leave the session open-ended
- Rarely initiate business discussions
- Have them talk about their company, business plan, license application, etc.
- Dress up – not down



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 5—Initial Session (Cont.)

What Do We Need to Have With Us?

- For every session:
 - Prepare negotiation binder or file
 - For newly proposed language, have copies for everyone
 - Copies of the IP
 - Prepare past negotiations summary
 - Establish a time-out signal
 - If not concluded, suggest alternating meeting locations



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 6—“In the Heat of” Session

- Where 1+ iterations have transpired
- View their comments and what might be their proposed adjustments
- Define our proposed adjustments
- *Decide what adjustments we will make and what will the extra effort for closure take*
- Lead the discussion
 - Upon commencing ask:
 - *“Can we briefly summarize our last session?”*
 - *“What would we both like to see at the end of this session?”*
- Timing
- Who’s attending - With or without lawyers?



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 7—Closure Session

- Last iteration of negotiation
 - *“Where did we leave off in our last discussion?”*
- View their comments and prepare responses
- Define priorities necessary to make adjustments
- Conceptualize what their response will be to those proposed adjustments
- Strategize how to *grudgingly* “give in” on the adjustments we are holding for closure
- Who’s attending - With or without lawyers?



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

The “Blind Date” Phenomenon

- The “blind date phenomenon” is when you are unexpectedly invited or requested to attend a session
- Obtain as much information as possible before you go
- Find out ASAP
 - Who’s the “date” (*the people & parties*)
 - What’s their interest (*timing & purpose*)
 - What we want (*what’s the deal*)
- Lessons learned with the Principal Investigator (PI)



EIGHT STEPS OF LICENSING NEGOTIATION (Cont.)

Step 8—Details

Listening

- Ask the right questions and listen completely
- Ask in a way that encourages other party to favorably respond
- Be their “best audience”
- How can we persuade when we do not fully listen or understand their position?
- Watch body language



CELEBRATE!

- Have a signing ceremony
- Take lots of pictures
- Run an article in your organization/
laboratory newsletter
- Do a press release
- Have a celebratory dinner



AGENDA

- What is licensing negotiation?
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THINGS TO DO AND THINGS TO AVOID





THINGS TO DO

- Develop preapproved negotiation strategy
- Determine who speaks for them and what authority they carry
- Determine who speaks for us
- Assure proper table placement
- Be gracious with amenities if hosting
- Maintain eye contact



THINGS TO DO (Cont.)

- Listen carefully – Take extensive notes, including who says what
- Practice silence – Develop “poker face”
- Take time-outs to maintain team focus
- Send a thank-you note
- Consider signing ceremony/celebration
 - Press release
 - Newsletter article



THINGS TO AVOID

- Having the PI in the session
- Negotiating with your boss; OK to dissect a deal AFTER closure, but supervisors/directors should never put negotiators in a position of negotiating with THEM!
- Letting the lawyers dominate
 - *Business, technical, and legal may appear to conflict initially*
- Dwelling on what cannot be agreed upon
 - *Establish the facts of disagreement and move on*



THINGS TO AVOID (Cont.)

- Talking too much
 - *Overstating erodes credibility*
 - *Develops unnecessary expectations*
- “Blurt outs”
- Losing control of the negotiation direction
- Emotions
 - *Avoid at all costs*
- Escalation of back-channel negotiation
 - Manage your managers



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ROLE OF THE NEGOTIATOR

- Team leader
- Voice of the organization
- Develops proposed strategy
- Solicits other team members
- Obtains team and organizational approvals
- Drafts license application, term sheet, and agreement
- Proposes all changes, modifications, concessions
- Facilitates agreement and approval
- Drives the deal to conclusion



ROLE OF THE PRINCIPAL INVESTIGATOR

- Develops and understands intellectual property
 - *Formulates and defines relative strength, complementary vs. pioneer, applicability to other research*
- Assists with identifying markets, companies, prospects, etc.
- Creates candidate-company technical champion
- Leads technical discussions
- Primary source in determining “what we want”
- PI is not a negotiator
 - Usually performs poorly at the negotiating table
- If you must use during negotiations, ensure that PI receives proper training and understands role of PI vs. negotiator



ROLE OF THE ATTORNEY

- Knowledge of what types of protection are available
 - *Tools legally available and rights under each one*
- Perfection of the intellectual property
- Understands legal/contractual boundaries within which we must operate
- Critiques proposed agreement
- Counsel to negotiator – “right-hand man”
- Speaks as a backup to negotiator...if called upon
- Does not negotiate
- As valuable as the PI if utilized correctly
- Can be devastating if utilized incorrectly



LAWYERS...DEVASTATING IF UTILIZED INCORRECTLY!

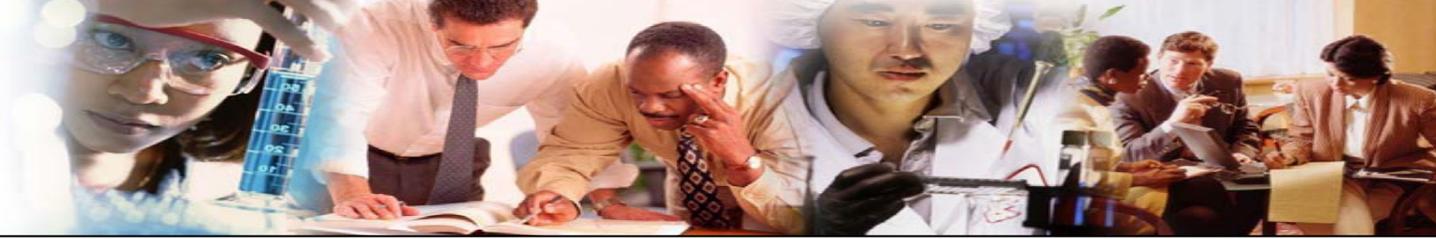




RULES OF THE ROAD

- Prepare, prepare, prepare
- Communicate effectively with all internal stakeholders (strategy, desired outcomes, progress, etc.)
- Rarely initiate business discussions
- Listen
 - Silence can be golden
 - Take copious notes
- Maintain eye contact
- Only the PI can create a candidate-company technical champion

—Larry Dickens



RULES OF THE ROAD (Cont.)

- Never negotiate with anyone who does not have the authority to do so
- Never negotiate if you cannot clearly define our desired end result
- Negotiations should be with your licensee, not with your boss
- There can only be one leader
- Dress up – not down
- Enjoy

–Larry Dickens



IN CLOSING...SOME “HELPFUL” RESPONSES

- “Let me repeat what I thought I heard you say...did I understand you correctly when you said _____.”
- “May I study that and get back to you?”
- “I clearly see how that benefits you, but I fail to see how it benefits us.”
- “I will take that request under consideration in the context of the entire license agreement.”
- “Good point, we hadn’t thought of that.”
- “Would these adjustments bring us to closure?”



QUESTIONS?



FOLLOW-UP/QUESTIONS ???

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