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Issues Facing Faculty In Outside Consulting Jobs

Law360, New York (October 30, 2009) -- Many universities have policies that govern faculty involvement in outside consulting, but, unsurprisingly, these policies tend to focus on the interests of the university and only incidentally on the interests of faculty.

While universities generally recognize and appreciate the benefits their institution receives from successful consulting engagements by faculty, their policies, guidelines and review procedures tend to be concerned primarily with reducing the risk of the faculty members violating their employment or contractual obligations to the university or funding sources, or violating federal or state law.

Typically, the party that intends to engage a faculty member as a consultant will stand up for its own interests. This leaves the faculty member with the unwelcome task of balancing the expectations of the university and the needs of the engaging entity within the confines of various legal and ethical requirements.

It is important that the faculty member ensure that the balance that the university, the engaging party and the faculty member strike is clearly reflected in a consulting agreement.

Universities will generally review such agreements at the consultant's request, but it is also important for the faculty member to obtain a review by his or her own legal counsel.

Some of the thorniest issues in consulting agreements include intellectual property ownership and confidentiality protection provisions. These issues are discussed in more detail below.

There are other difficult issues, however, such as the scope of services provided by the consulting faculty and how to deal with conflicts between the interests of the university and the engaging party.

These issues are generally well managed if a faculty member abides by university guidelines and incorporates predefined university contract boilerplate.

Such boilerplate may, for example, make clear that the faculty member's primary employment relationship is with the university and, where there is a conflict, give primacy to the university's requirements, spell out the personal nature of the engagement and limit the university's liability for the faculty member's conduct, and other issues.

Typical Requirements for Inventions to Be Excepted From Presumed Ownership by the University

Universities will generally presume to own a faculty member's inventions unless their conception and development meet specific requirements.

The specifics are usually clear from the employment contract of the faculty member, which should be consulted. Typical requirements for an invention to qualify for faculty, or an outside entity ownership include:

—The faculty member conceives of the invention or develops it in the course of, and during, permitted outside consulting activities and otherwise outside the scope of his or her employment by the university. Consulting engagements should not interfere with faculty's commitments to the university, including teaching and research. As for the scope-of-employment issue, this is covered in greater detail below.

—The faculty member conceives of the invention or develops it without the use of university or sponsor resources, including staff, students, equipment or a university office. This may be more of a burden than is immediately apparent. For example, the consultant might not be able to use students for research or work on consulting in his or her university office without compromising intellectual property rights he or she might otherwise be able to retain.

—The faculty member conceives of the invention or develops it without using confidential university information or unpublished work.

—The faculty member conceives of the invention or develops it without interfering with the faculty member's full-time employment commitments. Some universities have very clear guidelines on how to meet employment requirements in this category.

—The faculty member discloses the invention to the university in a timely fashion. Procedurally, the faculty member will generally be required to submit an invention disclosure to the university in a timely manner so that it can verify that the invention meets the criteria of this "safe harbor."

This obligation usually applies even when the invention arises solely in connection with an outside consulting engagement. The obligation to report may arise when the

invention is conceived, even before it is elaborated in any fashion, on paper or in a prototype.

Invention Falling Within Scope of Employment

The first issue, relating to whether an invention falls within the scope of a faculty member's employment, is not as simple as it sounds. In consulting agreements, universities generally try to give themselves wide discretion on the scope of employment, which is inherently a gray area.

When a faculty member consults on a topic that is outside the subject of his or her research or area of learning, it is easy to avoid questions about the circumstances of the conception of the invention.

For example, a faculty member could be engaged to apply his or her expertise to a narrow practical problem or product. A specific invention related to that problem or product, especially one that leverages the expertise of the engaging entity will likely not raise questions.

On the other hand, a faculty member that invents something that is aligned with his or her work and expertise and only superficially relates to an outside engagement may raise serious questions about whether the invention falls within the scope of his employment activities.

The unwieldiness of the scope question should make it clear that IP ownership deserves to receive significant thought and attention in consulting agreements where IP may arise.

A useful tool for a faculty consultant is to include in the engagement contract a definition of the subject matter in which an invention must fall in order to be eligible for ownership by the engaging entity.

This is a so-called "field" definition, which is common in IP related contracts. Many contracts rely on general language like "conceived in the course of the consulting engagement" but this may not be enough and a field definition should be seriously considered.

To create a field definition, a faculty consultant and the engaging entity can try to predict where valuable IP might arise in the context of the consulting engagement and seek an agreement with the engaging entity on this issue.

Ideally, a faculty member would be expected to grant the engaging party ownership in as narrow a range as possible. Too broad a field definition may raise questions of a conflict of interest.

The subject matter assignable to the engaging party may also be restricted, even if it is facially redundant, to inventions made within the scope of the consulting agreement.

Time constraints (such as the language “conceived during the term of the engagement ...”) and other overlapping constraints may beneficially be included as safeguards.

Defensive Disclosures and Defensive Patents

Another tool that a faculty consultant can use to help protect against a risk of conflict under the subject matter issue is filing an invention disclosure for patents and publication even before the engagement begins.

Before entering into a consulting contract and before receiving any proprietary information from the engaging entity, the faculty member can try to invent application of the core technology or refinements specific to a commercially important technical niche which may be covered by the engagement.

This “background technology” can then be protected by the faculty member or university, if merited, to safeguard its interests. As an additional defensive measure, some of this subject matter can be published, a tactic known as defensive publication or defensive disclosure.

For example, the consultant might try to conceive and address some of the problems that come to mind in applying the core technology to the commercial endeavor with which the engaging party is concerned.

Disclosing such low-hanging fruit prior to entering into the consulting engagement or signing any nondisclosure agreements or receiving any proprietary information avoids problems with an imperfect subject matter definition.

Defensive disclosures and patent disclosures do not have to be different in terms of their internal submission to the university. If inventions are not worth patenting, there may still be reasons to publish them to prevent the engaging entity from patenting into the previously reserved subject matter.

Faculty engaged in outside consulting, as well as any faculty involved with patent IP, should understand the concept of defensive publication. The idea is to create prior art that prevents third parties from patenting things within or uncomfortably close to the scope of the faculty member’s work for the university or engaging party.

Defensive disclosures can yield a great deal for a small investment of effort because a relatively small disclosure can affect a wide range of prospective patents.

For example, though significant bench work and the disclosure of its results may be required to patent a technology, the mere proposal of the work may be enough to spoil the possibility of anyone getting a patent.

Alternatives to Consulting

An alternative to outside consulting is licensing the faculty's know-how from the university. Know-how is treated as a form of intellectual property. It includes unpatented confidential information and skills.

A faculty member can make his or her knowledge and skill available to outsiders as an employee of the university. This could keep the faculty member in a safe harbor, limiting his or her risk under the law, civil liability, and conflicts with the university; it also could leave the university to resolve the contractual worries with the engaging party.

Confidentiality Obligations

It is common for an engaging entity to disclose proprietary information to a consultant. The engaging entity will expect a promise from the consultant to keep such information confidential.

This can be a difficult burden for a professor who is used to an environment and culture in which ideas and information are shared freely. The requirements imposed on the faculty consultant should be crafted carefully to avoid the risk of liability. Intentional or unintentional disclosure of confidential information can lead to liability under both criminal and civil law.

The university itself will likely give assurances, and have systems in place, to safeguard confidential information; for example, material that might appear in an invention disclosure. Agreements should include an acknowledgment of the requirement for immediate disclosure of inventions to the university.

A faculty consultant can limit the confidential information he receives and provide for specific conditions to be met in order for information to be considered confidential.

To protect the faculty member against liability for disclosure of proprietary information without the "fault" of the faculty member, the engagement agreement should include an explicit provision.

"Fault," of course, can be concretely defined based on specific information handling obligations undertaken by the parties to the consulting engagement.

The agreement may, for example, require that proprietary information be identified in detail in written documents and that the disclosing and receiving parties acknowledge in writing how each instance of a disclosure will be treated under these definitions.

Such procedures may be cumbersome, but they can be effective for limiting the amount of disclosed information to precisely what is needed.

Other Consulting Issues Faculty Should Consider — and Document

On a few other issues that are mostly of concern only to the faculty, the obligation may be on the faculty member to prove that certain intellectual property falls within the safe harbor for ownership by the faculty member.

Under these circumstances, documentation is helpful and certainly the facts supporting the faculty member's position should be cataloged.

Faculty consultants are generally not covered by the university's liability insurance with respect to outside consulting activities. Personal liability insurance should be considered. The engagement should explicitly limit consultants' liability.

For example, it should not allow liability relating to any commercial products or services that arise from consultant's activities. The faculty member should also seriously consider engaging his or her own lawyer to review the terms of the engagement.

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