

Approved by the Board of Trustees,
July 14, 2005

Board Meeting
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ROLL CALL

RETAIN LAW FIRM TO ENFORCE UNIVERSITY'S INTELLECTUAL PROPERTY RIGHTS

Action: Approve Contract to Retain Law Firm on Contingency Fee Basis for Enforcement of University Patents

Funding: OTM Litigation Funds (for out-of-pocket expenses only)

To ensure that the University receives maximum royalties on its intellectual properties, the Chicago and Urbana Offices of Technology Management (OTMs) are taking aggressive steps to monitor more closely infringement of University patents and compliance with its license agreements. Common sources of lost revenue are underpayment of royalties by University licensees and infringement of unlicensed patents. To address the former situation, the OTMs are moving to systematic auditing of licensees to verify correct payments on all products covered by University patents. To address the latter situation is somewhat more difficult and typically involves costly and time-consuming litigation.

Exploring creative options to deal effectively with lost income due to infringement, the Chicago and Urbana OTMs, the Vice President for Technology and Economic Development, and the Office of University Counsel have explored whether infringement matters could be handled by a law firm on a contingent, rather than an hourly fee basis. Under a contingency fee agreement, a law firm is paid for its services

only if it obtains a successful outcome for the University, which is obligated only for expenses (e.g., expert fees). If a favorable verdict or acceptable settlement is reached, the firm receives as its fee a percentage of the recovery. Contingency fee agreements can be particularly advantageous for the University in the case of patent infringement due to the potential uncertainty of establishing patent validity and infringement and the speculative nature of estimating any recovery, coupled with the time and expense of specialized litigation.

A good example of these dynamics is the Proctor & Gamble (P&G) patent portfolio. As previously described to members of the board in a letter from Chancellor Manning, in 2001 Proctor & Gamble donated to the University a number of early stage, battery-related technologies for the UIC College of Engineering, where they could be developed and eventually licensed by the University. The UIC researcher who was expected to develop the technologies left the University before they had been adequately advanced. Despite diligent efforts, the Chicago OTM has been unable to license the patent rights. As a result, the OTM and the Office of University Counsel have investigated whether a law firm could be retained on a contingency basis to provide two types of services: first, to review the P&G and other patent portfolios for potential infringement; second, if infringement was discovered, to institute a licensing program using the threat of litigation to compel the infringers to execute a license agreement and pay fair royalties. P&G was consulted and actively supports this enforcement strategy.

A number of qualified law firms that specialize in intellectual property litigation were considered. The vast majority of them perform such work on an hourly fee basis. Only two intellectual property firms in Chicago enter into contingency fee

arrangements--Stadheim & Gear and Niro Scavone. Stadheim & Gear is distinctive because of its emphasis on representing research universities and its demonstrated ability to achieve licensing agreements via early-stage settlement negotiations rather than simply pursuing costly and protracted litigation. Stadheim & Gear undertakes only a few select cases each year. Firm partner Joe Gear is a University of Illinois alumnus.

This four-person firm has secured significant recoveries for the Iowa State University Research Foundation and the Wisconsin Alumni Research Foundation. Its clients include the Dana Farber Cancer Institute, George Washington University, the University of Chicago, and TRILabs (a consortium of Canadian universities). The firm has recovered royalties and damages from companies in a broad cross-section of industries, including 3M, Apple, AT&T, Chrysler, Ford, GE, GM, Hitachi, IBM, Intel, Lucent, Matsushita, Microsoft, Sony, and Toshiba. In addition to licensing and litigating in the U.S., the firm has managed world-wide enforcement programs and directed patent prosecution in the U.S., Europe, and Japan. In all, the firm has concluded hundreds of license agreements, tried several cases to judgment, and collected hundreds of millions of dollars in royalties and damages for its clients.

Stadheim & Gear offered to conduct an initial patent review for the Chicago OTM without any cost or obligation to the University. They identified the P&G patents and one other patented technology, Betulinic Acid, a potential cancer therapy, as candidates for enforcement. Review of the Betulinic Acid patents is only recently underway. If the firm were retained in either one or both cases, it would receive about one-third of any recovery.

By entering a contingency fee agreement with Stadheim & Gear, it is possible that the University later will be contractually obligated to pay them a legal fee in excess of \$250,000 in one fiscal year, triggering the requirement of board approval. The University Counsel and the Vice President for Technology and Economic Development bring this item to seek the board's approval of such an agreement since they believe that given the number of patents involved and the proven track record of Stadheim & Gear, there is a substantial likelihood that the delegated amount for such an agreement will be exceeded. The board may recall that the "substantial likelihood" standard was used to address contingency fee contracts in a November 2004 board item that awarded contracts to third-party vendors for consulting services in support of the development and commercialization of new technologies. The same approach is being recommended here. If the need for similar representation arises in the future, prior approval will be sought if there is a substantial likelihood that the delegated amount will be exceeded.

The board action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The University Counsel and the Vice President for Technology and Economic Development, with the concurrence of the appropriate University officers, recommend approval to enter into a contract for the services described above. This contract is exempt from the Illinois Procurement Code since it is necessary to prepare for anticipated litigation.

The President of the University concurs.