

**INTELLECTUAL PROPERTY MANAGERS
CONTRACT AND GRANT OFFICERS
VICE CHANCELLORS – RESEARCH/ADMINISTRATION**

SUBJECT: Non-Exclusive Royalty-Free Invention Rights (NERF) Pilot Program

Background

University-industry relations engage a diverse mix of companies – ranging from start-ups to industry giants in diverse fields such as biotechnology, pharmaceutical, and electrical engineering – each with a unique set of market strategies and intellectual property requirements. While the University must ensure that its research relationships with industry support the University's education, research, and public service missions, the University must also be flexible and open to the diverse range of industry sectors and the associated and sometimes changing needs of each.

Certain industry sectors invest heavily in the long term development of commercial products (i.e., pharmaceuticals and start-ups). The successful development of such products is often predicated on the business principle of exclusive access to the underlying technology and establishing an exclusive position within the marketplace that excludes the competition. On the other hand, successful product development in other industry sectors require rapid prototyping and early market entry, and are typified by short product lifecycles. Operating within this framework, such sponsors typically are not interested in any advantages resulting from exclusive access to University-owned intellectual property. Instead, they require the freedom to operate afforded by royalty-free, non-exclusive licensing rights. The same market principles also apply to companies that may hold a proprietary position in the market by way of protected resources (i.e., biological materials, compounds, drugs, proprietary processes, etc.) but seek to improve their market position by sharing their proprietary resources with the University under collaborative research projects. As the University strives to enrich its interactions across the full spectrum of industry sectors in activities that fulfill the University's education, research and public service missions, it must sometimes evaluate new approaches to such endeavors.

NERF Pilot Program

The University conducted such an evaluation with respect to industries in the electrical engineering and computer science fields, resulting in the introduction of the EECS Pilot Program in August 2000 (extended indefinitely in 2003). Similarly, this NERF Pilot Program is designed to accommodate the needs of a wider cross-section of industry sponsors of research given the success of the EECS Pilot Program. The NERF Pilot Program provides University Contracts & Grants offices greater flexibility in negotiating rights to University inventions made in the performance of a sponsored research agreement across a wider range of industry research sponsorship.

NERF Pilot Program Authority

The range of options available to authorized Contract & Grant Officers is articulated in existing University policy as implemented under the University Contract and Grant Manual, Chapter 11-341, "Summary of Sponsor Patent Rights Applicable to Funding Agreements With Industrial (For Profit) Sponsors of Research," including committing a right to royalty-bearing exclusive and non-exclusive licenses to for-profit research sponsors. This range of options is hereby expanded to include the authority to grant a for-profit sponsor the first right to negotiate a royalty-free, non-exclusive (research or commercial) license to the University's interests in patentable inventions conceived and first reduced to practice in the performance of a research project in accordance with the guidance below. The NERF Pilot Program authority extends to University of California Contract and Grant Officers (C&G Officers) and others with the delegated authority to enter into sponsored research agreements with a for-profit sponsor of research on behalf of the Regents.

This NERF Pilot Program authority must be applied in a manner consistent with the University Policy on "Principles Regarding Rights to Future Research Results in University Agreements with External Parties" (Enclosure A) and the NERF Pilot Program guidelines discussed below. In applying this authority, it is important that C&G Officers consult with all stakeholders, including their authorized Campus Licensing Office¹(CLO) and University project participants, who on a case-by-case basis, should participate in and take responsibility for decisions concerning the use of the NERF Pilot Program authority. The NERF Pilot Program authority may be applied to for-profit sponsorship of University administered research activities that otherwise follow standard University intellectual property policies, including the Discovery Grant Program, the UC-MICRO Program, and CISI programs. In addition, each campus/Laboratory, at its discretion and working with the relevant offices (C&G, CLO, Vice Chancellor for Research, etc.), may implement additional local restrictions and approval requirements that meet the specific needs of the campus/Laboratory when implementing the NERF Pilot Program authority.

Please note that the University's starting point in its negotiation of a sponsored research agreement should generally continue to be a first right to negotiate a royalty-bearing license, especially since many sponsors have well established, long-standing relationships with the University under this business model. In most cases, the sponsor's interest can and should be readily accommodated under such standard intellectual property arrangements.

The NERF Pilot Program authority is issued for immediate use and extends through September 30, 2010. The results of the NERF Pilot Program and the appropriateness of any renewal will be assessed at that time. Additional guidance on factors to consider when exercising the NERF Pilot Program authority is provided in Enclosure B.

¹ CLO is the campus/Laboratory-based office that has received formal reassignment of intellectual property licensing authority from the Office of the President, or the UCOP Office of Technology Transfer, as appropriate.

Guidelines for Negotiating Invention Rights Provisions with For-Profit Sponsors Under the NERF Pilot Program

Sample contract language consistent with the NERF Pilot Program authority is provided in Enclosure C for consideration when developing intellectual property rights provisions under the NERF Pilot Program authority. C&G Officers, however, are not restricted to using only the sample provisions provided in Enclosure C.

Any agreement that grants licensing rights to a for-profit sponsor under the NERF Pilot Program authority must conform to the University Policy on "Principles Regarding Rights to Future Research Results in University Agreements with External Parties". C&G Officers, in consultation with their CLO, need to consider the following key elements of these Principles when exercising the NERF Pilot Program authority:

1. PUBLIC BENEFIT – It is the responsibility of the University to ensure that future research results be diligently moved to the marketplace for the public good.

The key consideration here is whether the commitment of a NERF restricts the University's ability to ensure that the public interest is served. For example, if a company is unable or unwilling to develop a technology under the NERF license, the campus must ensure that such inaction does not undermine the public interest. This is arguably inherent in a technology sector that does not rely on exclusivity. Otherwise, one way to ensure the public interest is served would be to require diligent performance by the sponsor for timely commercial development and marketing of any licensed inventions. However, there may be certain, limited circumstances when a license agreement obligation for such diligent performance may not be applicable. Examples include when the sponsor desires only access to the technology for internal use for research and development purposes on a non-exclusive basis, and when other licensees would be able to ensure diligent movement to the marketplace. Another approach would be to limit the NERF to a field of use that is already dominated by the sponsor's proprietary technology, and is thus unavailable to other companies. The campus' or Laboratory's CLO should evaluate the circumstances surrounding the nature of the technology and the marketplace, the sponsor's intended use, and the commercialization plan for the technology before exercising judgment in this area. This determination typically cannot be made until after an invention has been disclosed and evaluated by the University, unless the scope of such invention can be pre-defined at the time the research agreement is negotiated. Thus, it is usually appropriate that the University's right to require diligence at the time of licensing be preserved in the research agreement.

2. LEGAL INTEGRITY AND CONSISTENCY

- a. Obligations must enable the University to satisfy its agreements with third parties, including the Federal government.

C&G Officers must ensure that they do not inadvertently enter into conflicting contractual obligations with other parties when exercising the NERF Pilot Program authority (i.e., granting NERF license rights to one sponsor and exclusive license rights to another sponsor for the same invention). Commitments concerning future research results made under the provisions of the NERF Pilot Program must be consistent with all applicable laws and regulations and the University's contractual obligations to third parties.

- b. Obligations of the University must be consistent with the requirements of the Tax Reform Act of 1986, where applicable.

C&G Officers must ensure that sponsored research agreements comply with the safe harbor provisions of the Tax Reform Act of 1986. While specific guidance regarding this subject was issued under OTT Operating Guidance Memo 00-01 in May 2000, the Internal Revenue Service (IRS) recently updated the safe harbor provisions for basic research agreements with the issuance of Revenue Procedure 2007-47 (see Information Letter dated August 1, 2007). While a NERF license to a single sponsor of research now falls within the boundaries of the IRS safe harbor, the pre-negotiation of any financial terms of a license – including financial consideration other than a running royalty payable under a NERF license – before an invention is made *may* put the research activity outside the IRS safe harbor provisions, thereby subjecting the research activity performed at the University to private business use limitations and restrictions. The act of offering a sponsor the first right to negotiate a NERF under the provisions of a research agreement is not considered pre-pricing the technology and is consistent with the revised IRS safe harbor provisions. Including specific financial terms (such as pre-defined license fees, license maintenance fees, or financial caps on the total amount to be paid by the sponsor for the license) may put the research activity outside the IRS safe harbor, depending upon the facts and circumstances of the situation. The C&G Officer should consult with their CLO and UCOP/OTT in evaluating any Tax Act implications when a sponsor insists on including specific financial terms or limitations as part of the exercise of the NERF Pilot Program authority.

- 3. INFORMED PARTICIPATION – Informing each University project participant and affected administrative offices of the potential lack of licensing income for any grant of rights to a royalty-free commercial license.

The University's Patent Policy requires all employees to disclose and assign to the University any inventions and patents that are conceived or developed while employed by the University or generated during the course of utilizing any University research facilities or research funds received through the University. In exchange, the University agrees to share a percentage of net royalty income, if any, received by the University through the licensing of any such inventions and patents. University employees engaged in the performance of research governed by an agreement with an external party should have access to and understand the conditions contained in the agreement related to the disposition of future research results.

The grant of royalty-free license rights to a sponsor under the NERF Pilot Program authority would contractually commit the University to a non-standard intellectual property arrangement. Under such circumstances, C&G Officers should ensure the informed participation of all University project participants, including research staff and students, indicating their understanding of the potential impact this arrangement may have on any future royalty income expected from the licensing of any inventions that may result from their performance of work under the sponsored research project. In addition, the exercise of the NERF Pilot Program authority could also impact the campus share of any future royalty income expected under such licensing arrangements. Since the campus is also forgoing any license income that it would otherwise expect, the campus informed participation process should include the appropriate senior management affected by the exercise of the NERF Pilot Program authority (i.e., Vice Chancellor for Research) either on an overall program implementation by the campus or on a case-by-case basis.

4. FAIR CONSIDERATION – The responsibility of the University to obtain fair consideration for the grant of a commercial license.

The University, as a public trust, has a responsibility to manage its assets for the public benefit. Therefore, the University has an obligation to receive fair consideration in exchange for the grant of commercial licensing rights to a sponsor. The level and form of fair consideration should reflect the relative risks and rewards of the commercial pursuit. Such consideration may vary widely based on case-specific factors that include the reimbursement of the University's patent costs, payment of a license issue fee, applicable running royalty payments, an annual license maintenance fee, sublicensing fees, equity, or other forms of consideration (other than financial).

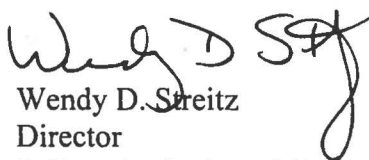
Under the authority of the NERF Pilot Program, C&G Officers can, in consultation with the CLO and University project participants, determine the basis for appropriate consideration, financial or otherwise, under a specific sponsored research project. One possible option could include the right for a sponsor to negotiate a non-exclusive commercial license with no running royalty, but with some other form of consideration, such as periodic fees. Any such determination of fair consideration should be based upon the specific set of circumstances and should be consistent with the other elements of the University Policy on Principles Regarding Rights to Future Research Results in University Agreements with External Parties as well as OTT Operating Guidance Memo No. 00-05, University Licensing Guidelines (December 1, 2000). It is important to emphasize that the rationale used by the campus/Laboratory in determining the appropriate fair consideration for each sponsored research project should be documented in the appropriate University files.

In those situations where a sponsor insists upon defining the form of fair consideration under the provisions of a sponsored research agreement, C&G Officers must obtain approval from their local CLO before including any such provisions in the sponsored research agreement.

If you have any questions concerning the NERF Pilot Program or its implementation, please contact Chuck Rzeszutko.

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Sincerely,



Wendy D. Streitz
Director
Policy, Analysis and Campus Services

Enclosures:

- A. Principles Regarding Rights to Future Research Results in University Agreements with External Parties
- B. NERF License Rights: Factors to Consider When Exercising NERF Pilot Program Authority
- C. NERF Pilot Program Sample Intellectual Property Rights Provisions

cc: Executive Director Tucker
Acting Director Deetz, ANR
OTT Directors
University Counsel Simpson
PACS Technology Transfer Officers
Coordinator Archer

University of California
Office of the President
August 26, 1999

Principles Regarding Rights to Future Research Results In University Agreements with External Parties

Preamble

This policy defines the core principles to be addressed in University agreements with external parties as to rights to future research results including patents, copyrights, tangible property, and data generated by the University community or through the use of University resources.

The University increasingly is called upon to participate in a broad spectrum of research relationships with governmental agencies, nonprofit foundations, and industry. Such relationships encompass traditional extramural research funding arrangements, research collaborations, multi-party research consortia, visits by others to University laboratories, student and faculty visits to external laboratories, and use of University equipment and facilities by others. Other University relationships with external parties, such as purchasing or real estate transactions, may also have implications for future University research results. Properly cast, all such relationships can help both the University and the external party advance their respective and mutual research interests.

Each University agreement with an external party must recognize the importance of managing the results of research to enhance the teaching and research programs of University faculty, researchers, students, and postdoctoral scholars. To ensure the long-term success of such relationships, agreements should acknowledge the participants' respective contributions, understanding that parties may have divergent interests in the results of research. Regarding technologies and other results arising from research they support, industry partners may rely upon strong patent or proprietary positions to gain competitive positions in the marketplace. The University has a commitment to make the fruits of its research widely available through publication and open distribution of research products. The University also seeks to protect the viability of its research programs, to foster open inquiry beyond the interests of any one research partner, and to recognize its fiduciary responsibility as the beneficiary of a publicly -funded research infrastructure.

Principles

For University relationships with external parties to succeed, agreements must address the parties' interests in future research results through flexible application of fundamental principles to a broad range of specific circumstances. Rights and obligations associated with future research results shall be based on the following principles:

1. Open Dissemination of Research Results and Information

Agreements with external parties shall not abridge the ability of University researchers to disseminate their research methods and results in a timely manner. The most fundamental tenet of the University is the freedom to interpret and publish or otherwise disseminate research results in order to support the transfer of knowledge to others and maintain an open academic environment that fosters intellectual creativity.

2. Commitment to Students

Agreements for research relationships with external parties shall respect the University's primary commitment to the education of its students.

3. Accessibility for Research Purposes

Agreements with external parties shall ensure the ability of University researchers to utilize the results of their research to perform future research.

4. Public Benefit

Agreements with external parties shall support the ability of the University to make available for the public benefit in a diligent and timely manner any resulting innovations and works of authorship.

5. Informed Participation

All individuals involved in research governed by a University agreement with an external party shall have the right and responsibility to understand the rights and obligations related to future research results embodied within the agreement.

6. Legal Integrity and Consistency

Commitments concerning future research results made in agreements with external parties shall be consistent with all applicable laws and regulations and the University's contractual obligations to others.

7. Fair Consideration for University Research Results

Agreements with external parties shall provide fair consideration to the University and the general public for granting commercial access to future University research results.

8. Objective Decision-Making

When establishing or conducting University relationships with external parties, decisions made about rights to future research results shall be based upon legitimate institutional academic and business considerations and not upon matters related to the personal financial gain of any individual.

Applicability

These principles shall apply to all University agreements with external parties that impact rights to University research results, whether such agreements are administratively managed as contracts and grants, as procurements, as sales and services contracts, or as other forms of agreement.

University relationships with external parties are most efficiently established and managed by delegating appropriate authority to well-trained campus and Laboratory negotiators for development, negotiation, and execution of a broad range of tangible and intellectual property rights arrangements. Each such arrangement must be consistent with the provisions of this policy, but may be tailored specifically to particular circumstances. Since disposition of research results arising from such relationships is based on both University academic and business considerations, it is important that authorized University contracting personnel and University academic personnel together participate in and take responsibility for decisions concerning such arrangements.

Although this Policy is applicable to the three Department of Energy National Laboratories, allocation of rights under various agreements at the Laboratories may be subject to overriding obligations of The Regents under DOE operating contracts.

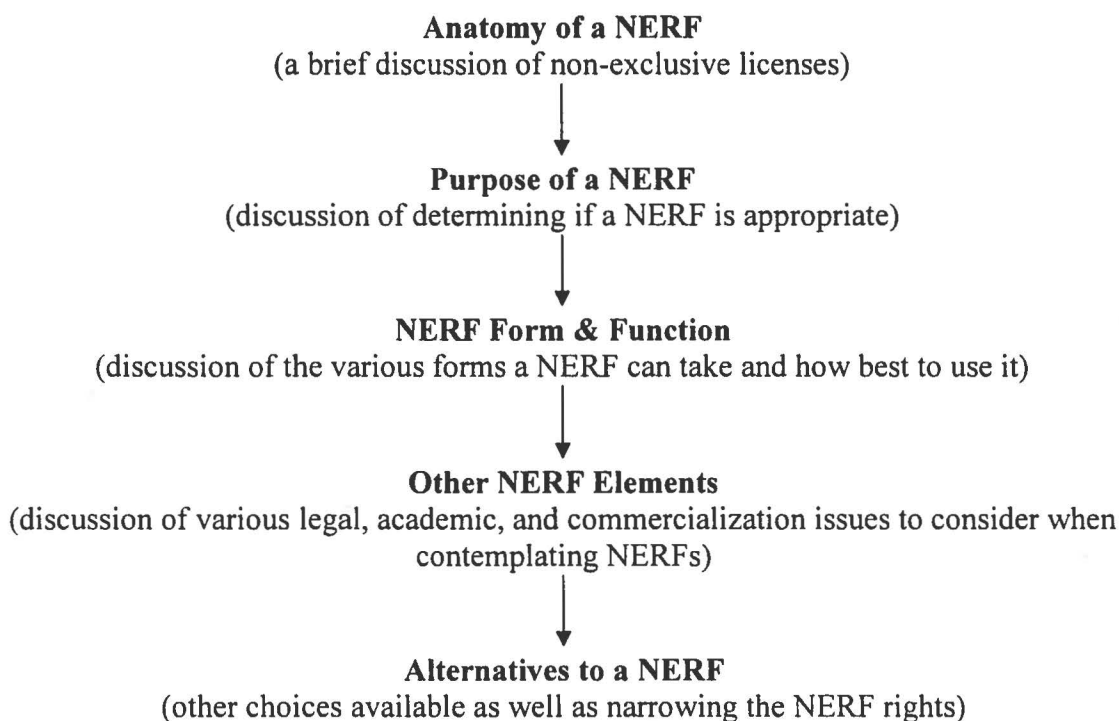
The Senior Vice President--Business and Finance shall develop appropriate delegations of authority, administrative guidelines, and accountability measures to support campus and Laboratory activity in this area.

NERF License Rights: Factors to Consider When Exercising NERF Pilot Program Authority

INTRODUCTION

This guidance document provides a discussion of factors for consideration when contemplating the commitment of non-exclusive royalty-free (NERF) license rights to University inventions under a sponsored research agreement. As each campus/Laboratory has a wide range of options to choose from when offering such rights to a sponsor, this guidance document addresses topics of relevance to both the C&G Office and Campus Licensing Office (CLO). Many of the topics discussed herein fall within the authorities of both the campus C&G and CLO functions. As such, consultation between the C&G Office and CLO is strongly encouraged when crafting appropriate NERF rights under a sponsored research agreement.

The organization of this guidance document progresses from a general discussion on how to evaluate the sponsor's purpose and need for a NERF to a more detailed discussion of the individual components of a NERF. Here is a "roadmap" to help guide you through the topics and content within this document:



While the material in this guidance document is best absorbed through a sequential reading of the document, each individual section can also serve as an independent subject matter reference source for the more experienced C&G Officer and CLO professional.

ANATOMY OF A NERF

Background

Each campus/Laboratory is authorized to provide a sponsor of research the first right to negotiate a license to patentable inventions conceived and first reduced to practice in the University's performance of a sponsored research project. The license rights may consist of an exclusive or non-exclusive right to such future inventions. In exchange for these rights, the sponsor is typically required to meet certain performance criteria (due diligence) in order to ensure the timely development of the University's invention for the public benefit along with some form of fair consideration (usually financial in nature) back to the University based upon the commercial value the sponsor derives from its use of the invention. The sponsor's market strategy will usually be the primary factor in determining the type of license needed by the sponsor ranging from exclusive rights to non-exclusive rights to merely the freedom to practice the invention. An exclusive license excludes all parties other than the sponsor from practicing the University invention. A non-exclusive license, however, merely provides assurance that the University will not initiate an infringement suit against the sponsor for certain specified rights to the subject invention. A nonexclusive license does not preclude the University from practicing the invention or from licensing others to practice the invention. The University may grant numerous nonexclusive commercial licenses to different companies for the same invention. A NERF is one type of a non-exclusive license. So how does a NERF differ from the typical non-exclusive license offered by the University?

To state the obvious, a NERF is a non-exclusive license right whereby a licensee is not required to share a portion of any proceeds received from the cumulative use or sale of a product (also known as a running royalty) that falls within the claims of the licensed patent. License fees or other payments required under the terms of the license that do not result from the sale of a licensed product, method, or service are separate and distinct from a running "royalty" payment by the licensee. In granting a sponsor certain NERF license rights to future inventions, the C&G Officer should consider the following criteria:

- (1) what purpose will the NERF license serve;
- (2) the form and function of the NERF rights a sponsor will acquire under the research agreement; and
- (3) other elements that may influence the campus/Laboratory in framing such NERF rights.

Let's consider each of these in greater detail.

(1) Purpose

The first determination a campus/Laboratory will need to make is what purpose does the NERF serve in the researcher's overall research agenda. In an ideal world, the campus/Laboratory would know the scope and utility of an invention and how it serves the researcher's long-term research objectives prior to negotiating the sponsor's future rights to that invention. Such rights should complement rather than constrain the researcher's long-term research objectives.

Inventions, however, are a serendipitous future outcome of a research endeavor. As a result, the C&G Officer is asked to articulate appropriate rights to an invention that is yet to be created without the benefit of knowing the purpose of the invention or how best to frame the sponsor's rights to such invention in a manner consistent with the needs of the inventor, the University, and the sponsor. Knowing the long term objectives of the researcher, however, can help the C&G Officer frame the invention rights discussion with the sponsor and determine whether a NERF right is consistent with the researcher's objectives. While a research/internal use NERF right will satisfy the needs of some sponsors (predominately non-profits and the federal government), most commercial entities that sponsor research at the University will require some form of commercial rights for the use of any resulting inventions.

Any commercial rights should be consistent with the research objectives of the research program. For example, if the goals of the research program are focused on "value engineering" – to develop open industry standards and protocols (i.e., IEEE) or establish a leadership position in a particular area of technology (i.e., microwave communications, nanochip design, etc.) – then a NERF could be an appropriate vehicle for meeting these objectives as it provides unrestricted access to the invention with the goal of achieving adoption of the technology by as many users as possible. In contrast, if the goals of the research program are focused on "applied technology development" – to develop or improve established technologies employed by commercial entities – then a NERF may not be the best choice as the sponsor is the predominant beneficiary of the research effort and the University should share in any commercial benefits realized by the company through the use of reasonable and non-discriminatory license terms under a royalty-bearing license.

It is in the best interest of the University, the C&G Officer, and the CLO to engage the researcher in these types of discussions early-on in a research program in order to understand (and in some cases help delineate) the purpose and goals of the research program. This will simplify the task of developing an invention rights strategy for use in future sponsored research agreements and license agreements addressing any resulting inventions.

In addition, the campus/Laboratory should also evaluate the impact a NERF license right could have on its implementation of a technology development strategy for a particular invention. To illustrate this point, a campus provided a company with a NERF right under the terms of a Material Transfer Agreement (MTA). The researcher later disclosed a new potentially patentable algorithm created in the performance of the MTA. A medical device company approached the campus with an interest in licensing the invention and supporting further research at the campus on the algorithm-based technology. When the medical device company learned about the NERF right to the MTA provider (which was a competitor of the medical device

company), it decided not to pursue the license and sponsored research agreement with the campus.

(2) Form and Function

The next decision a campus/Laboratory will need to make is what type of NERF is appropriate for a specific situation. The following options represent a cross-section of choices that a campus/Laboratory might consider when contemplating the inclusion of a NERF rights provision in a sponsored research agreement:

(1) Research-Only NERF:

This type of NERF would restrict the sponsor's use of the University invention to an investigatory utilization of the University invention in a research setting. This type of NERF leaves greater possibilities for the campus/Laboratory to license other entities for both research and commercial applications. For example, this type of NERF could be used in a multi-party collaboration (i.e., consortia) involving participants from both academia and industry. All parties would have the right to use any resulting inventions for research purposes only. Any right to make or sell a commercial product or service that falls within the claims of the University patent would require the negotiation of a separate commercial license. The campus/Laboratory may choose to further limit the scope of the research NERF by limiting the term of the license to the duration of the research project. This permits the consortia membership to practice such University inventions in order to complete the project tasks but requires a separate license should a consortia member wish to continue the practice of the University invention beyond the performance period of the research project.

A research NERF to other academic institutions and non-profits should limit the institution's use to education and research purposes. A research NERF to a commercial entity is difficult to distinguish from a non-commercial NERF, particularly when the research use is the commercial use (i.e., in the case of a "research tool" used to develop or manufacture a commercial product), unless there is a way to clearly isolate the company's "research" use from its product development activities. An internal use NERF to a commercial entity may be a better choice when the company's internal "research" activities are linked with its product development activities.

(2) Internal Use NERF:

This type of NERF is an extension of the research NERF with the added ability to practice the University invention in an applied research/industrial setting that does not involve the direct manufacture or sale of a licensed product or service. For example, this type of NERF license could be used where the purpose of the sponsor's use involves the evaluation or monitoring of processes that may improve manufacturing efficiencies. Because the distinction between internal use and commercial use is artificial at best, how one defines the boundary between internal use and commercial use can be problematic. For example, providing a pharmaceutical company with an internal use NERF to a research tool for drug discovery applications is equivalent to a commercial use since the

company's use of the research tool could result in the creation of a new drug product. In contrast, providing a company that develops diagnostic kits for the detection of diseases with an internal use NERF whereby the research tool would be used to test the efficacy of the diagnostic kits falls presumably within the framework of non-commercial use. This option should only be considered after careful evaluation of the facts and circumstances where such use is being considered and in consultation with the CLO. An internal use NERF may grant the company the right to make and use the invention but should explicitly exclude the right "to sell or offer for sale" any products or services that use the invention.

(3) Commercial NERF:

This type of NERF license is the one most frequently requested by a commercial sponsor as it provides the sponsor with commercial use rights of a University invention. The sponsor would have the right to "make, use, and sell or offer for sale" the invention, including incorporation into any products or services that fall within the claims of the resulting University patent. This would satisfy a commercial sponsor's "freedom to operate" requirement as it permits them to pursue their chosen product markets without restrictions. The use of this NERF option should be limited to only those sponsors engaged in the manufacture or sale of commercial products or services. This is not an appropriate choice for use with non-profit sponsors or other academic institutions.

While a commercial NERF lacks a running royalty provision, the campus/Laboratory should consider whether other forms of consideration are justified based upon the likely value of the commercial license to the sponsor and whether such a license is consistent with the research project objectives and goals (i.e., value engineering versus applied technology development). The campus/Laboratory may consider incorporating any one or combination of the following forms of consideration into a commercial NERF license, when appropriate:

- *Reimbursement of University's Patent Costs* – As a minimum financial obligation on the part of the sponsor, the campus/Laboratory should strongly consider a requirement for the sponsor to reimburse the University for its unreimbursed patent costs. This can be structured on a pro-rata basis when the campus/Laboratory anticipates multiple licensees, though this is burdensome from an accounting perspective. If the sponsor refuses to accept such an obligation, the campus/Laboratory should include a provision in the sponsored research agreement stating that the University is not obligated to file for patent protection on any inventions made under the research agreement. The University should avoid situations where it must spend public funds to obtain a patent for the benefit of an individual company, with no consideration being provided back to the University.
- *Issue Fee* - The licensee pays a fee to the University upon final execution of the license agreement or pursuant to a pre-agreed upon schedule. The fee amount generally should reflect the value of the invention at the time it is made available

to the licensee. Normally, such fees can range from a few thousand dollars to a quarter of a million or more. For small companies or start-ups, the issue fee may be partially postponed until sufficient investment capital is secured, or may be replaced in part by the University's acceptance of equity in the company (see Equity below).

- *Annual Maintenance Fee* - The licensee makes a fixed annual payment to the University. Such fees may serve as a form of diligence in that their payment represents a continuing interest in and financial commitment of the licensee to the licensed invention.
- *One-Time License Fee* - Some companies do not want to incur an ongoing and sometimes procedurally burdensome obligation to provide financial consideration during the term of a license but are willing to provide a one-time payment for the purchase of a "paid-up" license to a University invention. In such cases, the CLO may consider valuing the invention, once it is disclosed, over its lifetime to arrive at an appropriate one-time fee to be paid by the sponsor when the license is executed by the parties.
- *Equity* - This option may be particularly useful in working with small or startup companies that may find it difficult to commit significant cash outlays for both developmental and licensing costs (but should not be used to offset royalty rates). The campus/Laboratory should consult Business & Finance Bulletin G-44 on Accepting Equity (<http://patron.ucop.edu/ottmemos/docs/ott02-01.html>) for additional guidance in this area.
- *Other* - The campus/Laboratory may negotiate or identify other forms of consideration to the University for access to University inventions other than those described above. Research equipment, other forms of research support (as a due diligence requirement under the NERF), and other unique exchanges of value may be appropriate forms of consideration. The campus/Laboratory should note, however, that such non-standard forms of consideration fall outside the royalty-sharing provisions of the University Patent Policy and all project participants and relevant stake holders should be advised accordingly if such terms are incorporated into the sponsored research agreement.

Please note that many companies subscribe to the belief that a "NERF" is actually a fully paid-up, no cost license. This differs from the University's working definition of a NERF as discussed above under "Commercial NERF", i.e., that there will be no running royalties, but there could be other forms of financial consideration. Unless the campus/Laboratory intends on providing a sponsor with a fully paid-up, no cost NERF, the C&G Officer should clearly articulate the University's expectation regarding a "commercial NERF" right under the sponsored research agreement by including a statement that the sponsor will be required to provide some form of financial consideration for the NERF. Any discussions with the sponsor as to what constitutes an

acceptable form and amount of financial consideration should involve a representative from the CLO.

(4) Fully Paid-Up, No Cost NERF:

This type of NERF is a fully paid-up, no-cost license where the sponsor provides no financial consideration to the University for the license. This is the least desirable NERF option that a campus/Laboratory should consider. Under this option, the campus/Laboratory assumes all financial risk associated with the patenting and licensing of the invention. Should the campus/Laboratory choose to pursue patent protection, the campus/Laboratory will have to use campus/Laboratory funds until such time that the campus/Laboratory can find other licensees that will reimburse the University for all past and future patent costs.

One situation whereby the University is more likely to agree to give a company free access to inventions is under a Material Transfer Agreement where the company provides a proprietary material that cannot be obtained elsewhere. Even then, the free license should extend only to those inventions that are dependent upon the provided material (necessarily uses or necessarily incorporates), limited to the provider's ability to make, use, and sell the provided material, or limited to internal research purposes. In these situations, the University often feels that having access to the proprietary material is sufficient valuable consideration for the NERF.

Should the campus/Laboratory choose to utilize this option, the campus/Laboratory should ensure that the associated files contain appropriate documentation addressing the University Principles of fair consideration, public benefit (see additional discussion below), and informed participation. Such documentation could include a memo to the file from the CLO describing the fair consideration received by the campus/Laboratory (in lieu of financial compensation by the sponsor), the manner in which the public benefit is preserved, and a special investigator acknowledgement form signed by the project participants (or equivalent notice and acknowledgement by email).

When contemplating the form and function of any NERF rights offered to a particular sponsor, the campus/Laboratory may want to factor the following additional criteria into its decision-making process:

- Whether the sponsor is paying the full cost of the research;
- To what degree the sponsor holds a dominating patent position in a given area of technology together with whether the NERF is limited to inventions that are dominated by such patent(s);
- To what extent will the NERF impact the University's opportunity for additional sponsored research in the technology area and the licensing of any resulting inventions to non-sponsoring parties; and
- Whether the sponsor has funded other projects at the campus/Laboratory (or the University) in the same field, and at what level of funding.

(3) Other Elements to Consider When Granting NERF Rights to a Sponsor

The final step is for the appropriate campus/Laboratory authorized personnel to craft specific provisions in the sponsored research agreement and resulting NERF license agreement (if appropriate) tailored to the objectives and goals of the campus/Laboratory and the affected research program.

MEANS OF GRANTING NERF RIGHTS

All NERFs, regardless of the form, should be limited to patentable inventions conceived and first reduced to practice in the performance of the research project. A sponsor's right to a NERF can be structured under a sponsored research agreement in one of the following ways:

- *First Right to Negotiate* – The standard practice of the University is to offer a sponsor of research a time-limited first right to negotiate a license to inventions conceived and first reduced to practice in the performance of the research project. This provides the sponsor with a prioritized position as the first potential licensee to enter into negotiations with the University for a license to the University's invention. Even in the case of a NERF, this is the preferred approach as it leaves the details of the license agreement to a point in the future once the scope of an invention is known and appropriate terms can be negotiated by the CLO.
- *Will/Shall Grant* – Many times a sponsor will require a higher level of assurance from the University that a license will actually be issued once an invention is made. While this still defers the actual grant of a license until such time as the invention actually exists, it creates an affirmative obligation on the University to actually grant such a license. Some sponsors will attempt to make a distinction between "will" and "shall" with regards to the degree the University is obligated to grant such a license. From a legal perspective, no such difference exists and the use of either term is equivalent in this context. While this is not a preferred option to offer a sponsor, it is a possible solution when a sponsor demands an actual grant of a license (see below) under the terms of the sponsored research agreement.
- *Hereby Grants* – Some sponsors demand an outright upfront grant of a NERF license to future inventions at the onset of the research project. The use of "hereby grants" effectively turns the sponsored research agreement into a license agreement. As such, the agreement is now subject to an additional set of legal and policy standards. Research agreements are negotiated in the contract & grant office, which generally does not have the authority to enter into license agreements (similarly, the CLO does not have the authority to enter into research agreements). Even with the delegated licensing authority, the CLO must still secure the review and approval of the Office of General Counsel (OGC) before entering into a license agreement. There are several terms that OGC absolutely requires in each of the University's licenses to provide certain protections for the University - without which, the license will not be approved. These include the following:
 - no use of the University's name without prior approval,

- a disclaimer of warranty,
- appropriate indemnification of The Regents,
- a limitation of liability, and
- a statement of no implied license to other University inventions.

Also, the University must ensure that the terms of such agreements support the University's obligations to the State, comply with Federal law and regulation, serve the public interest, and meet certain business standards. When faced with this scenario, the C&G Officer should either modify the provision to a first right to negotiate (or as a last resort to a "will or shall grant" as discussed above), or have the sponsor work with the CLO in crafting an appropriate NERF license document that can be attached to the sponsored research agreement and exercised at such time when an invention actually exists. The latter option allows the University to incorporate terms that accommodate the various issues, concerns, and legal obligations of the University into a final license agreement and to administratively track the license obligations associated with a particular invention. The C&G Officer should avoid an outright grant provision if at all possible, and if it is truly unavoidable, must first consult with and get concurrence from the CLO and secure any necessary approvals.

- *Non-Assert Provision* – While this is not a grant of rights in the traditional sense, some sponsors may attempt to insert a "non-assert" provision under the intellectual property rights section in a sponsored research agreement. The sponsor will claim that it does not want to bother with having to come back and negotiate a separate license agreement and simply wants the University to agree that it will not assert its rights in University inventions against the sponsor. A "non-assert" provision is equivalent to a fully paid-up, no cost NERF thereby affording the sponsor the freedom to operate it desires. This is an unacceptable substitute for a NERF license for the following reasons:
 - It is not a license agreement but a binding legal obligation that the University (and usually any University licensees of the invention) will not assert its patent rights in a particular invention against the sponsor;
 - It does not require the sponsor to take an affirmative action (i.e., a written election to the University) in order to exercise this right;
 - The University does not retain the legal protections afforded the University under a commercial license agreement for a sponsor's commercial use of a University invention (i.e., warranty, limitation of liability, indemnification, use of the University's name, etc.);

- The University cannot enforce due diligence over the sponsor to ensure the invention is developed in a timely manner for the benefit of the public;
- There is a higher risk for future conflicting obligations since no actual license document exists, making it difficult to administer and track in order to prevent future conflicting obligations; and
- It is difficult to require any fair consideration back to the University.

The C&G Officer should consult with the CLO and UCOP/OTT when a sponsor insists on including a "non-assert" provision in the sponsored research agreement as the campus/Laboratory will require an approved exception to University Patent Policy before using such a provision.

PUBLIC BENEFIT

As a standard practice, the University includes diligence provisions in all exclusive license agreements to ensure that University-generated inventions are developed and deployed to the marketplace by the licensee in a timely manner. It is not in the best interest of the University or the public to allow an invention to languish due to a lack of commitment of the licensee, a licensee's business strategy to "shelve" the technology to protect its competing product lines, or inadequate technical or financial resources. One of the major concerns with granting a NERF license is that the licensee either can't or won't develop the invention in a timely manner for the public benefit or lacks any incentive to do so. The very existence of the NERF may act as a deterrent to other potentially interested parties. Possible ways for the University to address public benefit under a NERF license include:

- requiring diligent development;
- narrowly limiting the range of inventions or the field-of-use to which the NERF applies;
- requiring some form of non-royalty remuneration such as an annual fee; or
- addressing the problem directly.

The practice of addressing public benefit under a non-exclusive license varies from campus/Laboratory to campus/Laboratory and may be accomplished in the following ways:

- *Diligence* – Diligence provisions under a non-exclusive license may seem less important than under an exclusive license as the University can, in theory, non-exclusively license the same invention to other companies. There are no guarantees, however, that the University will find other companies interested in a license to the invention, particularly when the sponsor already has a royalty-free license and the sponsor may ultimately be the only licensee for that University invention. How does the University maximize the benefit to the public in such non-exclusive license situations without some de minimis due diligence obligations on the part of the sponsor/licensee?

Appropriate diligence provisions are specific to each invention, may vary widely from case to case, and are left to the discretion of the campus/Laboratory as how best to implement under a non-exclusive license to ensure the public benefit principle is adequately addressed. The ideal sponsored research agreement will provide a clear pathway for the inclusion of diligence requirements in any resulting license agreement by stating such license will include diligence requirements. In the license agreement itself, diligence would be case-specific. Diligence can even be used by the campus/Laboratory to address socially relevant issues such as compensation to indigenous cultures that contributed to the research activity leading to the invention (i.e., indigenous plants or local medicinal folklore) and preferred drug pricing for third world countries.

Clear diligence provisions ensure that the University retains the ability to manage its technologies as public assets for the benefit of the public regardless of the type of license. Diligence provisions therefore should be sufficiently definitive so that both parties to the license agreement can tell whether they have been achieved. Further, the license should provide a remedy for lack of diligence, such as cancellation of the license, or a reduction/limitation of rights (i.e., narrowing the field-of-use).

- *Scope of Inventions/Field-of-Use* – The University can also serve the public interest by limiting the sponsor's NERF to certain inventions or certain fields-of-use, especially for those inventions with multiple applications within the research field of endeavor. For example, if the sponsor provided proprietary material, proprietary equipment, or secured patent protection in the area, the NERF could apply to only those inventions that require use of the material, equipment, or patents. Since any resulting inventions cannot be licensed to other parties without the sponsor's cooperation, the public benefit is not obviated. Alternatively, rather than limiting the range of inventions, the campus/Laboratory could limit the NERF license itself to just the extent necessary to make, use or sell the proprietary material or equipment, or just to the extent necessary to practice any dominating patent(s). Similarly, there are certain industry sectors that are based on and flourish with a model of broad non-exclusive access to technologies to ensure its freedom to operate within a certain technology sector. In such industries, such as the information technologies and electrical engineering sectors, the public interest can be served by a NERF licensing strategy. When implementing any approach to limit the scope or field of a sponsor's rights to University inventions under a sponsored research agreement, the C&G Office should consult with the CLO.
- *Consideration as Diligence* – As discussed in Section 2 (Form & Consideration) above, a royalty-free license can have other means of financial consideration, such as an annual fee. In many cases, the fee itself acts as a means of diligence, since each time the licensee pays the fee, it has to assess whether it is still sufficiently interested in the invention to justify payment of the fee.

- *Maximizing Invention Utilization* – For those inventions with applications across many fields-of use, the University can preserve its ability to achieve the maximum public utilization of such inventions by including an exclusive grant-back provision to the University under the NERF license that allows the University to license any unused rights to other third parties. This could be structured to allow the sponsor sufficient time (as determined by the campus/Laboratory) to develop a market for an invention (potentially limited to certain fields-of-use), whereby failure to do so within the prescribed time frame results in such rights reverting back to the University.

FAIR CONSIDERATION

Many sponsors will inquire whether "royalty-free" means a fully paid-up, no-cost license where the sponsor provides no financial consideration to the University or whether the sponsor is required to provide some form of financial consideration other than a "running royalty" on the sale of licensed products. Many sponsors will simply assume the former. To address this question, one must view University inventions as public assets created using public funds, supplies, equipment, facilities, and staff time.

The University, as a public trust, has a responsibility to manage its assets for the public benefit. Therefore, the University has an obligation to receive fair consideration in exchange for the grant of commercial licensing rights to a sponsor. The level and form of fair consideration should reflect the relative risks and rewards of the commercial pursuit. Such consideration may vary widely based on case-specific factors that include (1) the reimbursement of the University's patent costs, (2) payment of one or more types of license fee(s), (3) applicable running royalty payments, equity, or other forms of consideration, as well as (4) the nature of the invention itself, the amount of development necessary to bring it to market, and the size and profitability of the market. As an alternative, several campuses employ a patent cost reimbursement and a reasonable annual or one-time fee strategy when negotiating NERF rights under a sponsored research agreement to help provide fair consideration for the NERF.

Under the authority of the NERF Pilot Program, C&G Officers can, in consultation with the CLO and University project participants, determine the basis for appropriate consideration under a specific NERF Pilot Program project. One possible option could include the right for a sponsor to negotiate a non-exclusive commercial license with no running royalty, but with some other form of consideration. Any such determination of fair consideration should be based upon the specific set of circumstances and should be consistent with University Policy on Principles Regarding Rights to Future Research Results in University Agreements with External Parties (August 26, 1999) and OTT Operating Guidance Memo No. 00-05, University Licensing Guidelines (December 1, 2000). It is important to emphasize that the rationale used by the campus/Laboratory in determining the appropriate fair consideration for each NERF Pilot Program project should be documented in the appropriate University files.

TRIGGERS

How does the sponsor go about exercising its right to a NERF under the sponsored research agreement? When granting NERF rights under a sponsored research agreement, the C&G Officer should ensure that the obligation to initiate the NERF license process falls on the sponsor

rather than an automatic license agreement issued by the University. The University should require the sponsor to act in order to obtain the NERF rights obligated under the sponsored research agreement. The intellectual property provisions of the sponsored research agreement should require the sponsor to provide written notification (within the election period provided under the terms of the agreement) to the University that the sponsor elects to exercise its right to negotiate a NERF license (or to receive such license depending upon the terms of the agreement) to a particular University invention. The agreement language should indicate that if the sponsor fails to provide a written election notice to the University within the election period, then the University has no further obligation to negotiate such a license with the sponsor and is free to seek other licensing opportunities. Adherence to a formal election and notification process preserves the University's ability to track its license obligations associated with a particular University invention through the campus administrative processes used to issue and monitor license agreements and avoid future conflicts of obligation when licensing the same invention to others. It also makes it more likely that a sponsor will elect only those inventions that it intends to actually make use of.

SUBLICENSING RIGHTS

Sublicensing rights are not implied in the granting of a nonexclusive license absent a specific provision granting such rights. Sublicensing rights under a nonexclusive license are usually not granted by the University for the very fact that the sponsor can then sublicense its rights to other commercial entities in competition with the University's efforts to find other non-exclusive licensees to the same invention and causing the University to lose control over its own IP. The University occasionally encounters such a request where a commercial sponsor expresses concern about its ability to license affiliates that are part of the company's organizational structure. The campus/Laboratory may consider including a sublicensing rights to affiliates provision if there are no specific concerns and if "affiliates" is appropriately defined. The word "affiliates" has no specific legal or business meaning, and could reach to a company's casual relationships - in which case the campus/Laboratory would have no way of knowing to whom the obligations extend. The word "subsidiaries" would be a better choice of terminology, since that has a specific business definition. However, many companies would want to include not only subsidiaries, but parent companies as well. In such cases the C&G Officer should consult with the CLO for appropriate language to address this issue should it arise in the sponsored research agreement negotiations with the sponsor.

The campus/Laboratory should ensure that a provision permitting sublicensing to affiliates does not place any limitations on the University's ability to execute a proper license since the licensing situation can get very complicated when affiliates are included. An example would be a royalty-free internal use only license where the invention turns out to be a drug screening method. This may be appropriate for a company that sells screening tools since they would still need a commercial license to profit from the internal use of the University invention, but it may not be appropriate for an affiliated company in the business of drug discovery, because they could very well profit from the internal use of the University invention (in this latter case, the University would typically license the method to the company for some combination of upfront and annual fees).

The campus/Laboratory could further limit any sublicensing rights under a NERF by including additional requirements such as University approval of a selected sublicensee prior to execution of sublicense, sublicensing for research purposes only, collection of royalties on license and sublicenses at the same negotiated rate, or University prior approval of sublicense terms.

LEGAL INTEGRITY

It is the responsibility of the negotiating University official to carefully and thoroughly review the circumstances of every disclosed or potential invention to protect the interests of the inventor and the University by avoiding conflicting obligations to sponsors of research. Grants of certain nonexclusive rights to sponsors must only be promised after serious consideration has been given to potentially conflicting obligations to other supporters of research, including providers of biological materials. Some factors to be considered include the scope of work to which rights have been committed; potentially overlapping scope with other related projects; the use of project budget consideration to identify the potential involvement of other sponsors; and the NIH policy on "Sharing Biomedical Research Resources" issued on December 23, 1999.

ALTERNATIVES TO A NERF

When a sponsor requests a NERF, it is important to first determine if a NERF is actually needed to accommodate the sponsor's concern. For example, when queried, the sponsor may be concerned that it will take several years to determine if the invention is useful to their product line. In such cases, the campus/Laboratory may consider offering the sponsor the right to take a longer term option to the invention with reasonable fees that reflect the unknown utility of the invention. Often, the NERF requested by a sponsor may not even provide the relief a sponsor is seeking, such as the sponsor's right to enforce a resulting patent against infringing activities by third parties.

Once the campus/Laboratory determines that a NERF really is necessary to meet the sponsor's objectives and is appropriate to grant under the circumstances (i.e., also meets the objectives and goals of the research program), care should be taken in drafting the actual language to assure the potential risks of a NERF are mitigated to the greatest extent possible. For example, a commercial NERF should not be the subject of an outright grant of rights in the research agreement, and should be granted only "to the extent legally permissible."

There are also several ways to mitigate the effect of a NERF on the University mission and licensing activities if the sponsor insists on retaining a NERF right to future inventions made in the performance of the research agreement. To limit the impact of having to provide such NERF rights to the sponsor, the campus/Laboratory should consider the following:

- Limit the NERF to a specific field of use that covers the sponsor's actual business interests, rather than a broad NERF that covers all fields. With a narrow field of use,

the sponsor gets the assurances it seeks to cover its legitimate business interests, but the campus/Laboratory can still pursue other licensing opportunities in other fields, including an exclusive license right if needed;

- For MTAs, limit the NERF to those inventions that necessarily use or necessarily incorporate the material or compound provided for use in the research project. As an alternative, limit the rights to a license to make, use and sell the provided material under inventions that are directly related to the material.
- Limit the time period during which the sponsor may elect to secure a NERF, rather than allowing the sponsor the right to elect a NERF at any time during the 20 year term of the patent;
- Structure a grant-back provision to the University that allows the University to license any unused rights to other third parties. This could be structured to allow the sponsor sufficient time (as determined by the campus/Laboratory) to develop a market for an invention, whereby failure to do so within the prescribed time frame results in such rights reverting back to the University;
- Include a commitment for the sponsor to actively develop the invention in exchange for the NERF. As an alternative, the campus/Laboratory can request that the NERF be terminated if the invention is not either used in a commercial product or under active development by the sponsor after a fixed period of time (such as five years) or upon a trigger event (such as a third party expressing interest in developing the technology on an exclusive basis).

ADDITIONAL RESOURCES

See attached "NERF Quick Reference Guide"

NERF QUICK REFERENCE GUIDE WHEN NEGOTIATING SPONSORED RESEARCH AGREEMENTS

General Assumptions:

- (1) Invention rights limited to patentable inventions conceived & first reduced to practice in the performance of the Scope of Work under the Agreement;
- (2) IP provision contains an appropriate election period and negotiation period that provides the sponsor with a time-limited period in which to notify the University of its election to negotiate a license and to complete the negotiation of the license;
- (3) License rights subject to the University's legal ability to do so, when appropriate (i.e., to address exclusive license, other license obligations, non-participating co-inventors, etc.);
- (4) Where indicated, consultation with the authorized Campus Licensing Office (CLO) is strongly recommended.

Sponsored Research Agreement IP Provision	Initial Negotiating Responsibility	Consult with	Recommended Uses	Guidelines
Time-limited first right to negotiate an exclusive or non-exclusive license to project invention	C&G Office		•For-profits	<ul style="list-style-type: none"> •Standard starting position for for-profit sponsors of research •For-profits may elect exclusive or non-exclusive rights
Research NERF	C&G Office		<ul style="list-style-type: none"> •Non-profits •Academic institutions 	<ul style="list-style-type: none"> • Limited to use rights only for research and education (excludes make or sell rights)
Internal Use NERF	C&G Office	<ul style="list-style-type: none"> •CLO •PI 	<ul style="list-style-type: none"> •For-profits •Multi-party collaborations •Consortia members •Industry Affiliates Program members •Foreign governmental entities 	<ul style="list-style-type: none"> • Limited to use (or make if applicable) rights in a non-commercial application (i.e., excludes the right to sell or have sold) •Use rights may be further limited to duration of sponsor's participation in a multi-party collaboration
Commercial NERF w/other financial consideration	C&G Office	<ul style="list-style-type: none"> •CLO •PI 	<ul style="list-style-type: none"> •For-profits paying partial costs of research project •Material providers •Lower tier Industry Affiliates Program members 	<ul style="list-style-type: none"> •Full commercial rights (make, use, and sell) •May further limit rights to the technical field-of-use encompassing the scope of the research project •Limit MTAs to compounds, materials, or inventions that necessarily use or necessarily incorporate the Material •Other forms of financial consideration should be considered
Commercial NERF, fully	C&G Office	•CLO	•For-profits paying full costs of research	•Include provisions for the reimbursement of

Sponsored Research Agreement IP Provision	Initial Negotiating Responsibility	Consult with	Recommended Uses	Guidelines
paid-up		<ul style="list-style-type: none"> •PI •Senior Management 	<ul style="list-style-type: none"> project •Premium tier Industry Affiliates Program members 	<ul style="list-style-type: none"> patent costs or clear statement that there is no obligation to file and prosecute patent applications. •Include due diligence requirements •Address/document public benefit requirement
Actual grant of a license	CLO	<ul style="list-style-type: none"> •PI •UCOP 	<ul style="list-style-type: none"> •Not recommended for use except in exceptional, rare circumstances 	<ul style="list-style-type: none"> •Any consideration of granting such rights are specific to the facts & circumstances on a case-by-case basis •Requires approval from UCOP/Office of General Counsel in coordination with UCOP/OTT
Non-assert	C&G	<ul style="list-style-type: none"> •CLO •UCOP 	<ul style="list-style-type: none"> •Not recommended for use except in exceptional, rare circumstances 	<ul style="list-style-type: none"> •Any consideration of granting such rights is specific to the facts & circumstances on a case-by-case basis •Requires University Patent Policy exception from UCOP/OTT

NERF Pilot Program Sample Intellectual Property Rights Provisions

INTRODUCTION

Based upon the authority granted under the NERF Pilot Program, C&G Officers have a wide range of options available in granting rights to future intellectual property developed by University researchers in the performance of sponsored research. These options range from the standard University intellectual property rights provisions as described in Chapter 11 of the University Contract and Grant Manual to various forms of a non-exclusive, royalty-free license. C&G Officers should ensure, working with the Campus Licensing Office (CLO), that any grant of intellectual property rights under the NERF Pilot Program authority are properly evaluated in the context of the scope of the proposed research project, consistent with the guidance provided in this Operating Guidance Memo, and the provisions of the University Policy on Principles Regarding Rights to Future Research Results in University Agreements with External Parties.

The sample intellectual property rights provisions below are provided as a flexible tool for use by C&G Officers and the CLO in crafting intellectual property rights provisions in sponsored research agreements when exercising the NERF Pilot Program authority. These sample provisions may be adapted by the C&G Officer and the CLO to address specific issues of concern to the University when exercising the NERF Pilot Program authority. Enclosure B to this Operating Guidance Memo provides a detailed discussion of factors to consider when exercising the NERF Pilot Program Authority. The C&G Officer and the CLO may need to adapt the use of certain terminology in the sample provisions to correspond with intellectual property definitions (e.g. Invention, Subject Invention, University Invention, etc.) negotiated within the sponsored research agreement. In addition, bracketed language (e.g., [text]) provides an option for consideration and may be included at the discretion of the C&G Officer or the CLO.

As many options are available to C&G Officers in granting a sponsor intellectual property rights under the NERF Pilot Program authority, C&G Officers are strongly encouraged to work with their CLO in either adapting the sample provisions or crafting appropriate intellectual property rights provisions under the NERF Pilot Program authority. Please feel free to contact OTT for assistance if there are any questions concerning the applicability of specific language for a particular situation.

STANDARD UNIVERSITY INTELLECTUAL PROPERTY POSITION

DX. Invention Rights.

DX.1 "Invention" shall mean any patentable invention conceived and first actually reduced to practice in the performance of the Scope of Work under this Agreement.

DX.2 Ownership of Inventions

Inventorship shall be determined in accordance with U.S. Patent Law. All rights to Inventions made solely by employees of University shall belong solely to University ("University Invention"). All rights to Inventions made jointly by employees of University and employees of Sponsor ("Joint Inventions") shall be jointly owned.

DX.3 Invention Disclosures

University shall promptly disclose to Sponsor any University Inventions. Each Party agrees to promptly disclose any Joint Inventions to the other Party. Sponsor shall hold any such disclosure by University on a confidential basis and will not disclose the information to any third party without consent of University.

DX.4 Sponsor Rights to University Inventions

To the extent University has the legal right to do so, University shall offer to Sponsor, in accordance with the provisions of this paragraph DX.4, a time-limited first right to negotiate (1) an exclusive or non-exclusive, royalty-bearing license to make, have made, use, or sell University Inventions [in the Field] and (2) an exclusive, royalty-bearing license to make, have made, use, or sell the University's interest in Joint Inventions.

Election Period

Within thirty (30) days after University discloses a University Invention or Joint Invention to Sponsor, Sponsor shall advise University in writing whether or not it wishes to secure a commercial license ("Election Period"). If Sponsor does not elect to secure such license, rights to Inventions disclosed hereunder shall be disposed of in accordance with University policies, with no further obligation to Sponsor.

Negotiation Period

Sponsor shall have ninety (90) days from the date of its election to conclude a license or option agreement with University ("Negotiation Period"). Said license shall contain reasonable terms, shall require diligent performance by Sponsor for the timely commercial development and early marketing of such inventions, and include Sponsor's obligation to reimburse University's patent costs for all inventions subject to the license. If such license or option is not concluded within the Negotiation Period, or any mutually

agreed upon extension of the Negotiation Period, neither Party has any further obligations to the other with regard to such Invention.

DX.5 Patent Applications

In the event it is necessary in the opinion of University to file any patent application to protect an Invention during the Election or Negotiation Periods, Sponsor shall reimburse patent costs incurred by University during such periods. The Parties agree to consult with one another prior to taking any action to obtain patent protection for Joint Inventions.

DX.6 Nothing contained in this Agreement shall be deemed to grant either directly or by implication, estoppel, or otherwise any license under any patents, patent applications, or other proprietary interests to any other invention, discovery, or improvement of either Party.

RECOMMENDED USE: For-Profit Sponsors

LIMITATIONS: None

RESEARCH-ONLY NERF PROVISION

DX. Invention Rights.

DX.1 "Invention" shall mean any patentable invention conceived and first actually reduced to practice in the performance of the Scope of Work under this Agreement.

DX.2 Ownership of Inventions

Inventorship shall be determined in accordance with U.S. Patent Law. All rights to Inventions made solely by employees of University shall belong solely to University ("University Invention"). All rights to Inventions made jointly by employees of University and employees of Institution ("Joint Inventions") shall be jointly owned.

DX.3 Invention Disclosures

University shall promptly disclose to Institution any University Inventions. Each Party agrees to promptly disclose any Joint Inventions to the other Party. Institution shall hold any such disclosure by University on a confidential basis and will not disclose the information to any third party without consent of University.

DX.4 Institution Rights to University Inventions

To the extent University has the legal right to do so, Institution shall have a nontransferable, royalty-free non-exclusive license to use such University Inventions for research and education purposes without the right to sublicense such rights.

DX.5 Patent Applications

The Parties agree to consult with one another prior to taking any action to obtain patent protection for Joint Inventions.

DX.6 Nothing contained in this Agreement shall be deemed to grant either directly or by implication, estoppel, or otherwise any license under any patents, patent applications, or other proprietary interests to any other invention, discovery, or improvement of either Party.

RECOMMENDED USE: Academic and Non-Profit research institutions

LIMITATIONS: Not for use with single sponsor For-Profit institutions (instead use "Internal Use NERF"). For multiple sponsor situations, see Alternatives below.

ALTERNATIVES:

Multi-Party Collaborations/Consortia

The above provisions may be adapted for use with research arrangements involving multiple parties by incorporating the sample provision below into Article DX.4. Such arrangements may include the participation of academic institutions, non-profits, or for-profit institutions. The following alternate license rights provision limits the collaborating parties' use of any Inventions to only the duration of the collaboration and only for the purpose of a collaborator's performance of the Scope of Work under the Agreement:

“Each Collaborator hereto, subject to its legal ability to do so without obligation to others, shall grant to the other Collaborators a royalty-free, nontransferable non-exclusive license during the term of the Agreement to use its Inventions solely as necessary for the performance of each Collaborator's respective obligations under its respective Scope of Work.”

INTERNAL USE NERF PROVISION

DX. Invention Rights.

DX.1 "Invention" shall mean any patentable invention conceived and first actually reduced to practice in the performance of the Scope of Work under this Agreement.

DX.2 Ownership of Inventions

Inventorship shall be determined in accordance with U.S. Patent Law. All rights to Inventions made solely by employees of University shall belong solely to University ("University Invention"). All rights to Inventions made jointly by employees of University and employees of Sponsor ("Joint Inventions") shall be jointly owned.

DX.3 Invention Disclosures

University shall promptly disclose to Sponsor any University Inventions. Each Party agrees to promptly disclose any Joint Inventions to the other Party. Sponsor shall hold any such disclosure by University on a confidential basis and will not disclose the information to any third party without consent of University.

DX.4 Sponsor Rights to University Inventions

To the extent University has the legal right to do so, Sponsor may elect to secure a nontransferable, royalty-free non-exclusive license [without the right to sublicense] to University Inventions to make or use such Inventions for Internal Use Purposes under patent rights filed to claim such Inventions in accordance with the provisions of this paragraph DX.4. "Internal Use Purposes" shall mean any internal and experimental activities performed within the scope of the license granted and subject to confidentiality requirements contained in this Agreement and shall not include use as or for development of a product intended for or resulting in commercial distribution or exploitation.

Election Period

Within thirty (30) days after University discloses a University Invention to Sponsor, Sponsor shall advise University in writing whether or not it wishes to secure a non-exclusive Internal Use Purposes license to such Invention ("Election Period"). If Sponsor does not elect to secure such license, rights to Inventions disclosed hereunder shall be disposed of in accordance with University policies, with no further obligation to Sponsor.

Negotiation Period

Sponsor shall have ninety (90) days from the date of its election to conclude said license agreement with University ("Negotiation Period"). Sponsor's election to negotiate a royalty-free, non-exclusive Internal Use Purposes license may require some form of financial consideration. If such license is not concluded within the Negotiation Period, or

any mutually agreed upon extension of the Negotiation Period, neither Party has any further obligations to the other with regard to such Invention.

DX.5 Patent Applications

In the event it is necessary in the opinion of University to file any patent application to protect an Invention during the Election or Negotiation Periods, Sponsor may be required to reimburse patent costs incurred by University during such periods in accordance with the provisions of Article DX.4. The Parties agree to consult with one another prior to taking any action to obtain patent protection for Joint Inventions.

DX.6 Nothing contained in this Agreement shall be deemed to grant either directly or by implication, estoppel, or otherwise any license under any patents, patent applications, or other proprietary interests to any other invention, discovery, or improvement of either Party.

RECOMMENDED USE: For-Profit sponsors. Note: a campus/Laboratory, at its discretion, may also include options for a sponsor to acquire commercial rights to University Inventions and the University's interest in any Joint Inventions.

LIMITATIONS: Others may refer to this option as a "non-commercial" license though companies often object to the use of the term, arguing that everything the company does is, by definition, commercial. The ability, however, to limit a sponsor's commercial use is directly linked to a sufficiently narrow definition of "Internal Use Purposes". The definition should limit the Sponsor's use to those activities that the campus/Laboratory consider "non-commercial" in nature (e.g., testing the efficacy of a process or validating the scientific principles employed by the invention).

COMMERCIAL NERF PROVISION

DX. Invention Rights.

DX.1 "Invention" shall mean any patentable invention conceived and first actually reduced to practice in the performance of the Scope of Work under this Agreement.

DX.2 Ownership of Inventions

Inventorship shall be determined in accordance with U.S. Patent Law. All rights to Inventions made solely by employees of University shall belong solely to University ("University Invention"). All rights to Inventions made jointly by employees of University and employees of Sponsor ("Joint Inventions") shall be jointly owned.

DX.3 Invention Disclosures

University shall promptly disclose to Sponsor any University Inventions. Each Party agrees to promptly disclose any Joint Inventions to the other Party. Sponsor shall hold any such disclosure by University on a confidential basis and will not disclose the information to any third party without consent of University.

DX.4 Sponsor Rights to University Inventions

To the extent University has the legal right to do so, University shall offer to Sponsor, in accordance with the provisions of this paragraph DX.4, a time-limited first right to negotiate (1) an exclusive, royalty-bearing or non-exclusive, royalty-free license to make, have made, use, or sell University Inventions [in the Field] and (2) an exclusive, royalty-bearing license to make, have made, use, or sell the University's interest in Joint Inventions.

Election Period

Within thirty (30) days after University discloses a University Invention or Joint Invention to Sponsor, Sponsor shall advise University in writing whether or not it wishes to secure a commercial license ("Election Period"). If Sponsor does not elect to secure such license, rights to Inventions disclosed hereunder shall be disposed of in accordance with University policies, with no further obligation to Sponsor.

Negotiation Period

Sponsor shall have ninety (90) days from the date of its election to conclude a license or option agreement with University ("Negotiation Period"). If Sponsor elects to secure an exclusive license, said license shall contain reasonable terms, shall require diligent performance by Sponsor for the timely commercial development and early marketing of such inventions, and include Sponsor's obligation to reimburse University's patent costs for all inventions subject to the license. Sponsor's election to negotiate a royalty-free, non-exclusive commercial license may require some form of [financial] consideration [under commercially reasonable terms customary under industry standards for such

licenses] and may require diligent performance by Sponsor for the timely commercial development and marketing of Inventions. If such license or option is not concluded within the Negotiation Period, or any mutually agreed upon extension of the Negotiation Period, neither Party has any further obligations to the other with regard to such Invention.

DX.5 Patent Applications

In the event it is necessary in the opinion of University to file any patent application to protect an Invention during the Election or Negotiation Periods, Sponsor may be required to reimburse patent costs incurred by University during such periods in accordance with Article DX.4. The Parties agree to consult with one another prior to taking any action to obtain patent protection for Joint Inventions.

DX.6 Nothing contained in this Agreement shall be deemed to grant either directly or by implication, estoppel, or otherwise any license under any patents, patent applications, or other proprietary interests to any other invention, discovery, or improvement of either Party.

RECOMMENDED USE: For-Profit sponsors

LIMITATIONS: None

ALTERNATIVES:

Due Diligence

If the Sponsor refuses to agree that the NERF license may require diligent performance by Sponsor for the commercial development of University Inventions under the provisions of the license, the following alternative may be considered:

“In the event that University becomes aware of a third party interested in pursuing commercialization of the University Invention in the Field on an exclusive basis and Sponsor does not have a product that incorporates the University Invention either for sale or under active development in the Field, then Sponsor may provide written notice of its intent to actively pursue a product in the Field (“Notice of Intent”) within ninety (90) days of notification by University. In such event, the parties shall agree to development milestones to be met during product development within ninety (90) days of University’s receipt of the Notice of Intent. In the event that Sponsor does not timely provide a Notice of Intent or the product development milestones are not agreed-upon, the non-exclusive, royalty-free license granted hereunder may be limited to certain Fields [where Sponsor’s products, either for sale or under development, incorporate the University Invention] [or terminated] by University.”