

Guidebook of IP/Technology Transfer

Track 1

Entry-level Tech Transfer Professional

Topic 1.12.5

Term Sheets and the Negotiation Dynamic

Term sheets and the negotiation dynamic

- The Term Sheet (TS) is a primary vehicle for driving the negotiation process
- The TS is the initial conversion of verbal discussion about licensing arrangements into a written form
- The TS format allows the negotiators to focus on the key components of a deal – not on legal boilerplate
- The TS provides specificity of terminology, terms, and conditions..... while also
providing flexibility, “thinking out loud-on paper”

Term sheets and the negotiation dynamic

- Initial drafting of the TS gives the TTP the first opportunity to design the “value-capture envelope” so that its multiple components work in an integrated and holistic manner
- The TTP should share the TS internally with other TTPs and administrative managers of the TTO to get feedback on improvement, identify potential problems, and/or errors

Typical Elements of a Term Sheet

Technology: [short, descriptive title for the technology – different than “Licensed IP”]

Licensor:

Licensee:

Licensed IP: All patent applications and issued patents listed in Attachment 1; Trade Secrets listed in Attachment 2; copyrightable material including any manuals, related reports, analyses, formula, test data and other data and information as defined and listed in Attachment 3; the Trademark described in Attachment 4.

Typical Elements of a Term Sheet

Grant of Rights: Exclusive (?) or non-Exclusive right to make, use, and sell products and services covered by Licensed Patent; includes [or doesn't include] sublicense rights;

Territory: Country A; option to expand to other countries on a country-by-country basis

Term of Agreement: Until the expiration of the last-to-expire patent [typical Term]

Typical Elements of a Term Sheet

Commercialization Due Diligence Milestones:

Year 1: Beta Testing

Year 2: first sale of Licensed Product

Year 3: Beta validation of spin-off service

Year 4: successful field trial

Typical Elements of a Term Sheet

License Fee: \$XXXXXXX [typically upfront and non-refundable]

Royalty: X% of Net Sales (Gross Sales less deductions of shipping, taxes, commissions, returns)

Minimum Annual Royalty Payment (also potentially an “Exclusive License Fee”)

Minimum Annual Royalty Payment: Beginning with the X License Year, Licensee will pay a Minimum Annual Royalty Payment of \$X at the beginning of said License Year. At the end of the License Year, Licensee may credit any royalty owed against the Minimum Annual Royalty Payment already made at the start of the License Year.

Typical Elements of a Term Sheet

IP Management and Payments:

Rights to Future Inventions:

Consulting arrangements:

Term sheets and the negotiation dynamic

- Although there is no hard and fast rule, it is recommended that the IP/technology owner draft the first Term Sheet version
- Creating the first Term Sheet version allows the TTP to craft the overall structure of a license deal
- The first Term Sheet version is the TTP's best first attempt to build the “value capture envelope” of a win-win license agreement with multiple risk sharing, and value-capture mechanisms
- The TS “bounces” back and forth between negotiator with iterations of proposals and counterproposals

Term sheets and the negotiation dynamic

- Term Sheet format allows negotiators to focus on key key components of a deal – not on legal boilerplate
- The negotiators should use Track Change mode in Word documents to show any and all modifications of the text
- Never try to hide a change from the other side
- Periodically, the Term Sheet should be “cleaned up” by accepting all mutually-agreed changes
- At some point during the Term Sheet dynamic, the Parties should agree that a License Agreement draft can be drafted – it is recommended that the IP owner make the first License Agreement draft

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Thank you