

# The Art and Science of Negotiation

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What makes a skillful negotiator? What is effective negotiation? In technology transfer, effective negotiation is not about a quick hit. It's about a long-term relationship in which the parties are setting a stage for productive, often multiyear relations between sponsor and research entity, technology developer and inventor, or licensor and licensee. Effective negotiation is a function of being prepared; understanding the value proposition involved in each deal; having the authority to negotiate it; accessing content knowledge; having negotiation process knowledge; respecting relationships affected by a deal; and practicing keen communication skills and problem solving, good judgment, and discretion.

This chapter equips the technology transfer professional with information about these critical negotiation skills. Examples are explored in the context of the most prevalent technology transfer negotiation types—licensing and technology development agreements. Welcome to the art of negotiation for the technology transfer professional.

## Negotiation as Science: Prepare, Listen, Learn, Observe, Inform

Listen up! It has been said that the smartest person in a room is the one who does the most listening. While many people think of negotiation as the active process of talking and persuading, the first step—and one of the smartest steps—is active inquiry and listening. This is the best form of preparing for your negotiation. In fact, it parallels the scientific method. When negotiators skip the step of inquiry, investigation, and listening, problems and negotiation breakdowns ensue. Consider the case of United States and Russian negotiations to ban nuclear testing that preceded the Nuclear Test Ban Treaty signed by the United States, Britain, and Russia in 1962.<sup>1</sup> During these negotiations, a critical question arose: How many on-sight inspections per year should the Soviet Union and the United

States be permitted to make within the other's territory to investigate suspicious seismic events? The Soviet Union finally agreed to three inspections. The United States insisted on no less than ten. There the talks broke down—over positions—despite the fact that no one understood whether an inspection would involve one person looking around for one day or a hundred people prying indiscriminately for a month. The parties had made little attempt to design an inspection procedure that would reconcile the United States' interest in verification with the desire of both countries for minimal intrusion. The parties were negotiating positions instead of issues and interests.

Good negotiation involves common sense and communication, so avoid presumptuous behaviors. Here are a handful of tips for good negotiation form that will help you prepare for and conduct an effective negotiation of a technology transfer deal.

*Prepare:* When you first meet parties with whom you are negotiating, take time to learn about them beforehand. Even five minutes on the Internet will help you learn more about them than if you walked in cold. Make this investment into who you are meeting with and why. Then take time to summarize you and your institution. If you do not have a current, ready technology summary, consider creating some talking points or fast facts to share. This framing shows that you are professional, responsible, and serious about positioning your negotiation for success.

*Sit down:* This means you are ready to listen. Even if you are very confident of what the deal will look like, listen and learn first. Do not walk into a preliminary meeting with a prepared contract. Be prepared to share the proceeds of Step 1. Tell the other party something about you, your institution, your science, your proposed contribution.

*Be personable:* Never start a negotiation with a negotiation. Talk about something other than your negotiation first. Once you have both relaxed, joked about something, or chatted about a mutual interest, transition your conversation, preferably with a question such as, "I have been interested in exploring the possibility of working together. What are your thoughts about XYZ?"

*Be sincere and attentive:* Nonverbal communication is very significant. Leaning forward communicates interest. Folding your arms communicates distance. Even if you are simply cold, think about the nonverbal message of your body and facial expressions if you cross your arms for warmth and grimace over the temperature. Try to avoid distractions like your smartphone or pager.

*Be professional:* No insults, no yelling, no storming off. Avoid being threatening. Calm, respectful, and rational are best. If you are angry or anxious about something, the other party is likely to see this, so don't try denying it, just show preference for rationality as opposed to indulging yourself in expressions of negative emotion at another's expense. If you are confronted by these poor behaviors, offer the other party an opportunity to collect themselves and return when composed. Be prepared to let nonsense roll off of you.

*Be brief:* Be informative and concise. Remember, at first you are in listening and learning mode. At this stage you are working simply on your negotiation preparation. You are collecting information, so the more you are talking, the less you are listening. In your quest for information, just touch on priorities. Don't worry about being exhaustive. You can always highlight points to follow up on later.

*Be organized:* Think about what you would like to accomplish at each meeting. Consider the main issues you would like to address. Be creative and nimble with how you will address them. Keep listening and talking about objectives.

*Be sensitive to cultural preferences and norms:* If you are new to a particular community or culture, you will need extra time and information to become familiar with the norms and cultural preferences of the party with whom you are negotiating. This applies to institutions within your home country and to those not part of your home turf. Some cultures expect to bargain everything. An absence of bargaining for them is a disappointment. Others value directness where the price is the price. Some value introductions and building of a relationship much more highly than talk and contracts. Take time to appreciate those norms and preferences. You may not understand them fully as you begin your negotiation, but at least you will be better prepared for effective negotiation by having sought out this information.

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If you have followed the rules of good negotiation form, you will have an idea early on about what the value proposition of your negotiation is. Are you negotiating for the acquisition of tangible materials? Intellectual property? Long-term sponsored research? The opportunity to present your proprietary information to ask for funding? You should try to understand at each communication and meeting what your ask is, your objective, and next steps you will take to advance toward your objective.

What do you hope to accomplish with each communication? These are also great habits for effective executive functioning—a raised awareness of what and why you are pursuing any activity. This is principled negotiation of interests and objectives.

By contrast, positional negotiation often protracts negotiation because one party is negotiating toward a form, a standard, a position, or a normal way of doing things regardless of its relevance to the facts of a case or to outcomes. For years, a prominent research institution maintained a policy position that every proposed license agreement was “presumptively prohibited on its face” as being in conflict with its academic mission. This was written into its conflict-of-interest policy, thereby requiring that all license agreements needed conflict-of-interest committee review before being approved, thereby protracting every single negotiation.

When representatives of the institution were asked why this was so, they responded that it was simply the way they work. When the reasons for the position were explored, it was determined, after much thought and deliberation, that the policy was too broad. Not every technology license is conflicted with the academic mission. The institution gradually decided that only certain kinds of proposed arrangements were likely to create potential or actual conflicts in licensing, such as an inventor with a startup doing research at the institution on the invention licensed to her startup.

Positional negotiation often takes place with other common topics like intellectual property ownership, usually because of institutional policies, interpretations of law, or standing business practice. Often these resources help the organization to stay organized, but if you are not prepared to question why and how they are used, they may well strain or thwart a negotiation. For example, insisting on owning intellectual property resulting from

research or testing because that is the way your institution always works, can be a waste of time for agreements in which the prospective work will not create intellectual property. Some people will say it is necessary to negotiate for this position regardless, because that is the way their institution always does it.

More effective negotiators, however, appreciate that, if the testing entity invents, it is off scope of the agreement or, worse, violating a research protocol. It is just not likely to happen for mere testing or clinical trials work with research protocols prepared by the sponsoring entity. Yet, institutions love their safety nets. It is not uncommon for certain institutions to spend hours negotiating the point of ownership to the testing facility even when ownership is likely moot.

Instead, it's better to stay focused on the issues and facts. Try to apply categories of contract management that are relevant to those facts. A category of technical testing, proprietary research, or clinical trial study in which intellectual property cannot or is not likely to occur renders unnecessary negotiation of intellectual property ownership to the party repeating the experiment for the proprietary entity. Don't waste time negotiating for it. This will free you and your investigators up for more important matters.

Active inquiry, investigation, and listening set the stage for healthy principled, as opposed to positional, negotiation. The former is said to stage the most productive negotiation because the parties engage in dialog about their interests and objectives as opposed to winning a position. The principled negotiation method, refined by the Harvard Negotiation Project,<sup>2</sup> focuses on basic interests, mutually satisfying options, and fair standards. It typically results in a wise agreement. It directs negotiating parties to reach a gradual consensus on a joint decision efficiently without all the transactional costs of digging in to positions only to have to dig out of them. It is comprised of four basic points of negotiation:

- *People*: Separate the problem from the people.
- *Interests*: Focus on interests, not positions.
- *Options*: Generate a variety of possibilities before deciding what to do.
- *Criteria*: Insist that the result be based on some objective standard.

The first point responds to the fact that human beings are not computers. We are creatures of strong emotions, who often have radically different perceptions and have difficulty communicating clearly. Emotions typically become entangled with the objective merits of the problem. Taking positions just makes this worse because people's egos become identified with their positions. Before working on the substantive problem, the "people problem" should be disentangled from it and dealt with separately. Figuratively if not literally, the participants should come to see themselves as working side by side, attacking the problem, not each other. Hence the first proposition: *Separate the people from the problem.*

The second point is designed to overcome the drawback of focusing on people's stated positions when the object of a negotiation is to satisfy their underlying interests. A negotiating position often obscures what the person really wants. Compromising between positions is not likely to produce an agreement that will effectively take care of the human needs that led people to adopt those positions. The second basic element of the method is: *Focus on interests, not positions.*

The third point responds to the difficulty of designing optimal solutions while under pressures. Trying to decide in the presence of an adversary narrows your vision. Having a lot at stake inhibits creativity. So does searching for the one right solution. You can offset these constraints by setting aside a designated time within which to think up a wide range of possible solutions that advance shared interests and creatively reconcile differing interests. Hence, the third basic point: *Before trying to reach agreement, outline options for mutual gain.*

Where interests are directly opposed, a negotiator may be able to obtain a favorable result simply by being stubborn. That method tends to reward intransigence and produce arbitrary results. However, you can counter such a negotiator by insisting that his single say-so is not enough and that an agreement must reflect some fair standard independent of the naked will of either side. This does not mean insisting that the terms be based on the standard you select, but only that some fair standard such as market value, expert opinion, custom, or law determine the outcome. By discussing objective criteria, rather than what the parties are willing or unwilling to do, neither party need give in to the other; both can defer to a fair solution. Hence the fourth basic point: *Insist on using objective criteria.*

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The most prevalent types of agreements that technology transfer professionals negotiate are licensing, equity startup deals, and sponsored research agreements. In each of these cases, and in negotiating agreements related to each such as confidentiality agreements, inter-institutional agreements, even assignment agreements, the prize is not the final contract but, rather, the staging of a long-term relationship your negotiation makes possible. Licensing professionals who approach licensing opportunities solely from the perspective of a fight for the largest piece of a fixed pie do a disservice to their institutions.

After all, to the extent that the technology is early stage, the licensing pie is still unbaked when the agreement is negotiated. How large the pie may become remains unknown and at risk. The best agreement will be one that maximizes the shared and complementary interests of the parties and creates sufficient mutual gain such that both will contribute their energies toward commercial success (revenues from the biggest pie).

The approach to negotiation can make all the difference in the world. Consider the difference between:

- assessing and appreciating the strengths and weaknesses of the other party;
- understanding the licensee's market;
- understanding the technology, its current state, and its potential;
- having clear and reasonably attainable objectives, both business and legal;
- communicating clearly and respectfully; and
- marshalling objective evidence and standards.

And:

- assuming the other party is trying to take something from you instead of build something with you, assuming they are lying, assuming they are the enemy, bad guy, or dark side;
- doing no research or due diligence on the other party;
- starting artificially high and stretching to support positions you don't believe; and
- focusing a negotiation on the task of executing an agreement rather than the staging of a healthy forum for communication and exchange of relevant information.

## Negotiation as Art: Process, Listen, Communicate, Adapt, Connect

Negotiation is an art form that is cultivated through experience. Every deal is unique. While forms and templates can facilitate the process, the effective negotiator is one who has honed the ability to adapt forms to specific situations by actively listening, communicating, and problem solving. The following truisms define negotiation artistry.

- Techniques that work in one case will fail in another.
- The human element requires you to adapt your approach to the other people involved.
- Terms have to be massaged to fit the unique technology and circumstances.
- You have to work the deal in real time, sometimes based on instinct, not intellect.
- You have to intuitively see five chess moves ahead, or you can find yourself in checkmate.

From these truisms, the effective negotiator can cultivate an enlightened negotiation style. Consider these top ten keys to enlightened negotiation.

1. *You can't have what you don't ask for, but you won't get everything you ask for.*
2. *Psych out the deal and the personalities.* Start by gathering *facts*. What is the company like? How big is it? How successful? Does it have a good story? Is this a big deal for it, or a tiny one? What is the negotiator's education, job experience, family life, hobbies, politics, etc.? What is this person's position in the organizational chart? Who is his or her boss, the CEO, other key players? Gather facts all over the web: Facebook, Linked-In, political contribution databases, dig to the twentieth page of a Google search. Invite him or her to join your Linked-In network, and call those you may know in common. Talk to the inventors over coffee or lunch, they may know more than you think. Talk to AUTM friends about this company and others in the industry. Study competitors; what is the industry like? Auto, medical imaging are hardball; biotech, green tech, and agriculture are more relaxed.
3. *Feel and mold the range of reasonableness (ROR).* It lies between low-ball and highball offers, which tend to generate outrage and refusals to counter. If you get just within that range, you have asked for as much as possible. Figuring out what that range is involves some investigation and some instinct. The worst that can happen if

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you go beyond the ROR is he or she will get snippy and insist you try again. Always be prepared to stand by your ask, and insist that he or she provide a counteroffer. Look for comparables and then think higher. Keep in mind that the ROR you care about is the one in the other person's mind. You may persuade him or her that the market is better than he or she thought, which will move it. Pressure from a boss can move it. With experience, your ROR ESP will improve as a function of your focus on it.

4. *Select your opening style and then adapt.* Consider these several basic negotiating styles:
  - *Confrontational:* Take it or leave it.
  - *Competitive:* I must win, you must lose.
  - *Intellectual:* All of the facts support my view.
  - *Collaborative:* Let's find a middle ground.
  - *Emotional:* If I don't get this, I'm dead!
  - *Passive:* Well, I don't know what to say.
  - *Wounded dove:* Could you help me out?

Everybody has a style that fits him or her best, but if you prefer to be confrontational and so does the other person, you go nowhere. You have to select your opening style based on what you perceive the other negotiator's style will be. You can probably figure this out from the small talk and discussions that led to the deal. If in doubt, collaborative and intellectual styles are most easily changed later. Everything is tied to everything else. Trust your gut, seek validation when you can. Recognize and block those dirty little tricks. Retain the power to back up and turn around. When in a jam, try something exciting! Don't let the perfect fight the good enough.

5. *Everything is tied to everything else.* Deals need sensible ingredients. If the upfront fee is low, then you need a higher royalty and milestone fees. If there is critical know-how in the license, you need to have a dropdown provision. If the other party is going to control infringement litigation, then you need a strong indemnity. Nobody can reasonably fault you for making these connections and requirements.

6. *Trust your gut, seek validation when you can.* You have to accept that you have only limited information, even far into the deal. There are no right and wrong answers. You are gathering data at a blinding rate: words, tone, body language, statements, implied facts, slips of the tongue, etc. You can't possibly catalog it all, and there is no formula you can use to get an answer. Even if there were, you don't have the time. Give yourself a break when you need it, and seek support from a boss, colleagues, and peers if you are feeling unsure. Remember that negotiation takes a lot of energy, so finding ways to give yourself positive energy and input helps keep you centered and confident.
  
7. *Recognize and block those dirty little tricks.* Negotiation is an inherently human, and hence emotional, process. Personality styles and stress often strain logic and can result in negotiation strategies that may seem sincere and reasonable from one point of view, but can feel like dirty little tricks when they happen to you—especially if you don't recognize them. Some examples follow.
  - *Righteous indignation:* That's ridiculous! Nobody in his or her right mind would agree to that!.
  - *Good cop, bad cop:* One is confrontational and demanding; the other is understanding and supportive.
  - *The high hat:* The other party goes around you to your boss, your inventor, or a colleague to complain that you are stupid, impossible, incompetent, inflexible, obstructive.
  - *The I'm-not-authorized approach:* Aka tied hands; be sure to clarify routing and approval procedures in advance so that they can become part of your negotiation and communication strategy; get the contact information of those from whom approval is needed and for what purpose.
  - *The wounded dove:* Think Colombo, the bumbling inspector, or Matlock the simple country lawyer.
  - *The nibble:* Get you to concede on one thing to entice you toward another.
  - *The leapfrog:* An attempt to get you to concede on many points, without giving anything in return.
  - *The mulligan:* Changing negotiators to protract a negotiation or just wear you down.
  - *The policy play:* Citing policy as the reason for not being able to negotiate a term.

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- *Selective benchmarks, comparatives, and NPV:* All data is subject to manipulation, so push past summaries to study assumptions and details.
- *False deadlines:* Beware of Chicken Little insisting that the sky is falling; verify that something really is urgent and the nature of the urgency.

As in any other sport, competition can bring out all kinds of behaviors. Stay on your own game, but be prepared for things to come at you from left field.

8. *Retain the power to back up and turn around.* Sometimes you get caught down a path to a lousy deal, and feel helpless to avoid it. Until the agreement is signed and sent, you have the absolute right to change your mind about anything. Find ways to communicate that no commitment is final until you are satisfied with the whole deal. The more you tie concessions to other terms, the more room you have to back up and turn around. Don't stop marketing when you find one licensee. The ultimate power to back up and turn around is having another possible licensee in hand.
9. *When in a jam, try something exciting!* Sometimes negotiations reach an impasse. In such situations, consider new alternatives that you normally would not start with in a negotiation. Examples:
  - Agree to pay part of foreign filing costs if deal done today.
  - Agree to a \$X cap on royalties, in exchange for a percentage of any acquisition price.
  - Carry upfront fee two years as debt, payable in cash or equity.
  - No royalties; three lump payments, one upfront, two on sales.
  - Agree to assign software copyrights for a large fee; half upfront, other half and assignment once a second sum is invested in the company.
  - Assign the patent for a lump sum, because insurance costs seem likely to exceed profit potential.
10. *Don't let the perfect fight the good enough.* Perfectionists don't become master negotiators. All deals are compromises, and thus are imperfect. After several rounds, you see diminishing returns. Stop and ask yourself some questions:

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- What is the worst result if we just sign?
- Are remaining issues likely to be important?
- Would it be better to squeeze the last nickel out of this deal, or spend that time on another deal?
- Has it taken over three months? Political consequences of delay may outweigh gains.

Keep the issues in perspective. Once the big issues are settled, the small ones start looking big, too. Make it a conscious effort to distinguish big, medium, and small issues, and treat them as such. Most deals have few gotta-haves, and you probably dealt with them early on. When you reach that point of diminishing returns, you probably don't need to give away much to get the deal done. Focus on closing.

## Technology Transfer Negotiations

Effective license negotiation is a combination of the new and the old, the novel and the known. Generally, the technology and licensee's interest is the novel part of the equation. The license form or starting template can often be the known, which sets the stage for constructive negotiation to help negotiators address the following:

- The parties
- License scope
  - definitions of intellectual property
  - fields of use
  - transferability
- Conditions on the grant
- Consideration (financial and nonfinancial terms)
- Risk management (confidentiality; patent management; representations, warranties, disclaimers; termination; and dispute resolution)

### The Parties

Who is the licensor? The licensee wants to ensure that the owner of the intellectual property grants the license. This may be the institution, or it may be a foundation or other entity formed to manage the institution's intellectual property. Where the owner of the

rights is not the institution, a common approach is to provide a statement in the license explaining the relationship between the institution and the licensor.

Who is the licensee: just one company or that company and its affiliates? There is a difference in risk between licensing entity signing the agreement and licensing entities that have not. Licensees may want or need to have the license include their affiliates, but that does not necessarily mean they need to be the licensee. Another approach is to license just the company signing the license, and permit that entity to sublicense its affiliates.

### License Scope

The grant of rights defines the scope of the permitted activities under the license. While many defined terms are used in the grant, the discussion of whether the license is exclusive or nonexclusive is often negotiated first. It is easier to agree on the defined terms once you know whether there is exclusivity regarding some or all the rights. The licensee with exclusivity under the patent rights may prefer similar exclusivity to any trade secrets or knowhow so competitors are less able to design around its products before they enter the market.

Institutions may prefer not to grant exclusivity to knowhow given the institution's mission to transfer knowledge, not sequester it, and the practical problem of controlling knowhow residing inside the minds of the faculty. Since the institution does not want to block the licensee from using the trade secrets and knowhow to commercialize the innovation, a compromise might be to bifurcate the grant of rights by granting the patent rights exclusively and the knowhow, including trade secrets if applicable, nonexclusively. See as an example such a grant of rights below where knowhow would be included in the definition of technical information and materials:

Subject to the terms and conditions of this Agreement and Licensee's compliance therewith, Institution grants Licensee: (a) *an exclusive*, non-transferable license in the Territory and the Field, with[out] the right to sublicense, under the Patent Rights to make, [have made,] use, sell, offer for sale and import Licensed Products in the Territory and the Field; and (b) *a non-exclusive*, non-transferable license within the Territory and the Field, to use the Technical Information and Materials to develop and manufacture Licensed Products in the Territory and Field.

### *Definitions of Intellectual Property*

There are two kinds of property rights: that which you can touch (tangible) and that which you cannot touch (intangible). You will need to figure out which of each category applies in your negotiation. Go ahead. Ask the question. Every time. In the tangible category, you may have biological materials, software, or prototypes. In the intangible category, you may have one or any combination of up to four kinds of property rights: patents, copyrights, trademarks, and trade secrets. There is your checklist. Which kind applies to your negotiation? Most license negotiations will involve patent rights. If so, a common point of negotiation is whether continuation-in-part (CIP) applications are included. The institution wants to limit the license to what it has—an invention described in an invention disclosure and covered by a patent application. The licensee wants to broaden the scope of the license so closely related improvements do not require additional license negotiations or wind up in the hands of its competitors.

A compromise: License CIP applications, but only within the scope of the original disclosure, not the new matter, and grant an option or right of first refusal for a license to the new matter.<sup>3</sup> In this case, the patent rights definition might mean those patents and/or patent applications listed, and all U.S., Patent Cooperation Treaty, and foreign patent applications claiming priority thereto, including divisionals, continuations, and continuations-in-part, all patents issuing therefrom, reissues, reexaminations, and any extensions of or supplementary protection certificates allowed on any of the foregoing; *but in each case solely to the extent of the subject matter that is fully disclosed and enabled to satisfy the requirements of 35 U.S.C. §112 by the patents and/or patent applications listed as of the execution of the license.*

Will the license include knowhow or tangible property such as cell lines, prototypes, or software? The innovators have considerable experience with the invention, and transferring this knowhow for consideration in the license is beneficial to the further development and ultimate commercialization. If the knowhow or materials include trade secrets,<sup>4</sup> then the negotiation will likely center on how this status will be maintained. If software, then the negotiation of the definition usually focuses on whether source code and derivative works are included in the licensed subject matter. If tangible property is in the form of biological materials, then the negotiation usually focuses on whether modified derivatives are included in the licensed subject matter.

Flexibility in how you define technical information and materials (or whatever other term you select to name this category) often depends on whether the definition is time-limited and the level of engagement by the innovators. Faculty may not be willing to do a brain dump, but they might be willing to do some training when the license is signed. For example, the parties may decide that within [x] days of the execution of the license, the institution may provide the licensee with reasonable access to the written documentation constituting the knowhow, teach a daylong seminar, and provide [y] amount of tangible materials.

Future knowhow is usually viewed differently. It may not be available, because it may exist only in the minds of faculty who cannot be forced to do the transfer or who may leave the institution. If the licensee wants access to future knowhow, sponsored research and consulting agreements may provide the same result.

### *Fields of Use*

The grant of rights includes other terms negotiated to define the license scope. The territory (anything from worldwide to a single location) and the field of use depend on the innovation and the licensee's development capabilities. Generally, the institution's objective is to agree to whatever scope the licensee desires so long as it will commit to diligence obligations that are as broad. Clear demarcations are essential though when negotiating fields. The purpose of the field is to preserve the ability to license another under the same patent rights outside the field. Do the fields provide practical borders between each licensee's products? Even seemingly distinct concepts like therapeutics and diagnostics can become blurred as technology and new business models develop over the life of the license. Negotiate and memorialize the parties' intent. For example, the parties may expressly state that the terms of art used in the definition shall be given the meaning for the term as known in the art as of the effective date of the license.

### *Transferability*

Is the license transferable? This term often is shorthand to address the licensee's freedom to assign, transfer, subcontract (delegate), and sublicense its rights. When any of these specific forms of transfer are permitted, the parties usually negotiate the conditions for exercising these rights. For example, a sublicense is usually required to be consistent with

the terms and conditions of the license. The licensee may be concerned about what that means, so a negotiated list of the terms may be included in the license.

As another example, what happens to the sublicense when the license terminates? The licensee will want assurances to pass along to its sublicensee that the sublicensee will not lose its rights just because the licensee breached. A possible approach to address this concern may be for the institution to directly license to the sublicensee, assuming no greater obligation to the sublicensee than it has to the licensee—unless it is the sublicensee's fault that the licensee lost its rights.

### **Conditions on the Grant**

The grant of rights should be subject to the terms and conditions of the license and often is subject to explicitly reserved rights. An exclusive license does not, absent a reservation of rights, allow the licensor to continue to practice the rights granted. Given its mission, the institution will want to reserve the right to practice and publish—the negotiation might be whether these rights are transferable by the institution to other nonprofits. Are clinical activities and patient care included in the reservation? The licensee may believe this limits its commercialization plan. The negotiation might result in the licensee agreeing not to assert any licensed rights against nonprofits.

The scope of the reserved rights may also be dictated by obligations to third parties, such as the U.S. government. For example, even where no government funding was used to conceive the licensed rights, funding may be used to first actually reduce to practice the licensed rights. As a result, the U.S. government may have rights in the licensed rights and, therefore, the institution may need to pass along requirements to the licensee.<sup>5</sup>

### *Licensed Products and Processes*

The license should have defined terms for licensed products and processes that are tied to the intellectual property rights. The institution normally wants all uses of its rights to fall within the definitions of licensed products and processes, since those definitions normally trigger payment and diligence obligations. The licensee wants definitions that are consis-

tent and objective to implement. For example, because the scope of pending patent claims change during prosecution, a product may be covered by the licensed rights (within the definition) one day and not another (outside the scope of the definition).

Due to this variation, the licensee may want the defined terms limited to products and processes claimed in issued patents. Involving the licensee in the patent prosecution may lessen this concern of unknown changes in license scope. As another example, depending on how the transfer of knowhow is documented, it may be difficult to know what has been shared and when the knowhow is used in a product or process. Documentation and reporting structures may be negotiated to address these concerns.

The definition of licensed products and processes may also be deal-specific. For example, even if the licensed patents claim a process, the parties may agree for their convenience to define the licensed product as the use of the institution's process to produce a product. The scope of these terms is important to the negotiation of the consideration.

## **Consideration**

Consideration takes many forms, and the parties typically negotiate the financial terms along with the diligence obligations due to their interrelated nature.

### *Financial Considerations*

There are many ways to structure the financial consideration. If the parties agree to a royalty-bearing license, then there will be a definition for the royalty base. When do payments accrue (e.g., upon receipt, at the first of invoice, transfer of the licensed product, etc.)? The licensee usually has a preference for how deductions from sales are calculated. For example, some licensees apply flat-rate deductions, and others document customary trade, quantity and cash discounts actually given, returns, credits and allowances actually granted, transportation and insurance charged separately, and taxes or other governmental charges actually paid.

What if products are transferred as part of a noncash exchange or used by the licensee? The parties may agree to assign a fair market value to such transferred licensed products. Does a sale by the licensee require payment at the same royalty rate as a sale by a sub-

licensee? If not, why? How are sales to and by a distributor accounted? It would be worth discussing and memorializing how these common situations will be handled because the intent and expectations of the parties may be less clear over time.

Will anything else reduce the royalty base? This is important to know when negotiating the rate. For example, if the licensee is required to pay royalties to a third party in order to sell the licensed products, then the parties may agree that a certain percentage of the royalty rate may be reduced for the period of time the licensee is making the payments—down to a maximum reduction, typically not more than 50 percent.

What other payments will be expected? In addition to royalties, the license agreement may require the reimbursement of patent costs (discussed later under patent management) and milestones payments. Milestones may be negotiated for achieving certain events, such as the execution of the license or regulatory approvals, or failing to achieve certain events, such as not making minimum sales volume or development milestones.

Milestones may also be triggered by the passage of time, such as annual minimums based on the anniversary of the effective date of the license. If sublicensing is permitted, then in addition to royalties, what percentage of cash and noncash consideration paid to the licensee by the sublicensee will be paid by the licensee to the institution?

It is common to negotiate payment frequency, currency, and whether the payments are refundable or creditable. Late payments should accrue interest at a prenegotiated rate. What detail should be provided in the reports accompanying the payments? Often the institution is required to distribute a percentage of the royalty income after the deduction of unreimbursed costs pursuant to its intellectual property policies. Administering that distribution necessitates certain reporting requirements—often there is a preferred form to be negotiated and attached to the license.

How long are records kept, and what right does the institution and/or its representatives have to audit and copy the records? The parties will likely negotiate the percent of underpayment that would trigger the licensee's obligation to reimburse the institution for its out-of-pocket costs and expenses for the audit and settle within a common range.

### *Nonfinancial Consideration*

Diligence is the heart of the institution's license terms, and the options for negotiated provisions may seem endless. The scope and detail of the diligence provisions are invention-specific and interrelated with the financial consideration. The most successful provisions are conceptually agreeable, able to be implemented, and well-defined so that if they are not met, it is easy to determine and not subject to the subjective interpretation as to the intent of the parties.

For example, in a typical negotiation, the parties will discuss how many products should be developed and for which applications. Often these discussions are memorialized in a development plan that includes milestone events for the licensee to meet before certain dates. This plan may be part of the license and updated annually. Diligence reports provide compliance information and may alleviate concerns of institutional stakeholders regarding the licensee's commercialization activities.

What happens if the licensee fails to perform its diligence obligations? Often such failure constitutes a material breach, and if not cured, results in termination of the license in whole, or in part, if the licensee has been diligent in some fields, or for some products, and not others. Some licenses have special dispute resolution procedures in order to balance the institution's need for cost-effective finality to relicense its rights and the licensee's desire not to put at risk or lose its investment in an arbitrary manner. These provisions may include intervention by a mediator; arbitrator; or other third party knowledgeable in the art area of the innovation, intellectual property law, and nonprofit licenses.

### **Risk Management**

There are several sections of the license negotiation that focus on allocating risk. These sections include negotiating confidentiality, patent management, representations, warranties, disclaimers, indemnification, termination, and dispute resolution, which are discussed below.

### *Confidentiality*

Was knowhow included in the license? If so, there may be elaborate confidentiality provisions to negotiate, especially if any knowhow is a trade secret. Are the license terms confidential? Licensees prefer confidentiality for competitive reasons. However, this obligation may be problematic for the institution, in particular, institutions subject to Freedom of Information Act (FOIA) laws, because innovators are excited to discuss the license and the licensee's activities to commercialize the innovation. Some licensees also desire that the institution maintain the royalty and diligence reports in confidence. This also may be problematic for the institution for a variety of reasons, including complying with the Bayh-Dole Act and requests from third parties under the FOIA. When institutions agree to confidentiality of terms and/or reports, they usually need exceptions for disclosures required to comply with laws, regulations, and court orders. There may be an express permission in the license to state that the licensee is licensed under the intellectual property rights regarding the innovation.

### *Patent Management*

Who is responsibility for controlling and paying for the filing, prosecution, maintenance, enforcement, and defense (including interferences, oppositions, and postgrant proceedings and declaratory judgment actions)? It would be common for the institution to retain control of the management of the licensed patents because it may be in the best position to ensure broad protection of the invention, independent of any one licensee's interests. If the licensee controls the patent management, it may be difficult for the institution to attract other licensees outside the field.

The negotiation usually focuses on the circumstances when the licensee is required to reimburse the costs of the institution. The licensee does not want to write a blank check, especially under a nonexclusive license, and the institution needs the licensee(s) to cover its costs. Compromise may be found in a nonexclusive license by prorating the costs by the number of licensees, and in an exclusive license, by allowing the licensee to be copied on the correspondence with patent offices and narrowing the costs eligible for reimbursement to those that are reasonable and documented. If a licensee no longer desires to reimburse patent costs, the affected patent rights will often be removed from the rights licensed.

What happens if there is infringement of the licensed patents? Depending on the scope of the license,<sup>6</sup> the parties may negotiate procedures that establish which of the parties has the first right to enforce the licensed rights, who pays, how any recovery will be distributed, and the respective party's settlement ability. Some institutions are prohibited from allowing anyone other than their state's attorney general to litigate on behalf of the institution. Others may be wary that an agreement to join a litigation may affect sovereign immunity. Regardless of who enforces the patent rights, the parties will negotiate how to share the costs and any recovery.

Typically the allocation of costs is not nearly as difficult to negotiate as the allocation of any recovery. Some parties set these two percentages at the same rate, so a party paying for example, 60 percent of the cost will retain 60 percent of recoveries, less reimbursement of costs. When negotiating, keep in mind that a damage recovery in an infringement action is not equal to the amount the licensor would have received in net sales, but instead is an amount equal to a determined reasonable royalty or to the licensee's lost profits due to the infringing sales. If equal to a reasonable royalty, the percent shared with the licensor may be higher than the royalty rate on net sales or even of the percent of sublicensee remuneration. If equal to lost profits, the parties may agree that licensee will share the amount attributable to the percentage of any recovery or damages that the institution would have received if the infringing sales had been sales by licensee, plus a proportional share of any recovery or damages not attributable to sales, in each case net of reasonable and documented costs and expenses attributable to the action. Another compromise that is less administratively burdensome is splitting the award net of reasonable and documented costs and expenses attributable to the action.

What if the licensee challenges the licensed patents? Parties have negotiated a variety of provisions to address this possibility, such as requiring prior notice of challenge and clarifying that no payments are refundable, even if the challenge is successful.

### *Representations, Warranties, and Disclaimers*

Typically the institution will not offer representations and warranties and expressly disclaims them. The price of the license would be higher if the institution agreed to accept

more risk by making representations and warranties. The licensee will likely make some representations and warranties about its exercise of the rights licensed. This apparent lack of mutuality is understandable given the difference in the role of the licensor and the licensee. Further, the institution's technology transfer office may have little ability to change these provisions, and variation is often time-intensive. Compromise may be found by both parties representing and warranting that they have the right to enter into and perform their obligations under the license.

Most institutions have specific indemnification clauses to address a breach of the representations and warranties, as well as other activities such as licensee's exercise of rights granted, product liability, and licensee's negligence and willful misconduct. Indemnification is important because the licensee will be testing and selling products (hopefully) for which the institution has no control. The licensee may mitigate its risk of liability through insurance. Here again, the institution may have little flexibility on whether it varies its indemnification requirements and insurance provisions. Knowing whether there is flexibility and sharing alternative language that is acceptable will often prevent licensees from escalating these issues. However, if escalation is needed, then having a process for escalation may also facilitate the negotiation and maintain the momentum of the negotiation.

### *Termination*

What triggers a loss of rights—any breach or just a material one? The parties will negotiate the triggers, procedures for curing, and remedies if the breach cannot be cured. Depending on the negotiation of the diligence provisions, perhaps breaches of payment obligations have one cure time and failures to perform have a longer cure time.

May the licensee terminate at will? This may be a provision with mutual gain. The institution benefits from not having to wait for a breach to terminate, and the licensee has a mechanism to respond to changes in circumstances. Negotiations regarding such provisions typically revolve around the length of notice that the licensee is required to provide in order to exercise its termination rights.

How does the license wind down? What clauses survive termination and/or expiration of the license? Does the licensee have to stop using knowhow and materials provided under the license? These topics are also negotiated and may include selloff provisions for

the licensee so long as the licensee complies with the other terms and conditions of the license and the return or destruction of product thereafter.

### *Dispute Resolution*

Why negotiate dispute resolution? The parties are likely to agree to the process during the negotiation of the license, but may not be able to reach agreement when engaged in a dispute. When the relationship deteriorates, there is little harm but potentially much good that can come from an amicable dispute resolution process.

If the dispute is not resolved through amicable means, the parties may negotiate for formal alternative dispute resolution (ADR), i.e., mediation or arbitration. One or both parties may have policies on whether it will agree to ADR. Sometimes, one or both parties may not have the flexibility about the form of future dispute resolution due to state or other legal constraints, and the license could remain silent in this regard. Compromise may also be found by stating what types of disputes would be submitted to ADR.

For example, an alleged failure to perform might be resolved through binding arbitration conducted by a mutually agreeable arbitrator experienced in nonprofit licensing and patent law, in contrast to a breach of an obligation to indemnify, which might be resolved by litigation. The form of dispute resolution, if expressly included, may affect choice of law and venue, and therefore sovereign immunity.<sup>7</sup> If forced to litigate, should the winning party or parties be able to recover its attorneys' fees? If not stated in the license, the parties risk waiving this type of recovery.<sup>8</sup>

## **Conclusion**

In technology transfer, effective negotiation is a combination of art and science. The scientific elements relate to being prepared and organized and being systematic about your intake of information and exchange so as to work productively toward your objective. The art involves understanding the organizations; their respective limitations; and their people and how they think, work, interact, and communicate. Effective negotiation is very much about relationship management, not merely closing a deal and filing it away. The key is balancing these competencies of knowledge, time, priorities, and people management with each side's needs, culture, and objectives. For most institutions, positioning robust innovation management resources that give rise to healthy communities of innovation and entrepreneurship is a top priority.

Another priority may be wealth creation. Balancing priorities of both sides requires innovation management systems and the negotiators driving them to be resilient as opposed to rigid, adaptive as opposed to scripted by forms, informed by previous deals and relations, and dedicated to positioning success for diverse teams of people. The effective negotiator therefore will be prepared. He or she will understand the value proposition involved in each deal and have the authority to negotiate it, supported by the best access to content knowledge. The most effective negotiator will command negotiation process knowledge; will respect relationships affected by a deal; and will master keen communication skills, problem solving, good judgment, and discretion.

It's a tall order, but the art and science of negotiation in the technology transfer profession is also a superb life skill. As we move from the information age to the conceptual age,<sup>9</sup> negotiation proficiency will define the most accomplished professionals. For those of us actively involved in creation of the future through technology transfer, it is key. Invest wisely.

## Notes

1. See <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB94/>.
2. See [http://www.pon.harvard.edu/category/research\\_projects/harvard-negotiation-project/](http://www.pon.harvard.edu/category/research_projects/harvard-negotiation-project/).
3. The negotiation of the option or the right of first refusal is likely to depend on the subject matter of the agreement, but in general terms, the licensee will have the right for a time-limited period to negotiate or accept terms for a license.
4. Trade secrets are defined under each state's law usually with reference to the Uniform Trade Secret Act.
5. See 35 U.S.C. §§200 et seq.
6. When there are multiple fields of use there may be negotiated procedures for joining licensees together so they have the right to enforce and ability to do so without the institution joining the litigation.
7. *Baum Research and Development Co., Inc. v. Univ. of Mass. at Lowell*, 503 F.3d 1367 (Fed. Cir. 2007).
8. Arthur L. Corbin, Corbin on Contracts § 58.8 (Joseph M. Perillo ed., rev. ed., 1993).
9. Pink, Daniel H., *A Whole New Mind: How Right Brainers Will Rule The Future*, New York, Riverhead Books, Copyright 2006.