

Guidebook of IP/Technology Transfer

Track 1

Entry-level Tech Transfer Professional

Topic 1.13.3

The Term Sheet as Precursor to the License Agreement

Term Sheets as License Precursor

- What is a “Term Sheet”?
- Why do we use them?
- How to use it
- When to use it
- What does a Term Sheet look like?
what is in a Term Sheet?
- The art of negotiation,
and the role of the Term Sheet

Term Sheets as License Precursor

What is a “Term Sheet”?

- A clear definition of the key terms of a potential license agreement
- The License Agreement stripped down to its basic elements
- The License Agreement contains many provisions and clauses, and “legalese”
- So, the License Agreement can be cumbersome and difficult to negotiate with
- A typical License Agreement = 15-20 pages + attachments
- A typical Term Sheet = 2-3 pages
- It is NOT a legally-binding contract

Term Sheets as License Precursor

Why do we use them?

- They are an efficient means of developing/designing, and articulating the “value capture envelope” for internal purposes
- They are more efficient vehicles for negotiation than License Agreements
- They mitigate/eliminate the confusion, uncertainty (and anxiety) that the License Agreement can generate
- License Agreements are cumbersome legal contracts

Exclusive License Agreement

This License Agreement is made on _____ 202_ (“Effective Date”) by and between _____ (“Licensor”) and _____ (“Licensee”), individually described as “Party” and collectively as “Parties”. The Parties hereby agree that:

WHEREAS, LICENSOR owns intellectual property (“IP”) related to LICENSOR’s invention concerning a technology related to xxxxxxxxxx and the systems and methods comprised within the patent applications described and listed in Attachment 1, attached hereto, as well as data, procedures, proposals, presentations, know-how, manuals, and trade secrets, and other information related to the IP (collectively, “Licensed Technology”); and,

WHEREAS, LICENSEE has business and professional experience and expertise in the field of Licensed Technology; and,

WHEREAS, LICENSOR and LICENSEE wish to establish a mutually beneficial business relationship the purpose of commercializing the Licensed Technology such that LICENSEE will develop, manufacture, and sell products and services that embody the Licensed Technology and which are covered by the IP;

Term Sheets as License Precursor

How to use them?

- The first written description of the terms that have been considered and discussed
- They act to “crystallize” the negotiator’s thinking about the terms and how they all fit together
- Remember: think about the terms as “moving parts” of an overall mechanism of “value capture”
and shared rights, obligations, responsibilities
- The Term Sheet is tailor-made for this perspective
- They are well-suited for the iterative back-and-forth

Term Sheets as License Precursor

When to use it

- Soon after initial meetings and discussions of
the technology
the licensee, their industry, and their business practices
the opportunity
- My rule: the owner of the IP creates the first Term Sheet
allows the licensor to carefully craft the terms
- This is anxiety-producing: are the terms
too much?
too little?
- My suggestion: prepare the recipient for the Term Sheet
- Transition to License Agreement

Term Sheets as License Precursor

What do they look like?

- They are varied, in terms of font and format
- They tend to be concise
- Bullet points
- Table formats
- The precise format is not critical
 - I prefer: concise, and precise

Term Sheet of Bank Loan (USD)

Item	Contents
Loan term	Repayment schedule as per the feasibility research report
Gross credit line	To be determined according to actual demands of the project, we can underwrite all the credit business
Security/ collateral/credit	Credit
Drawing conditions	Provide the payment contract and other evidentiary materials for the loan purpose
Interest rate	We commit that the loan interest rate shall not be higher than the interest rate quoted by any other bank, and will be properly adjusted downwards provided that it is approved by the head office.
Interest accrual period	Semi-annually
Advance repayment and terms of repayment	Not restricted
Commission and other relevant charges	Nil
Penal terms	Overdue and diverted loans etc.
Taxes	Stamp duty, at a rate of 0.5/10000 of the contractual amount
Other terms/provisions	Nil
Conditions and commissions of opening a banker's acceptance bill	Free of cash deposit within the credit line, with a commission at a rate of 5/10000
Conditions and commissions of opening a payment or performance guarantee	Free of cash deposit within the credit line, performance guarantee fee at a rate of 1‰ each quarter, with a minimum of RMB500/quarter; payment guarantee fee at a rate of 1.5‰ each quarter, with a minimum of RMB500/quarter, and if the effective period exceeds one quarter, the fee rate will increase by 0.5‰ each quarter

State of _____

LICENSING AGREEMENT

This License Agreement (this "Agreement") is made as of the _____ day of _____, 20____ (the "Effective Date") by and among/between:

Owner(s): _____, (collectively, "Owner") and

User(s): _____, (collectively, "User").

The Parties agree as follows:

1. License. Owner hereby grants to User (Check one) ☐ an exclusive ☐ a non-exclusive license to use the following items of intellectual property (the "Licensed IP"):

- (A) Name/Title: _____
Description: _____
- (B) Name/Title: _____
Description: _____
- (C) Name/Title: _____
Description: _____
- (D) Name/Title: _____
Description: _____

solely for the limited purposes of _____.

User is authorized to use the Licensed IP (Check one) ☐ in the following regions: _____
_____ ☐ worldwide (the "Territory").

Nothing herein obligates User to exercise the rights granted in this Agreement.

2. Consideration. As consideration for the license granted and described in this Agreement, User shall pay to Owner the following fees and/or royalties:

Type of Payment	Payment Due Date	Payment Amount
		\$
		\$
		\$
		\$
		\$
		\$

UNIVERSITY OF MINNESOTA
NON-BINDING BUSINESS TERM SHEET
FOR DISCUSSION PURPOSES ONLY

Title:
 Marketing Manager:
 Date:
 Potential Licensee:

Definitions									
1.	Potential Licensee (1.2)	[Enter Entity Name], a [Enter Corporation, LLC, etc.] under the laws of the [Enter jurisdiction type country or state] of [Enter Name of Jurisdiction of Entity Registration] having a place of business at [Enter Address], [Enter City], [Enter State] [Enter Zip].							
2.	Effective Date (2)	<input type="checkbox"/> Date of the Last Signature of the Agreement or _____,							
3.	License Type	<input type="checkbox"/> Exclusive <input type="checkbox"/> Non-Exclusive <input type="checkbox"/> Exclusive Opportunity <input type="checkbox"/> Patent <input type="checkbox"/> Software <input type="checkbox"/> Plant <input type="checkbox"/> Copyright <input type="checkbox"/> Distribution <input type="checkbox"/> Non-Distribution <input type="checkbox"/> End User							
4. Technology to be Licensed (1.7)									
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%; padding: 2px;">Case No:</td> <td style="padding: 2px;"></td> </tr> <tr> <td style="padding: 2px;">Title:</td> <td style="padding: 2px;">[Enter Docket Title as it Appears in TIMS]</td> </tr> <tr> <td style="padding: 2px;">Description:</td> <td style="padding: 2px;">[Enter a General Description]</td> </tr> </table>				Case No:		Title:	[Enter Docket Title as it Appears in TIMS]	Description:	[Enter a General Description]
Case No:									
Title:	[Enter Docket Title as it Appears in TIMS]								
Description:	[Enter a General Description]								
Issued Patents To Be Licensed (1.5) [Please note any patents that contain methods of use (claims)]									
Patent No.	Country	Issue Date	Title						
Patent Applications To Be Licensed (1.9) [Please note any patent applications that contain methods of use (claims)]									
Application No	Country	File Date	Title						
Other (Copyright Info, etc.)									
Patent Related Expenses (1.10)									
<input type="checkbox"/>	Yes	Licensee is responsible for reimbursing University for Patent Related Expenses before the Effective Date of this Agreement. If Yes, Patent Related Expenses incurred by the University as of the Effective Date of this Agreement are as follows:							
<input type="checkbox"/>	Yes	Licensee is responsible for reimbursing University for all Patent Related Expenses incurred before and after the Effective Date of this Agreement. Patent Related Expenses incurred before the Effective Date of this Agreement are as follows:							
<input type="checkbox"/>	Yes.	Licensee is responsible for reimbursing University for all Patent Related Expenses							

Term Sheets as License Precursor

What is in it?

Basically, “the Deal” broken into its key parts:

- The Parties defined precisely
- The IP (and tangible property)
- The Grant of Rights
- The Territory
- Financial terms (fees, royalties, etc.)
- Ownership and management of IP (and bioproperty)

License Term Sheet (example)

The Parties: Licensor: Licensee:

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

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. **Countries where IP is valid:**

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

Licensed 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]; as long as Licensee is in compliance with all license terms and conditions and at least one Licensed IP is being used by Licensee

License Term Sheet (example)

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

License Fee: \$XXXXXX [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”)

IP Management and Payments:

Rights to Future Inventions:

Consulting arrangements:

License Term Sheet (example)

IP Management Responsibilities and Payments:

Rights to Future Inventions:

Consulting arrangements:

Collaborative R&D:

Term Sheets as License Precursor

The Art of Negotiation

& Role of the Term Sheet

- Consider all the “moving parts” of the “value capture envelope:
 - scope of IP
 - grant of commercial-use rights
 - license fee, royalty, milestone payments,
 - minimum royalty payments
- Use the Term Sheet to craft the overall mechanism
 - be sure all the parts are in synchrony

Term Sheets as License Precursor

The Art of Negotiation

& Role of the Term Sheet

- The Term Sheet is the “playing field” where negotiations play out
- In early stages, look to emphasize areas of agreement
- In areas of disagreement, consider leaving the Term Sheet blank; discuss them over the phone before putting them in the Term Sheet

Term Sheets as License Precursor

Preparing the Recipient

- Phone call particularly important if there are any surprises in the Term Sheet (based on prior discussions)
- Request that the recipient NOT over-react to the terms, and to allow for mistakes to be made

Term Sheets as License Precursor

Practical Matters

- Have someone in your office read through your Term Sheet before you send it
 - is it all clear and understandable
 - make certain there are no silly errors
 - do all the terms make sense – no logical errors
- Give the recipient a phone call or email heads-up
- Term Sheet negotiations optimal as a one-on-one dialogue (support persons ok)
- Use “Track Change” mode to document all changes, and to make comments/ask questions

Term Sheets as License Precursor

Practical Matters

- Use “Track Change” mode to document all changes, and to make comments/ask questions
- Be very careful to keep track of the latest version and “who touched it last” (name the file, label with negotiator/modifier’s name, date of version)
- Openly agree or disagree with proposed changes; accept or reject modifications
- Do NOT make any changes to any agreed-upon terms unless accompanied with an explanation
NEVER try to “slip one by” the other side

Term Sheets as License Precursor

Practical Matters

- Transition to the License Agreement when the negotiations are at a positive stage
- **My rule:** the owner of the IP ALWAYS uses its License Agreement template
- **My suggestion:** prepare the recipient for any legal “boilerplate” issues that you know could be a problem

Track 1

Entry-level Tech Transfer Professional

Topic 1.13.3

The Term Sheet as Precursor to the License Agreement

Thank you