Negotiating IP Rights in Industry

Sponsored Research Agreements

Structuring Ownership, Licensing, Assignment, Confidentiality, Publication and Use Provisions

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1pm Eastern  |  12pm Central  |  11am Mountain  |  10am Pacific

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Negotiating IP Rights in Industry Sponsored Research Agreements

Strafford Webinar
June 30, 2016

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I. Sponsored Research Agreements (SRAs)
   a. Overview
   b. Key provisions

II. Ownership of IP
I. Sponsored Research Agreements
Sponsored Research Agreements

- Defines a Research Relationship
  - Both Parties benefit
  - Appropriate for basic and applied research, including clinical research
  - Research may fail
    - “Technical” failure
    - “Unsatisfactory” results

- NOT a fee for service or CRO relationship
  - Institution will “control” the research
  - Institution will have IP rights in results
Typical Sponsors and Benefits

- “Industry”
  - Mature R&D companies, start-ups, virtual companies, individuals (family office)

- Benefits
  - Access to thought leaders and/or special capabilities, materials, equipment
    - Associated prestige
  - Complement internal capabilities and activities
  - Defer infrastructure investment for early stage projects
  - Doing good, while doing well
Research Organization

- **Contracting Party is Public or Private University, Research Institution**
  - Principal Investigator
    - Faculty member with oversight of the Research Program
    - Directly benefits from the SRA
      - Research funding for PI’s lab and/or department

- **Primary Purpose is Not Commercial**
  - Academic research
  - Dissemination of information for the public benefit
Considerations – Fit/Capabilities

- Is the Research Institution/PI the right match?
  - Good cultural fit with sponsor
  - Has the required personnel, expertise, equipment, facilities to complete the Research Plan
    - Will other institutions need to be involved to fill gaps?
      - Separate SRAs with other institutions or subawards with inter-institutional agreements
    - Will Sponsor need to provide materials, equipment or services in addition to funding?
  - Can the sponsored research be separated from research funded by other sources (federal funding)
    - Financially, equipment, facilities and materials
    - Dedicated personnel
      - Might be important for confidentiality and to preserve desired proprietary rights
  - Willing to provide periodic reports
Considerations – Institutional Policies

- Are institutional policies acceptable?
  - Institution may have policies intended to protect academic freedom and reduce risk of tax exposure or violating relevant regulations (e.g., export controls)

- Publication Policies
  - Academic freedom
  - Tax-exempt status (501(C)3, e.g., “carrying on of scientific research in the public interest”)
  - Fundamental Research exemption under Export Administration Regulations (EARs) and International Traffic in Arms Regulations (ITARs)
    - Disclosing certain types information to foreign nationals (e.g., students, visiting scientists) is a “deemed export,” exemption for fundamental research without restriction on publication or dissemination of results
Considerations – Institutional Policies

- **IP Policies**
  - Sponsor and Institution would like to own all IP
  - Assignment of IP rights to sponsor - often a non-starter
  - License on predefined terms - may not be an option
  - Option to exclusive negotiation right might be all that can be obtained
    - Tax implications for “private business use” of facilities built using tax-exempt bond money
  - Research that involves substantial interaction of sponsor technical personnel and institutional researchers typically results in co-owned IP.

- **Finance**
  - Is sponsor willing to pay direct and indirect costs
SRA – Baseline for Negotiations

- Agreement is for research
- Cannot predict with certainty how the research will proceed or issues that may be encountered
- Both parties need to be committed to the research
  - Research should be conducted diligently
  - Reasonable timelines, and a mechanism to extend timelines
  - Mechanism to replace PI or other key individuals
  - Scope or details of research project may need to be amended
    - Funding may need to be adjusted
  - Sponsor cannot terminate on short notice leaving institution with unreimbursed financial obligations
    - Reagents, equipment, personnel, services
SRA – Baseline for Negotiations

- Ownership and control
  - Institution will have ownership of results and Developed IP

- Warranties
  - Expect all to be disclaimed

- Indemnity
  - Sponsor should expect to give limited indemnity
  - Institution may not give indemnity

- Law and Venue
  - Dictated by Institutional policy and state law

- Institution-specific requirements
  - Check on-line resources
Key Provisions – Research Project

- Clear and concise statement of the research that is to be conducted - typically an appendix to the SRA
  - Unique materials and/or equipment to be provided (by sponsor or institution)
  - Key personnel
    - PI, other key individuals, number of individuals committed to the research
  - Phases of research and details of each phase
  - Research Timelines
  - Conferences and Deliverables
    - Interim and final reports
Key Provisions – Research Project

- The statement of the Research Project drives other issues that need to be negotiated
  - Funding timelines
  - Extensions of research milestones by right and/or agreement
  - Third party collaborations
  - Rights of parties in event of a fundamental change
    - PI unable to continue
    - Technical failure
University will diligently conduct the Project, and agrees to use reasonable efforts to conduct the research and to adhere to the research timetable set forth in []. Each of the deadlines set forth in [] may be extended by University as a matter of right for up to (3) months. Further extension of any deadline shall only be by mutual agreement of Sponsor and University, such agreement not to be unreasonably withheld or delayed. It will be considered unreasonable to withhold consent to extend a deadline if University has used reasonable efforts to complete the relevant research by such deadline.
Prior to the transfer of research funds and/or materials for any collaboration with any non-affiliate third party for the performance of any Collaboration work under the Project, University shall provide Sponsor, at least thirty (30) business days prior to the planned start of such Collaboration, written notice of the details of the proposed Collaboration together with copies of documents that evidence the inter-institutional arrangement between University and such third party, if any, and their collective ability and intention to grant Sponsor an exclusive option to license all IP rights that are produced in such Collaboration.
Sample Provision – Material Change

- PI unable to continue

In the event that the Principal Investigator becomes unable to continue work on the Project, University shall promptly notify Sponsor, and Sponsor shall have the option to terminate this Agreement.

- Change in scope

If University and Sponsor mutually determine that a change in Project scope is necessary, the Agreement shall be amended to incorporate necessary revisions. Such amendment shall be effective upon execution by both parties, and Sponsor agrees to pay any agreed upon additional costs for the amended Project. If University and Sponsor cannot agree on the change of Project Scope, Sponsor shall have the option to terminate this Agreement.
Key Provisions – Confidentiality

- **Confidentiality**
  - Sponsor would like all information that is confidential by nature – with or without marking.
  - Institution desires certainty and marking requirement

- **Need to avoid overly complex treatment that can inhibit appropriate information exchange**
  - Require written materials to be marked
  - Information disclosed orally is confidential if within a defined period of time following oral disclosure, the information is reduced to writing, marked as confidential and delivered to the receiving party.

- **Avoid broadly drafted definitions and clauses that could inhibit or conflict with publication rights**

- **A key concern for institutions – easy to claim breach, difficult to defend**
Key Provisions – Publication

- Often the subject of negotiation frustration
- Institution has legitimate interests in publication rights
- Institutions typically accept reasonable restrictions on publication:
  - Delay submission for Sponsor to review and comment on draft
    - But cannot create content control or veto rights
    - Often drafted to allow review for Sponsor Confidential Information, with obligation to remove form draft
  - Delay submission to allow applications for IP rights to be prepared and filed
  - Delays of 30-90 days (total including any extension) are common
Sponsor agrees that researcher(s) engaged in the Project shall be permitted to present at symposia, international, national, or regional professional meetings and to publish in journals, theses, or dissertations, or otherwise publish through means of their choosing, methods and results of the Project (hereinafter collectively "Published"); and that University shall own the copyright in such works. University shall provide copies of any proposed publication or presentation to Sponsor at least thirty (30) days in advance of the submission of such proposed publication or presentation to a journal, editor, or other third party for Sponsor to review and make suggestions for appropriate changes. On written request from Sponsor, University shall cause the submission to be delayed by an additional period not to exceed sixty (60) days, but shall thereafter be free to make the proposed publication or presentation. If Sponsor determines that certain of its Confidential Information contained in such submission should be removed, University shall be obligated to promptly remove such Confidential Information from such submission upon request.
Key Provisions - Indemnity

- **In General:**
  - Sponsors would like indemnity for
    - All uses of the research results e.g., further R&D use of data, materials, etc.
    - Conduct of research that is under the control of the institution
  - Institution would like indemnity for
    - Sponsor’s use of the research results
    - Use of Sponsor provided materials
    - Conduct of Sponsor provided protocols.

- **But …**
  - Institution policy and state law limit indemnities that an institution can grant
  - State institutions will seek to protect any state immunity that may be available
  - Institution insurance is typically limited to institution officers, employees and agents – cannot be extended to cover Sponsor
Key Provisions - Indemnity

- Institutions avoid indemnifying Sponsors whenever possible
  - Limited indemnity (to extent permitted by state law) may be granted for willful acts and gross negligence

- Institutions often are willing to accept their own risk for conduct of the research
  - Exception for unique Sponsor materials and Sponsor protocols – particularly if the Research is expect to have significant commercial benefit for Sponsor

- Institutions may accept limited indemnity
  - Against losses due to Sponsor’s willful misuse or willful misconduct or negligent conduct

- If indemnities are given – typically exclude incidental, consequential, special or punitive damages
University warrants and represents that University has adequate liability insurance, such protection being applicable to officers, employees, and agents while acting within the scope of their employment by University. University has no liability insurance policy as such that can extend protection to any other person.

Each party hereby assumes any and all risks of personal injury and property damage attributable to the negligent acts or omissions of that party and the officers, employees, and agents thereof. Sponsor acknowledges that this Agreement does not confer upon Sponsor any right of claim of indemnification by the University, either express or implied.
To the extent allowable by the laws of [state], each party shall indemnify, defend, and hold harmless the other party, and its officers, directors, agents and employees, from and against any and all losses, liabilities, demands, suits, judgments and claims, including reasonable attorneys’ fees, to the extent that such losses, liabilities, demands, suits, judgments, claims, or fees are attributable to the willful act, omission, or negligence of the indemnifying party, or of its employees, servants, or agents, in performing its obligations under this Agreement; provided, however, that neither party shall hereby be liable for any incidental, consequential, special or punitive damages of any kind or nature arising out of this Agreement.
Key Provisions - IP

- **Standard provisions provide**
  - Sponsor retains all ownership of it “background” IP
  - “Developed” or “foreground” IP
    - Owned by institution if invented solely by institution personnel
    - Jointly owned if invented jointly by institution and Sponsor personnel
    - This may include improvements to Sponsor background IP

- **University typically will grant an option to negotiate a license**
  - Term of option, extensions, contingencies that must be met before option is exercised
  - Mechanism to settle disagreement on licensing terms

- **Sponsor may have prosecution rights (review and comment) during option period**

- **More on IP rights and licensing to come in Part II.**
II. Ownership of IP
Ownership of IP

- General construct is that ownership follows inventorship
  - Owned by institution if invented solely by institution personnel
  - Jointly owned if invented jointly by institution and Sponsor personnel

- Improvements to Sponsor IP may be owned by institution or jointly
  - Sponsor cannot accept that they will be in a worst position as a result of the SRA
  - Sponsor will need to own or control “improvements”
    - Can be a difficult negotiating and drafting issue
    - Assignment to Sponsor with reserved right to use in research maybe appropriate
Joint Ownership of IP

- Joint ownership is a frequent outcome – not great for either party
  - Adds complexity to SRA and IP administration
    - How are research results reviewed, who decides to file applications, who controls prosecution, who pays, enforcement rights/obligations
  - Potentially makes Institution and Sponsor competitors for licensing
  - Adds complexity and need to obtain consent of the co-owner for M&A and licensing transactions
Joint Ownership of IP

- Consider whether ownership and use rights can be separated
- For jointly owned IP, unless otherwise agreed
  - Institution Rights
    - Nonexclusive right to use in research
    - Exclusive right to use and license in institution field
      - Sponsor consents to licenses to any third party
    - Control prosecution
  - Sponsor Rights
    - Exclusive right in sponsor field
    - Institution consents to licenses or assignment of Sponsor co-ownership interest to any third party
    - Participate in prosecution
- If joint ownership is desired/accepted, provide consents for transfers
  
  Each party shall be free to practice, sell, license or otherwise transfer its rights in Joint IP worldwide without obligation of obtaining further consent, reporting or accounting to the other party.
Negotiating IP Rights in Industry Sponsored Research Agreements: Part Two

Presented by Matthew R. Wilmot
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June 30, 2016
Topics:

I. Rights to Developed IP
II. Licensing
**Rights to Developed IP**

- **Who Owns Inventions?**
  - “Developed” or “foreground” IP means the results of the research or collaboration under an SRA.
  - SRA should clearly distinguish between “background” IP – what each party brings to the research or collaboration – and developed IP.
  - Four options on ownership:
    - Sponsor owns all rights.
    - University/research institution owns all rights.
    - Joint ownership.
    - Combination – “Yours, Mine & Ours.”
      - Each option likely to result in license rights being granted to the other party.
• **Ownership by Sponsor.**
  – Obviously is preferred option of sponsors, but is rarely agreed to by university/research institution.
  • Consistent with mission to disseminate technology, university/research institution will not agree to assign all IP rights to sponsors as a general policy.
  • Scenarios where university/research institution may assign all rights in developed IP include:
    – Sponsor contributing substantial materials, funding and research support;
    – Patents subject to challenge;
    – Narrowly focused invention; or
    – Low likelihood of substantial royalties.
RIGTS TO DEVELOPED IP (CONT’D)

• Practical Considerations:
  – Use of Federal Funds.
    • Sponsors seeking to own all rights in developed IP should consider asking that no federal funds (including equipment) be used in the research.
      – Federal funds may cause inventions to be subject to Bayh-Dole Act, 35 USC § 200, _et seq._
      – Under Bayh-Dole Act, commercialization of technology must favor small business and domestic manufacture, and federal government retains royalty-free license rights and march-in rights.
    • At a minimum, sponsor should require that university/research institution provide “notice.”
Rights to Developed IP (cont’d)

• Practical Considerations (cont’d):
  – Multiple Sponsors.
    • Inventions may arise from research supported by different sponsors, in which case there may be conflicting claims to the IP.
    • Sponsor may request that researcher agree to refrain from conducting research that is substantially the same as research being conducted for another sponsor.
      – University unlikely to agree; however, a “notice” provision is often a compromise position.
Rights to Developed IP (cont’d)

• Practical Considerations (cont’d):
  – “Blocking” Concerns.
    • University/research institution (and the researcher) should consider whether sole ownership in the sponsor will block future research.
      – Important to obtain appropriate license rights from sponsor.
      – Consider including “non-assertion” provision.
  – “Springing” Assignments.
    • Avoid “agree to assign” language versus a current assignment.
**Rights to Developed IP (Cont’d)**

- Sample Non-Assertion Provision:

To the extent any Sponsor IP is necessary and/or required with respect to University’s Research (“Necessary Rights”), then Sponsor, on its own behalf and on behalf of its Affiliates and licensees, agrees not to assert any other patent or patent application owned or controlled by it to prevent University from further conducting the Research. To the extent University identifies specific Necessary Rights with respect to the Research, then upon request by University, Sponsor hereby agrees to grant to University a royalty-free license with respect to such Necessary Rights solely for University’s internal research purposes.
Rights to Developed IP (Cont’d)

• Practical Considerations (cont’d):
  – Tax Implications.
    • Assignment of developed IP can have tax implications for the university/research institution.
      – Sponsored research may result in private use of tax-exempt bond-financed facilities.
    • IRS: no private business use of tax-exempt bond financed facilities so long as:
      – Research institution determines the research and manner in which it is to be performed;
      – Research institution retains title to IP; and
      – No more than a non-exclusive, royalty-free license to use is granted to any person.
**Rights to Developed IP (Cont’d)**

- **Ownership by University/Research Institution.**
  - Preferred option of universities/research institutions.
  - Retained ownership of developed IP:
    - Permits university/research institution to potentially grant licenses to multiple licensees, consistent with goal of wide dissemination of technology.
    - Reduces risk that developed IP will not be commercialized.
    - Reduces risk that university/research institution may be blocked from further research.
    - Reduces potential tax risks.
  - Question then becomes the license rights to be granted by the university/research institution to the sponsor.
RIGHTS TO DEVELOPED IP (CONT’D)

• Practical Considerations:
  – License Rights.
    • Is the sponsor granted a license in the SRA, or an option to negotiate a license?
      – If option, how long should the option last?
    • Are license rights exclusive or non-exclusive?
      – If exclusive, what is the field of use?
  – “Blocking” Concerns.
    • Where university/research institution owns the IP, sponsor should take into account the risk that sponsor’s development of its own IP may be blocked.
      – Sponsor should include “non-assertion” provision.
Rights to Developed IP (cont’d)

• Joint Ownership by the Parties.
  – With joint ownership of developed IP, each party owns an undivided half interest in all IPRs in the developed IP.
  – Sponsor will likely want to acquire a license or an option to obtain a license in the university/research institution’s rights in the developed IP in sponsor’s field of use.
  – Also advisable for sponsor to obtain right of first refusal with respect to third party license proposals.
    • Right of first refusal will permit sponsor to obtain license even if it initially declines to exercise option to license.
Rights to Developed IP (Cont’d)

• Practical Considerations:
  – Joint Ownership Relationship.
  • Joint ownership creates substantial relationship management issues.
    – How will the parties decide what will be patented?
    – Which party has the right to make prosecution decisions?
      » Choice of counsel, jurisdictions in which to file, etc.
    – Who pays maintenance and annuities?
    – Which party is responsible for enforcement/defense?
    – What happens if one party no longer wants to maintain a patent asset?
  – These issues should be documented in the SRA.
**Rights to Developed IP (Cont’d)**

- Practical Considerations (cont’d):
  - Many parties to SRAs consider joint ownership of developed IP to be “equitable”; however, joint ownership can result in potential unintended consequences:
    - Different jurisdictions impose different obligations on joint owners of IP with respect to exploitation and commercialization of IP.
      - Some countries (including Japan and U.K.) require permission of joint owner to exploit jointly owned patent for benefit of third party.
    - Thus, joint ownership can result in different obligations/responsibilities in different jurisdictions.
Rights to Developed IP (cont’d)

• Practical Considerations (cont’d):
  – Post-SRA Licensing.
    • Parties should be aware of post-SRA outbound licenses of jointly owned developed IP.
      – What rights do parties have to license to third parties?
      – What obligations do the parties have to account to each other?
Rights to Developed IP (Cont’d)

• Combination – “Yours, Mine & Ours.”
  – This is a combination of the above approaches.
  – Determines IP ownership based largely on principles of inventorship:
    • Developed IP created solely by or on behalf of sponsor belongs to sponsor;
    • Developed IP created solely by or on behalf of university/research institution belongs to university/research institution; and
    • Developed IP created together is owned jointly by the parties.
Rights to Developed IP (cont’d)

• Practical Considerations:
  – Because this approach involves concepts from each of the prior ownership scenarios, the considerations are the same.
  – Can be complicated from a drafting perspective and requires substantive analysis of each party’s licensing needs.
Licensing considerations are an essential part of all SRAs.

- University/research institution wants:
  - At a minimum, royalty-free license rights to use any developed IP for its internal research purposes.
  - If possible, the right to license the developed IP to multiple potential licensees.

- Sponsor wants to ensure:
  - That its pre-SRA materials and confidential information are used solely for the collaboration.
  - That it has all necessary rights to commercialize and keep the IP from competitors in its field of use.
LICENSING (CONT’D)

• Licensing of Background IP.
  – Sponsor is likely to have “background” IP that will be provided to the university/research institution as part of SRA.
  – Can include materials, laboratory notebooks, data, prior research, etc.
  – Sponsor should protect background IP through: (i) express license grant covering background IP; and (ii) confidentiality provisions.
• SRA should include mechanism allowing parties to include additional background IP as research continues.
LICENSING (CONT’D)

• Practical Considerations:
  – Materials Transfer.
    • Many SRAs will include materials transfer provisions.
      – “Materials” most commonly include biological materials (i.e., reagents, cell lines, tissues, etc.),
        chemical compositions, and even software.
    • Materials should be subject of express license grant, which should include restrictions on use and disclosure.
    • Sponsor should include disclaimer as to materials –i.e., potential pathogenic or hazardous properties.
    • Sponsor should require appropriate storage of materials.
LICENSING (CONT’D)

• Practical Considerations (cont’d):
  – Materials Transfer (cont’d).
  • University/research institution should agree to refrain from modifying, isolating, or replicating materials or background IP other than as authorized in SRA.
  • Sponsor should supplement license grant with confidentiality provision covering materials.
    – Confidentiality provisions will often require negotiation of definition of “Confidential Information,” duration of confidentiality obligation, right of the university/research institution to publish, etc.
  • Ownership issues – should IP conceived or created using sponsor’s materials be owned by sponsor?
**LICENSING (CONT’D)**

- **Sample Materials Transfer Provisions:**
  - **License:**
    Sponsor hereby grants to University a limited, non-exclusive, non-sublicensable, non-transferrable royalty-free license to use the Materials and corresponding Data for the sole purpose of performing its obligations and responsibilities in connection with the Research to be performed under the Research Plan. University shall: (i) comply with all Applicable Laws relating to the Materials and/or the Data in performing its obligations and responsibilities under the Research Plan; (ii) use the Materials and the Data solely in connection with conducting the specific activities under the Research Plan and for no other purpose; and (iii) at all times retain possession of the Materials and the Data and not provide or transfer any part of the Materials and/or the Data to any third party without Sponsor’s prior written consent.

  - **Safety:**
    The Materials are experimental in nature and are to be used in a safe manner and in accordance with all Applicable Laws, as the pathogenic or hazardous properties of such Materials may not be completely known. University shall be solely responsible for any liabilities, damages, costs and losses incurred by it or any third party arising out of any use, handling, or storage of the Materials by University.

  - **Storage and Maintenance:**
    University is responsible for appropriate storage of the Materials and Data in compliance with Applicable Laws. In particular, University shall: (i) store and maintain the Materials in accordance with Applicable Laws and current best practices with respect to the storage and maintenance of materials of a similar kind or nature; and (ii) implement appropriate measures to ensure that any electronic data for the Research is appropriately archived during or at the completion of the Research. Data that is archived to durable media should be refreshed at appropriate intervals to mitigate risk of data loss due to media degradation.
LICENSING (CONT’D)

• Licensing of Developed IP.
  – Licensing of developed IP is one of most important issues in sponsored research.
  – Rights granted will depend on who owns the developed IP pursuant to the SRA.
  – Where sponsor is being granted a license, SRA may not include an express license; may include only an option to negotiate a license within a certain period of time.
  • Option is often best approach, as parties may be unclear at outset of SRA as to what, if any, IP will result from the SRA and the resulting value of that IP in the marketplace.
LICENSING (CONT’D)

• Sample Option Provision:

For all Intellectual Property, University hereby grants to Sponsor the exclusive option to negotiate and enter into a license agreement with University with respect to University’s interest in such Intellectual Property. For a period of ninety (90) days from the date on which the parties agree to seek or not seek patent protection in connection with an Invention as set forth in this Section, Sponsor shall have the right to evaluate the Intellectual Property for purposes of determining the commercial feasibility of the Intellectual Property (the “Evaluation Period”). Sponsor shall have the right, during the Evaluation Period, to exercise its option rights granted herein by providing written notice to University (the “Option Notice”). In the event that Sponsor timely delivers the Option Notice, University shall not, for a period of ninety (90) days from the date of the Option Notice (the “Negotiation Period”), license, transfer or otherwise grant to any third party any rights in University’s interest in the Intellectual Property and University shall, during the Negotiation Period, exclusively negotiate with Sponsor with respect to granting Sponsor an exclusive license to University’s rights in the Intellectual Property, such license (a “License Agreement”) to be on commercially reasonably terms to be negotiated by the parties in good faith. University shall not license, transfer or otherwise grant to any third party any rights in University’s interest in the Intellectual Property during the Disclosure Period, the Evaluation Period, or the Negotiation Period, without first granting Sponsor the option to license such rights as set forth in this Section.
LICENSING (CONT’D)

• Practical Considerations:
  – Scope of License Rights.
    • Exclusive versus non-exclusive rights.
      – If sponsor does not receive ownership rights in the developed IP, it will almost certainly seek an exclusive license.
        » University/research institution should attempt to limit any exclusive license to sponsor’s field of use, retaining rights to grant licenses in other fields.
      – Non-exclusive licenses in sponsored research are more common in IT/software collaborations.
      – Any rights granted by sponsor to university/research institution will be non-exclusive, royalty-free, and limited to internal research use.
LICENSING (CONT’D)

• Practical Considerations (cont’d):
  – Scope of License Rights (cont’d).
    • Rights to license to third parties.
      – Especially important where IPRs in developed IP are jointly owned.
      – With jointly owned IPRs, each party owns an undivided half interest in the entirety, meaning each party has the right to use and commercialize the developed IP, subject only to potential duty to account.
        » Patent rights: generally no duty to account.
        » Copyright rights: duty to account.
  – Sponsor should attempt to tie up university/research institution’s interest in jointly owned developed IP.
Licensing (cont’d)

• Sample Joint IP Provisions.
  – Restricted Use

Until the later of the termination of this Agreement or the last to expire patents associated with the Joint IP, neither party shall exercise such joint ownership in any manner that is inconsistent with or contrary to the terms and conditions of this Agreement, assign or transfer title to any such Joint IP, or license or otherwise provide such Joint IP to any third party.

  – Permissive Use

Each Party shall be free (without requiring the consent of, or accounting for any sums to the other Party) to exploit and to grant licenses or other rights to any third party under Joint Inventions and Joint Patents.
LICENSING (CONT’D)

• Practical Considerations (cont’d):
  – Commercialization Obligations.
    • Where university/research institution is granting exclusive rights, sponsor will be asked to meet commercialization milestones. Can include:
      – Clinical trial
      – Patent filings
      – Regulatory approval
      – Prototype
      – Commercial sale
      – Minimum royalties/sales
    • Failure to meet commercialization milestone can result in: (i) termination of exclusive rights; or (ii) termination of license. Milestones can also trigger balloon payments.
LICENSING (CONT’D)

• Practical Considerations (cont’d):
  – Representations and Warranties.
    • Sponsor should not expect to receive substantive representations/warranties in a license agreement or an SRA.
      – Mutual reps/warranties regarding authority, due execution, incorporation, and similar fundamental representations are more likely.
      – Universities/researchers should beware veiled non-infringement reps/warranties.
LICENSING (CONT’D)

• Practical Considerations (cont’d):
  – Indemnity.
    • University/research institution unlikely to provide meaningful indemnity to the sponsor.
      – Many universities are precluded by applicable state law from entering into indemnity agreements.
    • Conversely, university/research institution will expect broad indemnity from the sponsor in connection with the sponsor’s commercialization of developed IP.
      – Especially true where protocol for the research was developed by the sponsor, or where the developed IP is an improvement or is otherwise based on sponsor’s background IP.
**Licensing (cont’d)**

- Practical Considerations (cont’d)
  - Royalties.
    - Sponsor may attempt to lock in royalties for future licenses of developed IP as part of an SRA.
      - Universities are generally reluctant to agree, as pre-set royalty rates can lead to adverse tax implications.
    - Where the sponsor is a foundation or other non-profit organization, sponsor may attempt to share in royalties/revenues for license rights granted to third parties by the university/research institution.
LICENSING (CONT’D)

• Practical Considerations (cont’d):
  – Expenses Related to IP.
    • Patent prosecution and litigation costs are expensive, so most SRAs and corresponding license agreements will expressly identify who bears these costs.
    • Patent prosecution:
      – Where the sponsor is obtaining exclusive rights, patent prosecution costs are likely to be borne by the sponsor.
      – Where the sponsor is obtaining non-exclusive rights, sponsor will at most bear pro-rata portion of prosecution costs.
LICENSING (CONT’D)

• Practical Considerations (cont’d):
  – Expenses Related to IP (cont’d).
    • Patent litigation.
      – Exclusive licensee will likely be required to bear all costs associated with enforcing and/or defending the licensed IP.
      – License may include language permitting termination of exclusive license for failure to enforce.
    • Damages and/or settlements generally split between the parties.
      – First to refund the enforcing party’s costs in enforcing the patent, then split evenly between the parties based on whatever percentage agreed to in license.