UTEP Patent License Agreement User Guide

What are the terms and conditions of a Patent License Agreements?

- **Scope of License:**
  - ***Licensed Patents:*** The patent license will enumerate the specific patents or patent applications which are being licensed.
    - *The rights conveyed in a license do not convey any rights in the future work of the inventor, nor guarantee the inventor will be made available to assist in the further development of the licensed patents for your particular application.*
  - ***Licensed Territory:*** The patent license will specify the territories in which a licensee may practice the patents.
    - *In some cases, the territory will be worldwide. In other cases, the licensee's rights will be limited to a country or list of countries.*
  - ***Licensed Field:*** The patent license will specify the fields in which a licensee may practice the patents (e.g., semiconductor fabrication, oncology, petroleum exploration, etc.).
    - *If a licensee desires a license for all fields of use, there will generally be diligence requirements for each different field.*
  - ***Exclusive or Non-Exclusive:*** A licensee may receive exclusive rights to a patent or may receive non-exclusive rights.
    - *In any case, UTEP retains a non-exclusive, royalty-free, continuing, irrevocable, worldwide right to publish its general scientific findings related to the licensed patents and use the licensed patents for educational and research purposes only. These provisions reinforce the university's educational mission and encourage the development of inventions and other intellectual creations for the best interest of the public.*
- **License Economics:** A patent license will contain some combination of the following payments. Each patent license is structured on an individual basis, taking into account the nature of the licensee, its business plan for commercializing the technology (including expected cash flows and risks), and its current and anticipated financial resources. The license economics are based on the value of the technology. When third-party objective comparison figures exist, they are used as a starting point in determining license economics. The licensee is encouraged to approach the determination of economics as a collaborative process that results in a fair deal for both the licensee and UTEP.

The following payments trade off against each other, and it is unusual for all of them to be present in any one particular deal.

- ***Upfront License Fee (may be traded for equity):*** The upfront fee provides UTEP with recovery of some of its investment in the technology and demonstrates the licensee's investment in and commitment to the technology.
  - *In order to allow startups to focus their capital resources on activities that promote the commercialization of the technology, UTEP may waive payment of an upfront license fee in licenses with startups in favor of issuance of equity to UTEP, or other economic accommodations designed to capture the value of the technology for the university.*
- ***Annual Maintenance Fee:*** The annual maintenance fee is intended to partially cover UTEP's costs associated with ongoing administration of the license. It also serves as an indicator of a licensee's

continued dedication to commercializing the technology. This fee may be offset by the payment of royalties.

- *We often do not require payment of an annual maintenance fee for a startup prior to the second anniversary of the license.*

- ***Running Royalty Rate:*** The royalty paid to UTEP is based on sales of products and services resulting from the licensed patents.
  - *The royalty percentage is based on a number of factors which can include the type of patent, the markets in which the products are expected to be sold, and the margins expected from product sales. Royalty payments must accompany a sales and royalty report and be submitted on a quarterly basis.*
- ***Minimum Royalty:*** Minimum royalty requirements are structured to come out of operational cash flows of the licensee based on the business plan prepared by the startup to commercialize the technology. They represent the minimum expected cash flow to UTEP from the technology during commercialization and reinforce the licensee's obligations to diligently commercialize the licensed patents.
  - *If sales of products do not result in payment of the identified minimums, the licensee is required to pay the difference.*
- ***Patent Expenses Due Upon Signing:*** The license agreement identifies past patent expenses that the licensee will be required to pay upon signing. (See section on "Patent Expenses" below.)
  - *Although UTEP often does not require startups to pay upfront license fees, startups must make provision to pay past and ongoing patent prosecution expenses for the patents they license. It is essential for the ongoing commercialization efforts of UTEP that it recoup these amounts so that they can be reinvested in the protection of other inventions.*
- ***Sublicense Fees:*** In consideration for granting the licensee the ability to sublicense patent rights, UTEP shares in the consideration paid to the licensee by a sublicensee for the grant of sublicense rights through the payment of sublicense fees.
  - *The sublicense fees apply to consideration for the grant of the sublicense, and not to the sale of products by the sublicense. The running royalty rate applies to product sales by the sublicensee. The sublicense fee rates typically are significantly higher than running royalty rates on product sales since the sublicense fees apply to consideration received for patent rights, as opposed to typically lower margin sales of products that are the subject of running royalties. UTEP will often refer potential sublicensees to its licensee after the license is signed.*

- ***Milestones:*** UTEP generally requires its licensees to meet technical and/or commercial diligence goals to ensure diligent efforts to commercialize the patents. (See "Commercial Diligence—Milestones" below.) Payments may be required when certain milestones are achieved.
  - ***Technical Milestones:*** *For example, in cases where key governmental approvals are required for long-term product development, clinical trial milestones may be included. And in some cases, certain development goals, such as the development of a prototype or first sale, may determine milestone events.*
  - ***Commercial Diligence Milestones:*** *An important condition for licensing to startups is that they have adequate capital to bring the technology to market. Accordingly, it is common in licenses to startups to have funding milestones for the maintenance of the license. This allows UTEP to grant the license prior to the startup securing funding.*
- ***Equity:*** UTEP often accepts an equity interest in startup licensees in lieu of certain cash payments; e.g., upfront or milestone payments.
  - *UTEP requires its equity position to be treated in the same manner as the most recent investments in the licensee (e.g., Series A Preferred Stock). All rights and privileges that*

apply to those stockholders and their stock must apply to UTEP. If the license is signed prior to the first outside financing round, the license will typically include a mechanism to structure UTEP's equity stake based on the future financing.

- ***License Documentation Fee:*** If a prospective licensee wishes to negotiate changes to the legal terms of the relationship contained in the Terms and Conditions, UTEP may be required to retain counsel for those discussions. For example, changes requested to indemnification, warranties, and limitation of liability provisions typically require involvement of counsel. (These provisions are discussed in the next section.) UTEP generally passes these outside counsel costs along to the licensee in the form of the license documentation fee.
    - ***Countries for Foreign Patent Filing:*** If the countries for foreign filing are known at the time the license is entered into, those countries will be identified in the license. If not, the foreign countries will be mutually determined at a later time.
    - ***Assignment Fee:*** The license terms are determined by the specific nature of the licensee's business. In the event of a transfer of a license, this results in costs and uncertainty to UTEP. This predetermined fee is intended to compensate UTEP in the event the license is transferred.
    - ***Special Provisions:*** If there are additional custom terms for a particular transaction, they are included in the Special Provisions section of the Patent License Agreement.

Terms and Conditions: **the operational and legal terms generally applicable to all licenses:** The following addresses frequently asked questions that come up in the context of "Exhibit A: Terms and Conditions," which is the document that includes the legal and operational aspects of the license relationship. This is not intended as an exhaustive explanation of that document.

- **Licensor:** The license grant is made by the Board of Regents of the University of Texas System. The University of Texas at Austin is one of the component institutions of the University of Texas System and enters into the license on behalf of the Board of Regents.
    - *The Board of Regents of the University of Texas System owns all patents and technologies developed at The University of Texas at Austin. A patent license is between the Board of Regents and a licensee; however, the Board of Regents has authorized component schools, such as The University of Texas at Austin, to sign the patent license on behalf of the Board.*
- **Sublicensing:** Exclusive licensees have the right to grant sublicenses in the licensed field. UTEP requires that all sublicensees be subject to substantially similar terms and conditions of the licensee's agreement with UTEP and that the licensee remains liable for sublicensees' acts or omissions. See "License Economics—Sublicense Fees" above for a discussion of the economics of sublicense arrangements.
- **Commercial Diligence**:
    - ***Milestones:*** UTEP requires that its licensees identify specific and quantitative goals that the licensee expects to reach during the course of its commercialization of the licensed patents. Technical milestones may be identified by the inventors and licensee technical staff; commercial milestones may be identified by the development and marketing staff from the licensee; corporate milestones, such as financing, may be identified by the executive or finance staff from the licensee.
        - *Since UTEP has a mandate that its inventions be developed in the interests of the public, these milestones are an important part of the license agreement and UTEP uses these guidelines to gauge the progress of the licensee. If milestones are missed but the licensee is still actively pursuing commercialization, then it may be appropriate to restructure the license to best serve the public interest; for example, by converting it to a non-exclusive license.*
- ***Reports:***

- ***Royalty Reports:*** Licensee must submit a sales and royalty report to UTEP within 30 days of the end of each calendar quarter.
- ***Progress Report and Commercialization Plan:*** Licensee must submit a progress report and commercialization plan yearly in order to comply with the requirement that the licensee is actively commercializing the licensed patents.
    - *UTEP administers a significant number of licenses and in order to control administrative costs, it requires all licensees to submit progress and royalty reports in a designated format on a quarterly basis.*

- ***Patent Ownership:*** UT System's policy is to retain all ownership rights to its inventions and to protect its interests in such inventions. Accordingly, UTEP does not assign patents to third parties and retains ownership to patents in all cases.
- ***Patent Prosecution:*** UTEP's policy is to prosecute licensed patents with outside counsel that have been approved by the Texas Attorney General and have a contract with UTEP Austin to perform patent prosecution work.
    - *In an exclusive license relationship, UTEP generally delegates to the licensee the ability to direct prosecution by such counsel, but retains final authority in all decisions. An engagement letter to this affect is expected to be signed at the execution of the license.*
- ***Patent Expenses:*** UTEP requires exclusive licensees to pay all patent expenses related to the patents it licenses; non-exclusive licensees are required to pay a *pro-rata* portion of the patent expenses related to the licensed patents. These expenses are due within 30 days of invoicing.
- ***Termination:*** Licensee may terminate the license for convenience on 180 days' notice to UTEP, subject to it being in current compliance with the agreement. Licensee may also terminate on 30 days' notice in the event of a breach by UTEP and failure to cure within that 30-day period.
    - UTEP may terminate the license, or any portion of the licensed patents, licensed field, or licensed territory, in any of the following circumstances: failure to sell product by the deadline in the Patent License Agreement; licensee is more than 30 days late in a payment obligation; any other breach of the license by licensee that is not cured within 30 days of notice; or UTEP delivers notice of any breach three or more times in a calendar year, even if licensee had cured such breaches.
    - *It is a basic policy of the university that intellectual property be developed primarily to serve the public interest. If a licensee is not meeting its obligations under the terms of the license regarding the commercialization and/or sales of useful products and services, UTEP must have the option of terminating all or any rights granted under the license to provide opportunities for others to produce such useful products and provide useful services for the public's benefit.*
- ***Confidentiality:*** Licensee will keep UTEP's confidential information protected and secure and will only use that information in connection with the license. This obligation will survive five years from termination. All UTEP licenses must contain this provision. UTEP's confidential information is a valuable asset and UTEP has a duty to the state of Texas to protect such assets.
- ***Export Control:*** Licensee will comply with all applicable U.S. and foreign laws governing the transfers of products and technical data. UTEP requires its patent licensees to comply with export control laws and regulation.
- ***Representations:*** UTEP represents its belief that it is the owner of the patent rights, has the sole right to grant licenses, and has not knowingly granted other licenses that would restrict licensee's rights. UTEP makes no other representations and no warranties, express or implied. As an agency of the State of Texas, UTEP is limited in the permissible representations it may provide to a licensee.

Licensee represents that it: (1) understands that the patent rights may have been developed with funding from the U.S. government and that the government may have certain rights; (2) it has adequate expertise to have conducted and has conducted sufficient due diligence with respect to the license; and (3) it accepts all risks inherent in the license. The Bayh-Dole Act (P.L. 96-517) provides the U.S. government with certain rights to patented inventions resulting from federally funded sources.

- ***Indemnification by Licensee:*** Licensee will indemnify UTEP for all claims arising out the exercise of the license. The licensee is in the best position to control the product or services based on the patent rights and the indemnification provision reflects this risk allocation.
- ***Indemnification by UTEP:*** The constitution of the State of Texas and state law does not permit an agency of the state to indemnify any person or entity except in very limited circumstances. These circumstances generally do not apply to licenses granted by UTEP. [See Walsh v. University of Texas, 196 S.W.2d 993 (Texas Civ. App. - El Paso 1942, writ ref'd) and Article 3, Sections 50-52, Texas Constitution and The Texas Tort Claims Act (Chapter 101, Texas Civil Practice and Remedies Code) and http://www.utsystem.edu/ogc/ intellectualproperty/indins.htm]. Accordingly, as an agency of the State of Texas, UTEP cannot provide reciprocal indemnification.
- ***Insurance:*** Licensee must maintain commercial general liability insurance to cover claims that may arise from licensee's commercialization efforts and name UTEP as an additional insured. Licensee's insurance obligation will continue five years from termination.
- ***Assignment:*** The license cannot be assigned without UTEP's prior written consent. Consent will not be unreasonably withheld.
- ***Governmental Markings:*** UTEP requires its patent licensees to comply with federal patent law and to mark all products in accordance with applicable patent notices.
- ***Use of Name:*** UTEP and licensee may use each other's name in connection with publicity related to its respective technology commercialization achievements. In accordance with the trademark policy of the University of Texas System, Licensee may not use the name of UTEP as a brand or trademark for or related to licensee's products or services without the prior express written consent of UTEP.
- ***Governing Law:*** As an agency of the State of Texas, UTEP's agreements must be governed by: 1.) Texas law, 2.) Federal law, 3.) Remain Silent on Choice of Law.

Questions?

UTEP OFFICE OF TECHNOLOGY COMMERCIALIZATION

The University of Texas at El Paso
Prospect Hall Room 109B
500 W. University Ave.
El Paso, TX 79968
Phone: 915-747-6717
Email: techtransfer@utep.edu