Tensions in University Start-up Life Science Licensing Agreements



University tech transfer offices (TTOs) and venture capital firms (VCs) work closely together to advance certain technologies and discoveries from the lab to the market. However, because there are different motivations and incentives for TTOs and VCs while negotiating licensing agreements, tensions often arise during these negotiations.

At a meeting between certain TTOs and VCs, important deal terms were highlighted as especially sensitive[1], such as equity, royalties, success-based milestones, and windfall success payments. In addition, board seat requests by the university to understand how the company is progressing also creates tension because some VCs see this as a potential conflict-of-interest with respect to adjacent technologies.

Outside of these financial and governance terms, the biggest tensions arise when negotiating intellectual property (IP) encompassing the invention, specifically negotiating points about patent(s), know-how, and development. With regards to patents, tension exists in the management and payment of patent prosecution and who has ultimate control and decision making authority. With regards to know-how, one of the most difficult clauses to negotiate is what is considered an enabled product from which the university would receive royalties and milestone payments. Discussion surrounding the scope of the ongoing collaboration between the university and the company can be complex. A clear understanding of the role of the university's employees at the company, along with ongoing discussions regarding active development projects could aid in understanding the scope and what would be considered enabled products.

Lastly, there are also tensions during the negotiation regarding the economics of sublicensing. Sublicensing of the licensed IP is typically agreed upon by both parties. However, despite this agreement, the specific terms and parameters surrounding the sublicensing can lead to friction, especially around the sharing of non-royalty sublicensing income.

Reflecting upon the perspectives and friction points of both parties can hopefully lead to a more productive and collaborative drafting and negotiating experience, which hopefully leads to a long-term productive relationship for the specific agreement and other technologies the university may be willing to license.

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[1] https://techventures.columbia.edu/term-sheet-recommendations-for-launching-university-startups