

Intellectual Property Quick Guide

For UIDP Member Companies and Universities



University Industry
Demonstration Partnership

Intellectual Property Quick Guide

At an October 2013 UIDP workshop, leading practitioners from the academic, corporate and government sectors gathered to discuss ways to advance collaborations. At the event, attendees recommended that a simple reference guide for non-IP professionals be developed. The UIDP community, under the leadership of Dennis Fortner (Northrop Grumman) and Jay Schrankler (University of Minnesota), and supported by Melea East, crafted this IP Quick Guide. As is customary with UIDP products, we welcome the input from members on the utility of this document and ways in which we can improve its value to our members.

Intellectual Property (IP) is often at the center of agreements between Universities and Industry. In fact often it can be among the biggest items to work out in negotiations. These can be for research projects sponsored by industry or for pure licensing of University IP. For that reason, this guide was developed as a first step toward creating a greater understanding of key elements of IP and how it might relate to negotiations.

This guide serves to provide definitions of key terms related to IP occurring in interactions between Universities and Industry. By having a common understand of key terms, it is anticipated that this will lead to better and more productive negotiations and improved relationships across the board.

Section I: Common Terms defined.

- **Background Intellectual Property:** Intellectual Property that exists prior to performance of a research project, or that is conceived or developed at any time wholly independently of the research project, which relates to the research project and may impact the ability to practice and/or effect the foreground Intellectual Property.
- **Confidential Information:** proprietary information that is shared with a party for a particular purpose that imparts an obligation upon the recipient to maintain such information in confidence for a specific period of time.
- **Copyright:** the rights to reproduce, distribute, publish, perform, broadcast, or translate literary and artistic works fixed in a tangible medium, including computer programs and technical drawings.
- **Exclusive License:** a license that grants exclusive access to practice Intellectual Property rights in a field or fields and/or a specific geography.
- **Field of Use:** a provision in a license that permits or prohibits certain uses of the Intellectual Property being licensed.
- **Foreground Intellectual Property:** new Intellectual Property developed in the course of research under a research project's Statement of Work. In some instances Foreground IP may require access to background Intellectual Property in order to be practiced.
- **Grant-back:** a provision that obligates a licensee to grant a license back to the licensor for an improvement to the patented invention.
- **Improvements:** technology that builds upon existing Intellectual Property to improve a product or service. An improvement may require access to background Intellectual Property to be practiced; conversely, it may effectively block full enjoyment of existing inventions.
- **Infringement:** a term associated with the determination that a party is practicing rights associated with Intellectual Property without authorization by the owner of such property. License agreements typically call for both parties to notify the other party promptly upon discovering infringement of licensed patents by a third party.

- **Intellectual Property (IP):** a type of intangible property developed through intellectual creation that derives its value from common law and statutory rights.
- **Know-how:** a type of Intellectual Property created through experience gained in performing a task.
- **Liabilities:** a financial obligation of one party to another party. The obligation may arise out of an agreement or a government imposed responsibility. A Research Agreement may identify an obligation and make a party responsible for its performance and liable to the other party for failing to perform or failure to perform up to certain pre-agreed standards.
- **License:** the grant of certain rights that enable the practice of Intellectual Property by an entity other than the owner of such Intellectual Property. The license will indicate the specific rights granted, which may include the rights to research, develop, make, have made, use, offer to sell, sell and import and the right to practice methods. For copyrightable works, the rights may include the rights to reproduce, make derivative works, publicly distribute, publicly perform, and publicly display.
- **Nonexclusive License:** a nonexclusive license permits the grantee certain rights to practice Intellectual Property rights, while freeing the grantor to provide certain rights to other grantees in the future.
- **Nonexclusive Royalty-Free License (NERF):** a grant of rights to IP that allows the licensee to practice the IP rights without additional compensation. Some NERFs are limited to internal research purposes, meaning the licensee is limited to practice the IP rights solely in continued research and development.
- **Patent:** the right granted by a government authority to exclude others from making, using, selling, importing or offering for sale a product or process that is covered, in whole or part, by a novel, nonobvious, and useful invention or design.
- **Reservation of rights:** often in an exclusive license, a reservation of rights allows the licensor to continue practicing allocated Intellectual Property rights under certain conditions, for example, for teaching, research and other non-profit purposes.
- **Statement of Work:** a detailed description of the work to be performed.
- **Trade Secret:** a method, formula, process, design, pattern or instrument that is not generally known to the public, where its secrecy provides one a means to obtain an economic advantage over competitors.
- **Trademark:** the right to exclusive use of a particular name, phrase, symbol or design to identify a good or service, and to distinguish it from the goods or services of others.

Section II: Key Concepts for IP related business transactions Expanded.

- **Enforcement:** an action for patent infringement whereby the patent owner, acting through his lawyers (solicitors) arranges for a writ or complaint to be served on an alleged infringer. Exclusive licensees generally pay the cost to enforce licensed patents. Recovery from an enforcement action may be used to pay the licensee's costs with some of the remaining portion paid to the licensor. In some cases, a licensor may participate directly in the enforcement effort and collect a greater portion of any recovery based on their level of participation
- **First Right to Negotiate (also known as License Option):** the right of a prospective licensee during a limited, defined time period to enter into negotiations for a license. The Option also typically provides this right exclusively so the university cannot, during the Option time period, enter into negotiations with another group. The Option may include some or no licensing terms that are agreed at the time of the Option.
- **Indemnification:** an agreement under which a person (the "indemnitor") promises to pay or reimburse another person (the "indemnitee") for agreed upon losses actually suffered by the indemnitee. The agreed upon losses typically have not been caused by the indemnitee or its employees or agents. Indemnification provisions are frequently tied to the absolution of liability associated with certain provisions of agreements, under which the indemnitor also agrees to pay or reimburse all legal costs incurred by the indemnitee to defend claims for agreed losses. Regarding IP specifically, it is common for a University to agree that, to the best of its knowledge, the subject IP does not infringe a

- third party's IP. Various states' laws limit the scope and enforceability of indemnification provisions. For example, some state constitutions prohibit pledges of state credit, some state laws prohibit the grant of a gratuity to a third party for forgiving a public debt, and many prohibit the unauthorized attempt to contractual waive a state's right to sovereign immunity.
- **Ownership:** ownership of inventions is determined by law or contract. In the United States, federal patent law defines who is an inventor and it is the inventor that owns the invention. University inventors typically are obligated contractually to assign rights in their inventions to their university. In research contracts universities generally retain ownership of inventions made during the contract and license the inventions on a non-exclusive or exclusive basis depending on the terms of the contract.
- **Patent Costs:** the university and company will determine who will prepare and file an application for patent and pay for the costs of obtaining a patent in the United States and in foreign countries. These costs include the licensor's out-of-pocket expenses for filing the patent application, as well as the ongoing cost of corresponding with the various patent offices to issue one or more patents after a license agreement is signed.
- **Publication Restrictions:** universities are under a variety of obligations to publish the results of research efforts conducted at the university and will rarely, if ever, agree to keep results of basic research confidential for extended periods. However, universities often allow sponsors a chance to review papers prior to submission for publication in order for the sponsor to determine whether a patent application should be filed, or to prevent the inadvertent disclosure of confidential information into the public domain.
- **Right of First Refusal:** differs from an Option by including pre-determined terms offered by a third party. Before the university could offer a license to the third party the university must offer a license to the holder of the Right of First Refusal with those same terms. If the holder declines then the university can enter into negotiations with the third party under those pre-determined terms. This Right of First Refusal may be time limited and may include a payment to secure this right.
- **Strategic Partnership:** partnerships developed for long term strategic benefit to both partners. Strong Strategic Partnerships begin with compatible partner selection, meaning each party brings value, sees the need for such partnership, recognizes the other parties strengths, and is willing to give up something (\$, IP, Rights, Control etc.) to make the partnership work. They are maintained with a high level of trust and communication amongst the parties, attention to management of both the projects and the relationship, and allowance for flexibility in rapidly changing environments.
- **Term Sheet:** a non-binding document that describes, in layman's language, the primary points on which the parties agree before involving an attorney who will draft a legally binding document. Term Sheets typically include clauses that address: the scope of the IP that is going to be the addressed in the agreement; the scope of sub licensing rights, if any, the geographic scope, the field(s) of use, the scope of the grant of license (exclusive, non-exclusive), a clear timetable for a diligent development of the asset, for an indicated use, which in turn are tied to specific performance milestones; the terms of IP management (patent prosecution, patent cost reimbursements etc.); payment terms; license term, and terms and conditions for the transfer of the license (if allowed) in the event of a sale, merger or acquisition.
- **Warranty:** an agreement by a person to another person that a good or service will perform as promised or that a statement is true. Warranties on goods and services are typically limited in time and in remedy. Most states' laws imply in IP transactions a warranty by the licensor/assignor of non-infringement. Warranties of title (e.g., the licensor holds the IP rights to be licensed) and authority (e.g., the licensor has the corporate authority to enter into the agreement) are included in many Research Agreements. Warranties may be expressly disclaimed.

Additional Reference Material on Intellectual Property

UIDP reference materials http://sites.nationalacademies.org/PGA/uidp/PGA_055253

LES: <http://www.les.org/>

AUTM: <http://www.autm.net/Home.htm>

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