# Preparing to Negotiate IP Terms

APIOix
Innovation Transfer

# About SBIR/STTR Assistance

The Nevada Governor's Office of Economic Development provides assistance to companies in the preparation and submission of SBIR/STTR proposals

The goal is to increase the number of proposals submitted and grants awarded under the SBIR/STTR program to Nevada technology-based small businesses

APIO Innovation Transfer (APIOiX) works in partnership with UNLV's SAGE program (https://www.unlv.edu/econdev/sagesouth) to assist technology-based small businesses (https://apioix.com/sbir-assistance)

- Assessment of the business concept
- Guidance for registration of the company
- Review and input on project pitches and proposals
- Assistance in submitting the proposals

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# About APIOiX

## Programs, Services, and Solutions to Accelerate Innovation Ecosystems

APIOiX accelerates innovation through business development, training, and technical assistance to innovators and inventors at universities, small businesses, and government entities across the globe.

# Eligibility for SBIR/STTR Funding

"America's Seed Fund"

Technology based

Diverse portfolio

Commercial application

Non-dilutive funding

STTR requires partnership with a research institute

The Nation's largest source of early stage/high risk funding for start-ups and small business

- In the words of program founder Roland Tibbetts: "to provide funding for some of the best early-stage innovation ideas; ideas that, however promising, are still too high risk for private investors, including venture capital firms."

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# Brief Overview of SBIR and STTR

The Nation's largest source of early stage/high risk funding for start-ups and small business

- In the words of program founder Roland Tibbetts: "to provide funding for some of the best early-stage innovation ideas; ideas that, however promising, are still too high risk for private investors, including venture capital firms."

Eligibility requirements:

- American-owned
- Organized as a for-profit entity
- Have less than 500 employees
- Structure and staff to focus on aggressive commercialization of the product/service

# SBIR Phases

Phase I
- Establish the technical merit, feasibility, and commercial potential of the proposed technology
- Determine the quality of performance of the small business

Phase II
- Continue the R/R&D efforts initiated in Phase I
- Funding is based on the results achieved in Phase I and the scientific and technical merit and commercial potential of the project proposed in Phase II
- Typically, only Phase I awardees are eligible for a Phase II award

Phase III
- Small business pursue commercialization based on Phase I/II results
- The SBIR/STTR programs do not fund Phase III
- At some Federal agencies, Phase III may involve follow-on non-SBIR/STTR funded contracts for products, processes or services for use by the U.S. Government

This is the stage where the small company usually needs to partner with a larger company in order to commercialize the technology being developed

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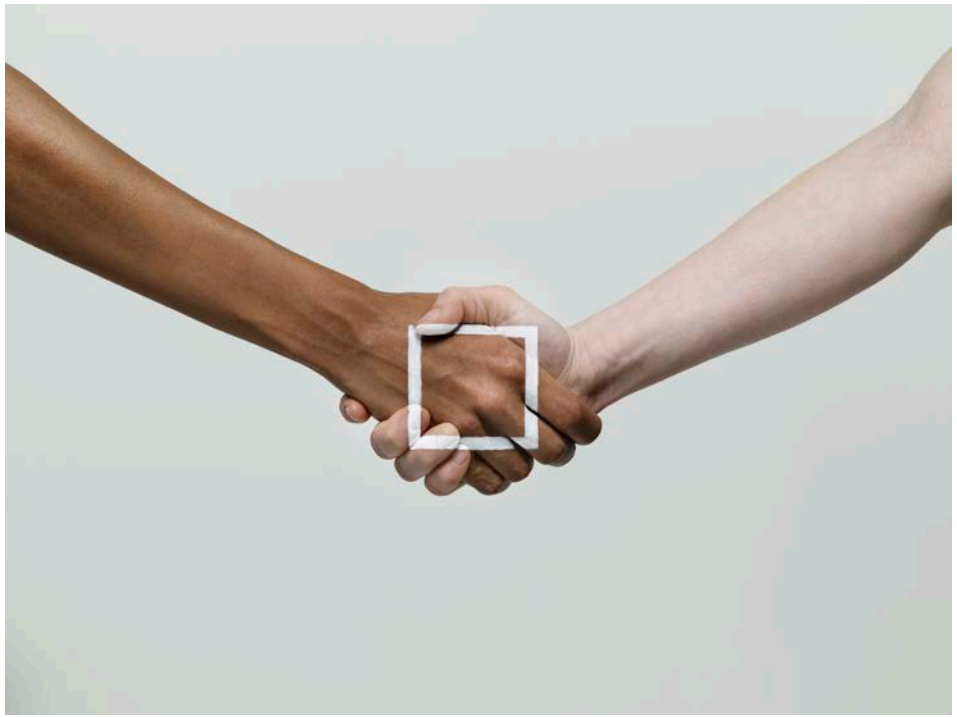
# Why do parties negotiate?



If two parties have goals that they can help each other reach, then they can negotiate

They want to make sure their long-term needs are fulfilled under the best conditions possible

A negotiated outcome is generally viewed as a better alternative than litigation

# Plan and Prepare Yourself

What are you prepared to offer to your partner? What are you seeking to achieve? What do you want from the relationship?

Who is on your team? How much authority do you have?

Brainstorming with colleagues

Identify your needs and wants; what are your desired terms?

Do your homework – learn as much as you can about the company, their principals and the negotiators

What might they do? What alternatives are available?

# Internal Term Sheet

Determines the licensing strategy

Write down the outcome of this exercise

Meet your needs and wants

Keeping a record of your needs and wants via an internal term sheet permits you to monitor possible “outcome drift” as you move through negotiations later so you can objectively assess your progress. Are you meeting your BATNA?

Get internal “buy in” from necessary principals within your organization

# Construct Your BATNA

**B**est **A**lternative **T**o a **N**egotiated **A**greement - BATNA

The point at which the current offer will not meet your needs and wants and you need to consider approaching another entity

Remember – No deal can be a far better outcome than a bad deal.

# Plan and Prepare Your Partner

What is your partner prepared to offer? What are they seeking to achieve? What do you they from the relationship?

Who has authority to bind your partner to a potential deal?

Identify their needs and wants; what terms do they typically seek?

Do your homework – learn as much as you can about the company, their principals and the negotiators

Share information with your partner – both good and bad

What might they do? How have they completed deals previously? What alternatives are available?

# Establish Trust

Say what you mean, mean what you say

Follow through on commitments

As points are agreed upon, write them down and communicate them to the other party, even if you are not responsible for the re-draft

Use follow-up emails

By minimizing uncertainty, you establish trust!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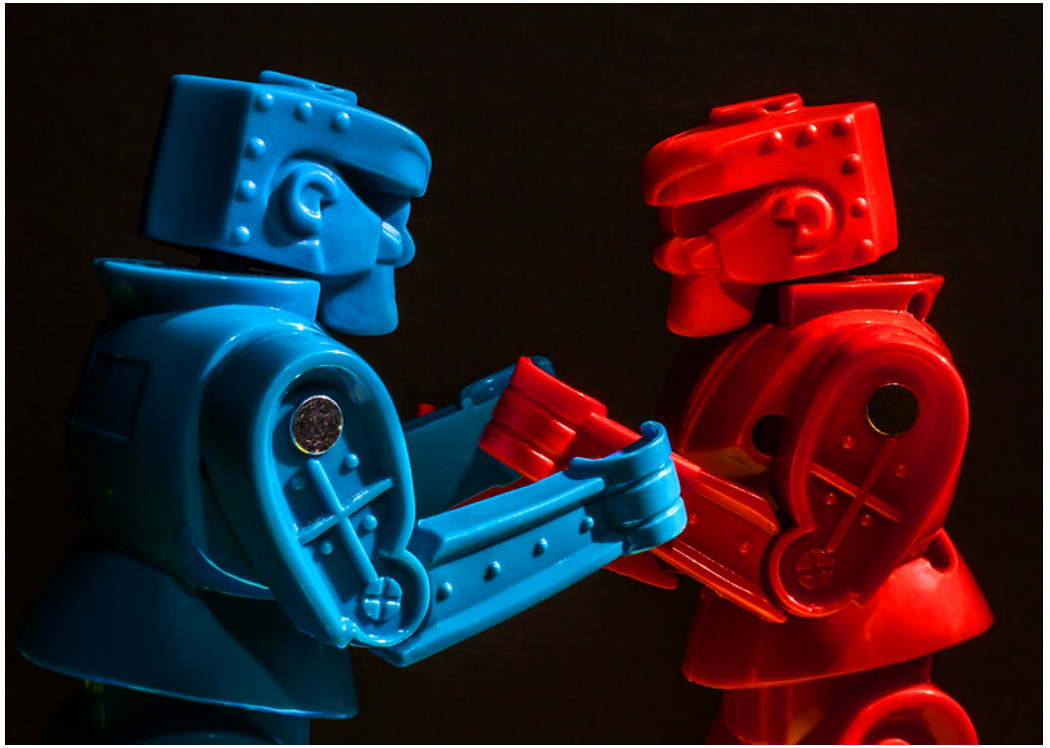
# Avoid “Us vs. Them”

Contract negotiations are commonly the first test of a potential relationship

Respect the other party’s needs, wants and position

“Bad blood” resulting from negotiations can hold over to affect the long term relationship



Whether you are the seller/licensor of IP rights or the buyer/licensee of IP rights, there are many standard concerns to be considered

# Seller/Licensor of IP Rights

What IP rights does your partner need/want?

What is the status of your IP? (patent status or confidentiality status of technology rights)

What IP rights does your organization require ongoing access to?

Would the acquirer's use of the IP overlap with the strategic interests of your organization?

Do pre-existing obligations (i.e., the use of federal funds, etc.) dictate the type of transaction necessary?

Does your partner need exclusive or non-exclusive access to your IP?

What is the value of your IP?

# Seller/Licensor of IP Rights

Are the IP rights solely owned by your organization?

If jointly owned by another organization, can you coordinate on behalf of both parties?

If you acquired the IP rights via license, do you have the right to sublicense those rights?

Does any undocumented IP exist (i.e., materials, etc.)?

Is the acquirer expressing interest in improvements to the IP?

Which party is responsible for ongoing patent expenses?

Which party is financially responsible for enforcing the IP against infringers?

# What an IP seller is expected to warrant

Identification of IP

Ownership of IP

All patents are valid and enforceable to the seller's knowledge

Reasonable measures have been taken by owner to protect and document trade secrets and confidential information

No infringement or misappropriation of third-party IP

No infringement or misappropriation by a third party of owner's IP

# Do Not “Over-sell”

Only sell/license what your partner needs – nothing more

Use field of use restrictions to limit the uses of technologies by your partner

Watch out for rights in improvements (limit or eliminate CIPs)

Retain the right to reduce any exclusive license to non-exclusive (or limited non-exclusive) in the event there is an infringer to retain your ability to offer any alleged infringer a license as an alternative to litigation

Include diligence terms to “claw back” IP rights in the event the acquirer doesn’t successfully commercialize the technology

Remember – if you sell your IP rights, and don’t license them, you will likely not be able to re-acquire them!

# Buying/Licensing IP Rights

What IP rights does your potential partner own? Have they licensed them to other third parties previously? Under what terms? Are there fields of use restrictions?

Does your potential partner have third party rights you need to practice the IP? Did they license these IP rights (exclusive or non-exclusive license), purchase them, of sub-license them from a non-owner? If there are third party rights involved, can you gain access to that IP?

Purchase or license only those rights you intend to use – any accusation of a lack of due diligence can taint the entire relationship

Value their IP based on its value now and not on their purchase value or their previous license valuations

# Watch out!

The seller/licensee includes a “materiality” qualifier without defining “materiality”

The seller/licensee refuses or states it has an inability to represent and warrant that it owns the IP without a knowledge qualifier

The seller/licensee refuses or states it has an inability to represent and warrant its ability to sell or license the IP

The seller/licensee refuses or states it has an inability to represent and warrant its ability to sublicense the IP and your organization’s ability to maintain a direct license to the IP from the owner

The seller/licensee refuses or states it has an inability to represent and warrant that the patents are valid and enforceable

# Watch out!

The seller/licensee refuses or or states it has an inability to represent and warrant that it has taken reasonable steps to protect and document trade secrets and confidential information

The seller/licensee limits a knowledge qualifier to the knowledge of a handful of individuals who may not have any knowledge of ownership, validity, enforce-ability, or infringement of IP rights or products

The seller/licensee will not represent and warrant that it will keep the IP in full force and effect for the term of the contract

The seller/licensee will not represent and warrant that it is currently unaware of any infringement or misappropriation by a third party

# Software


Was open-source software used in the development of the IP? Acquirers will expect you to warrant and represent that no open source or similar software has been incorporated into any of its software or products in a way that would obligate the seller to disclose to any persons the source code of proprietary software or IP in its products, and that there has been no infringement or violation of any open source licensing agreements.

Is the software subject to required publication (via a thesis, etc.)?

# Trust and Verify

Accept all available information from your partner regarding the past and current status of all IP

Acquire a “freedom to operate” opinion to ensure you’re getting all the IP rights you need (or be patient while the acquirer of your rights conducts one)

No shortcuts - **ever**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# Improvements

Be sure you retain access to any newly created IP by contractors and consultants, hopefully through ownership, but at least confirm your organization has a right to negotiate an exclusive (or non-exclusive, as needed) license

Know the “pedigree” of all improvements (new contractual and other obligations can arise at any time)

Improvements you cannot use internally are candidates for out-licensing

# Possible Negative Outcomes

Lack of coordination executing multiple contracts from different third parties

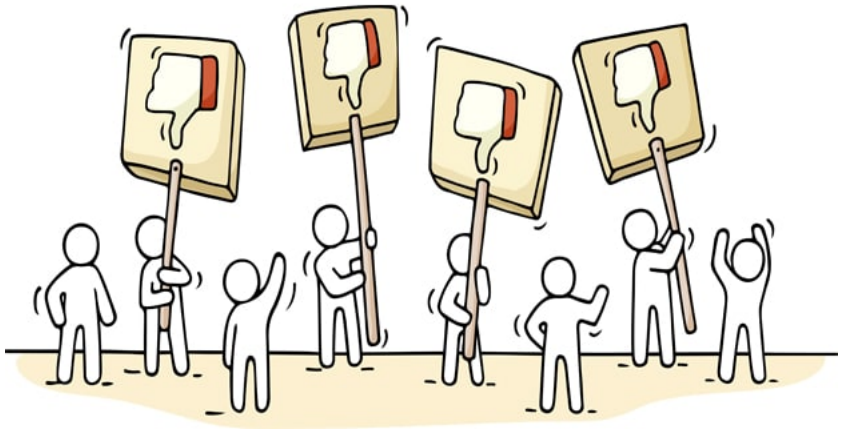
Contract non-performance

Non-payment

Re-negotiation

Alleged infringement

Bankruptcy



# General Contracting Advice

Use confidentiality agreements liberally (use CDAs to describe information transmission, MTA to describe the use and limitations on materials use and collaborative or sponsored research agreements to describe actual work on the IP)

All agreements must be **in writing and executed to authorized individuals from all entities**

Pay attention to effective dates and termination dates

Use an addendum to describe any planned project in any agreement (easier to amend by simple replacement)

Monitor the project to confirm the work being conducted is described in the addendum – amend the addendum as necessary BEFORE any work outside the addendum is initiated

# “Principled Negotiation”

Separate the people from the problem

Focus on interests not positions

Invent options for mutual gain

Use objective criteria for fairness

# Use Active Listening Techniques

Listen without any distractions

Take notes

Remain fully engaged

Repeat agreements back in your own words to ensure mutual understanding

Talk less in order to get the other party to talk more

# Characteristics of a Successful Negotiator

Always learning

Open-minded & adaptive

Flexible

Cooperative, not combative

Not manipulative or deceitful

Direct

Remember - -

Human intuition (like a gut feeling) can be a powerful tool

Combine your observations of non-verbal communications with your own intuition before making any conclusions

# Four Essentials for Success

Get the facts and prepare

Ask for what you want

Seek “win-win”

Practice (as much as you can)

Negotiation Skills – You have to DO IT in order to LEARN IT!

# Resources

APIOiX Small Business and Technical Assistance: https://apioix.com/sbir-assistance
- Provide general information and email link to obtain additional information

SBIR / STTR Tools & Resources: https://apioix.com/tools-resources
- Links to finding grant solicitations, examples of successful proposals (Phase I, Phase II, Fast Track), NSF Project Pitch rubric, budget templates for NIH and NSF Phase I proposals, budget justification templates for NSF and NIH

APIOiX Learning Center: https://apioix.com/learning-center
- Access to presentations on SBIR/STTR topics such as budgeting basics, subcontracting, how to write a winning proposal, basics of customer discover, and agency specific requirements.

SBIR presentations and slides: https://www.sbir.gov/tutorials/accounting-finance/

Salary validation: https://www.bls.gov/oes/current/oes_nat.htm#11-0000

NIH annotated SF424: https://grants.nih.gov/grants/ElectronicReceipt/files/Annotated_Forms_SmallBus_forms-e.pdf

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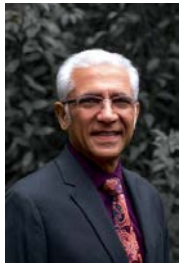
# Thank You



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**Ray Wheatley, MS CLP(E)** is former Director for Technology Commercialization in the Office for Technology Development at the University of Texas Southwestern Medical Center, retiring in 2015 with 31 years of service. Mr. Wheatley and his staff evaluated over 2,500 new invention disclosures which led to more than 650 issued US patents and hundreds of foreign patents. These efforts resulted in more than 900 negotiated option agreements, license agreements and intellectual property management agreements generating more than $178 million in license revenues. In addition, over 30 start-up companies were created. He has worked with US and foreign companies, including major pharmaceutical companies, venture capital firms and leading medical device manufacturers. He has been an invited speaker at many national and international meetings and has spoken on a variety of topics, most notably on negotiation skills and advanced licensing topics. ray@apioix.com

**Michael Batalia, PhD** is a serial entrepreneur and an expert in academic technology commercialization. He is also a member of the Mission II Team for the Perlan Project, an effort to fly engineless aircraft to the edge of space. He has over 16 years of experience in academic technology transfer, intellectual property management, and licensing at Wake Forest University as executive director of commercialization and North Carolina State University as associate director then director of technology transfer. Dr. Batalia is active regionally and internationally in support of technology transfer and biotechnology. He has served on the Boards of the Association of University Technology Managers, the North Carolina Biotechnology Center, the Biotechnology Advisory Committee of Piedmont Triad, and the North Carolina Center of Innovation for Nanobiotechnology. He is a co-founder of Wide Eyed Technologies and the CSO for Arctic, Inc. michael@apioix.com

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