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Preparing for IP Licensing Negotiations

You have created an invention. You have found the perfect business partner--someone with the capital and connections to bring a product to market and pay you royalties. All you need is the license. How hard can it be? More difficult than you think, but much easier if you take the time to prepare before you start your licensing negotiations.

You have no doubt poured years and dollars into developing your intellectual property. When it's time to license it, first invest some time and money in preparing to license wisely. Some of the suggestions below may be arriving at your doorstep a little late in the day, but perhaps not so late that you can't take advantage of them.

- **Know What You Own.** While it is hard to state a general rule for each of the different types of intellectual property (IP) that you might be licensing, you should review and document what you have before you commence the licensing negotiation. This is essentially a two-part process, because you should be creating improved documentation while you are confirming the existence and breadth of your IP. For example, if your technology is based on a patent, you should conduct and maintain current documentation of a systemic analysis of the patent and how it is used in the applicable products or services delivery. Bring into this development process not only your own staff and counsel, but

also outside sources from other disciplines that might be able to help you understand the market potential for your IP. You will benefit in licensing negotiations from knowing who the potential customers of your potential licensee could be and what economic model will make the most sense in determining the royalty rate. This process can also inform the limited fields of use that you might choose to offer to the initial licensee, broadening your world of potential licensees.

- **Help Your Employees Understand What You Own.** Both you and your employees should know what you own. Your employees should be able to identify your company's valuable IP assets. Teach them (and encourage them to reveal to you) what makes up your company's unique and valuable assets and why. (And, no, they do not need to know the secret formula or how to diagram the system, but they all should generally understand what has value and why.) Your employees then become part of preventing the unintended use and distribution of your valuable assets.

Is your IP's value based on patents, trademarks, copyrights, information held as a fiduciary, or proprietary trade secrets that create the valuable secret sauce that you will be licensing? The value may arise out of any combination of these legal categories. Your employees should be aware of what you own and that carefully drafted legal documents are necessary for retaining your

IP's value.

Don't bury important documents that your employees need to sign in dense employee handbooks. Present the documents that protect your company's trade secrets and the inventions that your employees develop at work in an informative meeting. Help each employee understand his or her role in contributing to the development of the company's IP. Educated employees are part of the defense of your IP and will be instrumental in monitoring whether it has been compromised or is in use by others. Educated employees are also less likely to torpedo your licensing negotiations.

- **Conduct Internal Due Diligence with Your Legal Staff on Your Rights and Filings.** Particularly with regard to patents and trademarks, conduct your own internal review to make certain that all the paperwork is in order before you commence any licensing negotiations. Do you have all of the documents from all of the contributors to the IP? Do you have up-to-date files and electronic evidence of the filings with the U.S. Patent and Trademark Office (USPTO)? Do you have all of the necessary underlying licenses for the tools and software that are used in your proprietary process? As licensing is a form of monetizing your asset, you should expect the same level of due diligence from the potential licensee as if

you were selling your company or selling your IP (and you should therefore be as rigorous in your own preparatory due diligence).

- **Take Steps to Maximize Your Rights in Your Intellectual Property.** Consider with your counsel whether there is anything you can do, before the negotiations begin, to enhance the IP rights that you have confirmed that you control. Do you need to go back to outside engineers and obtain confirmation that they have assigned all of the rights to the software they developed? Do you need to update your staff's nondisclosure agreements? Have you been using new trademarks that would benefit from registration? Has your internal due diligence revealed business processes that you have developed that should be protected as "know-how" and other trade secrets that might enhance the value of your existing IP?

If you have put off getting an assignment from the software consultant you used last summer, now is the time to do so. Don't forget the fabricator who developed a key component of your system. Rely on your counsel to help you assure that the legal agreements you are using for the contributions that go into your IP give you the rights that you are paying for.

- **Present the Organized Results of Your Process.** Be organized, look organized, and it can affect the way you are treated by the people on the other side of the bargaining table.
- **Research Your Potential Licensee Before You Negotiate.** Before you negotiate, know with whom you are negotiating. An IP license is likely to be a long-term relationship, and no amount of legal legerdemain can protect you from an unfaithful business partner. Conversely, successful licensing can be mutually beneficial to both companies. Your IP is unique, and you may have only one opportunity to license it wisely.
- **Protect Yourself with a Nondisclosure Agreement Before the Negotiations Begin.** If the potential licensee refuses to sign a standard two-way nondisclosure agreement before negotiating license terms, please review the previous bullet again.
- **Think Like a Licensee.** Figure out why the potential licensee of your IP is courting you and is interested in your IP. Figure out how much value your IP is bringing to the potential licensee. Then consider what the licensee has to offer you and what it is going to take to maximize what the licensee is willing to pay you.
- **Royalty Rates Vary.** No matter how experienced the licensee on the other side of the table is, be confident that there is no such

thing as a standard way to calculate royalties, nor a standard royalty rate. Do not be intimidated by the experience, bluster or economic advantage of a potential licensee who may be claiming that you are unreasonable or asking for too much. Make sure that you have done your own economic modeling of the market potential for your IP and stick with reasonable advice that you have received from reliable sources.

- **Don't Breeze Through the Boilerplate.** Some examples of license terms that are too often not considered to be important enough to be challenged in licensing negotiations appear below. Material that the licensee may be trying to convince you is "standard boilerplate" often constitutes provisions that can affect you most.
 - Make sure that you and your lawyer have reviewed in excruciating detail what is covered under the license, to make sure that it covers only those things that you intend to be licensing.
 - Be clear as to who is responsible for maintenance of the IP rights and who owns what regarding later-developed technology that may be developed using your IP.
 - Focus on who the licensee is. Many licensors find it to be an unhappy surprise when they realize that the entity that they

thought would be the only entity authorized to use the licensed technology actually included other entities or sublicensees. Plan in advance for what should happen if the licensee or its assets are acquired (particularly if by a competitor of yours) or if the licensee grows.

- The license duration is critical to its value. Avoid renewal clauses that automatically kick in with long lead periods. There is no reason that an agreement should trick or trap somebody into an automatic renewal. Further, either party may benefit from being able to change the terms of the license based on more recent circumstances. If the licensee is still interested in using your product, the business will be sure to notify you before the term ends (and maybe far in advance, if the license has contributed to its success, which is of course when it might be time for you to look for a pricing adjustment).
- Be specific in negotiating the separate aspects of the license grant, such as whether the license is exclusive or nonexclusive, its territory and its scope. The scope may address questions like: How many concurrent users may access the licensed technology? On how many separate stations? May it be used only for internal operations?

- Put a confidentiality provision in the license agreement (in addition to the one that you signed before you started negotiating).
- Be familiar with the Uniform Commercial Code warranties that you, as licensor, are making, in addition to the warranties that you expressly make in the license itself.
- Follow your attorney's advice with mandatory venue and choice of law clauses to ensure that each party is discouraged from commencing litigation without trying to work matters out first, but is not deterred from bringing a suit when one ought to be brought because it would be inconvenient or expensive to do so.
- In the indemnification area, a party should not have to pay for what it cannot control.
- The termination provision should have different periods before the other party may terminate for different events. The termination provision should also deal with what happens with the IP after termination. Some obligations should stop, but others must survive.

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