Deals from heaven and deals from hell

Licensing is all about deal making. And deal making is all about people. Only highly skilled, highly talented people can consistently put good deals together. A select group of the very best discuss the challenges, pitfalls and joys of negotiating

By **Bill Elkington**

I asserted in an article in the March/April 2012 issue of this magazine (issue 52, pages 61 to 69) that we are engaged in changing the world. We are colonists - we IP management people in IP-owner organisations - you and I. We are in the colonial era of a great IP exploration and expansion, and we have ventured out into the wilderness to bring our light to the dark corporate places.

I was rereading Joseph Conrad's *Lord Jim* recently, admiring its language and structure and tone and irony and ambivalence and ambiguity and .... (Well, I *do* recommend the book.) And I came again across this critical passage: "Yes! Very funny this terrible thing is. A man that is born falls into a dream like a man who falls into the sea. If he tries to climb out into the air as inexperienced people endeavour to do, he drowns — *nicht wahr*?... No! I tell you! The way is to the destructive element submit yourself, and with the exertions of your hands and feet in the water make the deep, deep sea keep you up."

And I also came again across this more famous and reinforcing passage further along in the novel: "And yet it is true - it is true. In the destructive element immerse."

We have fallen into a dream, like people who have fallen into the sea. And that dream involves a certain amount of requisite courage and heroism and intellectual acuity from us. That dream of who we might be and what we might do is both potentially destructive and redemptive. If the financial value of the world is made up - as we say - largely of IP value, then we ought to be able to do remarkable things. Stunning things. Great things. Because we are the few who see the financial value of the world properly.

But accomplishing great and noble and heroic things can be very difficult, given the seemingly infinite number of ways that IP transactions can go wrong; given the sometimes very real difference in interests of any two parties to a transaction. Sometimes we will succeed in our transactional work and sometimes we may fail. And it is usually in failure that we learn the most - or at the very least, that we have the most opportunity for learning and growing in our knowledge and skill and understanding.

Our topic for this issue is carefully selected. A modified version of it was one of the three topics taken up by the LES IP100 Executive Forum held in Phoenix this past January. And the people whom I interviewed have attended either that IP100 or a previous one, last September, in Paris. All are well experienced in IP deal making. All are very good at what they do because - in part - they have had character-building experiences in the world of intellectual property. The sharks have nibbled on them a bit. They have periodically come up against a rocky shore in bad weather.

But all of them continue to be held up, like swimmers, by a changeable sea - a sea that they have chosen and that has chosen them.

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They are idealists, all of them, looking always to make the perfect deal - a deal that is perfectly crafted to balance the needs of the parties. Of course, no deal is perfect. All fall short. But this does not keep these remarkable people in these pages from trying to craft deals that will endure for the ages, or for at least as long as the patents.

They are all exceptionally generous. This is a dangerous topic, a topic as dangerous as the sea itself. And they have graciously agreed to dive deeply into it.

First, here's a little about each of them, followed by a lot of what they had to say:

- Joe Daniele is chief operating officer for Acorn Technologies, Inc, an R&D and IP transactions company with a focus in semiconductor devices and wireless communications. An expert in IP and technology commercialisation, he has led many R&D efforts and completed nearly 500 IP arrangements of all kinds. Prior to Acorn, he was senior vice president of IP and technology commercialisation at SAIC, where he was responsible for generating significant revenue from its technologies and those of its subsidiary, Telcordia (Bellcore). Before joining SAIC, he held senior positions at Xerox, where he established and headed the Xerox Intellectual Capital Business Unit, at which he was responsible for worldwide IP strategy and management.
- Mark Wilson is director, collaboration management, Europe, in GlaxoSmithKline's (GSK) pre-clinical development division (platform science and technology). He is responsible for the licensing and collaboration activity of the formulation and chemical development departments of GSK, which operate globally. He has worked for SmithKline Beecham and GSK in licensing roles for the last 10 years and has been involved in over 100 commercial transactions and alliances. He is current president of the Licensing Executives Society, Great Britain and Ireland.
- Kathleen Denis is associate vice president of the office of technology transfer at The Rockefeller University. She is responsible for managing the university's intellectual property and for working with an elite group of bio-medical researchers to establish partnerships with industry in order to develop and commercialise technologies for the public good. She has been responsible for technology development, management and transfer in the life sciences field at several research institutions, and is a past president of the Licensing Executives Society (USA and Canada) Inc.
- IIkka Rahnasto is vice president, legal and IP rights at Nokia. Nokia hired him as an IP rights lawyer in 1997; in 2003 he moved to head Nokia's entire IP rights organisation. He is currently head of legal and intellectual property for Nokia's smartphone business. He has been the lead negotiator for several complex licensing and business transactions. He is the author of *Intellectual Property Rights, External Effects and Anti-Trust Law: Leveraging IPRs in the Communications Industry*, which was published in 2003.
- Richard Razgaitis is senior adviser for Charles River Associates. He has 40 years of experience working in the development, commercialisation and strategic management of technology. He has valued and negotiated numerous licences in a wide range of technology areas, markets, territories and deal types and sizes, and is the author of four books on valuation and negotiation/deal making, the most recent of which, published in 2009, is entitled *Valuation and Dealmaking of Technology-Based Intellectual Property: Principles, Methods and Tools*. He is past president of the Licensing Executives Society Foundation.

In their discussions below, Razgaitis, Denis and Wilson all are largely (but not exclusively) focused on alliances, strategic partnerships and technology licensing; while Rahnasto and Daniele are focused largely on patent licensing (but not exclusively so).

What kinds of IP transactions are the most difficult to structure so that both parties are satisfied with the deal over the long term?

Joe Daniele (JD): Deals in a rapidly changing environment, with lots of players and unpredictable and sometimes dramatic shifting of the status and power of the various players, can be difficult to structure.

Mark Wilson (MW): I think that many problems arise because circumstances change once a deal is signed or while a negotiation is being concluded: sales are not as expected, causing tensions; one company may have needed to learn from the other and that learning has been assimilated; or the

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strategy of one company may change. In the case of small companies, these changes may be quite radical over a period of years, simply because the organisation is responding to the external world in order to survive. I recall one situation when a small company assured me that it wished to provide the 'plain vanilla' technology as its business model, and two years later - halfway through development - told me that 'plain vanilla' was no longer of interest to it. On our side, we had seen that the other company would be forced this way by the market and financiers; so at least we were prepared to deal with the situation.

The other category of deal that is difficult to bring to successful conclusion is a deal that is inherently low in value. It is not dollar value that matters, but rather the perceived value to the partners; many technology collaborations have benefits of mutual learning and joint exploration, yet may be modest in dollar terms. In a more transactional situation, such as a straight licence deal (as opposed to the relationship-based nature of a collaborative development programme), I think that many companies have found that it is important to resist smaller deals. These often appear, rather deceptively, to be attractive at some point, mainly for political reasons in the organisation. However, the costs and complexity are out of proportion to the dollar value, and all parties can become unhappy with the arrangements, even before these are concluded.

I should state that a lot of my career has been spent in technology development and, over recent years, negotiating technology development collaboration agreements and licences. All of my comments therefore relate to this space. I think that many of the principles are universal, but other groups and colleagues within GSK may have had other experiences.

Kathleen Denis (KD): My world is licensing early-stage intellectual property in the life sciences and these transactions tend to be very difficult deals to structure. There is so much time before a product comes to market, and so much intervening risk and uncertainty. Both parties often feel that they should receive a larger share: the university feels that the product would not exist without its invention, while the company feels that the product would not exist without its millions of dollars of investment and years of risk taking. Both parties need to be honest about the types of reward and risk sharing that they have in mind.

Ilkka Rahnasto (IR): A business deal may be structured in the form of an IP transaction, although the ultimate business goal is not IP related. A simple example is a normal grant-back licence which, if used to neutralise the long-term R&D of the other party, may turn out to be difficult to negotiate.

Richard Razgaitis (RR): I'm not sure about 'most' difficult, but a difficult category is one which involves know-how, including software, and especially if it involves the 'loan' of key technical people.

What types of deal do you avoid altogether?

JD: You may choose to avoid deals wherein the parties have very different value systems, objectives and goals, and may be totally unknowing or unappreciative of the position of the other party. With groups such as these, alignment and continuity of purpose are often difficult to achieve. Also, deals (or parties) in which the internal decision processes are fragmented and inefficient may be problematic.

MW: I think that you should trust your gut feeling, even though this seems to be very unscientific. If the parties don't like and respect each other, to some degree, in the initial discussions about a possible deal, I advise people to walk away at that point.

It is the grit in the oyster that later makes the pearl, so to speak, and some difficulties that strain the relationship will occur. If things seem bad at the beginning, you know with certainty that things are only going to be much worse later on when problems of one kind or another emerge. I know that people will say that you can complete a purely transactional deal with anyone, however awkward the counterparty, and to a large degree that is true. Nonetheless, I suggest that the tone and feel of early discussions will give a sense of how the later ones will go; and even in transactional situations, you should consider alternatives if your gut feeling gives you a warning of trouble ahead. Sometimes, for collaborations, the technical teams can get on fantastically, while all sorts of commercial warning signs exist, and I think that your responsibility at that point, as a commercial person, is to inject some gritty realism into the situation and to review the desire to do the deal. (I know that that makes me sound like a policeman, seeing potential for trouble, but 'Once bitten...' and all that...)

When deals go wrong

Is there a transaction that you have been involved with that went particularly wrong? Could you give us the broad outlines of that transaction?

Joe Daniele (JD): Some time ago, I was involved in a licence for a network technology, licensing from one Fortune 100 company to another. It was a high-quality and important technology, and initially the deal moved along well between the IP specialists and the R&D folks, and terms were agreed. We had put together a good deal for both sides. Then, for some reason, the CEO of the licensee company decided to get personally involved and began making notes on the deal sheet and elsewhere and changing the deal terms. No one was willing or able to tell him he was messing things up. He pulled the deal teams around in circles for a year. I finally walked away, realising that there was no deal to be done. It was a failure of the IP team to work out their internal expectations, approvals and the necessary communications involved.

Mark Wilson (MW): I think that difficult deals can broken down into 'deals that were done that caused grief' and 'deals that caused grief in getting them done'. In the former category, I recall a situation with a two-man company that was collaborating with my organisation when a patent inventorship dispute emerged. Clearly, such things happen on a semi-routine basis and are not in themselves desperately alarming. However, at around this time, the owner of the other company - who was a charismatic and charming gent - tragically crashed his high-end sports car and was killed. His brother, who was a builder, took over the company, and somehow the GSK team never managed to build any rapport or to make headway in solving the dispute. In the end, the small company went bankrupt, cited GSK (absolutely unfairly, in my opinion) in the official bankruptcy commentary and GSK bought the disputed patent asset from the administrator for a substantial sum.

Kathleen Dennis (KD): A very high-profile licensing transaction was done at the university about five years before I joined. The university received an upfront payment that was unprecedented for early-stage life sciences technology. I can only imagine that in the excitement over the extremely favourable financial terms, licensee diligence was omitted. By the time I arrived at the university, the company had completed an initial phase two clinical trial, with mixed results. It took another five years, a great deal of pressure and many phone calls to get the company to begin the development of this molecule again. It did this by sub-licensing the molecule to another company, and again in the original licence there was no anticipation of a future sub-licence and thus no sharing of sub-licensing revenue. After a year of very intense negotiations, the sub-licensee was able to pick up the development once more.

Ilkka Rahnasto: Transactions sometimes fail because the original expectations change and/or the behaviour of the parties changes. Successful transactions depend on trust between the parties; if the trust is lost, the transaction is rarely a success.

Richard Razgaitis (RR): One memory is of a project involving joint inventions. We believed that we were the primary inventor and we had pre-existing (background) patents, but one of the important inventions emerged in collaboration with the client and with client funding. This led to a serious dispute.

What were the lessons that you and others learned from that particular transaction?

JD: It is the responsibility of the IP team and specialists to handle the deal and to handle their respective management expectations and approvals. If the internal communications break down or don't exist, then deals can become problematic for everyone.

MW: In this particular case, I think that the importance of people and relationships is emphasised. In general, I think that it is important never to leave a gap, so to speak, unaddressed - particularly a legal one. In chemical engineering, there is a view that most major plant accidents occur when several safety systems fail - if a single one works, disaster is usually averted. Looking back on a number of scrapes, I think that a similar logic applies to alliance management. When a major dispute has happened, often - not always, I admit, but often - it is because there has been a complex sequence of events, and early intervention at any one of a number of points could have caused events to take a radically more positive course. Some minor incident occurs, both parties fail to resolve it and then something happens to magnify the importance of the original matter in question (eg, a change of strategy, a patent publication by a competitor), at which point more people become involved and, critically, the matter is still not addressed. If you look back at many disputes, each side had four or five opportunities to set matters straight, but did not manage to do so, for reasons that seemed to be good ones at the time. ("There's always a story," as one of my bosses said of disputes.)

KD: The lesson learned from this transaction is that no matter how enthusiastic the parties are initially, 'doo doo' happens. When you enter into a licence agreement, you need to evaluate the use of all of the clauses in a normal agreement, even if it appears at that time that those clauses may never apply. It is far easier to have a number of paragraphs in the licence agreement that you will never need to refer to than to negotiate them back into the agreement when things go off the track. I'm not saying that we need 100-page licence agreements, but you need to be very careful when straying from your normal template clauses.

RR: The lesson is to be especially cautious when any kind of co-development is envisioned as to the potential effect upon later compensation for pre-existing intellectual property.

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Vice president, legal and IP rights, Nokia
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KD: In a university setting, we tend to avoid deals involving software. Although we have interesting software programs, they are generally not robust enough for commercial use and will need to be totally rewritten. Also, often the value of software is in the updates and support; we would not be involved in those. So we often just make our software available on the Web under a public licence.

IR: We avoid broad patent licences that are built into software licences or into other normal business transactions.

RR: From the perspective of a service provider, I avoid only those opportunities where the client appears to have wildly unrealistic expectations.

What deal terms do you find to be the most problematic, either because they are difficult to negotiate or because they generate disputes over the long term?

JD: Representations and warranties usually occupy the most attention, because potentially there may be high dollar risks involved.

MW: In general, anything that is not clear and relates to something that has value (or that might have value) is a likely source of trouble and disagreement. I have come across many situations - at times, major and heated disputes - that relate to know-how and confidential information, with one party alleging misuse of some kind by the other. I think that all operating company deal people understand the immense value of confidential know-how, even though IP consultants sometimes underplay the value of anything other than patents and trademarks. These disputes have the potential to have significant dollar repercussions, to be highly damaging to corporate reputations and to consume huge amounts of management time. Naturally, some reasonable defences are clear contracting processes, good judgement as to when to receive information and to talk to people, and prompt attention to emerging disputes.

In general, I think that option arrangements - while very valuable - have to be deployed with great care. The pharmaceutical industry uses them extensively, and these structures manage to deal with uncertainty well, as they allow the parties to contemplate a variety of possible future outcomes. In using this approach, though, I think that it is very important to be as clear as possible about criteria for exercise and payment.

KD: For an early-stage licence, diligence is the most difficult and problematic clause to negotiate. Because of the long timeframes in the development of early-stage life sciences intellectual property, the university is interested in seeing very bright-line measures in diligence. On the other hand, the company knows of the uncertainty ahead and does not wish to be penalised or have the licence terminated due to unforeseen circumstances. Intellectual property that was generated using federal government funds has an obligation under law to be diligently developed and we need to pass that obligation along to our licensees and to monitor that obligation over the life of the licence. We try very hard to negotiate several different diligence measurements to be fair to our partner, but in truth, our partner would not like to have any of these in the licence agreement.

IR: Most difficult for us are all types of 'ecosystem' terms that expand the scope of the beneficiaries of the transaction to third parties. Another particularly troublesome area of typical licence agreements is the audit section, as audit may provide a way for the other party to terminate the agreement.

RR: Particularly problematic are conditional milestone payments and like downstream adjustments in royalty rates ('if .... then' structures). Just as difficult are terms requiring diligence findings or outcomes that could result in termination or conversion of an exclusive licence to non-exclusive if those findings or outcomes are not met.

What is the role that organisational behaviour has played in transactions you have been involved with or have learned about? And by 'organisational behaviour', I mean the different organisational agendas of people from different segments of the enterprise.

JD: It is important for one organisation and person to champion the deal. When different, uncoordinated organisations acting as equals are involved, the deals can be delayed or disrupted by the different agendas, objectives and goals.

MW: I think that the issue of ensuring a coordinated internal team is critical, and

Inside the good deals

When deals go well over the long term, what are the characteristics of such deals that make them successful? When I say 'characteristics', I am trying to be quite open. I'm thinking of such things as deal preparation, alignment of interests internally, alignment of interests between the parties and clarity of definitions; but you may well have very different things in mind.

Joe Daniele: Successful deals are characterised by alignment of interests and expectations in both the short and the long term, and provisions within the agreement for changes to be made to the agreement should the situation not unfold as planned. Successful deals are often made successful by deal management teams in both parties that realise that changes will need to be made to the agreement as reality frustrates expectations.

Mark Wilson: In terms of collaborations, I think that these work well when there is some mutuality of need (or benefit), and that this driving force for maintaining the relationship is sustained over time. If one party needs the arrangement, but the other no longer does, then trouble may be around the corner. The extent of commitment and benefit should be matched, in an ideal situation: if you are going to jump in deep, it helps to know that the other party is also making a big commitment. Naturally, it helps if company strategy does not change from the initial one over the course of the relationship; when changes occur, you need not just a decent contract, but a good understanding and working relationship, to deal with any necessary adjustments. To make some significant commitment, there needs to be some sufficient senior-level support from the management of the company or the relevant division.

Kathleen Dennis: With early-stage technology, it is extremely important that there is excellent alignment between the parties. There need to be involved champions on both sides, at both the business and the technical levels, and having involved champions on the legal level really helps also. Too many lawyers have a 'goalie' mentality in getting deals done, rather than being advocates for progress and innovation.

Ilkka Rahnasto: I believe in two overriding principles. For deals that require mutual dependence, trust and strategic alignment between the parties are critical for success. Sometimes one party to the deal is more dependent than the other; then, success depends on how well the deal secures the key deal benefits for the dependent party.

Richard Razgaitis: Strategic alignment is always important, and probably most important. Also important is a fair payment structure and magnitude. Licensees almost universally believe that they are overpaying in later years because of all their market development and other contributions, to some degree forgetting the importance and extent of R&D and intellectual property created by the licensor prior to the licence deal. However, in a long-lived licensed process or product, relevant competitive alternatives and pricing pressures can arise that were not reasonably accounted for in the original licence.

often under-emphasised by those who do not work in large or medium-sized organisations. You have to front discussions with the external party, and you can do this effectively only if you have gained alignment internally.

In dealing with minor disputes related to technology collaborations, this can cause some initial delay: often, the technical team has a rapport with the external party and you have to ensure a common voice before you can engage to resolve the situation. This can take some time at the outset, but it saves a lot of time in the long run. In addition, experience has taught me not just to get agreement, but also to see personally a copy of all critical documents. Do not trust statements such as: "We can get the documents if we need them." You need to know exactly what the situation is - even if documents, such as experimental records, are lost - before you engage.

KD: At a university, there tends to be many stakeholders at the negotiating table and often the interests are not aligned. The administration is often interested in money, now — everything upfront. Our inventors are faculty, who are very different from standard employees. They are not subject to the same types of employee agreements that inventors are at companies. They may be extremely bright and successful in their scientific field, but terribly naïve in the business world; they

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Associate vice president, office of technology transfer, The Rockefeller University
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often do not know what they do not know. On the other hand, I have several faculty members who are extremely good at business issues and with whom I can work closely during the transaction.

IR: In major companies, it is normal to see some lack of internal alignment, since people may have short-term targets and those targets may not require people to take into account other competing corporate interests.

RR: One of the big challenges is the growth of strategic business unit (SBU) power with regard to corporate licensing. Such SBU heads (general managers or managing directors) often want to withhold valuable intellectual property ("just in case we need it"), or restrain the pool of potential licensees (any real or imagined competitor), or control the transaction ("only if we get some huge dollar sum or some other important asset"). Another organisational constraint can be CFOs who expect to get significant immediate cash returns over and over again (not fully recognising the possibility of running out of intellectual property and/or licensees).

What methods have you seen used effectively to keep the potential disruptive influence of organisational behaviour to a minimum?

JD: The best structure that I have worked with (at Xerox, where I founded and headed the intellectual capital SBU, and founded and managed the corporate office for management of intellectual property) is when the IP transactions and licensing are run out of an SBU with profit and loss responsibility. In such a structure, the licensing office can have a direct line to senior management and there can be an efficient senior management decision process. In this structure, the legal and other staff departments are a resource to the SBU and assist with deals, and decisions are formulated and taken in an inclusive, efficient and timely manner.

MW: Strong champions at both companies, decent personal relationships and respect developed during the discussions, and other connections and links (eg, agreements by other divisions of your company with the partner) all help to encourage positive behaviour by both sides.

KD: We strive for continuing education - it is a university, after all. We try to be very clear on boundaries at the very beginning; I occasionally tell faculty members that if they begin to negotiate the deal without me, I will come into their laboratory and change all the labels on their test tubes. To maintain their comfort at allowing us to take the lead, it is key that they are copied on significant correspondence and are updated frequently on the progress of the deal.

IR: I have tried proactively to address disruptive organisational behaviour. The easiest way is to bring all involved parties together to determine the priorities.

RR: To get internal alignment, it is important to schedule strategic meetings whereby all of the key decision makers can resolve the issue(s) and in which there is rational consideration of the effects of any constraints and unrealistic expectations.

What methods have you seen used effectively to ensure that the parties to a transaction are aligned in their interests in the beginning and all the way through the lifecycle of the deal?

JD: If there are no natural mechanisms built into the organisation, one must provide leadership to develop a common purpose, meet regularly to work out differences internally and provide a consensus view to the other party of the arrangement. Decisions need to be made in a timely fashion with closure. One process that can help is to set up a desired straw man and outer boundary set of multi-dimensional terms that are negotiated and settled internally prior to beginning third-party negotiations. This allows for a planned set of pre-decided positions and reasons, with some room for third-party negotiations. Internal differences and problem areas can thus be identified and worked out in advance.

MW: If you have a staging of benefits, senior-level support, active engagement and a willingness to renegotiate minor parts of the arrangement if necessary, it is likely that a deal can be sustained.

In the last 15 years, alliance management has become respected as a discipline in its own right, and all of the principles of building strong alliances apply to maintaining robust relationships in deals. I think that it is important to be clear that alliance management is not necessarily in any way wishy-washy, and deal structuring is critical here. Know where the pressure points are and decide, at the outset, how you will deal with these. As an example, Snecma and GE established the CFM jet engine joint venture in 1974, which has endured until today. As

Yves Doz of INSEAD tells the tale, commercial discussions take place between the partners every year - and these are absolutely vigorous and full-blooded. The multi-part nature of this game, in a game theory sense, enables either side to live with a poor outcome in one round. The 'grist' in the relationship is locked into a particular time and space; so the broader relationship can endure and flow around this annual hard bargaining.

KD: This sounds trite, but communication is really the key to all of this. Taking the time at the very beginning to walk through the needs and wants of the parties involved will get many issues on the table, which is the first step to getting a satisfactory resolution to those issues. Maintaining regular communication throughout the lifecycle of the deal is also important. Personnel in our industry tend to be very fluid, and maintaining contacts by meeting and getting to know those newly in charge of a project can be tedious, but necessary.

IR: I believe in the use of short-term sheets that address those key terms that are critical to future alignment. It is also important to build good relationships on a personal level, as difficult issues are easier to resolve between people who trust each other.

RR: Generate two term sheets: an internal one and a separate external one. The internal one includes a range of possible acceptable provisions and values that the internal stakeholders sign off on, with the understanding that by doing so, they have made a commitment.

What are the early signs of poor internal alignment?

JD: The most prominent sign is long delays in closing on deal terms, or more likely in closing on contract terms. Long delays are an indication of poor alignment. And delays kill deals. Poor or inconsistent communications can be another early indicator.

MW: I think that it can sometimes be hard to ascertain a lack of alignment on the other side in a negotiation. Naturally, delays and a lack of clarity - even if exquisitely presented - can be warning signs. In general, I think that it is much harder to know what is going on with companies that are outside your sector than with those that are in the same sector. You have a decreased knowledge base, especially about corporate culture (regardless of whether the firm is large or small), so there are risks that you misunderstand (and perhaps fail to realise that "Yes" means "Maybe, if our French parent company's key managers and legal staff can be convinced"). Dangerously, you often do not realise that you have less situational knowledge than normal, so you do not allow for this bias in your assessment of the situation. I can confess to having made these errors when seeking to out-license technology to companies in other sectors.

KD: I look for two signs of trouble. First, if you begin to hear from the business person on the company side that your scientist is making promises or negotiating, you may be in trouble. Second, if it becomes clear that other internal stakeholders at the university know more about the deal than you, the business person, then the deal is likely on shaky ground. Both of these can derail a deal and they will most certainly extend the timeframe of negotiation.

IR: I believe that agreement on key terms and good personal relationships provide a good basis. I sometimes wonder what would happen if the parties had no legal documentation: would the parties still work together?

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Joe Daniele
Chief operating officer, Acorn Technologies
"Recognise a bad deal or a bad deal maker as early as possible: be willing and able to walk away and find another customer"

Top tips

What is your shortlist of dos and don'ts to help you and others steer clear of bad deals?

Joe Daniele: If there are delays or recurrent inconsistencies, address them and make sure that all parties understand the consequences of a broken deal. Recognise a bad deal or a bad deal maker as soon as possible. Don't be afraid to walk away.

Mark Wilson: I don't claim any particular expertise, but here is my personal high-level check-list:

- Worry greatly about partner (licensee or licensor) selection: make a realistic assessment of partner capabilities, based on experience; consciously assess partner desires and possible future desires.
- Be consistent and clear in negotiations: be upfront about difficult demands and be consistent; manage the involvement of technical staff and senior management in negotiations; and accept that some negotiations will fail.
- Ensure that contracts reinforce a sound commercial relationship: always worry about the incentives embedded in contracts; try to structure the commercial relationship so that it reinforces the contract, rather than conflicts with it; avoid unnecessary complexity.
- Actively manage deals after signature: make objectives of the relationship explicit; ensure that multiple occasions and channels for communication exist; always think three to four years ahead - what will the situation and pressures on the other company be?; include mechanisms for dealing with disputes and changes in the contract.
- Prepare carefully if a serious dispute emerges: be aware of changes in the partner's actual and potential business strategy – you may see that the other party will have to change before this has been made public; never let legal questions go unresolved if the relationship is healthy – beware of gaps; in a dispute, always gather all of the internal facts - and see the relevant documents yourself - before committing to a position.

Kathleen Dennis: The old saying is, "Many good deals go bad, but no bad deals ever go good." So if you recognise early on that there will not be a happy beginning, it is often best, honestly and unemotionally, to explain why you are terminating negotiations. This should not be done as a negotiation ploy, but occasionally it can lead to a turnaround in attitude. Keep in mind that no deal is better than a bad deal.

Ilkka Rahnasto: Here are my top recommendations:

- Build trust.
- Try to fix the challenging terms.
- If there is no fix, move away from the bad deal, as bad deals also tend to reflect negatively on other activities.

Richard Razgaitis: I don't have a shortlist, as there are so many things that can go wrong. My best thinking is in the deal-making chapters in my book entitled *Valuation & Dealmaking of Technology Based IP*, published by Wiley in 2009.

RR: Real signs of trouble are when new people begin to appear who believe that they have a say in things and when new provisions are sought that are different from or outside the range of the previously established internal term sheet.

What are the early signs of poor alignment between the parties?

JD: Again, long delays in closing on terms are a sign of poor alignment. If a deal has been closed and signed, then failure to pay or delays in paying fees or royalties or other breaches of the terms are early signs of poor alignment.

MW: I have heard tales of an alliance partner who failed to answer calls or show up at joint steering team meetings. It would be nice to think that all these tales are apocryphal, but it may not be so. I doubt that you would regard that as an early warning sign, though.

In an alliance, you sometimes see that diligent technical teams and project managers fail to realise that an issue is brewing. There is a need to look ahead, to extrapolate current minor problems (or strategy changes) and to envisage what impact these could have. Often, issues can be dealt with if they are addressed early and not allowed to fester. Importantly, some cannot, and you need active alliance

management engagement to appreciate the differences and to see the warnings that suggest that major changes may be required. Lack of response and engagement are warning signs, but you need to be alert to what the other party gains from the deal, and to worry if the commercial driving force for the deal begins to diminish.

As an aside, I think that a classic mistake is to select the wrong people for the steering group, whatever the collaboration. I recall one consortium technology development deal (for a few million dollars) where I had allowed this to happen. Steering group composition seems such an innocuous matter at the outset. On the steering group, you need to have people who can double the budget or terminate the relationship. Absent this authority, you end up having technical people (who may be behind schedule and over budget, with good reason) agonising over what to do. In this case, the project team struggled technically - there was no shame in this, as we had all grossly underestimated the scientific challenge - but with only mid-level managers on the steering group, it took a lot of patience to reach the real decision makers in the consortium companies. Once we had done this, it was a short piece of work to double the budget and to cut the scope of the project by one-third.

Naturally, multi-party arrangements hinder such escalation and decision making; so I think that a good rule is that a consortium should have as few members as possible while being able to execute the intent.

KD: Other than talking past one another during negotiation, once a deal has been done, if the first annual diligence report is late or no one seems to be in charge of it, or the report is brief and clearly thrown together rapidly, you can be pretty sure that there is trouble.

IR: A lack of engagement between the parties is a sign of future trouble. Sometimes this results from a failure to discuss the most important terms, and sometimes it's a lack of empowerment of the negotiation team.

RR: There are many. One reason for having an upfront payment scaled on some fraction of the net present value, such as 5% or 10%, as I've written in my books, is that this can give an early indication of whether the parties see the opportunity being on the same scale. Likewise, an early discussion of diligence expectations is helpful because that tends to uncover differences in market expectations and timing.

What can a deal maker do early on to avoid wasting a lot of time trying to make a bad deal come together?

JD: Recognise a bad deal or a bad deal maker as early as possible: be willing and able to walk away and find another customer. There are often multiple customers for any deal and sticking too long with a bad deal keeps you out of the market.

MW: I think that you have to 'triage' - to assess and to separate the good, the bad and the ugly, so to speak - and be willing to walk away from situations that look poor even at the outset. While it can be difficult to say no in a deal role in a large corporation, I think that it is fair to counsel groups as to the likely level of difficulty and the potential for future problems. In doing this you are providing a service to the organisation in applying judgement, beyond simple deal execution. Naturally, though, this can be hard and the messages have to be conveyed diplomatically. You need to build up the trust of client groups and managers to enable these robust discussions to take place. This whole issue of how you manage the internal stakeholders is absolutely critical inside large organisations, and yet rarely seems to be touched on in deal literature.

KD: Sit down very early and get your wants and needs out on the table, as well as having a frank discussion of development timetables and economic reward sharing. It should be clear if you and the other party are not in the negotiation success range. I had a counterparty lawyer in my office this week who spent 20 minutes telling me how little we were contributing and justifying the very little they were offering in economic return. I listened and then suggested that we didn't need to do the deal at all because we really weren't contributing anything and wished him luck with his endeavour. There seemed to be a change in the company's attitude and a more realistic proposal was soon advanced.

IR: I rely on good preparations before the negotiations and focus on the most relevant business terms. If the terms do not match with one's business strategy, I seek internal alignment on the objectives.

RR: The deal maker should work hard on all of the five to eight elements of a well-crafted term sheet with senior decision makers on both sides. If buy-in occurs, then those respective people can keep the pressure on all of the legal work and potential roadblocks that can arise in 'papering' the agreement.

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Action plan

IP management people in IP-owner organisations should consider the following for continued development of deal-making knowledge and skill:

- Involve and inform stakeholders and approvers throughout the deal-making process.
- Define clear roles and responsibilities for the deal team (as well as extended deal team members), with clarity of who leads the deal.
- Make certain that communications are open between the parties throughout the life of the deal to ensure that deal adjustments to accommodate reality are made in a timely fashion.
- Keep a 'lessons learned' log on deals that have been attempted or signed, to be shared with others in the IP management organisation.
- Keep a 'dos and don'ts' list for deal making that is abstracted from the 'lessons learned' log.
- Develop business cases for use by others based on deals that are particularly rich in deal-making issues - perhaps for use in LES courses, university courses or LES IP100 Executive Forum meetings.
- Join a best-practices group of deal makers from different industries for sharing of issues, learnings and best practices.
- Volunteer to teach aspects of deal making in LES courses or in local business schools.
- Attend LES IP100 Executive Forum meetings and share your learnings and best practices there.

When one finds oneself in the middle of a deal that was signed some time ago and that has gone wrong, what are the highest-priority things that should be looked at to fix the situation?

JD: If payments have not been made or other material terms breached, and it is clear that this is intended, bring your attorneys on board, assess and line up all of your options. Then, open up discussions with the other party, try to understand what has changed and why, and see whether a deal review and modification is feasible. If it's not feasible, pull the trigger and terminate the deal as quickly and cleanly as possible.

MW: There is a difference between a situation that has arisen from a relationship problem and a deeper dispute, in my opinion. In the former case, alliance management approaches are required: review personnel and personal relationships; consider amending personnel on the team; allow fresh channels of communication; and work to rebuild trust and understanding. In the latter case, I think that you have to prepare diligently for a full dispute situation, to assemble the team, to gather documentation and to brief management appropriately. Having done this, engage calmly, clearly and consistently with the other party.

KD: Comb the document and past history of communications thoroughly with legal counsel to see whether there is any leverage for a renegotiation of the licence agreement. Failing that, you can try to form a closer relationship with the company and convince it to take the moral high ground. Unfortunately, this can take years.

IR: Each deal is unique, but it is good to try to identify terms that should be fixed. It is sometimes surprising how easy it is to fix terms that do not make sense. In a more difficult situation, one typically looks for something that can be traded to fix the issue.

RR: The first step is finding out what the problem is. Sometimes it is just the backlog in an attorney's office, which should be simple to resolve. If there has been a change in thinking on the business terms - either buyer or seller remorse - then one has to go back to the term sheet for a reality check.

Great deal makers

Why is it so difficult to admit to imperfection in oneself and in one's work? We all do like to think well of ourselves, and we like others to do the same. Money is at stake. Often, there is a great deal of money at stake and this can cause us to want to talk mostly about our successes.

It is in the difficult cases, the personal trials, the failures to get deals done or to keep deals on track once they are signed, in which there is the possibility of significant personal and professional growth. But growth takes a willingness on our part to admit that we had a hand in something that has gone wrong. We need to be willing to admit that we are not perfect, that we have made a mistake and that we have something to learn.

Great deal makers are humble - at least, the great deal makers I have known. They are the first to ask for a better idea from others. They are patient. They are generally kind. And they are generous - but not overbearing - with what they have learned.

The contributors to this article are great deal makers, in my view. And I am grateful to them for sharing lights that they have carefully brought back from the dark places in their careers - lights that we can use to illuminate ours. *iam*

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