



## BULLETIN

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## The Role of Intellectual Property Licensing in the University Technology Transfer Process.

### *Alignment of university and company missions and roles.*

The academic mission of universities is not compatible with the institution assuming the role of manufacturer and marketer of products created from research derived Intellectual Property (IP). Quite the contrary, faculty are trained and rewarded for pursuing the traditional university role of knowledge creation and dissemination. Therefore, to maximize the potential public benefit of university research, entities external to the university, i.e., companies, must receive financial incentive to invest in further development and commercialization of the IP and the have the ability to reap a financial return on their investment. Without proper IP protection, companies have no financial incentive to invest large financial resources in the development and commercialization of the invention. By possessing the legal right to exclude others from making, using or selling the invention, which is afforded by patent protection, a company enhances prospects for the technology being developed and eventually available for public use. For universities to fulfill their mandate to maximize the prospect for public benefit from research and for universities to receive a financial return on IP creation and protection, universities license IP to companies.

In the university context, a license is an agreement conveying intellectual property (IP) rights owned by the university to a company that develops and commercializes a product or service that is protected by the IP. In exchange for the grant of IP rights from the university, the company licensee agrees to certain terms and conditions specified in the license agreement. Usually the licensed IP is one or more patents, but it can also be know-how, trademarks, or copyrighted materials. Financial consideration for the grant of IP rights typically includes fees due at license execution (up-front fees), payments made upon achieving certain mutually determined performance objectives (milestone payments), and royalties which are periodic payments typically based on a percentage of the product's sales. If the licensee fails to meet important terms and conditions defined in the license, the agreement may be terminated by the university and the university would be free to license the invention to another company. Licensees may terminate at their discretion.

### *The anatomy of a license*

- ♦ The legal identities of the parties.
- ♦ The legal specification of the invention.
- ♦ Limitations, if any, on the grant to make, use or sell the IP.
- ♦ The duration and termination of the license.
- ♦ Obligations and assurances of the parties.
- ♦ Numerous terms and conditions such as financial remuneration, performance requirements, protecting the institution from liability, insurance, and licensee conveying rights to other companies.
- ♦ Patent prosecution and infringement provisions.

### *One size does not fit all.*

The breadth and application of inventions lend themselves to different risk and commercial pathways; licenses must be responsive to these conditions. For example, licenses may be exclusive (to one company) or non-exclusive (more than one company receives rights). Given company capabilities, the license could be broad or limited to specific fields or territories.

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# TECHNOLOGY TRANSFER OFFICE

UNIVERSITY OF COLORADO

## ***How the University and the Inventor are Financially Compensated.***

There are a few ways in which the University receives financial compensation for creating and protecting the IP asset licensed by a company. The various ways include royalties, fees, payments, reimbursements, and in certain cases an ownership interest in the licensee company.

Royalties are periodic payments typically calculated on a percentage of the product sales on products protected by the licensed IP. Typically, deductions are permitted for certain aspects of the gross sales, such as returns and shipping costs, resulting in a net sales amount upon which the royalty percentage is based. The royalty rate (percentage) will depend on numerous factors including if the license is exclusive or nonexclusive, the strength and breath of the patent claims, intensity of market competition, remaining life of the patent, and importance of the IP to profitability and market share, to name but a few factors. Some technologies do not lend themselves to compensation based on a percentage of product sales. For example, if an invention is used in a production process the value may manifest in enhanced process efficiency obtained through using the patented technology. In those circumstances royalties may be based on a fixed annual use payment or cost per unit using the technology.

Product development and market penetration can take many years; therefore it takes many more years before product achieves significant use or sales. Some payments, such as a license execution fee or minimum annual payments, allow the university to obtain a return before product maturity. Minimum annual royalty payments, often in conjunction with development and market attainment objectives, also help to ensure the company is diligent in developing and commercializing the technology. This is important because universities must be accountable to the Bayh-Dole legislative mandate by ensuring the technology will be available for public use and not shelved to protect a company's existing products.

To summarize, a well-constructed license will create financial return to the University and the inventor by staging different payments with the product development cycle. Initially, reimbursement of patent fees, upfront license fees, and equity, are appropriate. Payments based on product and regulatory approval milestones and minimum annual royalty payments often follow as the product matures. Royalties (and sublicense royalties which are based on further licensing of the IP to other companies) become the sources of economic return when the product is finally commercialized and sold.

## ***The License Process and Inventor/Technology Transfer Office Relationships***

The licensing process starts out with an invention confidentially disclosed to the Technology Transfer Office. TTO staff then discuss the disclosure with the inventor and assess patentability and commercial potential. Following review, the IP is protected, most frequently with a provisional patent, or offered back to the inventor. During the review stage commercial contact is initiated under a confidential disclosure agreement (CDA). Once a commercial partner is identified and information on intent is exchanged, license terms are negotiated, agreed upon, and executed. This entire negotiation to execution process can take as little as six months, but most cases typically take longer.

For the licensing process to work, a cooperative relationship must exist between the inventor and Technology Transfer Office. **Inventor leads have been found to generate over 70% of successful licenses.** Communication, shared vision and mutual understanding enhance the prospects for leads to be transformed into commercial prospects and eventual licensees. At CU, inventors will be involved and informed at all stages of the licensing process.

To download disclosure forms: <http://www.cu.edu/techtransfer/disclose/>

For more info or to submit a disclosure, email your campus TTO contacts.