



FENWICK & WEST LLP

University Licensing

An Introduction to Licensing Technology from Universities*

INTRODUCTION

What do Yamaha synthesizers, gene splicing and DSL have in common? They are all based on technology licensed from universities. As these examples show, universities often develop and license new cutting edge technologies. In this brochure, we will walk you through the process of determining whether a university license may be right for you, how to obtain a university license, and the deal terms you can expect to find in a university license.

WHAT UNIVERSITY LICENSES CAN AND CANNOT OFFER

Why Would I Want to License Technology from a University?

Universities often have innovative individuals performing cutting edge research and pioneering the development of new ingenious technologies. As a result, many universities hold core patents and fundamental know-how for breakthrough technologies. Obtaining a license from a university to its newly developed technologies allows you to gain early access to these technologies, and often at a price tag that is significantly lower than if you were to develop the technology yourself.

What Can I Expect to Receive in a University License?

A university license is typically a patent license. This means that the university will not sue you if you infringe its patents on the licensed technology. If the university holds core patents in a new technology area with market potential, this promise that the university will not sue you can be of significant value.

Furthermore, if you obtain an exclusive patent license from the university, not only does the university promise

not to sue you, but you may also gain some control over how the university develops and asserts its patents.

Note, however, that a patent license does not guarantee that you will have complete freedom to exploit the technology because, even if the university holds the core patents on a technology, others may hold improvement patents that you may want to use in commercializing the technology.

Will the University Place Limits on My License?

Normally, yes. The nature of those limits will vary on a case by case basis. But it is not unusual for a university to limit your license to a specific field of use or territory.

The university may also reserve certain rights for itself. For instance, the university will often reserve the right to use the technology for research and/or educational purposes and to publish papers about the technology.

The sponsors of the research may also reserve certain rights. In the case of government-sponsored research, the government may guarantee itself the right to exploit the technology in a limited fashion - for example for government purposes. In addition, for technologies which were created with the use of United States Government funds, the license may require that the products preferably be manufactured in the United States.

What Won't I Receive in a University License?

Your typical university patent license does not provide much beyond a promise from the university not to sue you. Usually in these licenses, you will not receive much,

if any, help in developing your product, business or market. Absent other arrangements, you should not expect significant assistance from the university or its staff in developing your product (e.g., software code, circuit designs, etc.), in providing you with training, technology transfer, or consulting, or in developing the relevant marketplace or providing support for your marketing or business development efforts. If you are interested in assistance in any of these areas, you may be able to obtain them in a separate agreement, although it may be with the professor or the research sponsor rather than with the university.

I Don't Think the University Will Sue Me, So Why Should I Take a License?

Even if you strongly believe that the university will not sue you, you may still want to take a license for a number of reasons. First, if the university holds core patents on a technology, your investors, customers or other partners may be concerned about the risk of a patent lawsuit and they may not share your belief regarding the university's intentions. Second, even if the university would not sue you, your competitor might—and it could gain control over the patents by taking an exclusive license from the university. Finally, it's difficult to be certain that the university will not sue you. Patents have a lifetime of nearly twenty years and it is likely that the cost of a license once the technology has proven itself will be significantly higher than early on.

What Is the University's Interest in Granting Licenses?

Fame and fortune, but not necessarily in that order. Universities are interested in seeing their technologies develop in significant commercial markets. It enhances the reputation of the university and its professors, may lead to new or additional investment in the university, and potentially also provides business opportunities for its professors and students. Universities are also interested in sharing in the monetary upside of successful commercial exploitation of their technologies.

Once I Have a University License, Should I Do Anything Special?

When potential investors see a university license, it typically raises the question of whether any of your technology also came from the university or, more importantly, whether any of your technology still belongs to the university (rather than you). Therefore, it is important to maintain a clear paper trail that shows that you own all of your technology. This is especially important if you are the professor that developed the technology at the university or if there are ties between you and the university (e.g., your company is hiring university graduates).

THE PROCESS OF ACQUIRING A UNIVERSITY LICENSE

Who Should I Contact to Start the Process?

Usually, you would initially contact the professor responsible for the research. The professor typically will involve the university's technology licensing office (TLO) at some point in the process. The TLO has decision making authority for licensing the university's technology. It will ultimately approve or reject your deal, although it sometimes will rely heavily on the advice of others (e.g., the professor). One final note - most TLOs are self-sustaining organizations, meaning that their funding comes entirely from revenues generated by its university licenses. Thus, TLOs will often strive to spend fewer resources (e.g., time or money negotiating a deal) on deals that aren't likely to generate much revenue for the university.

What Is the Process for Acquiring a University License?

The following is a typical life cycle for obtaining a license with a university. First, you conduct due diligence on the technology. In this phase, you identify what the university is offering to license and assess its value. Next, you, the TLO and/or the professor sketch out general deal terms, such as exclusive vs. nonexclusive license; field of use or territory, if any; amount and form of payment; milestones for development, if any; and additional technology transfer or support from the university, if any. These terms may be written down in a term sheet, letter of intent or similar document. The final

contract negotiations usually start with the TLO's form; most universities have policies regarding which clauses are negotiable and to what extent.

What Happens During Diligence?

During the diligence phase, you will want to gather as much information as possible, both about the actual research being conducted and about the patent applications covering the technology. There is no set formula for how to conduct diligence nor is there a fixed time period. Some diligences can be short and superficial; others will be detailed and protracted. It is not unusual to continue diligence while negotiating the actual license agreement. During the diligence phase, your patent attorney can help you assess the strengths and weaknesses of the university's patent properties.

When Should My Attorney Get Involved in the Negotiation Process?

Earlier is generally better. Experienced attorneys have been through this process many times and will be able to help you streamline the overall process. They may also be able to suggest "out-of-the-box" solutions for apparent impasses and typically will know which clauses in a TLO's form are or are not negotiable.

MAJOR DEAL TERMS

What Is a Non-exclusive License?

A non-exclusive patent license basically is a promise not to sue you for patent infringement. "Non-exclusive" means that the university can make the same promise to as many other parties as it would like, for example to all of your competitors.

What Is an Exclusive License?

In an exclusive patent license, the university cannot grant licenses to other parties. Thus, you and only you will have immunity from lawsuits. Your competitors will still be at risk. In some cases, you may also gain some control over the development and assertion of the patents (and responsibility for the costs), for example

targeting them towards your competitors and then requiring the university to enforce them.

If, however, the university grants you an exclusive license, it will typically want some guaranteed commitment on your part - for example, milestones for commercialization of the technology or minimum royalty payments.

Do I Want or Need Sublicense Rights?

A patent license by default extends immunity only to you. Sublicense rights allow you to further extend this immunity to others. Whether or not you need sublicense rights (and whether the university is willing to grant them) depends on the structure of your industry and whether your license is exclusive or non-exclusive. Sublicense rights are generally granted with exclusive licenses, but not with nonexclusive licenses unless explicitly otherwise agreed.

What Payment Terms Can I Expect?

There are many different possibilities. Some of the more common payment structures are a fixed per-unit royalty, a royalty as a percentage of sales, and royalty structures that scale with your increasing success in the marketplace. Less common structures include one-time payments or a fixed fee per year. However, universities will often require you to pay a minimum royalty amount per year for exclusive licenses—this minimum royalty amount will usually increase over time. In addition, many universities will also require you to pay a one-time upfront fee. If you are given the right to sublicense, universities often require you to pay a royalty for your sublicensee's exercise of license rights and a percentage of any non-royalty based income you receive from your sublicensees.

I Don't Have Cash Right Now, Can I Backload My Payments?

Typically, yes. It is not unusual for the payment terms to be light upfront and increasing as you succeed in the marketplace. Some universities are willing to take stock in lieu of some or all cash payments. However, once you are receiving revenues on the product, the university will expect a portion of these revenues.

How Long Will My License Generally Last? Can I End My License Early? Can the University End My License Early?

The term of a patent license can be for the life of a patent or for any period less than the life of the patent. If there are multiple patents licensed, the term may extend until the last-to-expire of the licensed patents. For other technologies, the licenses typically last for a defined period of time.

Typically, you will want to negotiate the right to terminate the license at will by providing the university some period of advance notice. The university will usually only terminate your license if you violate its license terms (e.g., non-payment of royalties or milestone payments or not meeting diligence requirements). Upon termination, sublicenses also typically terminate, but the party granted a sublicense may then usually obtain its own direct license with the university under similar terms.

What Must I Do To Keep My License?

In addition to making all payments owed to the university and abiding by all license provisions and terms, the university will usually require you to meet certain diligence milestones to ensure that the technology is being diligently developed and commercialized. For pharmaceuticals, diligence obligations often include clinical trial milestones. For other products, diligence terms might include first prototype, first commercial sale, sales in certain markets, etc. Sometimes diligence terms or milestone terms include financing milestones (typically with startup companies).

ADDITIONAL DEAL TERMS

I Would Like to Get Access to Future Improvements.

If the university continues to conduct research on the technology, you should be careful to either obtain licenses to future improvements developed by the university or to accept consciously the risk that you may have to return to request a second university license for the improvements.

I Would Like to Develop Future Improvements.

If you plan to develop improvements to the patented technology licensed from the university, you should make sure that you have the rights to do so in your license. In addition, you should address whether you or the university (or some other party) will own the improvements. The university may allow you to own the improvements, but may require that you grant it a nonexclusive, royalty-free license to use the improvements for research and/or educational purposes.

I Would Like Some Technology Transfer, Consulting, And/Or Technical Support

Any transfer of real technology (e.g., software code), technical support, or assistance with development of your business typically is the subject of a separate agreement, which may or may not be with the university. You may wish to consider entering into a consulting agreement with university staff members who can help.

Who Typically Controls The Patent Application Process and Paying for Issued Patents?

The university typically does, even in the case of many exclusive licenses, but you may be required to reimburse the university for the cost of patent applications and for keeping the patent in effect after it has been issued.

Who Typically Controls Enforcement of Patents?

The party who has the first right to enforce the patents in infringement suits varies greatly in each agreement and is the subject of negotiation. If you have an exclusive license, you will often have the first right to enforce the patents and if you decide not to enforce them, the university may choose to do so. If you do not have the first right to enforce, you should take into account the extent to which a university is willing to enforce its patents against others. When negotiating this issue, you should also consider how damages would be split between you and the university if they are granted in a patent infringement suit brought against a third party (these damages will often be split between the university and you after each of you are reimbursed for the expenses you incurred for the infringement suit).

Do Patents Come with a Guarantee?

Typically, no. The patents are usually licenses “as is”. The university owns these patent properties that it would like to commercialize. The university does not guarantee that the patent properties will be worth anything, that they will have any significant scope, that the university will assert them against others or that you will be able to conduct your business without interference by other patent properties.

How Much Liability Will I Assume Under a University License?

Generally, quite a bit. Universities typically will license patents to you on an “as is” basis and at the same time will require you to reimburse the university for any costs it incurs from claims against the university that arise out of the license it granted you. Universities may also require you to obtain minimum amounts of liability insurance to cover any damages that might arise in connection with the license rights granted to you (e.g., product liability insurance prior to your commercial sale of a product.) This is a risk worth assessing before licensing patents from a university.

Will the University Want to Publish?

It is not unusual for the university to guarantee, for itself, some sort of publication right and/or rights to use the technology for academic, research and/or educational purposes. Universities are typically unwilling to compromise on this point so you will need to evaluate whether such a right is acceptable to you before licensing the patent.

Will I Be Able To Transfer My License To Someone Else?

As a starting point in university license agreements, many universities won't allow you to transfer your university license to another company or person. Depending on how a deal is structured, this means that you may not be allowed to transfer your university license rights to an acquirer or a party to whom you sell all or substantially all of your assets. Thus, if you think that you might be acquired, sell your assets, undergo a reorganization, or engage in some other transaction which may violate a license provision prohibiting the transfer of your license

rights, you should negotiate with the university the right to engage in such transactions without losing your license rights.

**Fenwick & West attorneys have significant experience representing universities and licensees in transactions covering a wide range of technologies. For more information, please contact Sergio Garcia (sgarcia@fenwick.com), Ralph Pais (rpais@fenwick.com), Catherine Manley (cmanley@fenwick.com) or Rochelle Karr (rkarr@fenwick.com).*

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