



Federal Laboratory Consortium  
for Technology Transfer

# Licensing & Negotiation Training Workshop





# PRESENTED BY:

## **Mojdeh Bahar**, USDA/Agricultural Research Service

- Assistant Administrator, Office of Technology Transfer
- Patent Attorney, former examiner with USPTO
- Former FLC Chair
- Certified Mediator

## **Dr. Mark Reeves**, Oak Ridge National Laboratory

- Associate Director, Office of Technology Transfer (36 years exp. at ORNL, 18 years in technology transfer)
- Ph.D., microbiology
- MBA
- Former FLC Vice Chair
- Hundreds of negotiated technology transfer deals and agreements



# AGENDA

Time	Presentation	Instructor(s)
8:30 – 8:45 AM	Introduction of Course and Instructors	Mojdeh Bahar
8:45 – 9:15 AM	Licensing in a GOGO Environment	Mojdeh Bahar
9:15 – 9:45 AM	Licensing in a GOCO Environment	Mark Reeves
9:45 – 10:30 AM	Tools for More Effective Licensing	Mark Reeves
10:30 – 11:00 AM	Break	
11:00 – 11:30 AM	Tools - Interactive Workshop	Mark Reeves
11:30 AM – Noon	Negotiation Tips and Skills	Mojdeh Bahar
Noon – 1:00 PM	Lunch and Networking	
1:00 – 1:30 PM	Negotiation Tips and Skills (Cont.)	Mojdeh Bahar
1:30 – 2:15 PM	Negotiation Skills -Interactive Workshop	Mojdeh Bahar
2:15 – 3:00 PM	Negotiation Tips and Skills	Mark Reeves
3:00 – 3:30 PM	Break	
3:30 – 5:00 PM	Crafting Effective License Agreements	Mark Reeves Mojdeh Bahar



# **SIGN-IN PROCEDURE**

- Sign in this morning and afternoon to verify that you completed the course.
- We will pass around the sign-in sheet.



# COURSE MATERIALS

Your materials include:

- Course book
- Handouts

**Don't have materials?**

Check in at registration to pick them up.



# ADD-DROP

- Not the course for you? You can add/drop till 9:45 am.
- Trade in your books at the registration desk.
- Be sure to sign in to your new course.



# EVALUATE THE COURSE

- Your feedback is our most useful tool!
- Evaluation form in your books.
- Hand it in at registration.



# CREDIT

- You can still register for continuing education credit at [eu.montana.edu/flc](https://eu.montana.edu/flc).
- You'll receive “credit” for completing this course in the form of an online badge you can share with your social networks. Look for an email from Credly for your badge.



Federal Laboratory Consortium  
for Technology Transfer

**GOVERNMENT-  
OWNED,  
GOVERNMENT-  
OPERATED (GOGO)  
LABORATORIES**





# PRESENTED BY:

Mojdeh Bahar, J.D., M.A., CLP, RTTP  
ARS, USDA

April 23, 2019 • Orlando, FL

- Assistant Administrator, Office of Technology Transfer, ARS, USDA

## **Past Experience:**

- FLC Chair
- Chief, Cancer Branch Office of Technology Transfer, National Institutes of Health (NIH)
- Technology Licensing Specialist, Office of Technology Transfer, NIH
- Examiner, U.S. Patent and Trademark Office (USPTO)
- Patent Attorney
- FLC Mid-Atlantic Regional Coordinator
- FLC Executive Board Member



# ROAD MAP

- Introduction to a ARS, a GOGO Laboratory
- GOGO definition and IP rights
- Licensing Principles
- Some Interesting Characteristics of Government Licenses
- Major Differences between GOGO and GOCOs
- Questions?



# AGRICULTURAL RESEARCH SERVICE

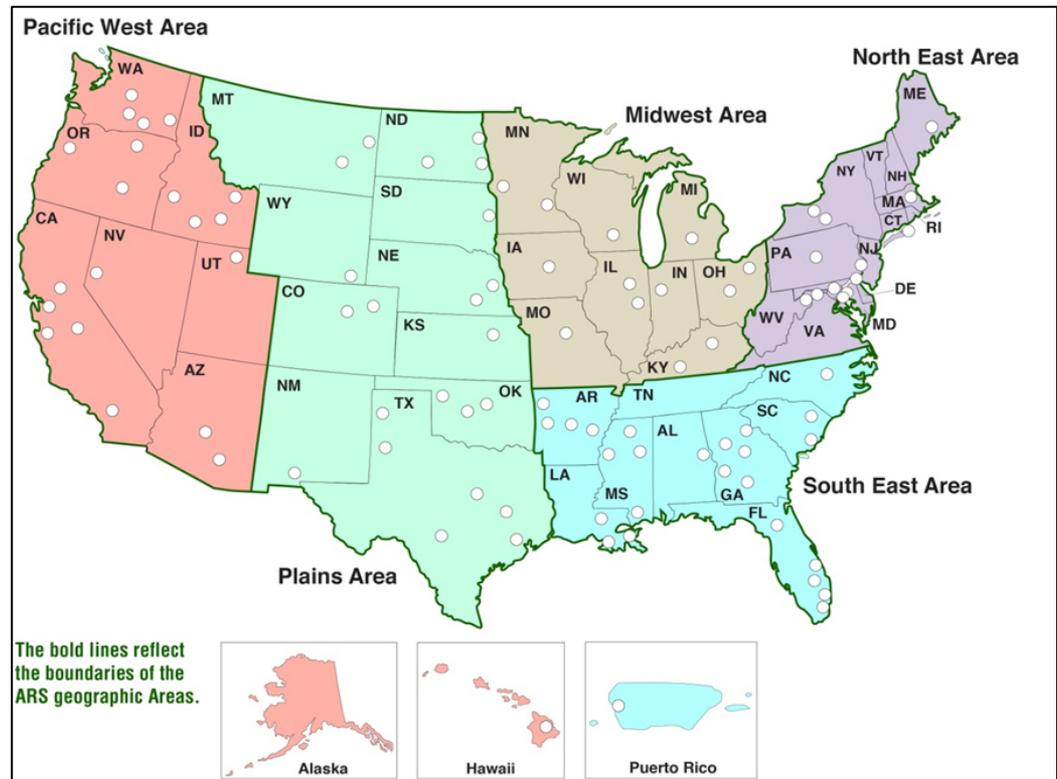


- USDA established in 1862 as “People’s Department”
- The **Agricultural Research Service (ARS)** is the [U.S. Department of Agriculture's](#) chief scientific in-house research agency.
- Our job is finding solutions to agricultural problems that affect Americans every day, from field to table.



# ARS PROFILE

- **690 research projects, 15 National Programs**
- **2,000 scientists & post docs**
- **6,000 support employees**
- **90+ locations throughout US**
- **~\$1.2 billion annual budget**





# ARS-OTT

ARS has been delegated authority by the Secretary of Agriculture to administer the patent and license programs for USDA. The ARS Office of Technology Transfer (OTT) is assigned the responsibility for protecting intellectual property, developing strategic partnerships with outside institutions, and performing other functions that enhance the effective transfer of ARS technologies to users.



# GOGO – DEFINED

- A GOGO laboratory is Government-Owned, Government-Operated:
  - Usually owned or leased by the federal government
  - Predominantly staffed by federal employees
  - Supported by nonfederal contract employees. Individual contract employees may be considered “work-for-hire” employees, while staff provided by a firm providing support staff to the laboratory may be covered by the intellectual property rights bestowed on the contracting firm under the provisions of the Bayh-Dole Act or Executive Order 12591
  - A major difference between federal and nonfederal employees can be found in 17 USC 105 (GOGO vs. GOCO)



# GOGOS AND IP

- GOGOs can seek patents
- Can register Trademarks
- Cannot copyright “work of the United States Government”; a work prepared by an officer or employee of the United States Government as part of that person's official duties, e.g., an employee at the GOGO (17 USC 105)
- Government is the owner/assignee of IP



# LEGAL AUTHORITY FOR LICENSING

35 USC 207 Authorization for licensing to all federal agencies	35 USC 209 States that the default position is the grant of a non-exclusive license
37 CFR 404.4 Authority to grant licenses to federally-owned inventions	37 CFR 404.6 Non-exclusive licenses
37 CFR 404.5 Restrictions (on) and conditions for granting licenses	37 CFR 404.10 Modification and Termination of Licenses



# LICENSING PRINCIPLES

- Granting only the appropriate scope of rights
- Permit research uses
- Preference for non or partial exclusivity
- Specified fields of use
- Enforceable milestones and benchmarks
- Maximize development of products for the public good (mission driven)
- Ensure appropriate return on public investment



# FACTORS CONSIDERED IN LICENSING

- Stage of Development
- Type of Product
- Market value of product
- Uniqueness of Material
- Scope of patent coverage
- Market timing
- Agency “content”
- Public Good (mission driven)



# **SOME INTERESTING CHARACTERISTICS OF NON- EXCLUSIVE AND EXCLUSIVE LICENSES**

- Negation of warranties and representations
- Indemnification
- Reservation of Government Rights
- Manufacturing Sites



# NEGATION OF WARRANTIES AND REPRESENTATIONS

- No warranties or representations are made
  - Licensor offers no warranties other than those specified in Article 1. (Article 1 is the inherent characteristics of a license).
  - Licensor does not warrant the validity of the patent rights and makes no representation whatsoever with regard to the scope of the licensed patent rights.
  - Licensor makes no expressed or implied warranties of merchantability or fitness for a particular purpose of any subject matter defined by the claims of the licensed patent rights or tangible materials related thereto (UCC provision, not applicable to licenses).
  - Licensor does not represent that it shall commence legal actions against third parties infringing patent rights



# INDEMNIFICATION

- Generally speaking, the licensor may be called upon to indemnify and hold the licensee harmless against a breach of the licensor's representations and against defects in the products incorporating the invention.
- This is not true in Government licenses. In fact, it is required that licensee maintain liability insurance.



# RESERVATION OF GOVERNMENT RIGHTS

- The Federal agency has the right to terminate the license in whole or in part if the agency determines that licensee is not diligent in developing the technology, is in breach, has violated the Federal antitrust law in connection with its performance under the license or if such action is necessary to meet requirements for public use specified by Federal regulations issued after the date of the license and such requirements are not reasonably satisfied by licensee.
- Codified in 35 USC 209 (d)(3)



# MANUFACTURING SITE

- A Federal agency shall grant the right to use or sell any federally owned invention in the United States only to a licensee that agrees that any products embodying the invention or produced through the use of the invention will be manufactured substantially in the United States.
- 35 USC 209 (b)



# **CRADAS AND LICENSING (FTTA)**

**Federal Technology Transfer Act of 1986 (P.L. 99-502)**—Also known as the FTTA, this act was the second major piece of legislation to focus directly on technology transfer. All federal laboratory scientists and engineers are required to consider technology transfer an individual responsibility, and technology transfer activities are to be considered in employee performance evaluations. This 1986 law also established a charter and funding mechanism for the previously existing FLC.



# CRADAS AND LICENSING (FTTA) (CONT.)

- In addition, the FTTA enabled GOGO laboratories to
  - Enter into CRADAs
  - Negotiate licensing arrangements for patented inventions made at the laboratories
  - Required that government-employed inventors share in royalties from patent licenses
  - Exchange personnel, services, and equipment among laboratories and nonfederal partners
  - Grant or waive rights to laboratory inventions and intellectual property
  - Grant permission for current and former federal employees to participate in commercial development, to the extent that there is no conflict of interest



# INTERSECTION OF CRADA & LICENSING

- Background rights to a CRADA
- CRADAs are prospective in nature: the collaborator will get an exclusive option to the CRADA subject Invention, i.e., within the scope of SOW/RP and during the course of the CRADA
- Licenses are retrospective, i.e., they address IP that has already been developed\*



# **SOME DIFFERENCES BETWEEN GOGO AND GOCO LABORATORIES**

- Exclusive Licenses
- FOIA
- Consideration
- Royalties
- Consulting
- CRADAs



# EXCLUSIVE LICENSES

- **Bayh-Dole Act of 1980 (P.L. 96-517)**— The Bayh-Dole Act of 1980, together with the Patent and Trademark Clarification Act of 1984 (P.L. 98-620), established more boundaries regarding patents and licenses for federally funded R&D. Small businesses, universities, and not-for-profit organizations were allowed to obtain title to inventions developed with federal funds.
- Government-owned and government-operated (GOGO) laboratories were permitted to grant exclusive patent licenses to commercial organizations.



# EXCLUSIVE LICENSES–NOTICE

Notice of opportunities should be made available to interested parties in as much detail as possible and to as wide an audience as possible. Avoiding the appearance of showing preference to a particular organization or individual is of concern to all federal laboratories and their agencies. It should be noted that when a GOGO laboratory agrees to grant an exclusive license, it is required to advertise that intent in the *Federal Register* prior to granting the license.



# CONSIDERATION

- A contract is formed when there is an offer, an acceptance and consideration (something of value)
- In most GOGOs this consideration is money or cross licenses (in some circumstances)
- GOCOs have more flexibility in obtaining consideration in other forms



# ROYALTIES

- At GOGO laboratories there is a limit of royalties of \$150,000\* per year per person without presidential approval
  - DoD has a limit of 500K
- At GOCO laboratories, the inventor is not subject to a limit on the amount of royalties he or she may receive per year



# GOGO LICENSES IN ONE SLIDE

- Licenses can be non-exclusive, partially exclusive, or exclusive.
- Must provide public notice prior to granting a partially exclusive or exclusive license.
- Licenses are subject to FOIA (business confidential information will be redacted).
- Consideration is usually in form of money or cross licenses.
- There is a cap on royalties for GOGO employees.



# COLLABORATIONS

- **Executive Order 12591 (1987)**—Executive Order 12591, Facilitating Access to Science and Technology, was written to require that federal laboratories and agencies assist universities and the private sector by transferring technical knowledge. It required agency and laboratory heads to identify and encourage individuals who would act as conduits of information among federal laboratories, universities, and the private sector.
- It also underscored the government's commitment to technology transfer and urged GOGOs to enter into cooperative agreements to the limits permitted by law.



# CONSULTING-PERSONNEL

- **Consulting by Laboratory Personnel**—In certain cases, nonfederal personnel in GOCO laboratories may provide consulting to a private-sector party to further the technology transfer process. The laboratory must approve these arrangements to ensure there are neither conflicts of interest nor potential intellectual property concerns.

**(Note: This does not apply to federal employees in GOGO laboratories.)**



# **ANY QUESTIONS?**

Thank you for your kind attention.

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Federal Laboratory Consortium  
for Technology Transfer

# Licensing From a GOCO Perspective





# PRESENTED BY:

Dr. Mark Reeves  
Oak Ridge National Laboratory

Orlando, Florida  
April 23, 2019

- FLC Vice Chair, 2013-2017
- FLC Southeast Deputy Regional Coordinator, 2012
- FLC Southeast Regional Coordinator (2005-2009)
- FLC Executive Board Member (2005-2011; 2013-2017; Member-at-Large, 2009-2011)
- ORNL FLC Representative/Alternate Representative (2003-present)
- Oak Ridge National Laboratory, Technology Transfer Professional (2000-present)
- Oak Ridge National Laboratory, Staff Scientist and R&D Center Director (1986-2000)



# WHAT IS ORNL?

- Department of Energy'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
- 4,500+ employees (~1800 Ph.D. scientists/engineers)
- Managed by UT-Battelle, LLC for the DOE
- Good neighbor and driver of the economy in the east Tennessee community



# GOCO LABORATORIES

- Owned by government, operated by contractors
  - Management and Operating (M&O) contractor
- Employees are NOT civil servants
- In managing laboratory and in technology transfer, contractor employees essentially act on behalf of the government.



# GOCO LABORATORIES CONT'D

- **For-profit contractors** (must ask permission to take title to subject inventions on a case-by-case basis)
- **Nonprofit contractors** (statutory rights under Bayh-Dole to elect to retain title to subject inventions)
  - Commercial rights only
  - Government always retains government rights



# GOCO LABORATORIES CONT'D

- Can protect patentable subject matter, trademarks, service marks, mask works...and “trade secrets” only in the context of Protected CRADA Information (limited time)
- Can request permission to assert copyright in copyrighted materials from cognizant government agency
  - Must commit to licensing copyrighted materials
  - Permission to assert copyright (and therefore grant exclusive licenses) extends only 5 years
  - Thereafter, the government will have the right to grant nonexclusive licenses
- Owner/assignee of IP is contractor (government license still applies in all cases)



# GOCO LABORATORIES CONT'D

- Licenses may be exclusive or nonexclusive (usually field-of-use limited in either case, for business reasons)
- Licenses grant only commercial rights (government rights always belong to the government and contractor has no right to license)
- Disposition of royalties stipulated by Bayh-Dole, Stevenson-Wydler, and contractor's prime contract (for nonprofits)
- Disposition of royalties stipulated by Stevenson-Wydler and contractor's prime contract (for for-profits)



# GOCO LABORATORIES CONT'D

- No specific requirement for advertising availability of technologies for licensing before granting exclusive licenses
- However, the fairness of opportunity provisions of Stevenson-Wydler must be satisfied
  - Fairly non-specific
  - Must coordinate with parent agency for concurrence that this is being satisfied
- May be special requirements if licensing to employees or affiliates, and certainly for licensing to foreign entities



# GOCO LABORATORIES CONT'D

- So, if the government agency/owner of the laboratory decides to change contractors, what happens to rights in IP?
  - In most cases, those rights will vest in the new contractor (this is a mandated term in most M&O contractors' prime contracts with the government agency)
  - “Successor Contractor” term thus often shows up in licenses, CRADAs, etc.



# GOCO LABORATORIES CONT'D

- Many government-mandated terms still flow through licenses (not that much different than for a government license)
  - Indemnification
  - Government-use right/license
  - March-in rights
  - Substantial U.S. manufacture
  - Export Control
  - Etc.



# GOCO LABORATORIES CONT'D

- Even though licensor is contractor, government interests must be protected
  - No warrants other than warranting that contractor owns IP being licensed and has the right to license it
  - Contractor will not indemnify licensee (even though licensee is mandated to indemnify both government and contractor)



# GOCO LABORATORIES CONT'D

- No government approval of negotiated license terms in most cases
- No government approval of financial terms in most cases
- Must demonstrate fairness of opportunity in licensee selection (Stevenson-Wydler)
- License business terms not subject to FOIA



# GOCO LABORATORIES CONT'D

- Disposition of royalty income stipulated by law (S-W and B-D) and by contractor's Prime Contract
- Financial consideration usually cash, but can be other (equity, promissory note, etc.)
- Equity often taken partially or fully in lieu of upfront licensing fees
  - Issues associated with equity-based licensing form the basis of another training topic altogether!
  - Equity-based licenses generally make agency personnel uncomfortable.
- Research support from laboratory always on a full cost recovery basis, not made part of license deal (no swap of services for royalties or other promises)



# GOCO LABORATORY LICENSING PRINCIPLES

- Granting only the appropriate scope of rights
- Permit research uses (GOGO)\*
- Preference for non or partial exclusivity (GOGO)\*
- Specified fields of use
- Enforceable milestones and benchmarks
- Maximize development of products for the public good (mission driven)
- Ensure appropriate return on public investment
- Reward inventor creativity and initiative



# GOCO FACTORS CONSIDERED IN LICENSING

- Stage of development
- Type of product
- Market value of product
- Uniqueness of material (GOGO)\*
- Scope of patent coverage
- Market timing
- Agency “content” (GOGO)\*
- Public good (mission driven) (GOGO)\*
- **Ability of prospective licensee to deliver to market**



# **FOLLOW-UP/QUESTIONS ???**

***(THE FUN IS JUST BEGINNING!)***

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Federal Laboratory Consortium  
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# Technology License Negotiation (Patent/Copyright)

*General Principles*





# **PRESENTED BY:**

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Orlando, Florida  
April 23, 2019



# AGENDA

- What is license negotiation?
- Three stages of license negotiation
- Roles and responsibilities
- Rules of the road (do's and don't's)
- Some helpful negotiating responses
- Questions



# DISCLAIMER!

- This is NOT a comprehensive negotiation course
- The course will:
  - Provide tips on what has worked for me and colleagues in the past when negotiating licenses and other agreements
  - Share ideas that may be helpful
  - 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; WE’RE ALL LEARNERS HERE!**



# AGENDA

- **What is license negotiation?**
- Three stages of license negotiation
- Roles and responsibilities
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# WHAT IS “TECHNOLOGY LICENSING”?

FOR PURPOSES OF THIS DISCUSSION, “TECHNOLOGY” INCLUDES:

- Patents
- Copyrights
- Trademarks/service marks
- Mask works
- Protected CRADA Information?
- “Know-How”?



# WHAT IS LICENSE NEGOTIATION?

## WHAT IS A LICENSE?

- 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
  - In some sense, it is an agreement not to sue...authorized infringement



# WHAT IS LICENSE NEGOTIATION? cont'd

## WHAT IS NEGOTIATION?

- Webster's defines a "negotiation" as:
  - "...to arrange for or bring about through conference, discussion and compromise



# WHAT IS LICENSE NEGOTIATION? cont'd

## SO WHAT IS LICENSE 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...(for patents; copyrights have different grant language)



# WHAT IS LICENSE NEGOTIATION? cont'd

## SO, WE KNOW WHAT A LICENSE NEGOTIATION IS .. WHAT IS IT NOT?

- License negotiation, at least at a federal laboratory, is absolutely, EMPHATICALLY, NOT A SALES ACTIVITY!!!
- Viewing technology transfer in general—and licensing in particular—as solely a sales activity is the surest route to failure
- It's all about building *mutually beneficial* partnerships!



# WHAT IS LICENSE NEGOTIATION? cont'd

## WHY IS LICENSE NEGOTIATION NOT A SALES ACTIVITY?

- Success in licensing at a federal laboratory will only come if the emphasis is on building trusting relationships with capable commercial partners
- A “money now and damn the relationship” attitude can lead to success in used car sales, but not in technology licensing.
  - But it’s OK to make money—no apologies! That will come if you build the relationship properly!



# WHAT IS LICENSE NEGOTIATION? cont'd

## WHY IS LICENSE NEGOTIATION NOT A SALES ACTIVITY?

- It is about building productive partnerships to do two things
  - Enhance the ability of the federal laboratory to perform its mission, and
  - Leverage the U.S. taxpayers' investment in federal R&D into enhanced GDP and quality of life based on new technology-based commercial products in the marketplace
- Licensing should not be done for free, but true financial success will only come if the business partnership is valued properly



# WHAT IS LICENSE NEGOTIATION? cont'd

## CREATING A WIN-WIN OUTCOME

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

- Several possible outcomes
  - Good deal for both parties (Win-Win)
  - Lose-Win or Win-Lose, good for one party only
  - Thinking this way is counterproductive!
  - Good for them; great for us (Win-REALLY Win!)



# WHAT IS LICENSE NEGOTIATION? cont'd

## WIN-WIN

- Both parties need to leave the table feeling they got a **FAIR** deal.
- There is no more important take-home lesson from today than this.



# AGENDA

- What is license negotiation?
- **Three stages of license negotiation**
- Roles and responsibilities
- Rules of the road (do's and don't's)
- Some helpful negotiating responses
- Questions



# THREE STAGES OF LICENSE NEGOTIATION

**STAGE 1** — PREPARE (THE REAL SECRET TO SUCCESS)

**STAGE 2** — ENGAGE (WHERE SKILL AND EXPERTISE CANNOT BE OVERVALUED)

**STAGE 3** — CELEBRATE AND SUPPORT (WHERE FUTURE RELATIONSHIPS ARE BUILT)



# THREE STAGES OF LICENSE NEGOTIATION cont'd

## STAGE 1 – PREPARE

Develop a Strategy

Technology-Based

Company-Based

Get a Completed License Application

Value the Intellectual Property for Deal

Develop a Term Sheet

Plan for Initial Negotiating Session



# **THREE STAGES OF LICENSE NEGOTIATION cont'd**

## **STAGE 2—ENGAGE**

- Initial Negotiating Session
- Continuing Sessions/Agreement on Terms
- Closure/Execution

## **Stage 3—Celebrate and Support**



# STAGE 1 - PREPARE

- Develop a strategy
  - Technology-based
  - Company-based
- Get a completed license application
  - Essential company/license data
  - Business plan
  - Financial *pro formas*
- Value the intellectual property for deal
- Develop a term sheet
- Plan for initial negotiating session



# STAGE 1 – PREPARE cont'd

## Plan for Initial Negotiating Session

- Send term sheet to prospective licensee and ask them to be prepared to discuss at the initial negotiating session.
- This presumes face-to-face negotiations will be conducted...adaptations need to be made for phone or e-mail negotiations



# STAGE 1 – PREPARE cont'd

## Plan for Initial Negotiating Session

- Understand their team
  - Who are their *gatekeepers* and the *decision makers*?
  - What do *they* want? (we should have already documented what we want in our Company-Based licensing strategy document)



# STAGE 1 – PREPARE cont'd

## Plan for Initial Negotiating Session

Be Prepared to:

- Manage both parties' expectations
  - Be able to respond to changes
  - Create options that allow closure
  - Walk away if necessary
    - What is your walk-away position?
    - Financial matters? Nonfinancial matters?



# STAGE 1 – PREPARE cont'd

## Plan for Initial Negotiating Session

- The goal is, at the first formal negotiating session, to BE PREPARED! (yes, just like the Boy Scouts!)
- Hard to avoid being surprised during negotiations, but the goal of preparation is to minimize the number of surprises, and...
- ...to DRIVE—AND REMAIN IN CONTROL OF—THE DISCUSSION!



# STAGE 2 – ENGAGE

## Initial Negotiating Session

- Our primary goal for this first negotiating session is term sheet agreement
- Who's participating - with or without lawyers?
- Upon term sheet agreement, prepare draft license



# STAGE 2 – PREPARE cont'd

## Initial Negotiating Session

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



# STAGE 2 – PREPARE cont'd

## Closure

- 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



# STAGE 3 – CELEBRATE & SUPPORT

- Have a signing ceremony
- Take lots of pictures
- Run an article in your organization/laboratory newsletter
  - Clear with licensee
- Do a press release
  - Clear with licensee
- Have a celebratory dinner
- Schedule a tour of licensee's manufacturing facilities



# STAGE 3 – CELEBRATE & SUPPORT cont'd

- Most companies love publicity and love the laboratory showing how much it values the partnership
- Being known as pro-industry will pay big dividends down the road, both with the present and future licensees
- Also a **GREAT** way to involve laboratory management more (they **LOVE** cameras and microphones!)



# **STAGE 3 – CELEBRATE & SUPPORT** cont'd

- Play up the importance of your inventor(s) at any celebration.
- Great way to get inventors better disposed toward favorable engagement with your office in the future



# STAGE 3 – CELEBRATE & SUPPORT cont'd

- After the celebration, continue to engage with your licensee
  - Check on progress from time to time
  - Visit
  - Ask if there is anything the laboratory can do to help (careful!)
- Ensure laboratory send official congratulations on occasions of successes
- Etc.



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# ROLES AND RESPONSIBILITIES

## Negotiator

- Voice of the organization
- Develops proposed strategy
- Solicits other team members
- Obtains team and organizational approvals
- Drafts license application, term sheet, and agreement
- Has authority to agree to, or reject, points of negotiation
- Proposes all changes, modifications, concessions
- Facilitates agreement and approval
- Drives the deal to conclusion



# ROLES AND RESPONSIBILITIES

## Inventor

cont'd

- 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-**VERY IMPORTANT!!!**
- Leads technical discussions, but not negotiations
- A primary source in determining “what we want”
- Inventor is not a negotiator
  - *Usually performs poorly at the negotiating table*
  - *Use “time-outs” to manage if present at negotiations*
- If you must use during negotiations, ensure that he/she receives proper training and understands role (not negotiator)



# ROLES AND RESPONSIBILITIES

## Attorney

cont'd

- Knowledge of what types of IP protection are available
  - - Tools legally available and rights under each one
- Perfection of the intellectual property
- Sorts out issues of IP rights
- Understands legal/contractual boundaries within which we must operate
- Critiques proposed agreement
- Counsel to negotiator – “right-hand man/woman”



# ROLES AND RESPONSIBILITIES

## Attorney

cont'd

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# ROLES AND RESPONSIBILITIES

## Attorney

cont'd

- Speaks as a backup to negotiator...if called upon
- Does not negotiate business terms
- As valuable as the PI if utilized correctly
- Can be negative presence if utilized incorrectly (or if of a negative personal disposition)
  - Avoid having attorneys present in negotiations, if possible, on both sides (it's a business deal, after all)
  - Leads to legal debates, not business negotiations
  - But never negotiate without your attorney if the other side insists on having theirs present



# ROLES AND RESPONSIBILITIES

## Accountant/License Administrator

cont'd

- Not a negotiator. Generally not needed in negotiation sessions.
- But, needs to review draft term sheets, draft licenses, etc. to ensure that the financial terms are both:
  - Understandable; and
  - Not a headache to administer
- Negotiators have been known to negotiate some terms that are impossible to understand and administer after the deal is consummated!



# AGENDA

- What is license negotiation?
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- Roles and responsibilities
- **Rules of the road (do's and don't's)**
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- Questions



# RULES OF THE ROAD

- Prepare, prepare, prepare
- Communicate effectively with all internal stakeholders (strategy, desired outcomes, progress, etc.)
- Listen
  - Silence can be golden; develop “poker face”
  - Take copious notes, including who says what



# **RULES OF THE ROAD** cont'd

- Develop preapproved negotiation strategy
  - Understand their goals
  - Define your goals
- Determine who speaks for them and what authority they carry
- Determine who speaks for us



# RULES OF THE ROAD cont'd

- Maintain eye contact if in person
- Never get over-anxious to close deal
- Always ask for more than you expect to get
- Courtesy always; no negative emotions displayed
- Enjoy...It's Just Business!



# **RULES OF THE ROAD – THINGS TO DO cont'd**

- Send a thank-you note
- Consider signing ceremony/celebration
  - Press release
  - Newsletter article
  - Heap praise on inventor(s)
  - Use any means to demonstrate how highly you value the partnership with the licensee



# **RULES OF THE ROAD – THINGS TO DO cont'd**

- Stay engaged with the licensee post-license execution
- Make it an ongoing partnership, not one that ends when the signing ceremony is over



# RULES OF THE ROAD – THINGS TO AVOID cont'd

- Having the PI in the negotiating session (if possible)
- Negotiating with someone who does not have the authority to do so
- Negotiating without clear goals for the outcome
- 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!
- Multiple communications channels between licensor and licensee



# RULES OF THE ROAD – THINGS TO AVOID *cont'd*

- A “sales” mentality! Think “long-term partnerships!”
- Letting the legal issues dominate the discussion
  - *Business, technical, and legal may appear to conflict initially*
  - *Licenses are fundamentally business arrangements*
- Dwelling on what cannot be agreed upon
  - *Establish the facts of disagreement and move on; settle in next session*



# RULES OF THE ROAD – THINGS TO AVOID cont'd

- Talking too much
  - *Overstating erodes credibility*
  - *Develops unnecessary expectations*
- “Blurt outs” (don’t be over-eager to get the deal done)
- Becoming a “buddy”
- Allowing your PI to become the licensee’s “buddy”



# RULES OF THE ROAD – THINGS TO AVOID *cont'd*

- Losing control of the negotiation direction
- Emotions
  - *Avoid at all costs*
  - *If you become emotional, you lose any leverage in the negotiations*
  - *If you see the licensee becoming emotional, the leverage pendulum has swung in your favor*
- Escalation of back-channel negotiation
  - *Manage your managers*



# AGENDA

- What is license negotiation?
- Three stages of license negotiation
- Roles and responsibilities
- Rules of the road (do's and don't's)
- **Some helpful negotiating responses**
- Questions



# SOME "HELPFUL" RESPONSES

- In response to a ridiculous proposal by the prospective licensee, rather than directly pointing out the absurdity of their proposal: **“Let me repeat what I thought I heard you say...did I understand you correctly when you said \_\_\_\_\_?”**
- In response to an unexpected proposal by the prospective licensee, or to a question to which you do not immediately know the answer: **“May I study that and get back to you?”**



# SOME "HELPFUL" RESPONSES cont'd

- In response to a proposal or request by prospective licensee that is clearly one-sided in their favor: **“I clearly see how that benefits YOU; what I need you to do is explain to me how your proposal benefits US.”**
- To avoid a situation where every concession on your part has thus far resulted in yet another request for concession coming from the prospective licensee: **“I will take that request under consideration in the context of the entire license agreement.”**



# SOME "HELPFUL" RESPONSES cont'd

- To find a way to make the licensee feel that you do not wish to react negatively to all their negotiating points, when they bring up something you can agree to or that suits your needs just as well as something else you had proposed: **“Good point, we hadn’t thought of that.”**
- When you want to indicate that you think it’s time to stop nit-picking and wrap up the negotiations: **“Would these adjustments bring us to closure?”**



# SOME "HELPFUL" RESPONSES cont'd

- In response to a request for a decision tied to a short and/or unrealistic time deadline: **“I’ll need to discuss with my team privately before I respond to that.”**



# SOME "HELPFUL" RESPONSES cont'd

- In response to the often heard licensee lament, “I shouldn’t have to pay for this license. The taxpayers have already paid for this technology and I pay taxes.”
  - **“I pay taxes, too, and as a taxpayer I like the laboratory having the opportunity to recoup some of the taxpayer’s investment that can be used to develop new technologies in the future.”**
  - **“If we give it to you for free we also have to give it to your competitor for free.”**
  - **“If you want to make something worthless, make it free.”**



# **FOLLOW UP QUESTIONS ???**

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for Technology Transfer

# Negotiation I: A Dynamic Process





# PRESENTED BY

Mojdeh Bahar  
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Orlando, Florida  
April 23, 2019

## **Past Experience:**

- FLC Chair
- Chief, Cancer Branch Office of Technology Transfer, National Institutes of Health (NIH)
- Technology Licensing Specialist, Office of Technology Transfer, NIH
- Examiner, U.S. Patent and Trademark Office (USPTO)
- Patent Attorney
- FLC Mid-Atlantic Regional Coordinator



# ROAD MAP

- What is negotiation?
- Who is a negotiator?
- How do you negotiate?
- What are you negotiating?
  - Financial obligations
  - Non-financial obligations
- Summary



# WHAT IS NEGOTIATION?

- **Negotiation** is a dialogue/exchange between two or more people or parties, intended to reach an **understanding**, resolve a point of difference, or **gain advantage** in outcome of dialogue; to produce an agreement upon courses of action; to bargain for individual or collective advantage; **to craft outcomes to satisfy various interests** of two persons/parties involved in the negotiation **process**

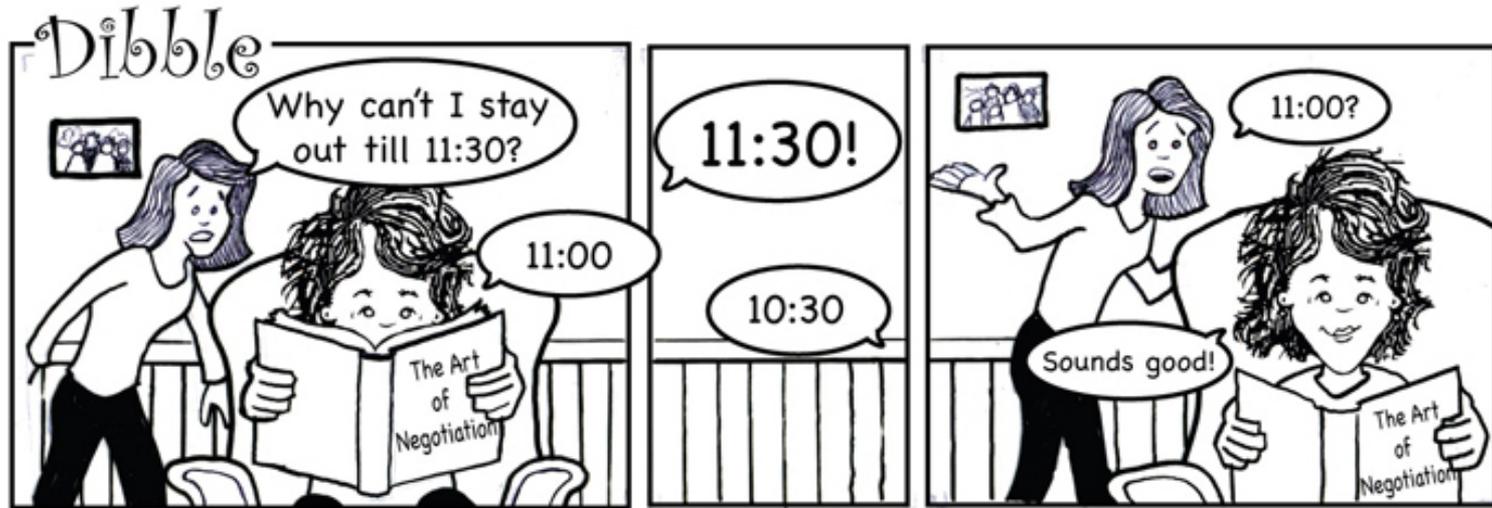


# YOU MAY BE A NEGOTIATOR...

- If you have purchased a car
- If you have purchased lab equipment
- If you own a house
- If you have a husband/wife/boyfriend/girlfriend/  
children/mother/father/friends
- If you have asked your boss for a raise
  - **In short, we are all negotiators**



# HOW DO YOU NEGOTIATE?





# HOW DO YOU NEGOTIATE? (CONT.)





# HOW DO YOU NEGOTIATE? (CONT.)

Stu's Views

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Attorneys Rarely  
Survive in the Wild



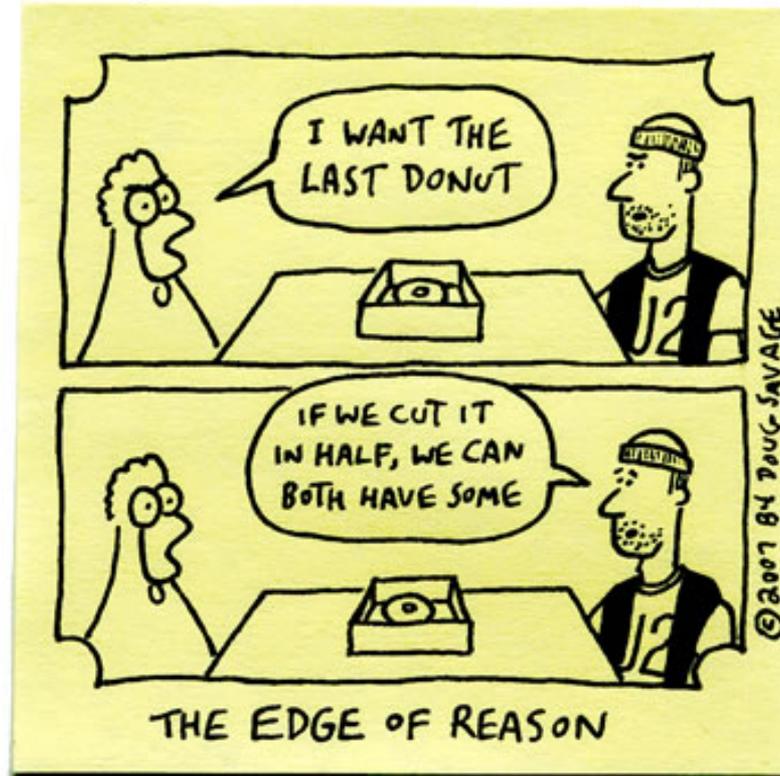
"But I came here to negotiate."



# HOW DO YOU NEGOTIATE? (CONT.)

*Savage Chickens*

by Doug Savage





# HOW DO YOU NEGOTIATE? (CONT.)

- There are many styles of negotiation
  - Accommodating – Win/Lose or Win/Win
  - Avoiding
  - Compromising – Win/Lose or Win/Win
  - Competing – Win/Lose
  - Collaborating – Win/Win



# CASE STUDY

- Class is divided in two groups
- You have 7 minutes to read the problem
- Do not share your fact pattern with anyone
- After reading the problem, start negotiating with your partner
- Once you and your partner reach agreement, let the instructors know



# CASE STUDY DISCUSSION

- Average completion time
- Did you reach agreement?
- Did you not reach agreement?
- What was your agreement?
- Why did you not reach agreement?
- What type of negotiator are you?
- What kind of negotiator do you think your partner is?



# AN EYE-OPENING EXERCISE

- Your instructor will show you a picture
- Look at the picture carefully
- Try to pick as many yellow items as you can
- Do not write anything down
- Now answer the instructor's questions



# AN EYE-OPENING EXERCISE (CONT.)

- Observations
- Lessons learned
- Has this ever happened to you?



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# Negotiation II: The Content





# WHAT DO YOU NEGOTIATE IN A LICENSE?

- Financial Terms
  - Royalties – easiest part to negotiate...or is it?
- Non-financial Terms
  - Statutory and other obligations to licensor....unexpected issues
  - Research licenses
  - Auditing requirements
  - Royalty reports
  - Progress reports
  - Supply of materials



# ROYALTIES – KEEP IT SIMPLE UNTIL YOU CAN'T

- Execution (upfront) Royalty
  - All at once
  - Installments
  - Contingent upon specific event
- Minimum Annual Royalty
  - May increase with development progress
  - Creditable against earned royalties
    - Motivates licensee's product development



# ROYALTIES (CONT.)

- Earned Royalties (% of Net Sales)
  - Stacking for third-party licenses
  - Combination products
  - Variable based on amount of sales
  - Variable based on licensed products
  - Variable with patent status
    - Model agreements: “within scope”
    - Higher for issued claims



# ROYALTIES (CONT.)

- Benchmark Royalties – room for creativity
  - Clinical trials, protocol production
  - Submission/approval of paperwork required by another government agency
  - Proof-of-concept studies
  - Patent issuance
  - Partnering/funding
  - First commercial sale
  - Cumulative net sales



# ROYALTIES (CONT.)

- Patent expense reimbursement
  - Past expenses
  - Future expenses and maintenance
  - May be split between other licensees
- Sublicensing royalties
- Equity benchmark royalty



# NON-FINANCIAL OBLIGATIONS

- Simple agreements (CEL, BMLA), usually not too many changes
  - Definitions
  - Duration of agreement
  - Reporting requirements



# NON-FINANCIAL OBLIGATIONS (CONT.)

- More complex agreements (PLA), more to change
  - Fact- and applicant-specific
    - Changes to definitions (net sales, licensed territories, affiliates)
    - Provide licensor with licensed products/materials made through licensed processes prior to first commercial sales
    - U.S. manufacturing requirement
      - ♦ Written waiver
    - Recordkeeping and audit conditions



# NON-FINANCIAL OBLIGATIONS (CONT.)

- PLA (Cont.)
  - Some changes take longer than others
    - Development benchmarks
    - Commercial development plan
    - Research licenses
      - ♦ Academic and commercial
    - Sublicensing conditions
      - ♦ Licensor approval
    - Developing country/“white knight” obligations



# KNOW WHAT IS **NON-** NEGOTIABLE

- Reservation of government rights provisions
- Indemnification clauses
- Non-assignment language
- March-in rights
- Choice of law/forum
- Certain ADR mechanisms, e.g., binding arbitration provisions



# GAME

- Deal or no deal?
- Thinking about everything that you have learned today, let's tackle ten questions
- Discussion of answers

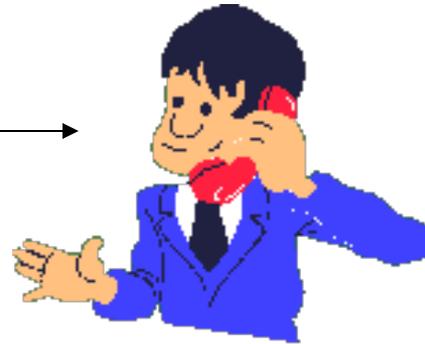


# SUMMARY

- Know your goals/needs: agency's mission
- Know what you've got and what it's worth
- Know your applicant's needs, motivation and capabilities
- Know what you can agree to and what you cannot
- Know when to walk away and when to come back another day
- Know that executing the agreement is not the end
  - Monitoring and enforcement are key



# QUESTIONS & DISCUSSION





# CONTACT INFORMATION

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**FLC**

Federal Laboratory Consortium  
for Technology Transfer

# Negotiating Common Stumbling Blocks





# **PRESENTED BY:**

Dr. Mark Reeves  
Oak Ridge National Laboratory

Orlando, Florida  
April 23, 2019



# DISCLAIMER!

The presentation will:

- Describe approaches to working through common stumbling blocks in technology licensing, based on common license terminology
- Provide tips on what has worked for me
- Share ideas and tools that might be helpful
- Help you avoid the effects of misinformation or lack of information



# DISCLAIMER! cont'd

- What is presented here is NOT the only way
- I want to learn, too...so offer your past experiences as well
- Please speak freely—Disagree, offer alternatives, ask questions
- WE'RE ALL LEARNERS HERE!



# AGENDA

- **Intellectual property valuation and financial consideration**
- Gross sales vs. net sales
- Exclusivity, fields of use, license duration
- Termination
- R&D prior to product sales
- Sublicensing
- Diligence provisions
- Some Rules of the Road
- Questions



# IP VALUATION AND FINANCIAL CONSIDERATION (Things to Consider)

- State of the invention (“time to revenues”); indicates degree of technology maturation required, as well as value to licensor
  - Conceptual (licensor value +)
  - Proof-of-principle experiment (licensor value ++)
  - Prototype (licensor value +++)
  - Production scale (licensor value ++++)



# IP VALUATION AND FINANCIAL CONSIDERATION (Things to Consider) cont'd

- State of the IP rights
  - Who has rights, sole or joint ownership?
  - Divulgations, publications, bars, etc.  
(foreign rights impacts)
  - Can broad commercial claims be obtained?



# IP VALUATION AND FINANCIAL CONSIDERATION (Things to Consider) cont'd

- Degree of improvement to state of the technology
  - Minor enhancement? (licensor value +)
  - Leapfrog existing technology? (licensor value ++)
  - Revolutionary? (licensor value +++)
  - Disruptive? (licensor value ++++)
- Level of commitment of inventor(s)
  - Significant part of value to laboratory may be in sponsored research vs. royalties
  - Inventor is most knowledgeable source regarding the technology, especially in early days



# IP VALUATION AND FINANCIAL CONSIDERATION cont'd

- Nature of claims
  - Method only
  - Composition of Matter
  - Machine
  - Other
- Generally method-only claims are considered:
  - Harder to defend than other claim types
  - Perhaps less valuable than other claim types



# IP VALUATION AND FINANCIAL CONSIDERATION (Things to Consider) cont'd

- Culture in the licensed industry/Comparable royalty rates
- Consumer perspective/receptivity
- How have similar products fared?
- Economic climate/marketplace economics
  - Robust/tech boom
  - Stagnant
  - Recession



# LICENSE APPLICATION

- A License application should provide you essential data from which to produce a term sheet.
  - Specific company data (company name, state of incorporation, contact info)
  - Verify the authority of the company's negotiator and signatory
  - Financial data (pro forma on revenues and margins based on products commercialized from your IP) provided by the candidate licensee
  - Information to help you with export control issues, exclusivity determination, fields of use, etc.



# LICENSE APPLICATION cont'd

- Can also help qualify or disqualify the prospective licensee, if this isn't already firmly established
- Probably the most useful tool in the toolkit
- **Discourages tire-kickers!**



# LICENSE APPLICATION cont'd

## A License Application is useful when...

- ...A licensee has expressed specific, credible interest in licensing a particular technology or portfolio of technologies developed by your laboratory, and...
- ...You need to do final qualification of the licensee, understand the licensee's business model and therefore the value proposition of the planned product, and begin to develop a term sheet for licensing discussions.



# **LICENSE APPLICATION** cont'd

Attachment A—Technology License Application  
Template (brief review)



# IP VALUATION AND CONSIDERATION (CONT.)

- From the license application and associated *pro forma* financials, calculate a proposed financial compensation structure:
  - Up-front fee (perhaps equity?)
  - Minimum annual royalty/license maintenance fee
  - Royalty rate (% sales)
  - Patent cost reimbursement?
  - Perhaps sponsored research (full cost recovery)
- Calculate the potential profits and use the “rule of thirds” (or use comps)



# IP VALUATION AND CONSIDERATION (CONT.)

- Develop and send a term sheet
- Determine upfront fee proposal from NPV on THEIR financials (if you are comfortable with that)
- Base the term sheet consideration on THEIR financials, where possible
  - THEIR financials often more favorable than what you might develop
  - Builds trust
- But comps are OK, too



# IP VALUATION AND CONSIDERATION (CONT.)

- It can be very advantageous to base fee/royalty calculations on the licensee's own *pro forma* projections...
- ...IF they will provide you credible numbers (and they very often will, in my experience)
- Minimizes concerns about licensor “pulling numbers out of thin air”
- Can reduce negotiation time



# IP VALUATION AND CONSIDERATION (CONT.)

## **A CAUTION!**

Try to avoid—if you can—being the first to put  
financial offers on the table!

(more on this later...)



# IP VALUATION AND CONSIDERATION (CONT.)

## Some other cautions

- You will frequently be asked to describe in a generic way what the financial terms of a license might look like, often at a time when you have no case-specific data
  - At a conference or when you are presenting a seminar
  - During preliminary, informal discussions with a potential licensee
  - Other circumstances
- When this happens, you should...



# IP VALUATION AND CONSIDERATION (CONT.)

## Some other cautions

- ...never give in to pressure to discuss specifics of license terms until the appropriate time
- Once you have all the facts
- After you have determined a fair value and prepared a term sheet
- Only when you are in a private environment with the licensee's negotiator



# IP VALUATION AND CONSIDERATION (CONT.)

## Some other cautions

### What to do if pressured on financials prematurely?

- Unapologetically state that all your licensing is done under commercially reasonable terms (unless, God forbid, you do “one size fits all” licenses!)
- Indicate that your goal is that all licenses be structured to be **FAIR** to both parties
- Indicate that in all cases, specifics of license financials depend on the individual business case at hand



# **IP VALUATION AND CONSIDERATION cont'd**

Attachment B—License Financial Terms Calculator  
(brief review)



# IP VALUATION AND FINANCIAL CONSIDERATION cont'd

## A Financial Terms Calculator is useful when...

- ...You have received *pro forma* financial data surrounding a commercialization activity on one of your laboratory's technologies, and...
- ...You wish to develop a term sheet that includes calculated royalties, fees, etc. based on the *pro forma* data you have received.
- ...Or...you may choose to calculate based on financial data your strategy document revealed.
- Either way is OK; generally, I prefer to use the prospective licensee's data (years of experience have shown me that they are generally pretty forthright with the data they provide)



# ALTERNATIVE VALUATION METHODS

- In lieu of starting with business plan *pro forma* financials, there are other methods for valuation
- Can use comparable royalty rates from other deals (“comps”)
  - One good source is Royalty Source
  - ~\$300 for 5 comps and more can be added (increases cost)
  - These are royalty/fee data from actual license deals
- Or, you can collect your own market data and try to “back in” to a reasonable fee/royalty structure
  - Many vendors of such data/services to the T2 community
  - Your library may have access to online databases that can be useful, either for a fee or free ones



# TERM SHEET

- Term sheet should provide your first offer to candidate licensee regarding
  - Key legal terms (indemnification, warranties, etc.) that are not negotiable
  - Sublicensing
  - Termination
  - Perhaps equity
  - Perhaps sponsored research
  - Royalty rate (maybe...see next slide)
  - License fee (maybe...see next slide)
  - Expectations on licensee bearing cost of IP protection (maybe...see next slide)
  - Etc.
- Calculate the potential profits and use the “rule of thirds”
- Base the term sheet consideration on their financials, where possible
- **Always ask for more than you expect to get**



# TERM SHEET CONT'D

## A caution!

- You should have the **ability** to make an offer in the term sheet, based on market research, your strategy, and the completed license application
- But...it is best to try to **avoid making the first offer**
- Why?
  - You might short-change yourself
  - It is good to understand the prospective licensee's expectations with regard to financial terms **BEFORE** showing your hand
  - However, sometimes you can't avoid being the first to place an offer on the table...therefore, **ALWAYS** ask for more than you expect to get.



# TERM SHEET CONT'D

I personally prefer to remain relatively vague about the financial terms in the term sheet, hoping to get the prospective licensee to reveal their expectations while at the same time trying to condition those expectations to be in line with my own.



# TERM SHEET CONT'D

- Purposes of a term sheet
  - To let the prospective licensee know in general—ideally not in specifics at first—your expectations with regard to financial terms
  - To indicate those non-financial legal and business terms that will be required in your license that you cannot negotiate
  - To coax the prospective licensee into making the first detailed financial offer



# TERM SHEET CONT'D

## A Term Sheet is useful...

- ...When it is time to sit down for the first negotiating session with a prospective licensee to try to agree on licensing terms
- ...As a means of setting your licensee's expectations regarding both key legal terms as well as key business/financial terms in an eventual license.
- A CAUTION! It may be good to keep the financial terms calculated for your term sheet in your hip pocket until after the first discussion has occurred.



# AGENDA

- Intellectual property valuation and financial consideration
- **Gross sales vs. net sales**
- Exclusivity, fields of use, license duration
- Termination
- R&D prior to product sales
- Sublicensing
- Diligence provisions
- Some Rules of the Road
- Questions



# GROSS SALES VS. NET SALES

*“Gross Sales means the sum of all invoices Licensee sends to purchasers for Products sold...” (example only)*

- Gross sales—no exclusions
  - Simple
  - Easily auditable
- Net sales – many exclusions
  - Leads to negotiation
  - After both negotiating parties are gone, leaves open to interpretation
  - Keeps auditors—and maybe lawyers—in business...at YOUR expense!!!



# GROSS SALES VS. NET SALES CONT'D

- If licensee insists on Net Sales, licensor should insist on a higher royalty rate than on Gross Sales
- But for my money, a lower rate on Gross Sales is preferable to a higher rate on Net Sales
- Some argue Gross Sales violates statute; charging royalty on commissions, etc.



# AGENDA

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# EXCLUSIVITY

- Laws favor nonexclusivity, but...
- Consider exclusivity in light of prospective licensee's ability to exploit IP, then tie to diligence
  - Diligence – Product development, capital investment, marketing efforts
  - Sales milestones – Quantify to retain exclusivity (or license)
  - Demonstrated ability to satisfy demand



# EXCLUSIVITY CONT'D

- Where to start
  - Inventor
  - Patent claims analysis
  - License application
- Generally speaking
  - Small market <\$25-50MM, and/or niche technology – grant exclusive license
  - Large market >\$100-200MM, and/or platform technology – assure licensee ability to satisfy demand; best approach may be multiple nonexclusive licenses and let the market choose the winners



# FIELD OF USE

- Why employ fields of use?
  - Few licensees can or will exploit all fields of use
  - License various companies in different fields of use
  - Allows exclusive and nonexclusive licenses for a single technology
  - Allows licensor maximum market exposure when fields of use are easily deleted if not used
- Takes considerable time and effort to draft license with proper fields of use



# FIELD OF USE CONT'D

- Always tie exclusivity to fields of use, where possible
- Generally speaking—and where possible—use limited field(s) of use
- “Take all you want, but eat all you take”



# FIELD OF USE CONT'D

## Examples:

- Lighting Technology
  - Use—Interior, exterior, residential, commercial
  - Size—Wattage
  - Application—Automotive, aircraft, machinery, biological growth
- RFID
  - Asset tracking
  - Highway traffic management
  - Personnel monitoring
- Also consider geographic fields of use



# FIELD OF USE CONT'D

- **IMPORTANT:** Write separate, parallel diligence requirements for each field of use if multiple FOUUs granted
  - R&D and marketing expenditures
  - Sales
- Require annual minimums for each field of use
- For fields of use where the diligence is not achieved or minimum annuals are not paid, have the deficient field(s) of use automatically withdrawn from the license
- **CAUTION:** Crafting fields of use usually must keep in mind use of IP by licensee, not use of products by end user



# FIELD OF USE CONT'D

## Sample Retention Language

“Retention of these Fields of Use shall be contingent upon 1) the payment by Licensee of the Royalties and Minimum Annual Royalties specified in Exhibit B; and 2) the Licensee satisfying the diligence milestones specified in Exhibit C for each Field of Use. Should Licensee fail to make said payment or perform the diligence milestones for each respective Field of Use, such Field of Use(s) will be deleted automatically from the License”



# LICENSE DURATION

- License or fields of use duration can be limited by:
  - Time
  - Diligence metrics (level of investment, etc.)
  - Production or sales metrics
  - Timely payment of financial obligations



# LICENSE DURATION CONT'D

- For Licensee “head start”
  - Grant first licensee a nonexclusive limited field of use license
  - Then agree not to license any other licensee in the limited fields of use for a set time (limited nonexclusive)
- “Licensor agrees not to grant any other party rights in the field of use of ??? until January 1, 2022”



# LICENSE DURATION CONT'D

- Generally, license duration extends until last patent (or other IP protection) expires, or until diligence milestones are not met, or other breach
- Copyright licenses will almost surely be terminated before IP protection expires (but if exclusive may not remain so after 5 years)
- Licensee or Licensor may terminate with appropriate notice
  - Licensee for loss of interest in commercializing the technology
  - Licensor for recovering rights when licensee has failed to commercialize or meet diligence milestones



# AGENDA

- Intellectual property valuation and financial consideration
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- R&D prior to product sales
- Sublicensing
- Diligence provisions
- Some Rules of the Road
- Questions



# TERMINATION

- Licensors always need to retain the ability to recover licensed IP from licensee
  - In case of failure to commercialize (not meeting diligence milestones), or
  - In case of breach of terms of license agreement
- Termination is preferred to “convert to nonexclusive”
  - Unilateral action vs. bilateral action
  - If originally exclusive, can always negotiate new nonexclusive license post-termination



# TERMINATION CONT'D

- Licensee needs to be able to terminate in a timely fashion if company's strategic directions change, or market conditions turn unfavorable for commercialization of licensed technology



# TERMINATION CONT'D

## Example Language:

This Agreement may be terminated by either Party for any material breach of the Agreement by the other Party. Such termination will be effective sixty (60) days after written notice specifying the breach to the other Party. If the specified breach is cured before the effective date of termination, the Agreement will not be terminated.



# TERMINATION CONT'D

## Example Language cont'd:

In the event Licensee either (1) fails to make payment to Licensor of Royalties or other consideration in accordance with this Agreement or (2) fails to satisfy the requirements of the Commercialization Plan in Exhibit C, Licensor may, at its sole discretion, terminate this Agreement with respect to specified Licensed Patents or Fields of Use. There will be no reduction in any of the payments due from Licensee, including but not limited to Royalties.



# TERMINATION CONT'D

## Example Language cont'd:

Licensee may terminate this Agreement for any reason if Licensee provides Licensor with sixty (60) calendar days prior notice of its intent to terminate and pays Licensor all patent reimbursement fees owed at the time of termination, if applicable, and all Royalties due or the *pro rata* portion of any Annual Minimum Royalties due in, or at the end of, the year of termination under Exhibit B, whichever is greater.



# TERMINATION CONT'D

- The ability of the licensee to terminate for any reason with notice (and while in good standing) is very important
- Gives the licensee comfort that this is not a permanent “ball and chain” situation
- Business circumstances change, and licensees need to be able to shed obligations if the license no longer holds sufficient value for them



# AGENDA

- Intellectual property valuation and financial consideration
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- Questions



# R&D PRIOR TO PRODUCT SALES

- Almost all licensees will have a need for further R&D/maturation on the IP prior to product sales
- Where R&D is for an extended period (greater than 1 year) and licensee can't or won't pay entire up-front (execution) fee consider:
  - Including an R&D grant clause for a limited period of time for a portion of the initial fee
  - Followed by an option for licensee to convert to a commercial grant clause for the remaining portion of the initial fee



# R&D PRIOR TO PRODUCT SALES CONT'D

## Example Language:

“Licensor grants to Licensee the exclusive right and license to utilize the Proprietary Rights of Exhibit A solely for research and development purposes. This right will expire on January 1, 2021. No right to commercial manufacture, sell, or offer for sale Products is granted to Licensee”



# R&D PRIOR TO PRODUCT SALES CONT'D

## Example Language cont'd:

“Should Licensee desire to expand the scope of the grant of this research and development license to a grant of an exclusive license to commercialize the Exhibit A, Proprietary Rights, Licensee will first notify Licensor of Licensee’s desire to so expand the scope and to be bound by the payment schedules for such a license as set forth in Exhibit B, Execution Fee Royalties and Minimum Annual Royalties...



# R&D PRIOR TO PRODUCT SALES CONT'D

## Example Language cont'd:

...Licensee will also submit to Licensor, with such notification the balance of such Execution Fee...Upon receipt of the notice and payment to Licensor, the research and development license will then be expanded to a grant to Licensee of an exclusive license within the field of use of ??? to commercially manufacture, have manufactured for Licensee, use, sell or offer for sale Licensed Products”



# AGENDA

- Intellectual property valuation and financial consideration
- Gross sales vs. net sales
- Exclusivity, fields of use, license duration
- Termination
- R&D prior to product sales
- **Sublicensing**
- Diligence provisions
- Some Rules of the Road
- Questions



# SUBLICENSING

- Usually acceptable for grants of exclusivity
- Make the licensee ask for it; entry position for licensor on 1<sup>st</sup> term sheet should be to deny right to sublicense (negotiation tactic...get something in return for granting the right to sublicense)
  - You are giving up other licensing opportunities; this is a cost to you for granting the right to sublicense
  - Therefore, you should get something in return for the grant of right to sublicense



# SUBLICENSING CONT'D

- Structure where there is net benefit for both parties
  - Careful examination of sublicensing fees/consideration
  - `No “pass-through” licensing



# SUBLICENSING CONT'D

- Examine whether to allow Licensee's sublicensee to grant further sublicenses—USUALLY NOT
- *Bona fide* sublicensor or technology broker?
- Usually not acceptable for grants of nonexclusivity, except for software “shrink-wrap” licenses
- **Consideration to licensor should not be significantly less, if at all, than if sublicensee had licensed directly from licensor**
- Ask for right of approval of each new sublicense
- In the event of termination, sublicensees should become licensor's licensees
- Don't confuse sublicensing with “have made for” right



# SUBLICENSING CONT'D

## Example Language:

“Licensee will have the right to grant sublicenses but sublicensees will not have the right to grant further sublicenses.

“Licensee will have the right to sublicense in the Field(s) of Use...”

“All sublicenses must be approved in writing by Licensor in advance of execution by Licensee. Such approval will not be unreasonably withheld by Licensor.”



# AGENDA

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# DILIGENCE PROVISIONS

- Why diligence provisions?
  - Ensure commercial exploitation of licensed IP
  - Promulgate the technology to the greatest extent in the marketplace
  - That which is not exploited will be returned to licensor
    - Field of use
    - License
    - Individual patents
- Requires great care in drafting to be effective— you don't want to be gamed



# DILIGENCE PROVISIONS CONT'D

- Milestones based on sales (invoicing, revenues, units sold, etc.) are the easiest to monitor
- Tie to fields of use if multiple fields of use are granted
- Also consider technical milestones if early stage
- Might use milestone payments instead of minimum annual royalties



# DILIGENCE PROVISIONS CONT'D

## Example Language:

Licensee agrees to invest in the development of technology and market for Products by committing Licensee's resources, at a minimum, to the following requirements:

### Milestone

### Due Date

Working Prototype Demonstrated

Date

First Commercial Sale

Date

Annual Gross Sales of \$? Million (per field of use) Date

Annual Gross Sales of \$?? Million (per field of use) Date

Annual Gross Sales of \$??? Million (per field of use)Date



# AGENDA

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- Questions



# SOME RULES OF THE ROAD

## Example Language:

- Can help to have a formal licensing strategy with management buy-in on any technology you seek to license
- Use a license application to qualify partner and value IP
- Using THEIR financial numbers is better than using YOUR numbers...usually
- But comps are OK, too
- Always ask for more than you expect to get



# **SOME RULES OF THE ROAD CONT'D**

- Base exclusivity decision on company's ability to perform, plus market factors
- Define fields of use and tie diligence milestones to FOU
- Get something in exchange for the right to sublicense
- Always maintain a mechanism for terminating license in a timely manner and recovering IP rights



# AGENDA

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- **Questions**



# **FOLLOW UP QUESTIONS ???**

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