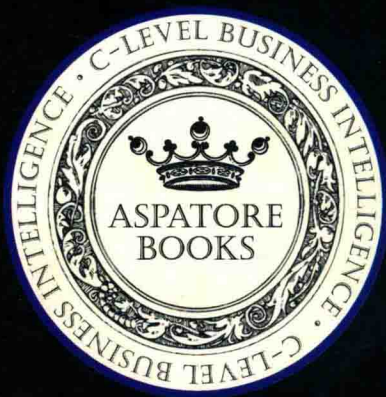


INSIDE THE MINDS™

TECHNOLOGY LICENSING STRATEGIES

LEADING LAWYERS ON STRUCTURING AGREEMENTS,
NEGOTIATING VALUE, AND CAPITALIZING ON
INTELLECTUAL PROPERTY



Kelly L. Frey Sr., Baker Donelson Bearman Caldwell & Berkowitz PC
William McDiarmid, Rubin and Rudman LLP; Paul H. Arne, Morris, Manning & Martin LLP
Elizabeth A. Corradino, Moses & Singer LLP; Bradley J. Gross, Becker & Poliakoff PA
Christopher M. Bikus, McGrath North Mullin & Kratz PC LLO
Harley Blosser, Sonnenschein Nath & Rosenthal LLP; Timothy F. Haslach, Schwabe, Williamson & Wyatt PC
Nigel Howard, Mayer Brown LLP; Debra Alligood White, Milbank, Tweed, Hadley & McCloy LLP
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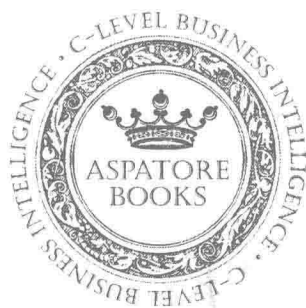
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Inside the Minds Project Manager, Merissa Kraham; edited by Eddie Fournier; proofread by Leah Jones

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Building the Licensing Strategy around the Business Goals

Kelly L. Frey Sr.

Shareholder

Baker Donelson Bearman Caldwell & Berkowitz PC



Preparing a Course of Action

While no single technology licensing strategy will work for all clients, there are certain steps I take with every case to establish a solid foundation and develop appropriate strategies. When working on a new technology matter, the first question I ask any client before preparing a course of action is what their business goal is.

The client's answer to this question provides me with a strong starting point for my strategy. This is because, while there are always multiple ways to legally document any deal, it is only by understanding the goals and strategy of the client that a lawyer can pick the appropriate course of action. For example, on in-licensing, the goal may be to acquire enterprise-wide availability to support a business-critical operation. In that case, the emphasis will always be on business continuity, and all other factors are secondary. Similarly, in licensing out technology, a client may be more concerned about obtaining market share or an affiliation with the customer than the revenue aspects of the deal. In that case, the emphasis will be on building into the legal documentation continuing strategic dependencies rather than items such as payment terms.

Any particular deal is just one element in a client's total strategy. The lawyer must understand what the business drivers of his or her client are and how the current deal fits into the client's overall business. Too often, lawyers will spend time on elements that have little practical significance to the client because the lawyers have been trained to minimize all risks in a deal. However, from a business perspective, the client may not be particularly interested in "minimum risk." Rather, the client is willing to assume specific levels of risk dependent upon the ultimate benefit to be obtained. In this case, the strategic lawyer's role is to properly identify the risks involved and advise the client. It is then the client's decision as to which risks are justified, given the potential benefits associated with them. This approach can only be conceived and properly executed if the lawyer takes the time to fully understand the client's business goals.

Obtaining the Proper Background

In an initial meeting, I want to understand how the person with whom I am speaking fits into the organization and what their specific decision-making

authority is. When dealing with a small client, you may be talking to the chief executive officer. In that case, you may have the top decision-maker, but you may be missing critical technical issues because the chief executive officer may not have the same knowledge base as the developer of the technology. With large clients, you may be dealing with a procurement officer. In that case, you will have a good view of the specific deal but may lack the enterprise-wide context for how the deal fits into the organization or the hierarchy of decision-making that occurs within such large clients.

This information is important, especially in technology matters, because in technology what the product “is” and what the product “is supposed to be” may be different. People at the top of the organization tend to see individual deals or products from the context of implementing corporate strategy. The technology staff, however, tends to see the deal or product from an implementation perspective. Sellers are selling “technology,” and buyers are purchasing “solutions.” This disconnect is only apparent at the implementation level, where technical specifications intersect with business operational constraints. For example, recently I was involved with a Fortune 500 client purchasing an enterprise-wide license to a software application. The practical and technical problem was that the application had never been implemented with more than ten users. Despite the fact that the strategy in the deal was perfect for both parties, at the technical and implementation level the deal was a disaster. Most of the effort involved was spent trying to piece together a solution that allowed more than ten users access at any one time.

Understanding who a client really is helps me strategize for the best possible results. In general, “you don’t know what you don’t know.” Understanding the organizational structure for both a purchaser and a vendor (and how the parties you are dealing with fit into that structure) gives you a better idea of “what you don’t know.” If you are dealing at the technical level, you want to escalate to management to make sure the technology solution supports enterprise-wide needs and standards. If you are dealing at the management level, you want to involve the technical staff to validate that the specific technology involved actually meets the management enterprise needs. Of additional importance, counsel must understand “escalation.” Typically, the sales and initial negotiation staff have only limited abilities to change standard terms and conditions. If you

understand how to escalate disputes to the proper level, many times you can reach consensus quicker. That is, you will only obtain the result you desire by getting to the level of decision-making within the organization that can approve the terms and conditions you need. Knowing who these people are certainly streamlines the process.

Initial Research to Conduct When Establishing a Licensing Strategy

When conducting initial research, my goal is to find out everything I can about the specific deal and the specific technology that is the subject matter of the deal. Much of that information can come from the client. But a simple Internet search can reveal market or industry factors the client cannot or will not readily articulate. For example, many technology vendors think they have the solution to a specific problem. These clients are so sold on the superiority of their product that they fail to acknowledge that alternative technologies may be available to a purchaser. Knowing other market options are available may determine how an attorney approaches negotiation. Certainly the attorney will always want to protect his or her client, but a pitfall in this industry that an attorney must avoid is becoming so vested in the client's standard ways of doing business that he or she misses opportunities to compromise and create a consensus that will not only foster the deal, but also foster an ongoing strategic relationship among the parties. I find the best deals are the ones where no one gets exactly what they wanted going into the deal. Rather, everyone compromises a little and when the deal is closed, each party feels they have given just enough to create or maintain a good relationship.

By engaging in this research, I hope to understand my client's position within the marketplace, with respect to both competitors and customers. I want to learn what other viable options exist in the marketplace. If there are few options, the negotiations may be a lot tougher. If the technology is more of a commodity, getting tough during negotiations may kill the deal. I also want to understand what the long-term relationship might be. I do not want to negotiate so aggressively on one specific deal that I lose the goodwill my client needs over all of the interactions it may have with a profitable, large customer.

In addition to being able to speak to the business elements of the deal, conducting this research also gives me credibility in working with the client.