The most common complaint that corporations have when it comes to sponsored research agreements is that universities are difficult to deal with. The University of Minnesota has attempted to overcome that challenge with a new model that dramatically simplifies the agreements, and judging from the response of industry the new model is a winner for the school’s TTO.

“We’ve had just a wonderful response from companies of all types — large multi-nationals, small local companies, and start-ups,” says Leza Besemann, technology strategy manager with the university’s Office for Technology Commercialization. “It’s been so instrumental, in fact, that we actually get companies coming to the university who have never done research here before, but because of the program they do now. In fact, there is a pharma company that has offices here but had decided not to do research with us. Because of this program they have re-approached us.”

Besemann reports that since its launch in December 2011, over 75 companies have signed agreements under the University of Minnesota’s Minnesota Innovation Partnerships program — or MN-IP. Major features of the program include:

- “Hassle-free” negotiations and pre-set licensing terms.
- Pre-payment of 10% of the sponsored research agreement or $15,000, whichever is greater.
- Exclusive worldwide license to the technology resulting from the project.
- A royalty of 1% applies — but only if product sales exceed $20 million per year.

These are the main features of what MN-IP calls “Option A.” The alternative “Option B” is closer to the traditional model. (See the complete option sheet on the following page.) “Slightly less than half of our partners take Option A; we’ve also had about half a dozen master research agreements,” notes Besemann.

Knowing what companies want

Besemann says that work on the new model began about nine months prior to the launch. “Companies are always complaining that it is hard to do business with universities,” she says, explaining the need to find a different model. “They wanted certain things — owning the IP or having control of it so they knew their competitors could not get ahold of it, for example. We knew this from historical negotiations on many past agreements — they’d often ask for it. They also wanted to know what their financial obligations would be to the university if they did commercialize the research they funded.”

Quite often, she notes, research would be funded under a sponsored research agreement, and IP developed, but the company would have no rights. “At some point in the future if they wanted to use the product they’d have to come back to the university and request a license — but they did not know what the terms would be,” Besemann explains. “This led to relationships that were a little confrontational. The companies felt because they funded the research they should not have to pay much for the license, and negotiations were typically head-butting affairs.”

With the MN-IP model, however, the companies know upfront what their rights and financial obligations will be. “We really make it a partnership going in,” she emphasizes.

The new approach addresses what are common stumbling blocks in gaining industry sponsorships, she maintains. “Before MN-IP was in place, the uni-
What the university gives up

Besemann says that because the model is more favorable for corporations, she is often asked what the university gives up in the deal — and if it’s really worth it. “Before we rolled the program out we looked back at all of our research agreements, and how much licensing came out of them,” she comments. “It turned out to be not very large, and what we did get only came from a couple of technologies. In general it did not lead to lucrative licensing agreements, so by putting the program in place we would not be foregoing big pots of licensing revenue.” She recommends that if other universities are considering adopting a similar program, they should first do the same thing — look back and see what revenue they might be giving up at their institution. “My guess is it would be [similar],” she asserts.

Still, how can the university justify such a low royalty rate? “The justification is that we looked at historical numbers and knew we would not make a lot of money; actually, we might be gaining compared to the past,” she says, since more total deals — even at the lower rate -- may surpass revenues from fewer deals using more traditional licensing terms.

She adds that the corporate partners also have the right to sublicense. “When a formal license is exercised we use the same royalty terms -- we take a percentage of the sublicense royalties, which are sometimes negotiated,” she explains.

Wes Blakeslee, JD, executive director of technology transfer for Johns Hopkins University, is sufficiently impressed with the model that he is going to research its potential for his office, but he does see some potential pitfalls. “Option A would attract existing companies who want to sponsor research, often around some technology they are already trying to develop; they always want to pre-negotiate
where they can. Option A is designed to attract sponsored research from big companies, in that the typical start-up does not have a lot to spend on research.”

While he adds that “anything where you get more sponsored research is a good thing,” Blakeslee does see some challenges. “The problem arises in a university where the inventors have a right to share in the proceeds you get from a license,” he explains. “In most universities the value of that is close to 50%; ours is 30% to the inventor and 15% to research. When a guy signs the agreement there may be inventors that are on it that did not get the benefit of that sponsored research. And whom is the 10% prepayment distributed to? Under IP policy, there could be lots of loose ends. I assume they have thought about it in Minnesota and it has worked well.”

There are “a lot of moving parts to this model,” he continues, noting it might be harder for private universities to use it. “Private universities have to worry about the state real estate tax they have to pay on buildings,” he notes. “If you pre-negotiate fees, the government may consider that taxable income.”

According to Besemann, researchers have embraced the new model, which can actually result in more funds for their research as well as some for themselves. “Faculty really like the MN-IP program,” she says. “I can’t think of one faculty member who has complained about it. MN-IP provides the faculty with licensing income (Option A fee) that they would not have seen in the past. Although it is a small amount, it still has value to them personally and for their labs. Historically, IP that results from sponsored research does not produce much licensing income, so very few projects are losing potential future royalties under the MN-IP program.”

When Option A is selected, she continues, the upfront fee is treated the same as royalty income. The royalties are distributed as follows per University of Minnesota Regent’s policy:

- Principal investigator (PI)/co-PIs: 28.334%
- Department: 21.533%
- College: 6.800%
- University of Minnesota (OVPR): 28.333%
- Administrative Fee (OTC): 15.000%

“If the technology is successfully commercialized and the company pays us royalties, then the inventors on the technology will share the royalties along with the college, department, Office of Vice President for Research (OVPR) and OTC,” Besemann adds. “We have not found there to be any loose ends; everyone understands how the distributions work.”

<table>
<thead>
<tr>
<th>“Pioneer” praises U Minn’s new sponsored research model</th>
</tr>
</thead>
</table>
| Being the first at anything is usually a bit scary, but Frank Thibodeau, CEO of Adama Materials, Inc., had no such qualms when his company became the first taker of the University of Minnesota’s MN-IP sponsored research model. “I felt like the ‘first guy’ was offered a good idea,” he says, noting that his company has been working with the university on a way to toughen resins. “This is a technology that began to be developed at another university by a group of mechanical engineers, but we needed great chemical engineers,” he recalls. “So the question when I was brought in to take over Adama was, where could I find really great polymer engineers -- and Minnesota was at the top of the heap. As we were discussing a relationship with them, they were simultaneously getting ready to launch the MN-IP program. Leza [Besemann] mentioned it to me, and I immediately saw the advantage over the way things usually materialized between universities and companies -- especially smaller companies.”

The biggest advantage of the new model by far, according to Thibodeau, was certainty. “We have a pre-negotiated agreement; I end up paying for an exclusive license whether there is anything developed in that year or not, but I know what it will cost me and I know what the result will be if something patentable comes up,” he explains. "It's a huge advantage; the rate is quite reasonable, and more than that, I can budget."

Thibodeau says he feels good about the arrangement. “The first year there was no IP but there was a significant patent in 2013,” he reports. “To be able to get on with it without having to stop and have a long discussion about what the IP was worth was great in retrospect.”

Thibodeau says he is sold on the model to such a degree that “I've been an advocate whenever I talk to other universities. Yes, the traditional model would have saved me 10% in the first year, but this year there would have been this protracted negotiation.”

Basically, he says, he agreed to an option under which he paid whether he exercised it or not. “I think it nets out, and if you're going to be in an environment where you expect a lot of IP to be generated, it nets out as a big plus,” Thibodeau concludes.

Contact Thibodeau at (510) 410-5335. |

Reprinted with permission from Technology Transfer Tactics, Vol. 8, No. 1 January 2014, Published by 2Market Information, Inc. Copyright 2014. For subscription information, visit www.TechTransferCentral.com
Despite some reservations, Blakeslee says “it is an interesting model and I like the prepaid 10%. Only a small percentage of these end up with any technology. But you have to worry -- the fact that less than half the companies take Option A means that less than half have valuable IP coming out of the research. If you give everyone an opportunity to choose, will they self-select against your interests?”

Nevertheless, there’s enough on the positive side for Blakeslee that he plans to get in touch with colleagues at Penn State, his alma mater, which is using a similar model. “It’s something we would investigate; everyone is looking for new ideas,” he says. “And I applaud organizations that say they will try this model and see if it works.”

As for the future of the MN-IP model, “it’s been so well received we’re now working on ways to expand it,” says Besemann. “We’ll be launching a new take on things sometime in the first half of 2014 -- it’s been such a great way to engage companies and build strong relationships.”

Contact Besemann at 612-625-8615 or besem007@umn.edu; contact Blakeslee at 410-516-6695.