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PERSPECTIVE

The Role of Lawyers in Licensing Negotiations

by
*Robert Goldscheider**

Introduction

The purpose of this article is to define and analyze various issues that can enable attorneys to maximize the value of their contributions to the licensing process. The negotiation of licensing and other technology transfer agreements is usually conducted in an atmosphere of optimism, in which the parties anticipate long-term profits to be realized from the interaction of their respective resources. Such an environment provides a happy contrast with the arena of litigation, in which there is usually a winner and a loser. This is because a truly successful licensing negotiation results in the proverbial "win-win" situation, in which both parties realize the satisfaction of contributing to their mutual benefit.

This does not mean that the lawyer's role in licensing negotiations should be any less intense, competitive or professionally demanding than in litigation, or in exercises in dispute settlement. Furthermore, attributes of thoroughness and creativity are equally appreciated in both situations. The essential difference lies in the quality of the end result. In successful licensing, this is harmony and a sense of achievement.

The Appropriate Role of Attorneys

There are, of course, other differences for lawyers in licensing negotiations as compared to litigation. One difference relates to the basic function of each process. In dispute settlements, lawyers operate in a courtroom or other facilities for hearings created by and for

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the legal profession. In such settings, they are expected to take the lead as spokespersons on behalf of their clients.

This is not the case in business negotiations, where lawyers should play an advisory role, calculated to avoid long-term problems or to regulate difficulties. In the short run, lawyers can help create a framework for reasonable communication and interaction between the parties. In the long run, the lawyer can specify safeguards to enable the client to withdraw from the licensing relationship with a minimum of damage, in the event things should go wrong.

Lawyers are also likely to have more actual "on the line" negotiating experience than many business executives, especially those executives whose orientation is mainly technical. These lawyers might therefore be able to describe procedures that had been successful in other contexts. Lawyers may also be able to identify or highlight certain relevant issues, because of their more general experience, or because they are less involved with the specifics of the business or the technology.

Exceeding the Lawyer's Responsibility

Lawyers often lose sight of the fact that legal issues are usually secondary to business and technical considerations in licensing. When certain negotiators observe that lawyers on the other side are speaking out about the pricing of technology, or on issues of technical performance or capability, they can minimize the credibility of those attorneys by pointing out these transgressions to the leader of the opposing delegation.

Additionally, many business executives harbor resentment toward members of the legal fraternity, whom they sometimes view as disruptive to their business objectives. Such a reputation can seriously limit the attorney's value. It is thus suggested that sensitivity and diplomacy by lawyers to their colleagues, as well as to third parties, should not be forgotten in the negotiation process.

The Impact of Attorneys and the Law on Licensing Strategies

A. Options

One method by which lawyers can make valuable contributions is the creation of a legal structure that is flexible enough to accommodate the growth of the relationship between the parties, including the expansion of the underlying business.

For example, potential licensees are often reluctant to make long-term commitments to new technology without having had some prior hands-on experience with it. This is especially true if the technology has not yet matured to the stage where there exists, some-

where in the world, an active commercial operation in which it is employed. An option provides a possible solution.

There are many different approaches to options, however, and the attorney should have knowledge of the available possibilities. For instance, a lawyer advising a client who is seeking to acquire technology should first determine the importance to the client of exclusivity. Perhaps a license would be less expensive or otherwise more cost effective to a potential licensee if it would request exclusivity only in a described field of use, or only for a limited period of time. It might even be preferable to have one or two competitors, especially in the event radical new technology is involved, since the presence of alternative sources of new products can accelerate the development of the entire market.

At the same time, the potential purchaser might desire to maintain his competitive edge. This could be accomplished by obtaining a right to grant sublicenses, with the licensee retaining a portion of the sublicensing revenues, while at the same time being obliged to exert its best efforts to close a minimum number of sublicenses in a specified period of time.

Assume the client considers the foregoing an attractive strategy. It would be appropriate for the attorney to raise the matter with the other side, because this issue relates principally to the form of the transaction, rather than to the substance or price of the technology transfer. Moreover, the active consideration of the proposal by the opposing side's attorney would be desirable, since this might reduce the possibility of misunderstanding, and also accelerate the dialogue.

The term and option payments can be handled in several different ways. Depending on the stage of development of the technology, and the financial needs of the licensor, such payments can be made for a long-term option, or for several shorter, renewable terms. The payments might or might not be wholly or partly credited to an eventual initial license fee or down payment.

In addition, realistic secrecy provisions should be in force. The proprietor should consider itself to be sufficiently protected in order to feel secure about making full disclosure. At the same time, the optionee or prospective licensee should be able to define the limits of such disclosure, in the event that it had previously known certain aspects thereof, or if it should make some discoveries or inventions of its own during the course of its evaluation.

During the option period it may be concluded that further research or development would be desirable in order for the optionee to make a long-term commitment. If such a possibility exists, it should be anticipated at the outset, and procedures provided whereby the responsibility and cost of such further investigations, as well as the proprietorship of whatever results, are anticipated.

Concurrent with granting the option, a policy decision is needed to determine whether the full text of a long-term license should be appended as an exhibit—so that the dimensions of the deal are fixed in advance—or whether it would be sufficient to outline points of agreement, dealing merely with several basic points, with the remaining issues to be negotiated when more is known.

The numerous strategic, legal issues relating to options outlined above illustrate the valuable input that a knowledgeable attorney can make to a technology transfer, even staying within the confines of the legal bailiwick. There are many other areas or issues involved in the licensing process where equally useful strategic contributions can be made by the attorney.

B. Blending Forms

The basic framework of the transaction should be carefully considered by the proprietor and the attorney. Both should be aware of the spectrum of pure legal forms of technology transfers, and understand that these can be employed and even blended in many ways to reflect the circumstances of particular deals.

C. Intellectual Property Rights

The legal matrix of technology transfers also includes the four intellectual property rights: patents, trade secrets and know-how, trademarks, and copyrights. The existence, as well as the quality and quantity, of all or some of these rights possessed by the technology proprietor can influence the licensing strategy chosen at the outset of negotiations. It would also influence the result ultimately negotiated.

D. Know-How

In the case of know-how, proprietors sometimes fail to appreciate and package many elements of their business activities relating to technology offered for license, perhaps because they take such in-house facilities or procedures for granted. This refers to such things as:

(1) computer data bases used for design and test protocols;
(2) safety procedures for the handling of particular substances;
(3) preferred sources for various raw materials, and the availability of favorable terms under joint purchase arrangements;
(4) training methods and manuals for technical and marketing personnel;
(5) quality assurance and control administration for incoming raw materials, as well as during various stages of the production process;
(6) compensation formulae to sales and field service personnel.

In fact, all aspects of a successful ongoing business operation intended to be licensed, however routine it may seem to the proprie-

tor, can be profitably included in a technology transfer proposal. Not only can this inclusion increase the heft of the licensing package, it can make a substantive contribution to the ultimate success of the entire transaction.

Although unfamiliar with the details and operations of the business relating to the technology sought to be licensed, an experienced attorney can serve a valuable function by insuring that the client has not omitted items of this sort from the proposal, despite the client's fear that this may be like "giving away snow in the wintertime." Experience has shown this not to be the case, and pragmatic details of this sort frequently prove the point.

E. Taking Account of Client's Strengths and Needs

An attorney representing a potential licensee can appropriately ask questions of his or her client. These might be calculated to determine whether the client's existing infrastructure can absorb a quantum of acquired technology and rapidly convert this infusion into a profitable business activity. Asking questions of this sort can frequently uncover weaknesses or needs of the client that may not have been fully appreciated and will require attention during the forthcoming negotiations.

Similar questions can also confirm that the potential licensee already possesses certain resources, such as a sales and service force, production engineering and quality assurance facilities, and a reputation in a given field, so that the acquisition of purported input in these areas from a licensor may be unnecessary. If the self-appreciation of the receiving party can be brought clearly into focus, it can tend to narrow the scope of the actual technology transfer, and thereby reduce the price required to acquire needed rights. Moreover, such clarification can help in selecting the most appropriate legal format of the transaction.

F. New Technology

The foregoing discussion relates to the licensing of fully developed technology that is already commercialized in the licensor's home market. Suppose, as is frequently the case, that the inventions contemplated for license are quite new, and still require additional development prior to commercialization. If the attorneys for both sides have asked the same types of questions, the relative strengths and weaknesses of the parties will be understood in this context as well, and the transaction structured accordingly.

Thus, the creativity of the technology proprietor might be emphasized to the effect that improvements and additional inventions within the field of the agreement could be reasonably expected. This concept could be manifested in provisions funding ongoing or addi-

tional research by the proprietor, if such financing is needed or appropriate. It could also lead to the establishment of a continuing consultation arrangement by the proprietor, either incorporated in the principal licensing agreement, or as a separate contract. A joint research and development project between the parties might also be contemplated.

G. External Factors

It follows from the foregoing discussions that many factors, most of which are either creatures of the law or at least greatly influenced by the legal concept, can influence directly the form and substance of a technology transfer. These are considered *internal* factors, in that they relate more or less directly to the subject matter of the technology itself, or the business activity it influences. There are also many *external* legal and political realities that can exert a profound influence over the manner in which technology is utilized and transferred. These must be taken into account and, again, the lawyers are the appropriate interpreters. Initially, this takes the form of advice to the client, but ultimately the same issues must be included within a dialogue between the attorneys in the course of the licensing negotiations.

Many businessmen believe that their lawyers tend to make too much of these questions, possibly because such attorneys are attempting to inflate the importance of their role in these proceedings. On several occasions, the author has seen framed signs on the office wall of a senior business executive to the effect that "my lawyer forbids me from doing anything, at any time, at any place." Such sardonic humor is not entirely without foundation. It is a challenge to the creativity of lawyers to find mutually acceptable solutions for their clients within the legal minefield that permeates and surrounds the licensing process.

The Antitrust Laws

In the United States, numerous cases interpreting the Sherman Act and subsequent legislation have exercised a profound influence over licensing. It is not the intention of this article to explore the interrelationship between the two, but it may be observed that the guidelines provided on such questions as price fixing, tie-ins, the duration of licenses, territorial and field restrictions, etc., are now sufficiently well settled that viable business solutions can usually be identified.

The antitrust concept is no longer confined to the United States, and several multinational and national bodies of jurisprudence are also relevant. The most notable of these are the rules of competition of the European Communities, in implementation of Articles 85 and

86 of the Treaty of Rome. The same remarks apply to these laws and regulations. Furthermore, while there are certain differences in emphasis, provisions that do not violate U.S. antitrust requirements are also generally acceptable abroad.

Export Control Regulations

These are executed by two administrative bodies. The International Traffic in Arms Regulations (ITARs), promulgated by the U.S. Department of State's Office of Munitions Control, govern the export of defense articles including components, and the furnishing of defense services, as set forth on the U.S. Munitions List. Export of technical data relating to defense articles and defense services are also regulated by the ITARs.

If commodities and technical data to be exported or licensed are not subject to the ITARs, the generally applicable regulations of the U.S. Commerce Department's Office of Export Administration (EARs) govern the export of technology. These transactions may be the subject of general licenses (GDTRs) for which no formal application need be submitted, or may require the processing of specific applications or Project Licenses, covering a multitude of export licenses related to a single project.

Since many areas of high technology are included within the scope of these regulations, and in view of the fact that foreign companies often consider these as well as political considerations, skill and an element of statesmanship on the part of the lawyers for a U.S. proprietor interested in exporting technology may be required here.

Foreign Legislation Designed to Control the Import of Technology

Many nations, particularly developing countries, have adopted laws and installed procedures designed to regulate the importation of foreign technology into their jurisdictions. Many of these programs were originally inspired by the success of Japan in the administration of legislation of this type by its Ministry of International Trade and Industry (MITI). Laws of this type have, among other things, been adopted by Mexico, Brazil, Argentina, and the Andean Pact countries.

Unfortunately, many of the locally owned companies operating in these jurisdictions do not possess the resources and the degree of sophistication of the Japanese. As a net result, the type of legislation copied from the MITI mold has frequently had the effect of discouraging altogether the licensing of technology to these jurisdictions, rather than influencing the terms of such transactions to become more favorable to the licensees. There appears to be increasing awareness of this counterproductive result, and appreciation of the

legal climate by the attorneys might therefore enable their clients to find some accommodation in these legislative bulwarks.

Protection and Compensation to Local Distributors and Sales Agents

In many cases during the immediate post-World War II period, U.S.-based and other multinational companies initially penetrated a foreign market by appointing a local company to act as sales agent or distributor for its products. Once these persons succeeded in establishing a beachhead for the foreign principal, they were frequently replaced by a controlled subsidiary of the principal, and thereby prevented from reaping long-term profits from their pioneering efforts.

This resulted in a strong defensive reaction in many countries in the form of legislation. These laws usually provide that the determination of these types of local sales representations by foreign principals require the payment of large indemnities. Moreover, it is often expressly stated that the parties cannot avoid these requirements by contractual provisions, and even poor or mediocre performance is no excuse for termination. If nothing else, awareness of these potential pitfalls by a client, on the basis of the attorney's advice, can influence a strategy and attitudes during the negotiation stage.

The Attorney and the Bargaining Table: An Extra Dimension

The attorney who has participated in many different licensing negotiations can render a special kind of service to his or her lay colleagues by providing a variety of insights before the actual negotiations begin. This is particularly true if the attorney is more experienced in this regard than the titular leader of the negotiating team.

There are certain elements of discipline that are helpful to all types of negotiations. There is a methodology peculiar to licensing negotiations which should be appreciated. If the attorney can explain these negotiating nuances, it can be helpful to everyone.

It has been said that the ideal licensing person must possess several different attributes including: aptitude for science, legal training, marketing and technical research experience, an understanding of each of the intellectual property rights, the ability to get along with people, salesmanship, foreign language skills, and negotiating talent. Recognizing the extreme rarity of such conglomerate individuals, it may be said that a sound license negotiator is one who thoroughly understands the relevant technology and is well prepared, has learned to control impatience, is thoughtful, reasonably flexible, and possesses the ability to listen. The ability to read body language and a ready sense of humor to be employed to break tension or change directions where needed are also valuable traits.

The International Dimension

When international technology transfers are contemplated, there are added hurdles of different cultural backgrounds of the parties, greater physical distances, and the fact that several different national laws and governmental regulations are involved. The element of real trust and understanding, a very important ingredient in successful licensing, is apt to develop more slowly in this situation. In most instances, these differences and complications relate to the agreements themselves, and thus require the input of attorneys to an even greater extent.

Assuming that an experienced attorney will have had more dealings with foreign parties and international transactions than most businessmen they advise, this arena provides attorneys with an important opportunity to coach. Perhaps because American businessmen often ignore, or are unaware of, various foreign cultural attitudes or etiquette, those sensitive to such realities are even more appreciated. For instance, even though English has become the international language of business, a working knowledge by some member of the team of the native language of the proposed licensing partner is both useful and respected. The general point may be easily appreciated; the fact that it should be obvious makes it no less important.

Aside from advising the client about the relevant domestic and foreign laws involved, there is one safeguard an attorney can obtain for the client that is less obvious. During international negotiations, the question sometimes arises whether a particular contractual provision is enforceable under the local law of the foreign party. In such cases, the writer has found it prudent to request the attorney on the other side to provide a formal opinion letter, on the office stationary of such attorney, affirming that all the terms and the conditions of the agreement are consistent with the local law and enforceable by the aggrieved party. If one has judged such attorney to be both competent and reputable, an opinion of this type constitutes a serious document. Of course, its substance can always be verified independently, but the act of giving the opinion can have a healthy and sobering effect on the future relationship. Should such attorney refuse to provide the requested opinion, the client may have to make a further determination of the risks involved in the entire transaction.

Conclusion

Attorneys can play a significant role in many aspects of the licensing process. The impact of these contributions can be enhanced if they are judiciously provided, taking into account that business strategy may be more important than legal caveats. Broad experience in many different negotiating environments can enable attor-

neys to make valuable contributions beyond the scope of the specific legal questions involved. This may be especially true in international transactions.

The ultimate test of the effectiveness of attorneys in all these endeavors is whether they have helped the parties truly appreciate the challenges and the potential problems they face. If the attorneys succeed in this regard, they have helped to minimize problems during the execution and the implementation of the agreement, because such eventualities have been anticipated and provided for.

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