Understanding and Negotiating Legal Terms
In Sponsored Research Agreements

Terence P. McElwee
Associate University Counsel
University of Illinois

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Introduction

In recent years, university research administrations have begun to shift resources from service to compliance. Sponsored programs offices find themselves in the middle of conflicts with government agencies over regulatory compliance, with technology licensing offices over ownership of research results, with private sponsors over contract terms, and of course with faculty members over all of the above. Successfully navigating these problems has led offices to seek closer relationships with in-house legal counsel, however many university attorneys are not experienced in research matters. Complicating problem resolution, most problems are mixed issues of law and policy, requiring a coordinated approach.

Contract negotiators find themselves with less time to spend on increasingly complex contract matters. Navigating the compliance and sponsored programs minefield requires a solid understanding of federal regulations and contract law, and working familiarity with patent and copyright law. Of course, it helps also to have the smoothness of a master negotiator, insight of a psychologist, and courage of a lion tamer.

In this climate, training and education take on even more importance. Traditional contract training methods have focused on defining legal terms, on the assumption that if one knows what a term means, one can apply it successfully in any situation. Definition-based training is also tidy. It lends itself to display on PowerPoint slides, and can be covered in a 90 or even a 60-minute session.

However, definitions can only take one so far. How does one communicate compelling legal and policy arguments in support of a negotiating position? What do we do when the facts don’t fit any standard negotiating position? Research administrators and contract officers who can effectively communicate the university’s positions on contract terms will be more successful at obtaining concessions from sponsors. Those who can effectively communicate the importance of contract terms to faculty are more likely to have faculty support during tough negotiations with sponsors.

The purpose of this text is to bridge the gap between traditional contract training methods and their application to actual negotiations. It is impossible in a text of this size to address all areas in full. Instead, this is an introduction to advanced negotiating practices with references to books where more detailed information can be found.

The text is designed as a stand-alone, and also to be read along with the presentation, The Art of the Difficult Deal, presented at the NCURA 2005 Annual Meeting. Electronic copies are available upon request. It is my hope that it will be used to begin or supplement a personal contract negotiation guide for the reader. See the last page for ordering information.
I. Reading Contracts

Most people, including many lawyers, do not read contracts word for word. There it is. The secret is out and it is a little embarrassing. At the same time, it presents a huge opportunity for improvement. Contracts are difficult to read and become increasingly boring the longer one works in the field. It is difficult maintain the discipline to read each term individually and in connection with its fellows, while dismissing the suspicion that it is “like all the others.” When we don’t read a contract carefully, but opine on its acceptability, we invite time-consuming delay, or even harmful error. This does not mean that there are no standard or common agreements that can be scanned. The quick read has its place. However, those types of agreements do not generally present the problems addressed here.

Why bother when the risks are small? The risks of a dispute or lawsuit over sponsored research are small. This is often cited as a reason for making policy exceptions whenever it seems expedient to do so. However, defining the terms of a research engagement help the work to go smoothly. Even small disputes can destroy successful relationships among principal investigators, colleagues and sponsors. Anecdotal evidence suggests that many R&D intensive companies sponsor little or no university research because of previous bad experiences with universities or the bad experiences of others. Well-written contracts improve internal control, insure financial responsibility, and minimize audit and compliance problems later on. With respect to intellectual property rights, well-written contracts clarify title to inventions up front, avoiding complex problems in the future. Finally, a well-negotiated, legally sound contract reflects favorably on your institution. It enhances university prestige and the negotiator’s pride in a job well done.

II. The Discipline of Negotiation

Negotiation Process

Each of us has his or her “natural” negotiating styles. We use them every day, and we’ve been using some of them all our lives. We negotiate to buy a car, to obtain a refund from the retailer for a disappointing product, to split living expenses with a roommate, and to decide with a spouse where to eat dinner.

Negotiation is also a skill that can be enhanced by training and improved with practice. Excellent negotiators share a combination of traits, the most important of which is flexibility. They adjust their strategy depending upon the subject matter and the style of the other party. They switch tactics as needed. They don’t let ego or personal feelings get in the way of achieving their objectives.

When we negotiate without a conscious strategy, we may lapse into habits that were acquired in childhood. Here are some of the more unflattering ones:

We may be tactful and pleasant, seeking approval from the other party
We may be cold and dour, perhaps even rude, if we don’t like or respect the other party.
We may become frustrated if it appears that we won’t get what we want.
We may blame a third party, e.g., a superior, if we are unsuccessful

Becoming more skillful and successful at negotiation requires focusing on negotiation as process. The
process, which often goes unnoticed, is itself subject to negotiation. Thus, the preferred modes of communication (e.g., telephone, email, face to face), setting of deadlines, initiation of drafts, editing formats, rhythm of proposal and counterproposal, and much more, are all negotiable.

The skilled negotiator works hard to understand the interests of the other party, secure control of the draft, use her preferred mode of communications, and ensure adequate time for negotiation before a deadline.

1. Control of the Draft. Most sponsors insist on using their own template, rather than the university’s. The Sponsor who mails a hard copy of the contract begins with control of the draft. That is no accident. Many companies and law firms use proprietary word processing software or PDF files, which are intended to make contract terms secure, but either intentionally or as a byproduct of security, make negotiation by editing difficult.

Gaining control can be as simple as asking for a digital version, or, if one is unavailable from the Sponsor, scanning in the hard copy. Using an electronic version of the agreement in MS Word, standard and proposed language can be easily compared. Word 2002 is especially robust for editing. The marginal comment feature allows one to support each change with a linked argument, thus illustrating the original, the changes and the rationale together. Because Word can automatically track versions, it is easy to verify accepted changes from draft to draft. With an electronic version, the negotiator can “push” drafts via email, and by copying the PI, communicates its diligence in moving negotiations forward.

Gaining control can also be very difficult, requiring its own negotiation, during which the negotiator points out the costs in time and accuracy of working from separate texts. If the Sponsor retains control, the PI and the negotiator’s superiors may need to be informed that negotiations will be delayed. In such situations, the university is at a special disadvantage in complex negotiations. One can still propose modifications, but the sponsor will control the timing and contents of each draft. Each draft then has to be read carefully and compared to emails and other documents containing the university’s previous proposals to discover whether changes are accurate.

2. Modes of Communication. Email is ubiquitous, time saving, frustrating, time consuming, fast and slow. It can be a good negotiating tool, but only if the negotiator is thoughtful and persuasive in her written communications. It can also provoke anger, negative responses, and feelings that can last a long time.¹ In-house email is a great time saver when it can substitute for face-to-face briefings with faculty members or legal counsel. However, too often, negotiators waste the opportunity by providing information without context, provoking a succession of clarifying emails. The principal investigator needs to know that negotiations are delayed while legal counsel talks to the sponsor’s lawyer. However, that bare fact is of little solace if the investigator does not also know the sticking point, its importance, and how far the parties are from a deal. The most common PI reply – how long will this take? – should have been answered in the original message. The email to the investigator is a great opportunity to explain why negotiation rather than capitulation is in her best interest. Faculty researchers are entitled to have our very best arguments for enforcing research policy. While they may appear disinterested and impatient, many appreciate being “in the loop.” Are you sure you know which do and which don’t?

There is another direct consequence of the preference for email, and that is the decrease in telephone negotiations. The telephone remains the best and shortest means of two-way communication. It also

¹ See, e.g. An E-Minder, Illinois Bar Journal, Vol. 93, 316 (June 2005), and a host of similar articles in business periodicals.
permits persuasive argument, which is enhanced by voice tone and not apparent in most messages. How often do we return heavily marked drafts to the sponsor without a prior phone call to explain our rationale? It is more productive to discuss cornerstone issues like ownership of work product on the telephone, rather than to make 15 changes to the draft to accommodate our position, instead of our interest. In an excerpt from Getting to Yes below (page 6), Fisher & Ury introduce the principle of inventing creative options for mutual gain, in effect brainstorming with the other party. Brainstorming is most effective in real time give-and-take.

3. Setting and Meeting Deadlines. Some researchers use artificial deadlines in an attempt to speed contract approval. For a variety of reasons, they do not want to wait in the queue. In the service model of sponsored programs administration, we may not ask the nature of the deadline in our urgency to respond, especially to senior people. However, it is not impertinent to ask the nature of one’s deadline. Fake deadlines create unnecessary negotiating pressures. How often do we pass up the opportunity to evaluate and negotiate effectively, because of faculty members’ pressure? By verifying seemingly unrealistic deadlines with the sponsor and the PI, an amazing number of urgent contract reviews disappear. Allow the faculty member to save face by the simple statement “the sponsor has extended its deadline.”

Projects do have genuine deadlines that need to be observed. There are animals to be ordered, instrument time to be lined up, and other projects to be scheduled before and after the instant one. If a deal cannot be reached, usually it is a business reason, not a legal reason. Project deadlines allow one to prioritize the work, treat all investigators fairly, and satisfy legitimate sponsor and PI concerns.

4. Decision-Makers. You and your counterpart are not the decision-makers. This means that you are receiving and communicating the positions of others. Because one’s emails may be read by a third party, clear communications are extremely important. All proposed contract changes should include a persuasive rationale, among which “We have to have it this way” does not apply. Exchange the name and contact information of the each party’s decision maker and legal counsel. It becomes valuable information when the other negotiator is on vacation or is difficult to reach near deadline. It sends the message, “our negotiation may need to go to the next level.”

Negotiation Tactics

Movies, TV and the media reinforce stereotypes that the best negotiators are tough and aggressive bargainers. They bluff, they cajole, they abuse when necessary. Therefore, it is not surprising that most contract negotiators, especially in industry and law firms, treat negotiation as warfare. When faced with hard bargaining tactics from sponsors, more collegial styles may appear impractical or weak. It is easier to bargain equally hard for every point, major or minor, rather than take the time to determine which points are most important, which can benefit from brainstorming, and which can be swapped out.

Whatever one’s personal style, negotiating success requires learning how to adopt other styles and strategies. There is a time to be patient, a time to strike; a time to be conciliatory, a time to threaten. Most of all, there is always a time to sacrifice pride and face to achieve an objectives.

A principled approach to bargaining, called interest based bargaining has gained many adherents. While not the only way to achieve an agreement, it offers clear advantages in many situations. The following excerpt from Getting to Yes introduces interest based bargaining.
The most common form of negotiation . . . depends upon successively taking—and then giving up—a sequence of positions. Taking positions . . . serves some useful purposes in a negotiation; it tells the other side what you want; it provides an anchor in an uncertain and pressured situation; and it can eventually produce the terms of an acceptable agreement. However, those purposes can be served in other ways, and positional bargaining fails to meet the basic criteria of producing a wise agreement, efficiently and amicably.

Arguing over positions produces unwise agreements. When negotiators bargain over positions, they tend to lock themselves into those positions. The more you clarify your position and defend it against attack, the more committed you become to it. The more you try to convince the other side of the impossibility of changing your opening position the more difficult it becomes to do so. Your ego becomes identified with your position. You now have a new interest in “saving face”—in reconciling future action with past positions—making it less and less likely that any agreement will wisely reconcile the parties’ original interests.

The danger that positional bargaining will impede a negotiation was well illustrated by the breakdown of the talks under President Kennedy for a comprehensive ban on nuclear testing. A critical question arose: how many on-site inspections per year should the Soviet Union and the United States be permitted to make within the other’s territory to investigate suspicious seismic events? The Soviet Union finally agreed to three inspections. The United States insisted on no less than ten. There the talks broke down—over positions—despite the fact that no one understood whether an “inspection” would involve one person looking around for one day, or a hundred people prying indiscriminately for a month. The parties had made little attempt to design an inspection procedure that would reconcile the United States’ interest in verification with the desire of both countries for minimal intrusion.

As more attention is paid to positions, less attention is devoted to meeting the underlying concerns of the parties. Agreement becomes less likely. Any agreement reached may reflect a mechanical splitting of the difference between final positions rather than a solution carefully crafted to meet the legitimate interests of the parties. The result is frequently an agreement less satisfactory to each side than it could have been.

Arguing over positions is inefficient. The standard method of negotiation may produce either agreement . . . or breakdown. In either event, the process takes a lot of time.

Bargaining over positions creates incentives that stall settlement. In positional bargaining you try to improve the chance that any settlement reached is favorable to you by starting with an extreme position, by stubbornly holding to it, by deceiving the other party as to your true views, and by making small concessions only as necessary to keep the negotiation going. The same is true for the other side. Each of those factors tends to interfere with reaching a settlement promptly. The more extreme the opening positions and the smaller the concessions, the more time and effort it will take to discover whether agreement is possible.
The standard minuet also requires a large number of individual decisions as each negotiator decides what to offer, what to reject, and how much of a concession to make. Decision-making is difficult and time-consuming at best. Where each decision not only involves yielding to the other side, but will likely produce pressure to yield further, a negotiator has little incentive to move quickly. Dragging one's feet, threatening to walk out, stonewalling, and other such tactics become commonplace. They all increase the time and costs of reaching agreement as well as the risk that no agreement will be reached at all.

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Being nice is no answer. Many people recognize the high costs of hard positional bargaining, particularly on the parties and their relationship. They hope to avoid them by following a more gentle style of negotiation. Instead of seeing the other side as adversaries, they prefer to see them as friends. Rather than emphasizing a goal of victory, they emphasize the necessity of reaching agreement. In a soft negotiating game, the standard moves are to make offers and concessions, to trust the other side, to be friendly, and to yield as necessary to avoid confrontation . . .

The soft negotiating game emphasizes the importance of building and maintaining a relationship. Within families and among friends much negotiation takes place this way. The process tends to be efficient, at least to the extent of producing results quickly. As each party competes with the other in being more generous and more forthcoming, an agreement becomes highly likely, but it may not be a wise one. The results may not be as tragic as in the O. Henry story about an impoverished couple in which the loving wife sells her hair in order to buy a handsome chain for her husband’s watch, and the unknowing husband sells his watch in order to buy beautiful combs for his wife’s hair. However, any negotiation primarily concerned with the relationship runs the risk of producing a sloppy agreement.

More seriously, pursuing a soft and friendly form of positional bargaining makes you vulnerable to someone who plays a hard game of positional bargaining. In positional bargaining, a hard game dominates a soft one. If the hard bargainer insists on concessions and makes threats, while the soft bargainer yields in order to avoid confrontation, and insists on agreement, the negotiating game is biased in favor of the hard player. The process will produce an agreement, although it may not be a wise one. It will certainly be more favorable to the hard positional bargainer than to the soft one. If your response to sustained, hard positional bargaining is soft positional bargaining, you will probably lose your shirt.

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The answer to the question of whether to use soft positional bargaining or hard is “neither.” Change the game. At the Harvard Negotiation Project, we have been developing a method of negotiation explicitly designed to produce wise outcomes efficiently and amicably. This method, called principled negotiation or negotiation on the merits, can be boiled down to four basic points.

These four points define a straightforward method of negotiation that can be used under almost any circumstance. Each point deals with a basic element of negotiation, and suggests what you should do about it.

**People:** Separate the people from the problem.
**Interests:** Focus on interests, not positions.
**Options:** Generate a variety of possibilities before deciding what to do.
**Criteria:** Insist that the result be based on some objective standard.
The first point responds to the fact that human beings are not computers. We are creatures of strong emotions, who often have radically different perceptions and have difficulty communicating clearly. Emotions typically become entangled with the objective merits of the problem. Taking positions just makes this worse because people's egos become identified with their positions. Hence, before working on the substantive problem, the “people problem” should be disentangled from it and dealt with separately. Figuratively if not literally, the participants should come to see themselves as working side by side, attacking the problem, not each other. Hence the first proposition: *Separate the people from the problem.*

The second point is designed to overcome the drawback of focusing on people’s stated positions when the object of a negotiation is to satisfy their underlying interests. A negotiating position often obscures what you really want. Compromising between positions is not likely to produce an agreement that will effectively take care of the human needs that led people to adopt those positions. The second basic element of the method is: *Focus on interests, not positions.*

The third point responds to the difficulty of designing optimal solutions while under pressures. Trying to decide in the presence of an adversary narrows your vision. Having a lot at stake inhibits creativity. So does searching for the one right solution. You can offset these constraints by setting aside a designated time within which to think up a wide range of possible solutions that advance shared interests and creatively reconcile differing interests. Hence, the third basic point: Before trying to reach agreement, *invent options for mutual gain.*

Where interests are directly opposed, a negotiator may be able to obtain a favorable result simply by being stubborn. That method tends to reward intransigence and produce arbitrary results. However, you can counter such a negotiator by insisting that his single say-so is not enough and that an agreement must reflect some fair standard independent of the naked will of either side. This does not mean insisting that the terms be based on the standard you select, but only that some fair standard such as market value, expert opinion, custom, or law determine the outcome. By discussing such criteria, rather than what the parties are willing or unwilling to do, neither party need give in to the other; both can defer to a fair solution. Hence the fourth basic point: *insist on using objective criteria.*

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To sum up, in contrast to positional bargaining the principled negotiation method of focusing on basic interests, mutually satisfying options and fair standards typically results in a wise agreement. The method permits you to reach a gradual consensus on a joint decision efficiently without all the transactional costs of digging in to positions only to have to dig yourself out of them. Separating the people from the problem allows you to deal directly and emphatically with the other negotiator as a human being, thus making possible an amicable agreement.

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William Ury was a long-time federal mediator of major labor disputes. Recognizing the potential shortcomings of interest based bargaining in the face of hard bargaining tactics, he wrote a follow-up, *Getting Past No.* Ury suggests a number of tactics for negotiating in difficult situations. His thesis is

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that situations, not people, are difficult. His approach can be summarized by don’t react, don’t argue, don’t reject, don’t push and don’t escalate.

Another interesting approach is called “Even Swaps.”3 Even Swaps is about making wise trade-offs in decision-making that involves choosing among alternatives. The problem we face is that each option has its own basis of comparison. Suppose the Sponsor insists on a warranty of title to work product and indemnification from the university. Is there a basis on which one can compare the two and trade one for the other? How about offering the sponsor a warranty of title in exchange for waiving indemnification? Which is riskier? How would one begin to evaluate the factors that comprise that choice? “Even Swaps” is an intriguing tool for complex decision-making.

III. Negotiating the Sponsored Research Contract

1. The Scope of Work

Many negotiators find that reading the scope of work first improves understanding of the contract. Although the scope may be written in the language of the researcher’s technical field, the verbs give away what’s going on: manufacturing, delivering, synthesizing, writing, evaluating, testing, cloning, etc. Many institutions also require as part of the contract registration process a disclosure from the PI that alerts the negotiator to issues in work product, like publishing, data ownership, federal rights, new discoveries and inventions, and the like.

The scope of work affects the negotiation of most of the key terms of the agreement. These include, but are not limited to:

a. **Work product** – The scope explains the deliverables and how the PI and sponsor expect to use them.

b. **Intellectual property** – The scope reveals the type of intellectual property rights – patentable inventions, copyrighted works, or know how4 – that may arise out of the research, each of which may trigger different needs in the Work Product clause.

c. **Liability** – The scope reveals the time, place and manner of performance, any of which can affect risk of liability. Here are just a few examples:

i. Working with dangerous organisms, like hepatitis, anthrax derivatives, and SARS, and transmitting them to and from campus.

ii. Working in countries on the State Department Watch List or in uninhabitable areas, like Antarctica.

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4 The term *know how* is used to encompass other types of valuable materials that can be licensed (see page 15), such as information, data, non-patentable inventions, non-copyrighted works, experimental techniques and processes, blueprints, sketches and designs, formulae and algorithms, and all manner of stuff. In industry, confidential know how is known by its more common name, trade secrets. Because that term makes many university types nervous, we’ll call it know how here. Either way, ownership is protected under state laws and the Supreme Court has upheld a know-how license. See, *Aronson v. Quick Point Pencil*, 440 U.S. 257 (1979).
iii. Producing software and technical data subject to export controls while there are foreign nationals in the lab.

The level of detail seen in scopes of work varies considerably. Some research descriptions are well defined, while others could have been transferred from the back of an envelope. If the latter is the case, it is well worth the time to contact the principal investigator and gain an understanding of the research before negotiating the agreement. The scope of work can help resolve an impasse by providing objective justification for relaxing – or strengthening – the university’s adherence to policy.

2. Best Efforts and Satisfactory Performance

An obligation to use best efforts or to deliver work based upon satisfactory performance imposes burdens on the University that are at odds with the nature of research. After all, conducting research is not like painting a house. Do not assume that the sponsor appreciates the distinction. In many industries, especially engineering-based, "research results" must meet detailed specifications and be ready for production on a certain date. When compared to industry R&D, university applied research, to say nothing of basic research, may appear to be so much puttering in the lab. Take into account, too, the propensity of the PI when selling the project to make success appear a foregone conclusion.

Best efforts require the performing party to use all available resources to complete the work. In one reported case, a distribution company agreed to use its "best efforts" to promote a particular brand of beer. The distribution company went bankrupt. In a suit by the brewer, the court required the company to borrow the funds needed to fulfill it’s obligations. The loan was considered an available resource to fulfill the duty to use best efforts. Under the lesser standard of "reasonable efforts," the company would not have been forced to borrow funds to complete the contract.

Similarly, satisfactory acceptance requires the quality of the work to meet an unarticulated standard of satisfaction that lies wholly within the control of the Sponsor. The term "satisfactory" is never defined. Thus, it is impossible to predict whether a contracting officer will be "satisfied" or find a particular event "acceptable."

Using Fisher & Ury’s principle of focusing on interests not positions, here is a negotiating strategy for both terms.

<table>
<thead>
<tr>
<th>Table 1. Addressing Interests Not Positions – Best Efforts and Satisfactory Acceptance</th>
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<tr>
<td>The Sponsor’s goal in both cases is the same – to ensure that the deliverables will be of high quality. Instead, offer the term “reasonable efforts,” or efforts “customary among institutions of higher education,” or better, remain silent on the level of effort. Emphasize the experience of the researcher and invite the Sponsor to discuss objective performance standards with the PI.</td>
</tr>
<tr>
<td>The goal is to remove subjective references, like “satisfactory” or “acceptable.” If payment is conditioned upon submission of a “satisfactory” report, strike “satisfactory.” Point out that university research is by definition an open-ended inquiry, whose results are inherently unpredictable. If the result of research could be accurately predicted, it would not be research.</td>
</tr>
<tr>
<td>If the sponsor resists removal, insist on adding a definition of “satisfactory” or “acceptable” based upon an objective standard. For example, one might agree that a report is “satisfactory” as long as it contains a statement of the progress to date, tables of all data, a section describing the methodology, and conclusions.</td>
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3. **Work Product**

Work product refers to the tangible properties that result from conducting sponsored research. It can be defined in terms of data, information, devices, software, designs, charts, biological materials, chemicals, techniques, processes, and all manner of stuff, whether in tangible or intangible form. Work product is not necessarily the same as deliverables. If both terms are used, each should be defined. Work product can include drafts, manuscripts, raw data, and preparatory materials that may or may not be incorporated into the deliverables.

Rights in work product encompass both tangible property rights in the physical objects and intangible intellectual property rights that control the property’s reproduction and use. Thus, it is common to address both intellectual and tangible property rights. Ownership of the tangible should be kept separate from ownership of the intangible to avoid confusion. Consider that when one purchases a book (deliverable), it is not in the form of a draft manuscript (work product). The book owner owns a published copy (tangible), which does not affect the copyrights (intangible) of the author and publisher.

Having learned something about the deliverables from the scope of work, one can evaluate the respective interests of the parties in ownership. The character of the work often suggests the best way to divide rights. Table 2 illustrates a variety of options available to the university negotiator when the sponsor insists on ownership of work product.
Table 2. Inventing Options for Mutual Gain – Negotiating Rights to Work Product
When the Sponsor Demands Ownership

<table>
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<tr>
<th>Tangible Product</th>
<th>IP Right</th>
<th>University Interest</th>
<th>Work Product Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final report</td>
<td>N/A</td>
<td>Publishing</td>
<td>Non-exclusive license for educational purposes</td>
</tr>
<tr>
<td>Specialized works and reports, e.g. program evaluations</td>
<td>Copyright</td>
<td>Preserve pre-existing rights in template for use in future projects</td>
<td>Sponsor owns, grants educational license to University; University owns copyright in pre-existing works, grants license to Sponsor</td>
</tr>
<tr>
<td>Research Software</td>
<td>Copyright</td>
<td>Continue research with latest version of the code</td>
<td>Sponsor gets license to one copy with a non-exclusive license to use internally for research; University retains copyright</td>
</tr>
<tr>
<td>Commercial Software, e.g. technical reports</td>
<td>Copyright</td>
<td>Sales of software bring revenue for research</td>
<td>Sponsor gets user license on university terms; University retains copyright</td>
</tr>
<tr>
<td>Consortium results, e.g. technical reports</td>
<td>Copyright</td>
<td>Sale of research results to members</td>
<td>Members receive non-exclusive licenses for internal use. University retains copyright</td>
</tr>
<tr>
<td>Devices, machines, manufacturing processes, etc.</td>
<td>Know-how, patents, trade secrets</td>
<td>Ownership of all IP rights for continued development</td>
<td>Exclusive option to negotiate exclusive license with or without non-exclusive license to use non-patentable portions</td>
</tr>
</tbody>
</table>

Note that the solutions in Table 2 do not include joint ownership. Although joint ownership can be a workable solution in some cases, it is often misused and misunderstood. When is joint ownership of work product appropriate? Agreements for joint ownership work well when intellectual property is likely to be developed in the course of collaboration between two entities. It can be impractical – or impossible - to separately quantify the contributions of each party. Employees of the parties may jointly develop different aspects or modules of technology or software, or be co-inventors on patentable inventions. The parties may also contribute pre-existing technology to be combined with new work into an integrated product or solution. Joint ownership by agreement is malleable and is capable of being shaped into sophisticated solutions among large groups of collaborators. On the other hand, if the parties have not explicitly provided for joint ownership in the case of collaborative research, joint ownership can also arise by operation of patent or copyright law.

Joint ownership is more frequently proposed when the work is not collaborative at all. It can appear to be a satisfying solution – simple, fair and symmetrical – and preferable to wrangling over ownership. It can work when the parties each understand the needs of the other, understand the intellectual property law that applies, and are reasonably sure that they will not be in conflict down the road. For example, joint ownership makes particular sense in cases involving research results that are based on research involving a Sponsor’s proprietary materials. The rationale for joint ownership is that such results would not have been possible but for the materials supplied by a Sponsor.

Table 3. Joint Ownership Clause

The data and results derived from the Research Program shall be the joint property of University and Sponsor, however, neither party will be required to report or account to the other.
for its use of data and results, and each shall be free to use data and results for any lawful purpose.

Consider the example of a university that subcontracts from an engineering firm a state project to write software that will track and measure freeway traffic flow. The prime contract provides that the software deliverable that incorporates the state’s data will be owned by the state department of transportation, and the copyright in the underlying work, now customizable for application in other states, will be owned by the engineering firm, which demands that the university write the software as a work for hire. Of course, the university rejects, arguing that the principal investigator has considerable intellectual capital already invested in traffic software. A stalemate ensues. The parties resolve by deciding that the copyright in the software will be jointly owned. One year later, a local radio station offers to take a royalty-bearing license to the software from the university. Two years later, after royalties are flowing, university legal counsel is asked to review the contracts before renewal of the radio station license. For the first time, joint ownership is discovered. The previous license had represented that the university was sole owner of the software, but it is not.

The problem is that under copyright law, the relationship of joint copyright owners is like a partnership. Each is obligated to account to the other and share with each other the profits of licensing. If the subject of the contract had been a patented invention, the parties get a different result. Joint patent owners are not partners, but rather competitors. Each may license to the world, and neither can be bound by an exclusive license of the other to a third party. Because of these differences, many company lawyers are reluctant to approve joint ownership, and it is wise to avoid it if other methods will achieve the parties’ objectives.

Table 4. Inventing Options for Mutual Gain – Licensing Work Product

| The Sponsor’s interest in ownership is control, based upon the assumption that a licensing arrangement creates a negative entanglement with the University. The university’s interest in ownership is to preserve indefinitely the ability to disseminate new knowledge to the public. |
| Licensing is a flexible, creative solution. Licenses are both legally enforceable and transferable (unless made non-transferable). The Sponsor-owner can grant the university a non-exclusive license to copy, distribute, publish and use work product for non-commercial purposes. The university-owner can grant the Sponsor an exclusive license, comprising all rights except academic use. Getting down to the details may reassure the Sponsor. For example, “Sponsor shall own work product, but grants to university the non-exclusive, perpetual, paid up right to use work product for academic purposes, including publishing and presentations, teaching, and non-commercial research; provided that, after the expiration of __ months from termination of this agreement, University may use work product in commercially sponsored research in any scientific field, |

A Note on Intellectual Property Negotiations. It is critical to communicate effectively to the sponsor the university’s interest in owning the intellectual property rights to work product. This is not only a matter of policy, a weak argument, but also economic reality. A researcher’s talent for developing new inventions during sponsored research is the product of years of work and substantial university investments in facilities and resources, not the sponsor’s modest support. These long-term investments are not reflected in sponsored research budgets. If they were, the indirect cost rate might be 200%, as it is in many companies. Commercial sponsorship only defrays a portion of the actual cost of a research program.
The university’s very reasonable position is that by owning and exclusively licensing to the sponsor, the sponsor only has to pay for the invention if it leads to downstream commercial success. The sponsor does not pay for the intellectual property rights unless or until commercial potential is likely to be realized. At the same time, the sponsor gains an opportunity to work closely with university researchers and gains early access to research results. These benefits, in themselves, may be of significant value.

4. Publishing and Confidentiality

Many Sponsor confidentiality clauses are written so broadly that they can be read to prevent any disclosure of research results without the Sponsor’s permission. These are especially common in clinical trial agreements. Faculty researchers are often unconcerned, saying that the Sponsor “knows I want to publish” or “agrees that I can publish,” but the language of the contract states otherwise.

Confidentiality clauses that define confidential information to include not only proprietary company information, but also the researcher’s know how, data, unspecified “information,” even the agreement itself, exert a chilling affect on publication rights. Because the right to publish is not listed as one of the exceptions to confidentiality, the confidentiality and publishing clauses conflict on their face. The courts will try to interpret a contract to carry out the intent of the parties. Because the confidentiality clause is very detailed, and the publishing clause is not, it may appear that the parties intended for the right to publish to cover only materials not included in the definition of confidentiality.

If everything required for a potential publication is confidential, then the right to publish is conditional, regardless of the publishing clause.

Table 5. Inventing Options for Mutual Gain – Strengthening Publication Rights

The most practical remedy for strengthening publication rights, other than vainly trying to limit confidentiality, is to make the two clauses consistent with each other.

The Publication clause begins: Notwithstanding Paragraph 5.1 (confidentiality), the University’s right to publish is unrestricted, except as limited in this paragraph (acceptable delay for review).

Add to the Confidentiality clause, a separate sub-paragraph: Sponsor agrees that nothing herein shall be interpreted to limit the University’s right to publish, except as described in paragraph __.

The meaningful right to publish includes at least four distinct rights:

1. The right to determine authorship of manuscripts and presentations
2. The right to choose the publication in which to publish or the forum in which to present

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5 See J. Newburg, R. Dunn, Keeping Secrets in the Campus Lab: Law, Values and Rules of Engagement for Industry-University R&D Partnerships, 39 Am. Bus. L. J., 187 (Winter 2002) (The authors report two cases involving pharmaceutical companies in a lawsuit and an arbitration against the University of California at San Francisco over publication of research results). A pharmaceutical company lawsuit against a Canadian researcher was reported in the Wall Street Journal last year.
3. Total control over content, including use of work product
4. Freedom from excessive delays

The right to publish should leave the Sponsor with only the right of prior review – to file patent applications if the publication contains patentable material, and to have company proprietary information (not “Confidential Information”) removed from the manuscript.⁶

<table>
<thead>
<tr>
<th>Table 6. Insist on Using Objective Criteria – Publication</th>
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<tbody>
<tr>
<td>Sponsor publishing clauses may appear acceptable because they acknowledge the university’s right to publish. However, the clause may also include unusual limitations, such as specifying that a company scientist will receive authorship credit. Authorship is the principal investigator’s sole prerogative. A well-written publication clause educates sponsors to all the university’s publishing interests to avoid later misunderstanding.</td>
</tr>
<tr>
<td>The International Committee of Medical Journal Editors (ICMJE) has published “Uniform requirements for Manuscripts Submitted to Biomedical Journals,” and “Sponsorship, Authorship and Accountability,” both of which set out the rationale for open and free publishing of biomedical research and offer a set of standards against which university publication clauses can be compared. See</td>
</tr>
</tbody>
</table>

5. Intellectual Property

While sponsored research agreements rarely result in licensable patents, university intellectual property policies uniformly require protection of intellectual property (IP) rights in sponsored research. Most policies have processes for making exceptions, and exceptions are undoubtedly made in a number of situations where inventions appear highly unlikely and the clause is a deal-breaker for the sponsor.

A refresher may be helpful before addressing negotiations.

**Patentable Inventions.** Patentable inventions are inventions that are tangible, useful, novel, and non-obvious. To be patented, an invention must be both “conceived” and “reduced to practice.” An invention is conceived when the idea of the invention occurs to the inventor. Reduction to practice is the physical manifestation of the idea, showing that some physical enablement of the invention will work in the real world. For example, a process is reduced to practice when it is successfully performed in the laboratory.

Sponsors may seek to have “conceived and reduced to practice” changed to “conceived or reduced to practice.” This is a material change that increases the range of possible inventions covered by a research contract and could overlap with inventions which are partially developed on other projects, including federally sponsored projects, creating competing contractual obligations and chain of title problems when licensing. Accordingly, “or” should be avoided.

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⁶ Multi-center clinical trials present different publication problems and review criteria.
Table 7. Insist on Using Objective Criteria – Intellectual Property Rights

Given the vast amount of funding received from the Federal government, the regulations and conditions attached to such funding, such as Bayh-Dole and the NIH Guidelines on Research Tools, positions supported by federal requirements form stronger arguments than those based solely upon university policies.

Copyright. Copyright protects original works of authorship fixed in any tangible medium of expression that can be perceived, reproduced or otherwise communicated either directly or with the aid of a machine or device. Works of authorship include literature, music, theatrical works, pantomime and choreographic works, pictorial or graphic works, audiovisual works, sound recordings, architectural works, and computer software. Copyright protection does not cover ideas, information, processes, systems, or principles or scientific discoveries, regardless of their form.

Most research results are copyrighted. Common work product that cannot be copyrighted includes databases, data, algorithms and scientific formulae, ideas and scientific discoveries. Arrangements of data may be copyrighted in some instances, but not the data itself, and only if the arrangement itself is original. Other types of work product are not deliverable under the contract because the copyrights belong to the faculty member, not the university. Depending upon institutional policy, these include manuscripts, articles and books, recorded lectures, or other works created through independent academic effort.

An important and helpful distinction between patents and copyrights is that patents protect ideas, and copyrights protect expressions (of ideas). Works are copyrighted upon creation. Since 1976, no copyright notice or registration is required. Unlike patent owners, copyright owners are invested with a bundle of exclusive rights that can be split and licensed separately:

- Reproduction
- Distribution
- Preparation of derivative works (translations, modifications based upon the work)
- Public display
- Public performance

Trade Secrets. A trade secret is confidential information that has commercial value to its owner by maintaining its secrecy. Trade secret law is misunderstood in the university community. Many universities believe that universities do not create trade secrets in research, but if they do, lack the capacity to license them. They offer a number of arguments:

- Trade secret protection lasts only so long as the secrecy of the information lasts;
- Maintaining secrecy is contrary to the university mission and tax-exempt status;
- Know-how, the substance of trade secrets, is not protected university intellectual property because it is the personal expertise of faculty members and employees that they require to do their jobs;
- Know-how cannot be sufficiently defined to be licensed for commercial development.

It may come as a surprise that universities can and do legally license know-how, without violating university policies. First, let’s distinguish trade secrets from know-how. The definition of the stuff protected by trade secret law tracks very closely the common definition of know-how. (See footnote 5,
However, while all trade secrets are probably know-how, not all know-how is a trade secret. In the Supreme Court case of *Aronson v. Quick Point Pencil*, cited in footnote 5, the defendant licensed a clever key chain to Quick Point. At the time the license was executed, the defendant had a patent application pending on the novelty item. The license provided for a royalty on sales and a reduced royalty if the patent later failed to issue. In fact, after a time, the patent was rejected by the Patent Office. Quick Point continued to sell the product and pay the reduced royalty, as the product was quite successful. However, in time, Quick Point was joined in the market by others who were selling the same product for less, not being required to pay the royalty. Quick Point fought unsuccessfully all the way to the Supreme Court and lost. The Court held that Quick Point had a contract to pay royalties so long as it sold key chains and its contract was enforceable. Although the patent hadn’t issued, the parties had provided for that possibility in the agreement. By signing the license, Quick Point had gained the commercial advantage of sole access to the key chain idea when it was confidential. Thus, during that time and while the patent was pending, it had the exclusive market.

Thus, know-how is licensable and a license can remain enforceable after it is no longer confidential. What about know-how within university labs? After all, university research is more complex and sophisticated than key chains. Here are some negotiating options taken from court cases and University of Illinois at Chicago licenses. Note that the ownership and licensing options in Table 2, page 11, include know-how. In Table 8, the licensing schemes are considered non-burdensome, because researchers who patent are accustomed to “stand-still periods,” during which a researcher hold materials in confidence for review by the technology transfer office.

<table>
<thead>
<tr>
<th>Description</th>
<th>Secrecy requirements</th>
<th>Licensing Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method for cloning cell line</td>
<td>Hold confidential for tech transfer commercial market and license analysis</td>
<td>License non-exclusively to multiple companies</td>
</tr>
<tr>
<td>Inventor’s experimental data requested by patent licensee</td>
<td>Hold confidential for period of license negotiation</td>
<td>License exclusively with patent; get royalties for its use in products not covered by a valid patent</td>
</tr>
<tr>
<td>Minor changes that improve public domain heat-treatment of semiconductors</td>
<td>Hold confidential until patent application published or patent rejected</td>
<td>File patent application and license as in the <em>Aronson case</em></td>
</tr>
<tr>
<td>Any non-patentable item on which the inventor is not publishing in the hope of getting a patent</td>
<td>Hold confidential for tech transfer market and license analysis; stays confidential only if licensed</td>
<td>License either exclusively or non-exclusively</td>
</tr>
</tbody>
</table>

### 6. Governing Law

The choice of governing law is critical when a dispute is potentially headed for litigation. Because the negotiating options are either the home state of one of the parties or silence, silence is a common choice. It appears to distribute the (low) risks evenly, analogous to previous comments about joint ownership, but in fact each contract and potential legal problem has its own choice of law problem. Silence is not always benevolent.
All states have a body of law called “choice of law” or “conflict of laws” that determines which laws their courts will apply in the case of legal disputes involving residents from another state. This is not the same as jurisdiction, which governs which states’ courts have the power to decide the case. For instance, a choice of law rule may designate the law of the place of performance as the law to be applied in contract disputes, or the law of the place where the injury occurred to be applied in tort cases.

To avoid an unintended result, if a particular state’s law is designated, always add the phrase “without regard to its conflict of laws provisions.” Otherwise, the court hearing the case in your state may apply the law of another state, because your state’s law dictates that result. Given the complexity of the area, the negotiator uses knowledge of the law, not to negotiate the clause, but to explain to internal constituencies the significance of the issue and the negotiating problems it presents. If you can do that, your lawyer will be impressed.

The net affect of remaining silent is that the state where suit is filed – the home state of the plaintiff – usually gets to decide which law will be applied.

<table>
<thead>
<tr>
<th>Table 9. Governing Law Clause</th>
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<tbody>
<tr>
<td>This Agreement shall be governed by the laws of the State of California without regard to the conflict of laws provisions thereof, regardless of the place of execution or performance.</td>
</tr>
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</table>

7. Alternative Dispute Resolution

ADR is not well understood, mostly because it is an umbrella term that describes a wide variety of procedures, whose only similarity is that they are considered viable alternatives to litigation. The most selected procedures in contracts are mediation and arbitration. Most clauses providing for mediation or arbitration are poorly drafted and provide little guidance to the parties if there is a dispute.

While achieving an agreement on the clause itself can be simple – we don’t enter agreements expecting to fight over them later – executing their terms in the heat of a dispute can be difficult or impossible. After all, it is unlikely that parties who are already not getting along will be able to agree on the qualifications of a mediator, number of arbitrators, place of mediation or arbitration or both, amount of allowable pre-hearing discovery, payment of costs, and much more. Therefore, the key to drafting the clause is to make it self-executing. By self-executing is meant that each step in the procedure is triggered automatically by the previous event or by the passage of a specific length of time. For more complex decisions, a third party makes the decision, such as appointing the American Arbitration Association or other professional ADR group to select the arbitrator or procedure.

State sponsored institutions may have legal policies against ADR, because it may constitute a waiver of sovereign immunity. Sovereign immunity in some states includes restrictions on how state agencies can be sued and so confers some advantages on the university that can make lawsuits against it more difficult. For example, in Illinois suits against state entities must be brought in the Illinois Court of Claims, a quirky little forum on the state’s home turf and often a dead end for plaintiffs.
The potential value of ADR depends upon whether a university believes that it is more likely to be the claimant or the defendant in a contract dispute. ADR offers claimants who believe they have been wronged (a university that hasn’t been paid) the option to avoid the time and expense of litigation. University insurance typically funds the legal costs of being sued, but not the legal costs of filing suit. Thus, ADR could be an economical and effective tool for handling some contract disputes. If dispute resolution were put on a sliding scale, the first desirable step would be structured negotiation.

<table>
<thead>
<tr>
<th>Table 10. Negotiation Clause</th>
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<tbody>
<tr>
<td>In the event of any dispute, claim, question, or disagreement arising from or relating to this agreement or the breach thereof, the parties shall use their best efforts to settle the dispute, claim, question, or disagreement. To this effect, they shall consult and negotiate with each other in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to both parties.</td>
</tr>
</tbody>
</table>

**Mediation.** If negotiation fails, the second step on the scale is mediation. Mediation is usually non-binding, informal, and by agreement, or statute in some states, can be kept confidential and inadmissible in subsequent litigation. The mediator typically acts as a go-between, attempting to identify potential areas for agreement. If the mediator is an attorney or retired judge, he or she may also offer an opinion on the relative merits of each party’s case if suit is filed. Table 11 demonstrates a self-executing clause.

<table>
<thead>
<tr>
<th>Table 11. Mediation Clause (short form)</th>
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<tbody>
<tr>
<td>If a dispute arises out of or relates to this contract, or the breach thereof, and if the dispute cannot be settled through negotiation, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association (AAA) before resorting to arbitration, litigation, or some other dispute resolution procedure. The AAA shall schedule mediation within ___ days after a written request by either party. The AAA will choose a mediator who shall be an experienced practicing attorney who has no conflicts of interest. All expenses shall be divided equally between the parties. Mediation shall be conducted within ___ days after referral to the AAA, and be completed over no more than two business days. All procedures shall be set by the mediator. The mediator shall make written recommendations to the parties. The results of mediation are non-binding, advisory, and confidential, and the mediator’s recommendations, as well as the written or oral evidence produced for mediation, shall not be admissible for any purpose for or against the parties in any later ADR, administrative or legal proceeding.</td>
</tr>
</tbody>
</table>

**Arbitration.** The third step is arbitration. Arbitration is more formal and usually binding. Binding arbitration provides a kind of private litigation. Short form arbitration clauses are commonly found in many kinds of consumer transactions, from buying stock to computers and software.

Those who use and support arbitration as a way of resolving disputes see the following advantages of arbitration over litigation: relative speed and economy, privacy, convenience, informality, reduced likelihood of damage to ongoing business relationships, greater suitability to international problems, and, especially important, the ability of the parties to select arbitrators who are experts and familiar with the subject matter of the dispute. These advantages shrink in inverse proportion to the complexity of the process.
If the university finds itself forced to agree to an arbitration clause to no apparent advantage, there are ways to lessen its potential for harm by limiting the authority of the arbitrator. Here are some examples of restrictive arbitration terms:

- The arbitrator will have no authority to award punitive or other damages not measured by the prevailing party’s actual damages, except as may be required by statute.
- In no event shall an award in an arbitration exceed $\_
- The arbitrator(s) shall not award consequential damages.
- Any award shall be limited to monetary damages and shall include no injunctive relief or order to any party other than to pay a monetary amount.

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<tr>
<th>Table 12. Arbitration Clause</th>
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<tbody>
<tr>
<td>Any controversy or claim (1) arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules (2), and judgment on the award (3) rendered by the arbitrator (4) may be entered in any court having jurisdiction thereof. Arbitration shall be conducted in Chicago, Illinois.</td>
</tr>
</tbody>
</table>

Notes:
1. All disputes are arbitrable. The term is self-executing in that the parties cannot argue about whether arbitration is required. Arbitration can continue despite a party's objection, unless the proceedings are stayed by court order.
2. AAA provides a set of rules and procedures, eliminating the need to spell out dozens of procedural matters in the agreement.
3. The arbitrator has the power to decide matters equitably and to fashion appropriate relief. The AAA Commercial Rules allow the arbitrator to grant any remedy or relief that the arbitrator deems just and equitable and within the scope of the agreement of the parties.
4. The number of arbitrators should be specified.

8. Integration Clause

Contract law requires only certain agreements to be reduced to writing. As a result, a party to the contract may attempt to argue that a separate term, either agreed to orally during negotiations or through another document (letter, email, cocktail napkin) should also be part of the agreement. In the integration clause, both parties agree that the entire agreement is contained within the four corners of the document, to the exclusion of all other documents or discussions.

The integration clause is a reminder to the negotiator that the business terms were separately negotiated between the researcher and the sponsor. (Not coincidentally, these may be the largest source of disputes as well.) To the extent they are not embodied in the contract, they are unenforceable. Thus, the PI has hopefully read, or been asked by the negotiator to read, the contract terms relevant to her performance.
In some cases, there is a research contract and another agreement, e.g., a license, NDA, or MTA. If the collateral agreements are being superseded, it is best to disclose the existence of other agreements in the clause and state whether they are superseded or which controls in the case of conflict between them.

<table>
<thead>
<tr>
<th>Table 13. Integration Clause</th>
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<tr>
<td>This agreement constitutes the full and complete agreement between the parties and supersedes all previous agreements on this matter. There are no other written or oral agreements, representations or understandings with respect to the subject matter of this contract. No other verbal or written agreement shall, in any way, vary or alter any provision of this Agreement except in the case of a written amendment to this Agreement signed by the authorized representative of both Parties.</td>
</tr>
</tbody>
</table>

9. Liability

**What is liability?** Liability in contract means to be legally bound to make good a loss or damage. Parties look to their contract rights when one suffers loss or damage as a result of the other’s conduct.

**What is risk?** Risk is the *chance* of injury, damage, or loss, i.e. the chance or likelihood of liability. We often treat risk of liability as a *measurable* uncertainty, but it is not. Mathematical probabilities relate well only to large numbers of independent observations of homogenous events, such as rolling dice or flipping coins. Research contracts are not homogenous in that sense. The sponsor, researcher, cost, field, and time, place and manner of research are all independent variables. If a university has entered 500 sponsored agreements in the last three years, none of which has resulted in a lawsuit, is the probability of getting sued over the one on your desk zero? No. Past experience is not a predictor of future events. However, lawyers and negotiators often overlook other greater risks of liability. Here are some actual risks of which we are all aware:

- The sponsor may not pay for the work due to its insolvency, university's poor performance, etc.
- The sponsor may steal valuable intellectual property of the university through undetected breach of the agreement. Some companies have acquired a reputation for this.
- The Sponsor may cancel the contract before the termination date, triggering an opportunity cost for the researcher, who could have written a grant or obtained other funding and come out ahead.
- A university employee may wrongfully disclose sponsor’s confidential information.
- An employee of one of the parties may be injured while working at the other’s facility.

There are also the cumulative, long-term risks of making individual exceptions to university policies:

- Governing law is Switzerland’s because the grantor is headquartered there.
- Disputes will be submitted to arbitration at the World Intellectual Property Organization because all other university grantees have already accepted it.
- Sponsor does not indemnify the university because the clinical trial protocol was written

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by the faculty member. University waives ownership rights to IP because there won’t be any IP. The Sponsor’s can avoid its indemnification obligation if the University fails to notify it of a claim within 10 days of receipt. The word “claim” goes undefined in negotiations.

How could one assess these cumulative risks of liability on the University’s insurance policy limits? Does any institution know how many such contracts are in force?

Add to all these, the risk that a faculty member has personally signed an agreement without review and approval. In one case at the University of Illinois at Chicago, an engineering professor agreed to take a $20,000 “grant” from a nursing home company to develop a sensor that would alert staff when patients get out of bed. The agreement was a one-page award letter. There were other documents and emails, including a short written project description and preliminary discussions about patenting. The university discovered the work after it was completed, upon which the technology transfer office filed a provisional patent application on the invention and offered the sponsor a license. The prior course of dealing came to light when the sponsor insisted that the patent belonged to the company, and countered by having its representative in Congress write to the university, charging that the university was taking advantage of his constituent. The company got ownership of the patent.

**Risk Management.** Despite the term “risk management,” risks are not actually managed. They are covered, or not, by insurance. Liability from the risk manager’s perspective is based upon exposure – the amount of potential damages, and upon coverage – whether the insurance plan or policy will protect the university in the fact situation under consideration. University risk managers can be valuable resources to sponsored programs offices. They offer a valuable perspective on the issues, and if insurance coverage is lacking, provide the most powerful argument for backing out of a contract negotiation if the sponsor cannot or will not provide adequate protection for university risks of liability.

**The Perception of Risk.** It follows that if contract risks are not quantifiable, then they are a matter of subjective judgment, of perception. This fact is illustrated by the risk perceptions of faculty members. Faculty members are never heard to complain about indemnification. Risk of loss to the researcher is the chance that the sponsored programs office will lose the deal by negotiating too hard or failing to meet a Sponsor deadline.

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**Table 14. Addressing Interests not Positions – Liability and Risk**

University policy is a weak argument for liability protection from the sponsor. After all, universities aren’t persuaded to change negotiating strategy because of the existence of a sponsor internal policy. The negotiator should explain university policy in context, for example:

- Limitation of university liability keeps research costs low compared to the private sector. Suggest that the sponsor pay the premiums on a liability policy to cover potential university losses.
- Our non-profit tax-exempt status means we lack the assets, business practices and control over faculty members to adequately manage risks.
- The nature of university research requires that risk is shifted to the end user.

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10. **Representations**

Representations are assertions of fact in the form of written statements that one party provides to reduce or quantify the risks of contracting. Most representations relate to a party’s ability to perform its duties under the agreement. Sponsored research agreements are based on such a set of factual assumptions.

Here are some common examples:

- The sponsor represents that it has the financial resources to meet all its payment obligations – reduces doubts about the Sponsor’s solvency.

- The University shall provide to investigator the necessary facilities and resources to complete the work – reduces uncertainty about the university’s capacity to perform the project.

- The sponsor acknowledges the risks involved in sponsoring university research, and understands that the results may be unfavorable or of doubtful utility – assures the university that the Sponsor has realistic expectations about performance and results.

- The persons signing the agreement have the authority to act on their parties’ behalf – assures both parties that the agreement will be binding.

11. **Warranties**

Warranties and representations are often confused. A warranty is a contractual promise about the nature of the services or products delivered under contract. It is a sort of guarantee given by the seller (university) to the buyer (sponsor) regarding the nature and quality of the goods sold or services performed under a contract. Think of the research product/service as both the thing itself and the thing as defined by the warranty, e.g., university is selling software to the Department of Defense, and the software is warranted to meet the requirements of MILSPEC 123-45678-9. For many of the reasons discussed above with respect to liability, universities disclaim warranties.

**Express and Implied Warranties.** Under the Uniform Commercial Code (UCC), applicable in 49 states to most business transactions, warranties can be either express – written, or implied – imposed by law. Universities disclaim all express and implied warranties through a general disclaimer (below).

**Express Warranties.** In commercial markets, buyers of goods and services typically expect warranties of title, freedom from defects, and conformance with specifications. Upon breach of
warranty, the aggrieved party is legally permitted to repair or replace the defective items at the contractor's expense.

While universities are in the competitive "business" of doing sponsored research,9 university research by its nature is not amenable to assurances about results. However, what about other types of sponsored projects, e.g. software, program evaluation, manufacture of complex chemicals and cell lines, and the like?

Implied Warranties. By operation of law, implied warranties are a part of all contracts for the sale of goods and services, unless properly disclaimed. There are two implied warranties applicable to universities:

Warranty of Fitness for a Particular Purpose – This implied warranty arises when the party selling the product knows, or has reason to know, the particular purpose for which the product is intended; and the buyer reasonably relies upon the warranting party's representation(s). The product failure is a breach of contract by the seller.

Warranty of Merchantability – The goods must be "fit for the ordinary purposes for which such goods are used. (Example: Dealer sells a new car to buyer. Due to a manufacturing defect, the car cannot go faster than 25 m.p.h. Since cars are generally sold and used for high-speed driving, this would be a breach of the implied warranty of merchantability, even though dealer never expressly promised any particular speed.)

Warranty Disclaimers. The implied warranties are always in effect unless expressly excluded by a disclaimer that meets the formal requirements imposed by the Uniform Commercial Code. Both express and implied warranties can be disclaimed. Here is a UCC compliant version of the standard disclaimer.

UNIVERSITY RESEARCH IS DELIVERED "AS IS." UNIVERSITY MAKES NO REPRESENTATIONS REGARDING ITS QUALITY OR PERFORMANCE WHEN USED BY SPONSOR. UNIVERSITY EXTENDS NO WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

<table>
<thead>
<tr>
<th>Table 15. Representations and Warranties Distinguished</th>
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<tbody>
<tr>
<td>Representation</td>
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<td></td>
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<tr>
<td>Promise</td>
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<tr>
<td>Warranty</td>
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</tbody>
</table>

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9 See Duke v. Madey.
Table 16. Address Interests not Positions – Warranties

Analyze the term to determine whether it is a representation or a warranty. Warranties should be struck. If it is a representation, is it true and correct for all purposes? Does it add anything substantive to the agreement, or is the sponsor piling on to buttress university liability? Play a healthy game of “what if,” reading the statement carefully.

For example, consider the statement that the university owns all rights in a material transferred under an MTA. At first glance, this may appear unobjectionable. However, biological materials and the like can easily be transferred and are difficult to track. Such materials are customarily transferred informally, as well as by formal agreements. Many persons may have custody of samples. Who is the “owner,” or are there many owners? Perhaps the PI knows that the material originated in a colleague’s lab. She may not know that the colleague’s graduate student who first isolated the material was paid under an NIH grant.

In this situation, the question for the sponsor is “why do you need to know?” Title need not be an issue in the research setting. The better representation might be that the university reasonably believes it has the right (or does have the right) to provide the material under the terms of this agreement.

12. Indemnification

To indemnify is to promise to become responsible for the debts or liabilities of another in the future. Indemnification is contingent. In university agreements, it addresses the problem of which party should be held responsible for the claim of a third party. Indemnification has a valid and important purpose, imposing responsibility for damages on the party who caused them. It is one of the most effective risk-shifting tools in contracting.

The primary problem with indemnification is that most clauses are so expansive as to trigger liability upon almost any loss or claim, however unlikely or unforeseeable, and regardless of where the liability properly belongs. No one can foresee the variety of claims to which such language makes one liable. Complicating the matter for sane human beings is the propensity of lawyers to insist on cramming the clause into one sentence. In Table 17, see a standard indemnification clause that consists of one sentence, 79 words, and 14 commas! The verbiage can hide minor, but critical differences. Note how much easier it is to understand the clause if you read only the words in bold.

However, adamantly sponsors may insist on indemnification from the university, it is inappropriate for universities to indemnify private sponsors in research agreements. Perhaps a different result is dictated in the case of material transfer and clinical trial agreements, wherein researchers receive experimental materials or drugs. Shouldn’t the university indemnify the provider against its unsafe or negligent use of the materials and drugs? Many universities do.
Note on Public Institutions. Under various state constitutions and statutes, most states do not permit their universities to incur any contingent liabilities by contract, including indemnification. Indemnification is a contingent liability in that it is an unqualified promise to pay an uncertain sum of money if some event occurs in the future. For example, in the state of Illinois, its Constitution defines state debt to include almost any kind of financial obligation, and then limits the authority to incur debt to the state legislature.

Many state universities try to circumvent the prohibition, when necessary, by adding the phrase “To the extent allowed by [state name] law, the University shall indemnify Sponsor ...” In states like Illinois, such a clause is interpreted by public universities as an effective defense to an indemnification claim. However, since sponsors agree to the language, one has to wonder what they think it means. Recall in this context the vagaries of conflict of law rules under the governing law clause. While it is clear that the parties intend to make the university’s state law apply, a court can choose not to follow that law, especially if the governing law is a different state’s. The clause almost appears to be evidence that the parties weren’t sure whether state law prohibits indemnification, and intended for the courts to decide – not the desired result for sure. The safer course is eliminating indemnification.

Table 17. The Dreaded Indemnification Clause

| University shall at all times indemnify, defend and hold Sponsor, its directors, officers, employees, and agents harmless against all claims and expenses, including legal expenses and attorneys' fees, arising out of the death of or injury to any person or persons or out of any damage to property and against any other claim, proceeding, demand, expense and liability of any kind whatsoever resulting from the design, manufacture, sale, use, or consumption of the research results delivered under this Agreement. |

Table 18. Addressing Interests not Positions – Indemnification

Point out to the sponsor that dropping indemnification is not an attempt to evade liability. The university agrees to be legally responsible for the negligence of its employees when acting within the scope of their employment. Unlike companies, when sued universities don’t hide in bankruptcy court, move their cash to offshore banks, or flee jurisdiction of the court. Universities have good insurance coverage.

Table 19. University of California Limited Indemnification

University shall defend, indemnify, and hold Sponsor, its officers, employees, and agents harmless from and against any and all liability, loss, expense (including reasonable attorney's fees), or claims for injury or damages arising out of its performance of this Agreement but only in proportion to and to the extent such liability, loss, expense, attorney's fees, or claims for injury or damages are caused by or result from the negligent or intentional acts or omissions of University, its officers, agents, or employees.
Another alternative often seen in university to university contracts, but equally applicable in any low risk project is a provision that each of the parties shall be responsible for only its own negligence and damages.

<table>
<thead>
<tr>
<th>Table 20. Alternative to Indemnification</th>
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<tbody>
<tr>
<td>It is understood and agreed that neither party to this Agreement shall be liable for any negligent or wrongful acts, either of commission or omission, chargeable to the other unless such liability is imposed by law. This Agreement shall not be construed as seeking to either enlarge or diminish any obligation or duty owed by one party against the other or against a third party.</td>
</tr>
</tbody>
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13. Damages

Compensatory Damages – General v. Special. Damages are either “general” or “special.” “General” damages are the natural, necessary and usual result of a wrongful act. For example, if a sponsor stops payment, the amount of unreimbursed expenses borne by the University would be “general” damages. On the other hand, “special” damages are those that are the natural, but not the necessary and inevitable, result of the wrongful act. Special damages depend upon the particular injury; they are not damages that would ordinarily be contemplated by the parties at the time of contracting.

Consequential Damages. Consequential damages are damages, losses or injuries that do not flow directly and immediately from the other party’s breach of contract, but only from the consequences or results of the act, such as lost opportunities with other parties, lost profits, and the like.

Punitive Damages. Punitive damages are those awarded over and above what would compensate the plaintiff for his or her injuries, in order to punish the defendant for intentional or reckless behavior.

Incidental Damages. Incidental damages are the seller’s commercially reasonable charges or expenses incurred to care for, store, and resell goods rejected by a buyer. In the case of a sponsored research agreement, these could include the university’s cost of securing a new sponsor after default by the contract sponsor.

Injunctive Relief. Injunctive relief is court-ordered non-monetary relief sought when money damages are inadequate to compensate a party for its losses. A temporary injunction is an emergency court order requiring a party to cease a specific act or course of conduct, as for example, preventing disclosure of a party’s confidential information. Sponsors are fond of including injunctive relief in confidentiality and intellectual property agreements. The advantage of the clause is that it waives the university’s right to oppose the injunction.

Damage Caps

Damage caps are contractual limitations on the amount of damages payable by one party who has admitted or been adjudicated liable for the losses of another party. They are often used by vendors in software purchase agreements to limit their liability to buyers to the price paid for the software. Another cap method is to limit liability to the maximum payable under a party’s insurance policy. Damage caps are useful when it is not legally possible or practical to avoid liability all together, as by the standard clause in Table 21.
**Damage Waivers**

Damage waivers are the voluntary relinquishment of the right to collect certain types of damages from a party. Damage caps and damage waivers are methods of limiting a party’s financial responsibility. A university can limit its liability effectively by capping the damages it is willing to pay and at the same time securing a waiver of some types of damages from the sponsor.

<table>
<thead>
<tr>
<th>Table 21. Damage Waiver and Damage Cap Clause</th>
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<tbody>
<tr>
<td>University hereby waives all punitive, special, consequential, and incidental damages, as well as all equitable remedies including, but not limited to, injunctive relief.</td>
</tr>
</tbody>
</table>

The parties understand and agree that University is an independent contractor, and the tests to be performed by University are not part of a cooperative research investigation. University agrees to use all reasonable efforts to conduct the testing program in accordance with this agreement and accepted professional standards. Company's sole remedy for noncompliance with same by University shall be re-performance by University of the Study or portions thereof. The limit of University's liability to Sponsor for such claims shall not exceed University's compensation under this Agreement. In no event shall University or its employees or agents be liable for any loss, claim or damage that may arise from or in connection with the Agreement, unless resulting from University's negligence or intentional misconduct.

**IV. Putting it All Together — Limiting University Liability**

**Case Study**

A university engineering professor designs sensors to measure stress on suspension bridges. The City of Shanghai, PRC, proposes to purchase some of these sensors from the university for installation on a new suspension bridge in Shanghai, which is in fact the longest such bridge in the world. The City tenders a proposed contract that is similar to a purchase order that includes warranties on the sensors’ performance and indemnification. Different languages and time zones make direct communication with the City impossible, except through the PI. Faced with these difficulties, the contract negotiator interviewed the PI and discovered the following facts:

1. The sensors were invented in the lab a few years previously, but had never been used or sold commercially or outside the lab.
2. The sensors will measure the tension in the cables, but not in the context of detecting potential failure.
3. The sponsor has refused to make any changes to the contract.

Note the additional risks that are created by international contracts, especially with those involving countries whose legal systems are not based upon western rules of law:

The other party is not likely to be familiar with U.S. law and U.S. university customs and practices;
The original contract may be written in a foreign language; a certified translation may be required; the sponsor may have unrealistic or erroneous expectations based upon local laws or customs; and, if there are future disputes over payment or performance, solutions will be difficult and expensive.

Table 22 contains the appendix the university added to the agreement to protect it from liability. Without the appendix included, the university was prepared to turn down the project.

<table>
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<tr>
<th>Table 22. Combined Limitations on Liability</th>
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**Limitation on Warranties**

The materials to be delivered under this Agreement are produced in University research laboratories and are experimental. They are not designed for commercial sale or use. University can make no representations regarding their quality or performance when used by Sponsor. University extends no warranties of any kind, either express or implied, including, but not limited to, warranties of merchantability and fitness for a particular purpose.

**Indemnification**

Sponsor shall at all times indemnify, defend and hold the Board of Trustees of the University of Illinois and its trustees, officers, employees, students and affiliates harmless against all claims and expenses, including legal expenses and attorneys’ fees, arising out of the death of or injury to any person or persons or out of any damage to property and against any other claim, proceeding, demand, expense and liability of any kind whatsoever resulting from the design, manufacture, sale, use, or consumption of the products and services delivered under this Agreement.

**Amendment to Governing Law**

The law of the People’s Republic of China shall be applied only with respect to the performance of services by the Principal Investigator that occurs on Chinese sovereign territory.

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I want to thank my colleague, Don Deyo, University of Pennsylvania, who reviewed the draft and made helpful suggestions that significantly improved the materials.

For more information, contact Terence P. McElwee, Associate University Council, University of Illinois at Chicago, at tmcelwee@uic.edu.

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**Addendum  Commonly Confused Word in Contracts**

The following list illustrates how easily words can be confused or misused. In many cases, the wrong
word can change the meaning of a contract term.

*Affect*: To alter, influence, or change
*Effect*: A result, or to bring about change

*Alternate*: A substitute or second choice, or when used as a verb, to take turns
*Alternative*: among two or more options

*Among*: Occurring in a group of three or more
*Between*: Occurring in a set of two

*Assure*: To convince
*Insure*: To guard against loss

*Assure*: To convince
*Ensure*: To make certain

*Bimonthly*: Every other month
*Semimonthly*: Twice a month

*Biweekly*: Every other week
*Semiweekly*: Twice a week

*Continual*: Intermittent or repeated at intervals
*Continuous*: Without interruption

*Discreet*: Prudent or cautious
*Discrete*: Separate or detached

*Eminent*: High in rank
*Imminent*: About to occur

*Farther*: Greater distance
*Further*: Greater degree, time, or quantity

*Fewer*: A smaller number of units
*Less*: A smaller quantity

*i.e.*: That is
*e.g.*: For example

*Imply*: To suggest
*Infer*: To conclude

*Its*: Belonging to it
*It’s*: It is

*Mean*: A number obtained by adding two or more numbers and dividing the total by the number of numbers
*Median*: The value that falls in the middle of all of the recorded values, with an equal number of values above and below it
Practical: Useful in actual practice
Practicable: Capable of being put into practice

Principal: Head or chief
Principle: A basic truth or assumption

Stationary: Fixed or immovable
Stationery: Writing materials