Industry – University Partnerships: The University Perspective

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Introduction

- The purpose of this presentation is two-fold:
  - To discuss the perspectives of U.S. Universities with respect to intellectual property rights when contracting with Industry.
  - To discuss the Johns Hopkins University perspective on this issue.

University Perspective: Knowledge for the World

- One mission of the university is to produce new knowledge through research and to bring this new knowledge to the world.

University Perspective: Knowledge for the World

- This mission can, at times, conflict with the Industry objectives to make profits, protect market share, maintain competitive advantage, as well as to create and protect proprietary information.
- Two University perspectives that derive from the idea of knowledge for the world and can conflict with Industry objectives are:
  - Right to Publish
  - Due Diligence

University Perspective: Right to Publish

- Research-oriented universities produce cutting-edge research and part of the motivation to produce that research is the expectation of faculty to publish that research.
- Universities do not allow "approval" of publications, only review.
- Review allows the company time to redact any proprietary information and to file any patents prior to publication.
- Review does not allow the company to edit or unduly delay the publication. It does not allow the company the option of denying the publication.
- Review does not equate to "approval".

University Perspective: Due Diligence

- Universities expect due diligence on the part of Industry partners to bring new University-created technology and intellectual property to the market.
- Universities do not want to license new technology only to see it put on hold in order to force the market or protect the company's market share for an existing product.
- The knowledge for the world philosophy extends to bringing the benefits of new technology to the people.

University Perspective: Bayh-Dole Act

- The Bayh-Dole Act has allowed universities to own the inventions they make with federal funds.
- One of the main purposes was to encourage federally funded projects to get to the public through licensing to business.
- A byproduct of the Act is that Universities felt that since the government was giving up the IP, then so should Industry.
- There is a growing concern that more and more businesses are turning to foreign researchers and universities as U.S. Universities are unwilling to give up intellectual property.

Legal Issues

- The next few slides discuss some of the legal issues facing Universities as they contract with Industry.

- Universities do not have the same freedom to contract as Industry because of their tax exempt status.

501(c)(3) Organizations

- Section 501(c)(3) is a tax law provision granting exemption from the federal income tax to non-profit organizations.
- With this exemption comes restrictions that affect the ways in which Universities may contract with Industry.

Private Use

- To be considered qualified 501(c)(3) bonds, no more than five percent of the net proceeds of the bond issue may be used for any **private business use**.

- Use of bond proceeds or bond-financed facilities by an exempt organization in an unrelated trade or business activity is considered private business use.

Private Use

- A research agreement with regard to basic research that is sponsored by a private party does not result in private use if

  (i) any license or other use of the resulting technology by the sponsor is permitted only on the same terms as the recipient would permit other unrelated, **non-sponsoring parties**; and

  (ii) the price paid for the use of the license or other resulting technology is determined when it becomes available for use.

Why Universities can not accept funding contracts that have pre-negotiated royalty rates.

- The sponsor must pay a competitive rate that is determined at the time of the license or the resulting technology is available for use thus the rate may not be determined at the time of the original contract.

- This issue is governed by IRS Rev. Proc. 2007-47 section 6.02

Why Universities can not provide services (such as analytical services) at rates that undercut for-profit providers of such services.

- 501(c)(3) organizations (educational and scientific research organizations) are taxed on Unrelated Business Taxable Interest (UBIT).
- The primary objective of the UBIT rules is to eliminate a source of unfair competition with for-profit businesses by taxing income from business activities of tax-exempt organizations in the same way as income generated by nonexempt businesses (see section 511 of the Internal Revenue Code).

Why Universities must charge IDC rates that are equal to or higher than they charge the federal government

- The issue of indirect cost rates is addressed in Office of Management and Budget Circular A-21 G.1.a.(3)

- Each institution's F&A cost rate process must be appropriately designed to ensure that Federal sponsors do not in any way subsidize the F&A costs of other sponsors, specifically activities sponsored by industry and foreign governments.

Johns Hopkins University Perspective

Johns Hopkins University Perspective

- A growing desire by JHU is to find innovative ways to work within the framework of the regulations but address the economic realities of working with Industry in the new global marketplace.
- Like many other universities and companies, JHU is working to develop strategic partnerships which offer a long term relationship with Industry.

Johns Hopkins University Perspective

- There are 4 basic agreements that JHU enters into with Industry:
  - Research Agreements
  - “Fundamental” Research Agreements
  - Fee for Service Agreements
  - Teaming Agreements

Johns Hopkins University Perspective

- Research Agreements
  - Company requests JHU to undertake a research project. The performance of such project is of mutual interest and benefit to the company and JHU and is consistent with the instructional, scholarship and research objectives of JHU. The Research Agreement may be based on company or JHU intellectual property.

Johns Hopkins University Perspective

- "Fundamental" Research Agreements
  - There cannot be restrictions on publication of the research or other restrictions on dissemination of the research and related information. As long as the research or information is made public or intended to be made public, it can qualify as "fundamental research."
  - There is no anticipation of intellectual property based on a Fundamental Research Agreement

Johns Hopkins University Perspective

- Fee for Service Agreements
  - Fee for service agreements are used when a company would like JHU to provide data or other information for which JHU has a unique capability to provide. JHU will provide data but will not provide any interpretation of the data. Company is responsible to interpret the data and provide any analysis that might create intellectual property.
  - JHU cannot use its tax exempt status to underbid for-profit enterprises which may provide similar services.
  - JHU cannot provide such services for less than it provides the same services to the federal government.

Johns Hopkins University Perspective

- Teaming Agreements
  - The purposes of a Teaming Agreement are typically to jointly seek funding for the activity and/or to develop new technologies, markets and applications. The teaming agreement may based on company or JHU intellectual property.

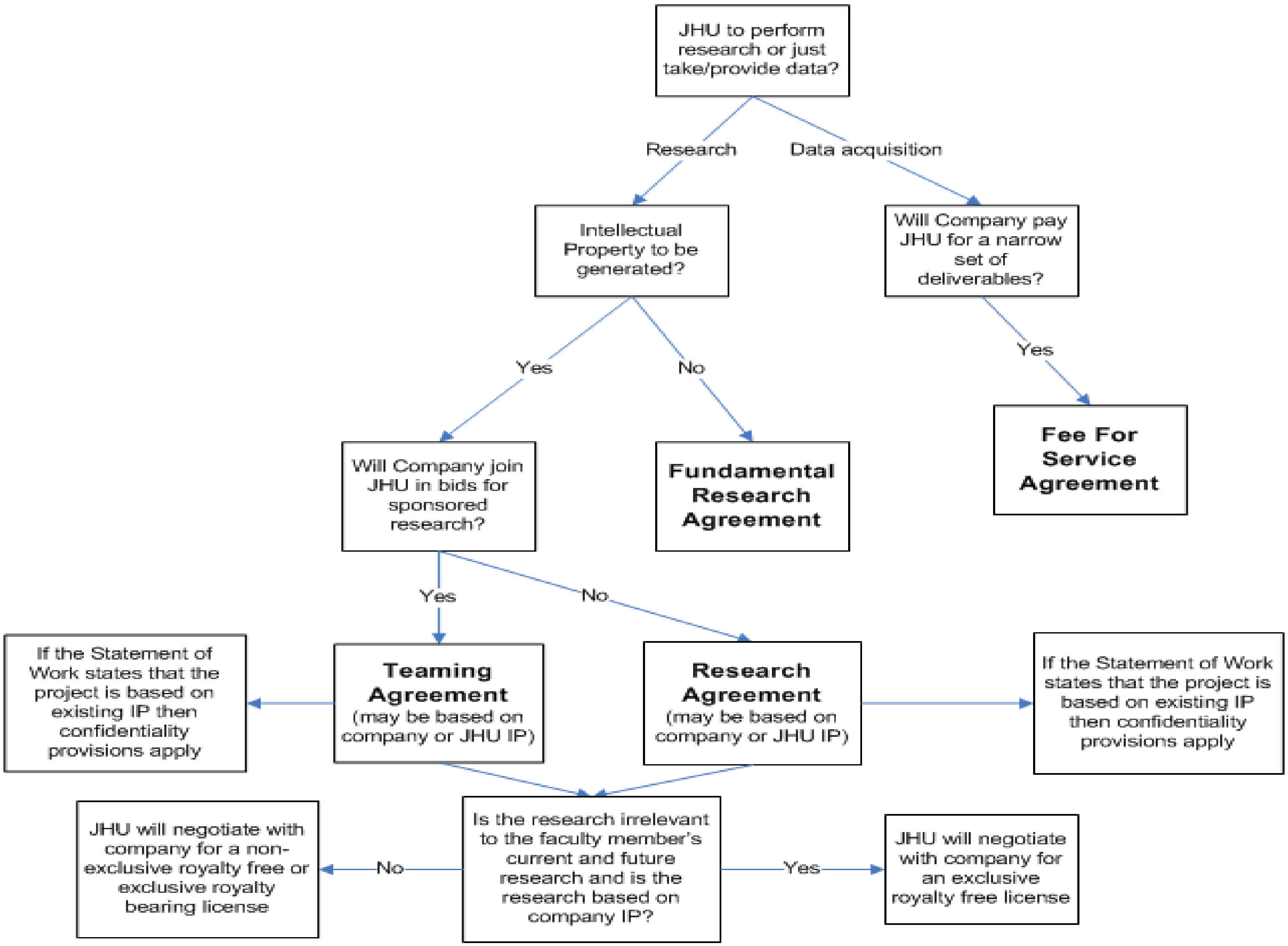
Johns Hopkins University Perspective

- **Patents and Inventions (not based on company IP)**
  - Title to any invention first conceived solely by JHU in the performance of the Agreement shall vest in JHU. To the extent that JHU has the legal right to do so, JHU shall grant Company an option to an exclusive or non-exclusive license to make, use, or sell any such Invention on reasonable terms and conditions, including reasonable royalties, as the parties mutually agree in separate writing. For a non-exclusive royalty free license, Company is required to reimburse JHU for patent prosecution.
  - In the event that JHU and company jointly conceive the invention, title shall vest jointly. Each party shall possess an undivided one-half interest in such jointly-owned Invention, as well as any corresponding patent rights and the right to make, use or sell such Invention without accounting to the other party.
  - Title to any Invention conceived or discovered solely by the Company shall vest in Company, except that title shall vest jointly in Company and JHU if such Invention was first conceived using JHU facilities.

Johns Hopkins University Perspective

- **Patents and Inventions (based on company IP)**
  - Company will grant JHU a non-exclusive royalty-free license to practice their technology for research and educational purposes.
  - JHU will grant company a non-exclusive royalty free license (with an option for an exclusive license) to any inventions first conceived or discovered in the performance of the work funded under the research or teaming agreement and that are based on Company intellectual property.

Johns Hopkins University Perspective



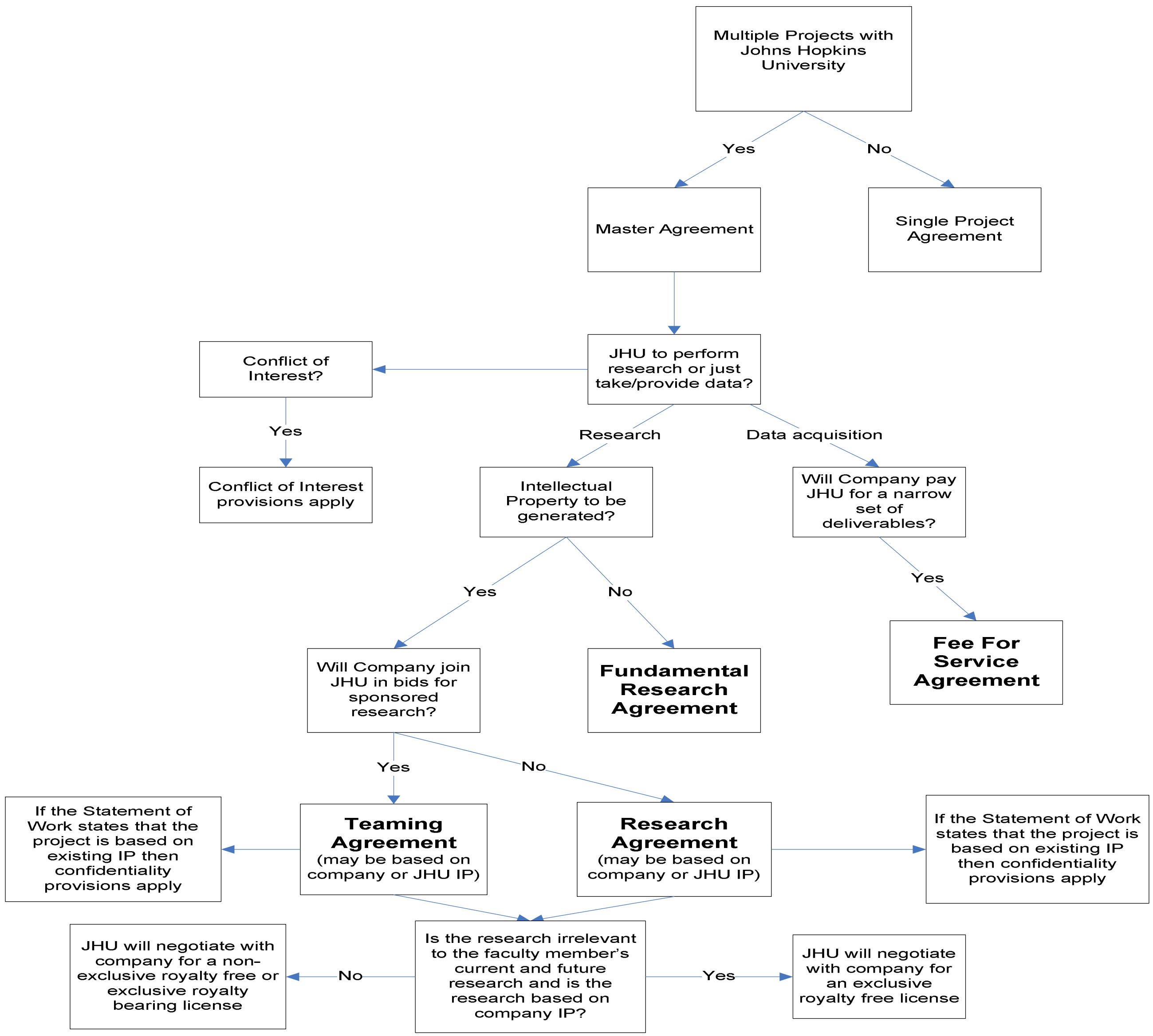
Johns Hopkins University Perspective

- Strategic Partnerships
  - This is a long-term, win-win commitment between the University and Industry for the purpose of achieving specific objectives by maximizing the effectiveness of both sides.
  - Out of the partnership a relationship is allowed to grow based on previous experiences, trust, dedication to common goals, and an understanding of each partner’s expected results.
  - Benefits are likely to include improved efficiency and cost effectiveness, increased opportunity for innovation and collaboration.

Johns Hopkins University Perspective

- Strategic Partnerships / Master Agreement
  - This would promote a long term relationship between the University and a specific Industry partner
  - One agreement but multiple projects
  - A partnership that has benefits for both sides
  - Allows the industry partner to learn the policies and reasons behind University technology licensing
  - Anticipates a wide variety of projects for the partnership – fee for service, research agreement, teaming ventures, fundamental research

Decision Tree for the JHU/ WSE Master Agreement



Concluding Thoughts

- A successful partnership should support the missions of both parties and is best done with a long term relationship that fosters these missions.
- Value is maximized and costs minimized with a long term contract.
- Imagination and innovation are needed to promote these relationships because the current state shows that Industry is reaching out globally for R&D.