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Recovery Claims: A New Source Of University Funding

Law360, New York (May 11, 2016, 11:05 AM ET) -- Increasingly, colleges and universities must do more with fewer resources. One response is to find additional revenue in unconventional places. This article suggests the university's legal department as one such place. Although the traditional role of the university's counsel is to mitigate the institution's risks and manage its litigation, the general counsel's office also can generate significant profits — with little overhead or risk — by identifying, and taking advantage of, opportunities to recover funds to which the university is entitled, but of which it may not otherwise be aware. This article identifies two such categories: antitrust claims and intellectual property rights.


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Antitrust Claims

Antitrust cases can provide savvy university counsel with seven-figure recovery opportunities. These claims typically arise when a university purchases a price-fixed or bid-rigged product, resulting in overpayments for a variety of essential goods and services. Examples range from consumer electronics to pharmaceuticals and financial products.[1] These unlawful overcharges are often recoverable under federal or state antitrust laws, which can entitle the plaintiff to three times the amount of the defendants' illegal overcharges.[2]

However, such recoveries can be generated only when university counsel is aware of the specific opportunities for which the university is potentially eligible to file a claim. And, antitrust conspirators rarely advertise their misconduct. In fact, their wronging often remains undetected until the U.S. Department of Justice announces an investigation into a particular company or industry. Here are some proactive steps that counsel may take:

While monitoring class action claims notices — often mailed after a class action settlement to entities that appear in the defendants' sales database — may be more practicable, such notices, unfortunately, frequently go to procurement personnel, rather than to the university's counsel, because procurement personnel are the contacts listed in the defendants' sales records. Thus, at a minimum, universities should implement procedures to ensure that all claims notices are forwarded to the general counsel's office for further analyses. Otherwise, recovery opportunities may expire before the university can

respond.
Second, consider partnering with an outside law firm that monitors global antitrust and consumer protection opportunities. Antitrust conspirators often have incomplete sales data or are simply unaware of their ultimate victims. As a result, consumers should not expect to receive class action notices for each and every recovery opportunity. Regular check-ins with recovery professionals can prevent these opportunities from slipping through cracks — a service that is frequently provided without any upfront costs or fees.

Once a university learns that it purchased a price-fixed product, it must ascertain the likely value of its claim. Every case is different, and experienced claims professionals often guide this analysis, but the most important factors, generally, are:

- Purchase volumes
- Purchase locations
- Purchase dates
- Projected overcharges
- Existing class action settlements
- Existing guilty pleas
- Ongoing criminal investigations
- The antitrust infringers' solvency

This valuation should inform whether and how the university pursues its claim. There are three basic options: (1) allow a class action representative to litigate the case and submit a pro rata claim for any recovery that the class obtains from the defendants; (2) opt out of class action proceedings and file an individual lawsuit against the conspirators; or (3) do nothing. In many circumstances, the first two options can provide significant recoveries.

Class action recovery claims present low-risk opportunities for a university to bolster its revenue line. That is because the class representative's law firm bears all litigation costs in exchange for a percentage of the funds eventually recovered from the cartel. The class representative also bears the financial burdens associated with drafting and filing all discovery and dispositive motions. In this model, universities simply need to submit relevant purchase data after the class claims are resolved — a function that is frequently outsourced to recovery professionals for a small contingent fee. As result, class claims often provide meaningful recoveries with no upfront legal costs, zero risk of an adverse outcome, and minimal in-house legwork.

Despite the advantages described above, some recovery opportunities are too significant to outsource to class counsel. When cartels cause tens of millions of dollars in damages, universities often consider opting out of class settlements to pursue individual litigation. Favorable settlement leverage can result in opt-out plaintiffs recovering millions more than their otherwise pro rata share of a class action settlement. Opt-out representation frequently can be retained on a contingent basis with no upfront fees. But there are some downsides to opting out. These cases generally require significant fact and expert discovery, which can delay settlements and also require a greater investment of time by relevant university personnel. Recovery professionals often help in-house legal teams determine whether the enhanced recovery prospects justify these additional inconveniences.

In sum, detecting, valuing and pursuing antitrust recovery opportunities requires organization and forethought. Developing and implementing internal guidelines, while partnering with an external professional to maximize recovery prospects, can lead to substantial opportunities, like those described below.

Intellectual Property Rights

Universities host some of the world's most prolific inventors. In 2012 alone, the U.S. Patent and Trademark Office issued 4,797 utility patents that were assigned to U.S. academic institutions.[3] Universities also successfully monetize their patent portfolios. The Association of University Technology Managers reported that academic institutions brought in $36.8 billion in net product sales from licensed technologies, and university technology transfer offices brought in $2.6 billion in total licensing income in fiscal year 2012.[4]

Traditionally, however, universities have been hesitant to enforce their patents through litigation.[5] The reasons for this are many, but university technology transfer professionals have largely focused on reputational concerns, cautioning that patent enforcement through litigation may not be compatible with the public-service mission of universities.[6]

Even so, patent infringement litigation remains an important option that universities retain. The number of enforcement cases brought by universities has increased, with significant growth beginning in 2000.[7] This uptick may be due, in part, to significant victories and high-profile settlements in favor of universities over the last decade that have emboldened university peers to follow suit.[8]

For example, in October 2015, the U.S. District Court for the Western District of Wisconsin upheld a $234.2 million jury award against Apple for infringing the Wisconsin Alumni Research Foundation's computer processor patent.[9] And in November 2015, a jury found against Epistar and its customers for sales of dimmable light emitting diodes that infringed Boston University's patent, and awarded the university $13.7 million.[10] More recently, in February 2016, Carnegie Mellon University and Marvell Technology Group Ltd. settled a patent suit brought by the university concerning disk drive technology.[11] That suit had originally resulted in a $1.5 billion judgment against Marvell, which the U.S. Court of Appeals for the Federal Circuit later vacated.[12]

While each patent case is unique, universities are at certain strategic advantages that position them well in patent enforcement litigation. Universities generally have large patent portfolios, much of which is directed to early-stage platform technology with early priority dates.[13] From a litigation perspective this decreases the likelihood of a successful prior art based invalidity challenge. Moreover, universities are less likely to have to defend counterclaims of infringement, since universities are generally not practicing entities.[14]

But identifying potential infringers requires a significant investment of time and resources.[15] Outside counsel can monitor patents and analyze relevant industries. It is also helpful to engage inventors in this process. They are an important source of information with background knowledge concerning key stakeholders and developments in their particular fields.

Universities also should closely monitor and investigate their current licensees. Licensees may be infringing the patents they licensed by violating field-of-use provisions. Additionally, contractual causes of action can arise from existing license agreements. For example, licensees may have entered into unauthorized sublicenses after securing their own rights, or sought to re-characterize income under their sublicenses. Through these methods, the income stream from the university's license would bypass the university, thereby eliminating the revenue benefits to which the university is entitled.

For example, in Medivation Inc. v. The Regents of the University of California, Medivation agreed to pay the Regents a percentage of "sublicensing income," and royalties received on account of the exclusive license agreement.[16] Medivation also was permitted to sublicense its exclusive rights to third parties, and the exclusive license agreement required Medivation to pay to the Regents a percentage of sublicensing income, which was defined to cover income received, including license issue fees, milestone payments, and the like.[17]

Medivation subsequently negotiated a collaboration agreement with Astellas Pharma to develop, market and sell a cancer drug, MDV3100.[18] Before executing the collaboration agreement with Astellas, Medivation procured a side letter from the Regents providing that sales milestone payments under the collaboration agreement did not constitute sublicensing income under the existing exclusive license agreement.[19]

In the litigation that followed, the Regents sought a declaration as to the meaning of "sublicensing income in the exclusive licensing agreement, and as to the legal effect of the side letter.[20] In particular, the Regents argued that the sales milestone payments Medivation received from Astellas under the collaboration agreement constituted sublicensing income under the exclusive licensing agreement and that the Regents therefore were entitled to 10 percent of those payments (and that the side letter had no legal effect because of fraud, mistake and/or lack of consideration).[21]

The court ultimately held in favor of the Regents, determining that the sales milestones flowing to Medivation under the collaboration agreement did constitute sublicensing income, thereby entitling the Regents to 10 percent of the income.[22] In considering sublicensing income, the court found that the term explicitly included “milestone payments and the like” received by Medivation “under or on account of a sublicense.”[23] Additionally, the court noted that “milestone payments” are “commonly understood in the industry to mean event-driven or success payments, which are distinct from royalty payments,” and it found that the parties understood this meaning when they executed the exclusive licensing agreement.[24] The court also found that “Medivation understood when it signed the ELA [Exclusive License Agreement] that the Regents would share, at every stage, in the commercial success of MDV3100.”[25]

Conclusion

Current higher education funding dynamics require universities to do more with less. Legal departments can help by implementing in-house processes to vet antitrust and intellectual property opportunities and partnering with law firms that provide these services on a contingent basis. As funding challenges continue, university legal departments should view revenue generation as an increasingly important function.

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DISCLOSURE: Crowell & Moring represented The Regents of the University of California in Medivation Inc. v. The Regents of the University of California discussed in this article. Crowell & Moring also represented clients in In re TFT-LCD (Flat Panel) Antitrust Litigation, In re Cathode Ray Tube (CRT) Antitrust Litigation, In re Dynamic Random Access Memory (DRAM) Antitrust Litigation, In re Blood Reagents Antitrust Litigation, In re Prograf Antitrust Litigation, In re Payment Card Interchange Fee & Merchant Discount Litigation, and In re American Express Anti-Steering Rules Antitrust Litigation, discussed in this article.

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[1] In re TFT-LCD (Flat Panel) Antitrust Litig., No. 07-1827 (N.D. Cal.) (electronics); In re Cathode Ray Tube (CRT) Antitrust Litig., No. 07-5944 (N.D. Cal.) (electronics); In re Dynamic Random Access Memory (DRAM) Antitrust Litig., No. 02-1486 (N.D. Cal.) (electronics); In re Blood Reagents Antitrust Litig., No. 09-2081 (E.D. Pa.) (pharmaceutical products); In re Prograf Antitrust Litig., No. 11-02242 (D. Mass.) (pharmaceutical products); In re Payment Card Interchange Fee & Merch. Disc. Litig., No. 05-1720 (E.D.N.Y.) (financial products); In re Am. Express Anti-Steering Rules Antitrust Litig., No. 04-05432 (E.D.N.Y.) (financial products).

[2] Section 4 of the Clayton Act provides that “any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue . . . and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney’s fee.” 15 U.S.C. § 15(a).

[3] U.S. Patent & Trademark Office, Patent Technology Monitoring Team, U.S. Colleges and Universities – Utility Patent Grants 1969-2012 (2012), http://www.uspto.gov/web/offices/ac/ido/oeip/taf/univ/doc/doc_info_2012.htm.

[4] Press Release, Assoc. of Univ. Tech. Managers, American universities: unsung heroes in the economic recovery (Aug. 5, 2013), https://www.autm.net/AUTMMain/media/Advocacy/Documents/AUTMSurveyHighlightsReleaseFINAL.pdf.

[5] See, e.g., Jacob H. Rooksby, Innovation and Litigation: Tensions Between Universities and Patents and How To Fix Them, 15 Yale J. L. & Tech. 312, 329-33 (2012-13) [hereinafter Rooksby, Innovation]; Jacob H. Rooksby, When Tigers Bare Teeth: A Qualitative Study of University Patent Enforcement, 46 Akron L. Rev. 169, 177-80 (2013).

[6] See, e.g., Rooksby, Innovation at 331-32.

[7] Id. at 339-40.

[8] Id. at 331; see, e.g., Christine Caulfield, Microsoft Settles Drawn-Out Patent Fight With Eolas, Law360 (Aug. 31, 2007) (reporting that Eolas Technologies Inc. and Microsoft Corp. settled a patent infringement suit concerning a 1998 patent directed to the embedding and invoking of interactive applications in Web browsers that the Regents of the University of California had licensed to Eolas, and that had resulted in jury award of over $520 million shared by the University system and Eolas); Eolas Techs. Inc. v. Microsoft Corp., 399 F.3d 1325, 1329, 1332 (Fed. Cir. 2005); Ryan Davis, HP Hit With $184M Verdict In Cornell Patent Trial, Law360 (June 2, 2008) (reporting that a jury found Hewlett-Packard Co. liable for infringing Cornell University’s patent directed to computer processors, and awarded the University a $184 million judgment (citing Verdict Form, Cornell Univ. v. Hewlett-Packard Co., No. 01-1974 (N.D.N.Y. May 30, 2008)); Julie Zeveloff, Final Judgment Set At $71M In Cornell, HP Patent Suit, Law360 (June 2, 2009) (reporting that the U.S. District Court for the Northern District of New York reduced Cornell University’s damage award against Hewlett-Packard Co. to $71.2 million, an amount that included $53.5 million in damages, $16.8 million in prejudgment interest, and nearly $1 million in costs (citing Am. J., Cornell Univ. v. Hewlett-Packard Co., No. 01-1974 (N.D.N.Y. June 2, 2009)); Jeff Sistrunk, Varian Settles With Pitt for $35M After Fed. Cir. Ruling, Law360 (Apr. 11, 2014) (reporting that Varian Medical Systems Inc. and the University of Pittsburgh entered into a $35 million settlement, ending litigation that concerned infringement of the University’s cancer-treatment device patent (citing Univ. of Pittsburgh of the Commonwealth Sys. of Higher Educ. v. Varian Med. Sys., Inc., 561 F. App’x 934 (Fed. Cir. 2014)).

[9] Vin Gurrieri, Apple Must Pay $234M for Flouting WARF Patent, Judge Says, Law360 (Oct. 26, 2015)

(citing Op. and Order, Wisc. Alumni Research Found. v. Apple, Inc., No. 14-062-WMC (W.D. Wisc. Oct. 26, 2015); J. in a Civil Case, Wisc. Alumni Research Found., No. 14-072-WMC (W.D. Wisc. Oct. 26, 2015)).

[10] Kurt Orzeck, BU Wins $13.7M Jury Verdict in IP Row With Electronics Cos., Law360 (Nov. 19, 2015) (citing Verdict, Trs. of Boston Univ. v. Everlight Elecs. Co., Consolidated No. 12-11935-PBS (D. Mass. Nov. 19, 2015)).

[11] Ryan Davis, Marvell, Carnegie Mellon Reach $750M Deal To End Patent War, Law360 (Feb. 17, 2016).

[12] Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd., 807 F.3d 1283, 1311 (Fed. Cir. 2015), reh'g en banc denied in part, 805 F.3d 1382 (Fed. Cir. 2015).

[13] Charles R. McManis & Brian Yagi, The Bayh-Dole Act and the Anticommons Hypothesis: Round Three, 21 Geo. Mason L. Rev. 1049, 1055 (2014); Mark A. Lemley, Are Universities Patent Trolls?, 18 Fordham Intell. Prop. Media & Ent. L.J. 611, 614, 621-22 (2008).

[14] Lemley at 616, 629, 631.

[15] Alexander Poltorak, Thar's Gold in Them Thar Patents, University Business (Oct. 2009).

[16] No. CGC-11-510715, 2013 WL 7943393, at *1 (Cal. Sup. Dec. 20, 2013).

[17] Id.

[18] Id.

[19] Id.

[20] Id.

[21] Id.

[22] Id. at *2, *11.

[23] Id. at *8.

[24] Id.

[25] Id. at *9.