

Corporate-Sponsored Research Agreements With Universities

Licensing Strategies

By Michael C. Lee

Corporate-sponsored research plays a crucial role in performing foundational research in new technology areas. These research projects are also mutually beneficial. Corporate sponsors (Sponsors) receive a cost-effective opportunity to explore new technology areas with leading academics and talented students. In turn, universities benefit from Sponsors providing research funding and industry expertise.

Sponsors, however, need to be aware of IP risks that may arise when sponsoring university research. University researchers often do most, if not all, of the research and are therefore the sole authors and inventors on any IP that is created. This typically means that the university owns the resulting IP. Sponsors that fail to secure IP rights before the start of a research project may find that they cannot use the research results without paying substantial royalties

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to the university. Indeed, universities have increasingly sought to monetize their IP portfolios through licensing programs, and in some cases, litigation. Sponsors can mitigate this risk by negotiating research agreements that provide IP rights upfront. This article identifies the IP rights that Sponsors should seek to secure in research agreements and discusses strategies that Sponsors can use to convince universities to provide these rights upfront.

SPONSOR-REQUIRED IP LICENSE RIGHTS

In consideration for sponsoring research, Sponsors should seek rights to use any IP created by the research for commercial purposes. These rights are typically conveyed in various license provisions, as discussed below.

A Non-Exclusive, Royalty-Free License to Project IP for Commercial Purposes

Sponsors should seek a non-exclusive, royalty-free license to use the project's results (Project IP) for commercial purposes. Ideally, the license should include rights to resulting inventions as claimed in patents and patent applications. The license should also include copyright rights that permit the Sponsor to use any works of authorship, such as source

code, data compilations, and project reports. However, universities typically take the starting position that they will only provide a non-exclusive, royalty-free license for non-commercial purposes. A commercial license must be royalty-bearing, with the royalty to be negotiated at the conclusion of the project. For many universities, this is not an essential licensing term, so Sponsors can successfully secure a non-exclusive commercial license upfront by using some of the strategies set forth in this article.

Some universities, however, will never budge from their starting position that a commercial license must be royalty-bearing. This can be for a variety of reasons, such as the university's established licensing policies, the area of the technology, or if the amount of research funding is too low. In these circumstances, Sponsors can mitigate the IP risks by asking the university to quantify their expected royalty rate for a commercial license to any resulting IP. This may be done by providing a range of possible royalty rates in the agreement, or by agreeing that the total royalties paid will not exceed a certain multiplier of the research funding amount, for example.

A License to Background IP Necessary or Useful to Practice the Project IP

Sponsors should attempt to secure a non-exclusive, royalty-free license to use any pre-existing IP that the university owns that is reasonably necessary or useful for the Sponsor to enjoy its license rights to Project IP. This is referred to as a license to the university's "Background IP." Sponsors should attempt to secure a Background IP license because university researchers often steer a research project in a direction that builds on their prior research. If the university has Background IP protecting that prior research, and if the Project IP cannot be used without also using the Background IP, Sponsors may find that they must pay substantial royalties to use the Background IP underlying the Project IP.

Universities are often reluctant to provide a Background IP license. They are rightfully concerned that the value of the Background IP license could far exceed the value of the funding provided by the Sponsor. In practice, Sponsors should consider themselves fortunate if they are able to negotiate for a non-exclusive, royalty-free Background IP license that covers IP originating from the particular university researcher's department, or even from the particular researchers for the project.

An alternative to a Background IP license is a representation and warranty that the university either has no Background IP in the area of the research project or that the university researchers promise not to contribute any Background IP to the research project. This typically

requires the university to review the project's statement of work to identify any relevant Background IP before the agreement is signed. If any Background IP is identified, the Sponsor will have an opportunity to change the direction of the project to avoid any Background IP. However, when going down this path, Sponsors should be aware of the risks of being on notice of the university's Background IP, including the risk of a willful infringement claim in the event of a dispute.

An Option to Negotiate for an Exclusive License to Project IP

Sponsors should seek an option to negotiate for an exclusive license to Project IP. Universities typically agree to this provision as long as the license is royalty-bearing.

STRATEGIES FOR SECURING IP RIGHTS

Now that we have identified some of the IP rights that Sponsors should seek to secure in research agreements, we can discuss some negotiating strategies to help Sponsors secure these rights upfront.

Draft a Proposed Research Agreement to Frame the Negotiations

Sponsors should take the time to draft a thoughtful research agreement to frame the negotiations. This allows Sponsors to clearly set forth their licensing expectations. In practice, most universities will agree to use a Sponsor's proposed agreement as a starting point.

When preparing the proposed agreement, Sponsors should do diligence to determine if they have previously entered into a research agreement with the university that provided the desired IP rights. If so,

this may provide a good template for the new agreement. Otherwise, Sponsors should do diligence to see if the university has published a template research agreement or any guidelines for corporate-sponsored research. These materials may help the Sponsor draft an agreement that avoids minor areas of contention so that the negotiations can focus on the key IP provisions. These materials may also allow Sponsors to build negotiating chips into the proposed agreement. For example, research agreements commonly provide Sponsors with the right to review any proposed publications concerning the project in order to remove any of the Sponsor's confidential information or to identify inventions for patent applications. This review provision typically specifies a period of time (e.g., 30 days) for the Sponsor to review the publication. Universities will typically try to limit this review period to as short of a period of time as possible. Reviewing the university's standard provision on this issue may allow Sponsors to draft an agreement that proposes a long review period, knowing that this can be traded later in exchange for licensing concessions.

Bring Decision Makers to The Negotiating Table

Initially, the university representative negotiating the research agreement often has little authority, if any, to materially deviate from the terms of the university's template agreement. Such a representative will probably not be able to agree to the IP rights that Sponsors want to secure.

Sponsors should seek to bring university decision makers to the

negotiating table as soon as possible. These decision makers will be in a better position to explain the university's interests and to recognize the value provided by the Sponsor to the research project. If the initial university representative is unwilling to escalate the negotiations to a superior, Sponsors may be able to recruit the university researcher (or even the dean of his or her department) as an ally to escalate the negotiations.

Explain any Special Value Provided by the Sponsor

Universities tend to view a Sponsor's contribution to the research project as being limited to the funding provided. In certain situations, Sponsors may be able to show that they are providing additional value in order to get the university to consider providing the desired IP rights. Examples of additional value may include:

- Access to the Sponsor's expertise in the research field;
- Access to confidential prototypes or data sets;
- Access to specialized facilities, machinery, and tools;
- Employment opportunities for the university's students working on the research project; and
- Potential for the research project to become a multi-year project, or to spawn additional projects, which will bring additional funding and opportunities to the university.

Remember, most universities are motivated to reach an agreement. Sometimes the university just needs to know why a particular project is special in order to grant the Sponsor's desired IP rights.

Leverage Prior Agreements With Related Universities

Some Sponsors may be able to leverage a prior agreement with a related university in order to obtain IP rights that the related university has granted. For example, several states have public university systems with independent campuses. While each campus has its own department that negotiates corporate-sponsored research agreements, each campus sometimes has access to the research agreements negotiated by its sister campuses. In some cases, the mere knowledge that a sister campus has provided a certain set of IP rights will provide enough comfort to agree to provide the same IP rights.

Exclusive License Options for Revolutionary IP

Some universities are reluctant to provide an upfront, non-exclusive, and royalty-free license for commercial purposes to Sponsors for fear of prematurely giving away rights to revolutionary and highly valuable IP. Sponsors can remind the university that the probability of developing such revolutionary IP is remote and that the university's concerns should be alleviated by the exclusive license option. If revolutionary IP truly is created, the Sponsor will likely want to exercise its exclusive licensing option. And if those negotiations are unsuccessful, the university can enter into negotiations with the Sponsor's competitors.

Responding to Tax-Exempt Bond Concerns

Some universities are unwilling to provide a non-exclusive, royalty-free license in a research agreement due to concerns that the resources and facilities were paid for using

tax-exempt bonds. If so, granting a non-exclusive, royalty-free license may jeopardize the tax-exempt status of the bonds.

Sponsors should recognize that this situation could present a significant risk to the university that likely outweighs the benefit of any single research project. However, before giving up on the project, Sponsors should ask the university to investigate whether the resources and facilities were actually funded using tax-exempt bonds. Universities that issue tax-exempt bonds often hire sophisticated counsel attuned to this situation that have ensured that certain facilities were funded without using tax-exempt bonds. Having the university investigate this issue with its tax counsel will sometimes alleviate the university's concerns or identify alternative facilities for the research.

CONCLUSION

Negotiations with universities over IP rights in research agreements can be a grueling and time-consuming process. But by using some of the strategies described in this article, Sponsors should be able to secure the IP terms that they need to feel comfortable to partner on important, foundational research with universities.

