

Partnering/Licensing



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▼ Lament of the really crummy deal

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You've heard enough bragging about the great licensing successes of your colleagues. But for each successful deal, there is at least one total disaster that they try to forget. It's time to pull back the curtain and talk about some truly lousy deals.

One common challenge for you as a bioentrepreneur is deal-making, often with people having considerably more experience than you have. In-licenses, out-licenses, joint venture agreements, collaboration agreements and similar technology-business transactions can be incredibly complex. The substantial cost of hiring lawyers and consultants may lead you to do more of the deal-making on your own than you might prefer. Much to your chagrin, sometimes something goes wrong, and you wind up attracting the needle on the ol' blame-O-meter! You feel you should have been smarter, should have quibbled the deal to death, should have developed ESP, and most of all, you should have recognized the other side for the slippery eels they turned out to be!

We all learn by experience; but why is it the deals we cut our teeth on are the ones that survive? Unfortunately, you can't anticipate everything that might happen in the 20-plus-year life of some business relationships—if you could, you'd be rich by now! But you can learn how to think ahead, and avoid some common pitfalls (see [Box 1](#)). Thinking through common crummy deal scenarios can help you consider how contract terms might be applied (or misapplied) long after the deal is done. This in turn can help you write agreements that are more robust, or know when you really must seek assistance from lawyers or consultants. Of course, crummy deals aren't at all funny when they happen to you. That's why you need to laugh about them now! They are kind of like a pie in the face; as long as you aren't the one licking whipped cream off your face, it can be quite humorous. And remember—people only fight where there is value, so if the deal is worth doing in the first place then it's worth doing properly.

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To introduce you to the concept of classifying crummy deals, we have gathered together some universal problems that crop up in contracts of all varieties.

The black hole. The other side turns a modest inartfulness in your drafting into a black hole, which they claim has spirited away all of your money.

The pretzel. Your contract language is twisted into a distorted shape reminiscent of a pretzel, or the bulging veins in your temple.

The synonym finder. The other side carefully describes their actions using words that were not used in the license, and claim that this means they are off the hook.

But not all crummy deals become crummy due to (mis)interpretations from the other side; sometimes your own board or management can be the source. For example, in 'the rearview mirror' problem, someone on your side, who used to be happy with the deal, complains that it is now inadequate, and insists that you somehow get a better deal.

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Turning to classifications in technology business transactions, these types of crummy deals seem to fall into three broad categories. The authors categorically deny ever having had any of these happen to them! (Although we might be a bit more forthcoming if you were to speak to us privately.)

Crummy 'oops!' deals. These are crummy deals that a little paranoia should help you avoid. In 'invisibility' oops deals, the income the other party is supposed to share with you is earned not by the other party directly, but by a subsidiary, a sublicensee or a joint venturer; they get their income in collaboration fees, option fees, or some other payment type not expressly mentioned in the contract; or they earn income from a category of product, process or service that your agreement doesn't specifically mention. In each case, they happily state that the contract doesn't require them to share that income with you, a position with which you and your lawyers strongly disagree. The 'unemployment line' is a particularly nasty oops crummy deal, where you unknowingly structure the deal so that your company is blocked from carrying out its own business plan; for example, you license your patents, and forget to reserve a right to practice the inventions yourself!

Crummy 'surprise!' deals. These are deals where the contract language is just fine, until something happens that nobody expected. The 'reverse Houdini' is when the licensor thinks it has allocated all of the patent costs under the contract to the licensee, but they reappear! For example, the licensee is paying all costs for filing, prosecuting and maintaining the licensed patents. But then, an inventorship dispute arises and the agreement says nothing about who pays for or controls the dispute. Another example is the 'razor/razor blade disaster' when a licensee discounts or gives away the product or system covered by your patents, and makes a boatload of money on the sale of related items that are not covered—for which they owe you nothing. Then there is the 'karma, karma, karma chameleon licensed product' when the product defined by the agreement changes based on whether the product infringes a claim of your patents. During a period of research exemption, there is no 'infringement'—so no defined product according to the terms. Since all the payment obligations refer to the defined product—no payment is due. To avoid such surprise crummy deals, you have to learn to expect the unexpected.

Crummy 'honeymoon' deals. These occur when you receive something now in exchange for something you will give later—for example, future inventions, future research or future assistance. In the short run, everyone is happy about what you got from the deal. But in the long run, you take the blame for obligations or limitations which, for reasons you couldn't predict, turn out to be horrible—and the licensor can't escape. In 'the Siphon,' you license out current patent rights, but the licensee insists the real value lies in your future developments, so you include them in the license. But you later have a falling out with the licensee, and are stuck having to give your future inventions to the 'enemy.' In 'the Choker,' you agree to collaborate with another company to develop one of your technologies and to protect your mutual interests in the technology, and both sides agree to confidentiality and noncompete provisions. But you later disagree on how to develop the product, and you are blocked from proceeding on your own. To avoid such honeymoon crummy deals, you have to make sure your crystal ball isn't set on 'happy,' but can foretell sad situations, too. Perhaps the best way to avoid them is to avoid granting future rights at all, and instead, enter into follow-on deals if they make sense when the time comes.

Sadly, there are probably about 10,000 other kinds of crummy deals people have suffered from. It would be very easy to become paralyzed with paranoia about such potholes on a dark road—which is why we poke fun at them! You see, no matter how hard you try, no matter how much you spend on lawyers and consultants, and no matter how carefully you study every single word in your contract, you are eventually going to fall into one of those potholes, and it isn't going to be much fun. Some common and sometimes unavoidable reasons crummy deals happen are listed in [Box 2](#). Hopefully our light-humored approach will help you avoid the ones you can, and brace yourself for the others, in a way that won't give you sleepless nights or a red face.

The authors adapted this article from a workshop they presented at the 2004 annual meeting of the Association of University Technology Managers (AUTM).

Box 1: To avoid sleepless nights

- Deal with what exists now—leave the future for future negotiations.
- Take value when it's created—not before.
- Take the high ground—the marriage, not the nuptials.
- Build respect, not friendships!
- Stick to your guns.
- Don't be overly reasonable.
- You show me a good loser and I'll show you a loser.
- Don't commit to things you can't deliver.
- Remember who has to live with the deal—you!

Box 2: Top 10 Causes of Crummy Deals

10. You can't afford to hire lawyers or consultants, and have to do your best on your own.
9. You need to raise money for the company, and nobody will give you any until you get the deal done.
8. Without the deal, you have no company - and the other side knows it.
7. If the other side negotiates hard on legal language issues, you have to compromise on some of them.
6. Deal-making is driven by optimism, but it takes pessimism to foresee crummy-deal problems.
5. It is shocking how far some people can stretch the English language when trying to avoid paying royalties.
4. Contracts are essentially word puzzles, and nobody consistently gets a perfect score.
3. It takes skill to recognize how seemingly unrelated contract clauses can affect one another.
2. Every negotiation has its own rhythm, and sometimes you get caught up in the flow.
1. To err is human, and nobody has yet found a way to negotiate without humans involved!

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