

What to Expect from CCTEC

**A User-Friendly Guide for Entrepreneurs Licensing Technology
from Cornell University**

Dated June 2004

**© Cornell Center for Technology, Enterprise & Commercialization (CCTEC)
Entrepreneurship Legal Services
BR Ventures**

A major step in forming start-ups based on technology invented at a university, is licensing the university's intellectual property (IP) which covers the technology. A company's IP (primarily patents) is often important to attract investment and to sustain revenue. The holder of a patent has the power to prevent others from practicing the invention claimed in the patent – the patent holder has a limited-term exclusive right in the invention as long as the patent lasts (currently 20 years from the date of applying). This allows the patent holder to price its products such that development costs can be recouped and investors rewarded. Patents provide a sustainable competitive advantage that investors understand clearly. Well defined licensing terms are also critical to investors, particularly venture capital firms. Investors are rarely willing to risk their investment in ventures where the company's right in its core technology is in question or unclear.

Cornell Center for Technology, Enterprise & Commercialization (CCTEC) is the owner of all the inventions and IP produced by Cornell's faculty and staff and by those with Cornell research appointments. Cornell's researchers are required to disclose inventions to CCTEC, and to assign their rights in related IP to CCTEC. When an invention is disclosed to CCTEC, CCTEC evaluates it for commercial potential and to determine whether or not it is patentable. If the technology is indeed patentable and is worthy of commercial exploitation, CCTEC files for a patent and prosecutes the application. CCTEC likewise performs IP "hygiene" to determine proper inventorship and to determine whether or not the federal government, companies or foundations may have funded the research and, therefore, may have rights to the IP.

An entrepreneur desiring to use Cornell-based technology should contact CCTEC as early as possible to discuss the company's business planning process and to begin discussions that will lead to license negotiations. CCTEC will eventually require a written business plan, so the entrepreneur should have at least thought this out and, ideally, prepared at least an outline or summary of the proposed business.

CCTEC's technology transfer mission includes the encouragement of start-ups based on Cornell technology, and so CCTEC works to be user-friendly to start-ups. CCTEC also has a responsibility to see that the start-up has a reasonable probability of success. Like any investor, CCTEC has criteria it uses to judge whether a license of a

particular technology to a particular entrepreneur makes sense or not. CCTEC will evaluate whether or not the technology could indeed provide the platform for a company.

If the technology, the entrepreneur, and the business model are a good match, CCTEC's licensing professionals work with the entrepreneur to negotiate a license agreement. In the license negotiation, CCTEC and the entrepreneur engage in a good faith, collaborative effort to determine how to transfer commercial rights in the IP to the start-up in exchange for a fair return to all the parties involved. The entrepreneur will find that CCTEC represents multiple interests beyond its own, including the inventor, the University, and the inventor's College and Department. Because CCTEC must represent these multiple, institutional, and sometimes risk-averse interests, the entrepreneur will find that some licensing terms are non-negotiable, especially the use of Cornell's name and indemnification for Cornell. However, the key financial license terms (license fee royalty rate, amount and timing of royalties, equity stake, and exclusivity, for example) are all negotiable.

CCTEC's licensing professionals are experienced in crafting license terms and contract language that lead to successful companies. Each deal is different, and each license becomes tailored to the specific situation of the company, technology and its markets. License negotiations require work and creativity – analysis, educated assumptions, justifiable projections, and vision. Maintaining a professional and cooperative attitude, a rational approach, and a high ethical standard have proven essential in successfully concluding such negotiations, especially when they present issues that are difficult to resolve. In the process of negotiations, CCTEC does not see itself as being on the other side of the table from the start-up. CCTEC's licensing professionals view the process more like the solving of an engineering design problem, in which everyone works together to creatively achieve a mutual goal: a license agreement with mutually beneficial terms. Once the license terms are developed, like any good, long-term partner, CCTEC maintains an ongoing relationship with the company, working cooperatively to help solve the company's start-up hurdles as they arise.

The following terms are typically included in a CCTEC license agreement. This list is not intended to be exhaustive or inclusive, and the terms of any agreement will vary depending on the circumstances surrounding a given negotiation.

The license agreement will define exactly what intellectual property is being licensed, what field of use the licensee has rights to and what geographic territory the licensee has rights in.

CCTEC typically grants exclusive licenses to start-ups, although some are limited to a particular field-of-use. For instance, if a technology has more uses than a single company can effectively exploit, CCTEC may license the technology to several companies, each of which can exploit a limited number of uses.

The licensee reimburses CCTEC for its out-of-pocket patent expenses. Such reimbursement is usually paid at the signing of the license agreement but may be scheduled over time depending on the circumstances. Typically, one U.S. issued patent issued costs between \$20K and \$30K (but can be outside this range).

The licensee typically pays CCTEC a one-time “license fee,” which is usually paid at signing of the license agreement or over time, depending on the circumstances. The license fee ranges from very low (e.g., payment of patent expenses) to very high (7 or 8 figures). It is based on the current and potential value of the technology, the market size, the cost of development and related factors. Because startups are typically cash-poor and equity-rich, CCTEC normally considers the start-up’s offer of a share of founders’ equity as a means of paying the license fee. The amount of equity for a license fee is typically between 1% and 10% depending on the circumstances. Sometimes, in order to realize its fair share of the value of its technology to the start-up, without grossly distorting the initial founder’s equity allocation, CCTEC may request that its percentage ownership not be diluted until the licensee achieves a specified threshold of outside equity investment. The threshold typically ranges from \$1,000,000 to \$10,000,000, but may vary depending on circumstances.

The licensee pays CCTEC an on-going royalty, which is directly linked to sales of the patented product or service. Normally this is a percentage of net sales but a variety of structures may also be used so that the royalty accommodates the business model. For example, an annual site license fee based on the number of users may be used in software technology licenses. The royalty rate is negotiated by the entrepreneur and CCTEC and is based on basic business principles of profit margin, enabling value of technology (e.g., does the patent cover the whole car, the engine or just the radiator?), market characteristics and competitive conditions.

If the license grant is exclusive, the licensee will be obligated to pay CCTEC minimum annual royalties to maintain exclusivity. Such minimums are based on market projections made by the start-up management and reasonable development timing, and are negotiated by the company and CCTEC. These payments help assure the University that the licensee diligently develops Cornell’s technology. The payments also provide a yardstick for both and CCTEC licensee to measure how well progress accords with development plans. Such minimums are sometimes renegotiated long after the original signing because of factors and events unforeseen by both parties.

The licensee will be required to report its efforts to develop the technology. These reports may be required quarterly, semi-annually, or annually.

Depending on the circumstances, some licensees may be obligated to satisfy diligence milestones to maintain the exclusive license. This reflects CCTEC’s obligation assure commercialization of University inventions.

CCTEC will have certain rights to obtain financial information regarding the sales of licensed products by the licensee. Additionally, the licensee will be obligated

to provide CCTEC with regular royalty reports of sales of products incorporating licensed technology. Royalties are due with the royalty reports. CCTEC will also have audit rights to verify that royalty payments are correct.

CCTEC retains the right to select the patent attorney for its IP counsel and is in charge of patent prosecution. However, CCTEC encourages the licensee to become closely involved in the patent process and works cooperatively with the start-up to assure that the patent rights are optimal for the start-up and CCTEC.

The licensee's right to grant sublicenses is subject to CCTEC's prior approval. The license agreement will usually provide that CCTEC receive a mutually agreed share of sublicensing income.

The license agreement is assignable in the event that the licensee is purchased by a larger company. There may be payments to CCTEC required in the event of such a sale.

CCTEC will be able to terminate a license agreement if the licensee is in violation of any major provisions of the license, especially the payment, development, and reporting provisions.

Because the right to publish is sacrosanct at any university, CCTEC, on behalf of Cornell and its researchers, always retains the right to publish information contained in licensed patents and patent applications. CCTEC also retains the right for its inventors to practice the invention as part of their ongoing roles as researching and teaching academics.

Disputes between CCTEC and the licensee are normally resolved by good faith negotiation and, if that fails, by mediation. Failing these efforts, disputes are often subject to binding arbitration.

The licensee will be required to indemnify Cornell in any case relating to the licensee's use of the licensed technology.

The licensee will not be allowed to use Cornell's name without permission from Cornell.