

# Inter-Institutional Agreements User Guide

(Courtesy of the Association of University Technology Managers)

## **Background and Endorsement**

The Model Inter-Institutional Agreement (Model IIA) was developed in 2013 by a diverse group of U.S. research institutions to create a template as a common starting point for IIA negotiations in circumstances where two or more patent co-owners do not otherwise have a history of jointly managing patents together or an agreed starting point.

## **Important Elements of the Model IIA**

The following describes some important elements of the Model IIA, and highlights areas where the template may need to be customized for particular circumstances.

- Document Format. The document is formatted so that if there are no changes in the standard terms and conditions (part 2), all that is needed to complete the agreement is for the parties to: fill in the table at the beginning of the document with the identity of the parties and other transaction-specific terms (part 1); customize the signature blocks; and have the non-lead institution provide Exhibit A (its requirements for a license agreement). Each endorsing institution is encouraged to customize the sample Exhibit A provided or create its own Exhibit A to reflect its specific license agreement requirements.
- Customization of Terms and Conditions. If the parties decide to customize any of the standard terms and conditions (part 2), they should indicate which paragraphs have been changed in the “Changes in General Terms” section of part 1. In addition, the party preparing the first draft should provide the other party with a redline to show changes made from the template.
- Only patent rights covered. The Model IIA only covers the joint management of patent rights. It does not encompass know how or technology rights, software, materials or other forms of intellectual property. The Model IIA requires customization to accommodate anything beyond patent rights.
- Administration Fee (paragraphs 1 and 4.2(b)). There is significant divergence among research institutions’ common practices regarding assessing administrative fees by the lead party. The Model IIA accommodates this divergence of practices by including a place to include an administrative fee if one is to be applied, but allowing for circumstances where there is none. If there is none, then the parties simply need to include the word “None” in the “Administration Fee” section in part 1 and no further modification is required in the document. In cases where there is an Administration Fee, the template provides that it is calculated after gross revenues are reduced by unreimbursed patent expenses. Some institutions calculate the Administration Fee before accounting for the reimbursement of patent expenses. For lead institutions that calculate it this way, adjustments need to be made in the language in the definition of

Administration Fee (Section 1) and in paragraph 4.2(b) (by reversing the order so that the Administration Fee is paid first).

- Approval of Patent Counsel (paragraph 2.1). The template leaves selection of patent counsel with the lead party. If a non-lead requires approval rights over selection of counsel, that should be indicated in paragraph 2.1.
- Consequences of not paying (paragraph 2.4). There is a significant divergence among research institutions' common practices regarding the consequences of a party withdrawing from paying its agreed-upon portion of patent costs or otherwise withdrawing from patent prosecution (paragraph 2.4). Alternative clauses to address the different practices of the institutions are included in Attachment 1 to this User Guide. As indicated earlier, if alternative paragraphs are used, the changed paragraphs should be referenced in the section labeled "Changes in General Terms" in part 1 and the initial draft should show this section as redlined.
- Authority to enter into License Agreements (paragraph 3.3). The Model IIA allows the non-lead party to review a substantially final draft of the License Agreement for compliance with the provisions of the IIA, including the non-lead party's requirements specified in Exhibit A to the IIA. The non-lead party has 15 business days to respond to the substantially final draft, or will be deemed to have approved the License Agreement. If the non-lead party needs to affirmatively approve the License Agreement or review earlier drafts, paragraph 3.3 should be adjusted accordingly.
- Rights reserved for clinical use (paragraph 3.4). The Model IIA reserves to the parties the rights to use the patents for research and educational purposes. If a party also needs rights for clinical purposes, paragraph 3.4 (and the corresponding provision of Exhibit A) must be revised to reflect that.
- Equity issued for license grant (paragraph 3.7). The Model IIA provides that if equity is issued in consideration for a license grant, the lead institution will follow its standard practice to either hold the equity until it becomes liquid or distribute the equity to the co-owners in accordance with the revenue sharing allocation after giving effect to the administration fee, if any (paragraph 3.7).
- Only patent expenses reimbursable (paragraph 4.2(b)). The only type of expense that can be recovered out of license revenues are patent expenses, unless the parties agree otherwise in writing. If a party expects marketing, proof-of-concept funding, or other expenses to be recovered, adjustment must be made in paragraph 4.2(b) or in a separate, later-dated written instrument.
- Sponsor obligations (paragraph 4.2(b)). If there are obligations of a party to pay a portion of license revenue to a research sponsor, the template states that the party with those obligations will satisfy that payment obligation out of that party's share of revenue. If the parties would like the sponsor obligations to be satisfied off the top of revenues, either

the language in paragraph 4.2(b) must be adjusted or the change in the default payment structure must be specifically called out under “Third-Party Interests” in part 1.

- Allocation of revenues if other IP licensed (paragraph 4.3). If a license agreement covers patents or other intellectual property in addition to the patent rights covered by the IIA, the template calls for the parties to allocate in good faith the portion of licensing revenue attributable to the patent rights covered by the IIA (paragraph 4.3). If the parties know at the time of signing the IIA that additional patent rights or other intellectual property rights are expected to be included in a license, it is recommended that the allocation of revenue be spelled out in the IIA.
- Enforcement against infringers (paragraph 6). The Model IIA does not provide a mechanism for pursuing infringers and defers the issue for later good faith discussions if potential infringement is identified (paragraph 6).
- Reasons for termination (paragraph 9.2). The template provides that for the first three years after execution the IIA can only be terminated for an uncured breach or a party withdrawing from paying its share of patent costs. If the parties wish to make the IIA terminable for convenience before the third anniversary, paragraph 9.2 should be adjusted accordingly.
- Consequences of termination (paragraph 9.3). The template provides that upon termination, there are no ongoing rights or obligations regarding patenting or licensing of the subject patent rights. Attachment 1 provides sample alternate language for paragraph 9.3 for institutions that prefer to have continuing obligations to share patent expenses and consequences if a party does not continue paying its share.
- Exhibit A (License Agreement requirements). To the extent that a non-lead institution has specific requirements for a license agreement (including required clauses or institution policies that bear on the license agreement), those must be indicated in Exhibit A. A sample is provided with the template. Each endorsing institution is encouraged to customize the sample provided or create its own Exhibit A to reflect its specific requirements. There are some user notes about Exhibit A bracketed in the sample Exhibit A included in the template.
- Three or more co-owners. The document has been formatted to enable use for any number of patent co-owners. If there are three or more co-owners, one can be designated the Lead Institution and identified as that in the table in part 1 and all other co-owners can be designated as “Other Institutions” in part 1. Additional signature blocks can be added for the additional owners. No other customization is required, although the parties may wish to consider whether it would be appropriate for certain rights of the Other Institutions to be exercised by the Other Institutions in concert.
- Other Alternative Clauses. Attachment 1 also includes alternative clauses if the parties wish to provide a mechanism to enable a change in lead institutions or to address situations of inventorship changes.

## **Model Preliminary Patent Management Agreement**

In the course of developing the Model IIA, the participating institutions identified a need for a streamlined process to reach agreement on the sharing of patent costs to enable the parties to proceed with patent prosecution even before the full IIA is signed. The model Preliminary Patent Management Agreement (Model PPMA) was developed for this reason. It creates a binding obligation to share patent costs, but does not give either party the right to enter into a license while the PPMA is in effect. In the spirit of keeping the process simple, either party may terminate the PPMA on 90 days' notice and the non-lead is not required to pay for any particular patent expenses that it objects to on a timely basis.

### **Attachment 1 to User Guide for Model IIA (2013)**

#### **Consequences of Declining to Pay Patent Expenses (paragraph 2.4).**

*The following are alternative clauses for Paragraph 2.4, the section which provides the consequences of a party not paying its agreed upon share of patent expenses.*

##### *A. Administration Fee is triggered:*

2.4 Consequences of Declining Payment of Patent Expenses. If a Party elects to abandon particular Patent Rights or elects to not pay or discontinue paying its Share of Patent Expenses and thereby become a Declining Party, then the other Party(ies) may elect to (a) pay the Declining Party's Share of Patent Expenses and receive a \_\_% Administration Fee from the Net Consideration from such Patent Rights, or (b) terminate the Agreement by providing 30 days prior written notice.

##### *B. Declining Party does not receive a share of revenue:*

2.4 Consequences of Declining Payment of Patent Expenses. If a Party elects to abandon particular Patent Rights or elects to not pay or discontinue paying its Share of Patent Expenses and thereby become a Declining Party, then the other Party(ies) may elect to (a) pay the Declining Party's Share of Patent Expenses, in which case the Declining Party will no longer be entitled to a Share of Net Consideration from such Patent Rights, or (b) terminate the Agreement by providing 30 days prior written notice.

*C. Declining Party does not receive a share of revenues, but its inventors do. [Note: if paragraph 2.4 is replaced with this alternative, then a reference should be added at the end of paragraph 4.4 to the effect of "except as set forth in Paragraph 2.4."]*

2.4 Consequences of Declining Payment of Patent Expenses. If a Party elects to abandon particular Patent Rights or elects to not pay or discontinue paying its Share of Patent Expenses

and thereby become a Declining Party, then the other Party(ies) may elect to (a) pay the Declining Party's Share of Patent Expenses, in which case the Declining Party will no longer be entitled to a Share of Net Consideration from such Patent Rights, but the paying Party will pay the Declining Party's inventors a share of such Net Consideration in accordance with the paying Party's policy, or (b) terminate the Agreement by providing 30 days prior written notice.

*D. Declining Party's share of revenue is reduced:*

2.4 Consequences of Declining Payment of Patent Expenses. If a Party elects to abandon particular Patent Rights or elects to not pay or discontinue paying its Share of Patent Expenses and thereby become a Declining Party, then the other Party(ies) may elect to (a) pay the Declining Party's Share of Patent Expenses, in which case the Share of Net Consideration for the Declining Party with respect to such Patent Rights will be reduced to \_\_\_% if the Declining Party is the Lead Institution or \_\_\_% if the Declining Party is the Other Institution, or (b) terminate the Agreement by providing 30 days prior written notice.

**Audit Rights (paragraph 5.4)**

*Paragraph 5.1 of the template states that a non-lead party may review the books and records of the lead party. The following is a more complete audit rights provision for insertion as paragraph 5.4 if desired by the parties.*

5.4 Audit Rights. Lead Institution shall permit a certified public accountant engaged by an Other Institution or a state auditor (if the Other Institution is a state government institution) to audit Lead Institution's books and records related to the License Consideration and the calculation of the Net Consideration and the Share of Net Consideration, subject to the accountant or auditor entering into appropriate confidentiality restrictions as permitted by law. Such an audit may be exercised during normal business hours upon at least 30 days' prior written notice to the Lead Institution, but not more frequently than once in any 12-month period. The Other Institution initiating the audit shall pay the costs for said audit unless there is an underpayment by the Lead Institution of more than 10% of the amount owed to the Other Institution(s) for the period of time covered by the audit, in which case the Lead Institution will pay the out of pocket cost of the audit, not to exceed the amount of the underpayment. The Lead Institution will pay any past due amounts within 30 days of the results of such audit.

**Consequences of Agreement Termination (paragraph 9.3).**

*The following is an alternative clause for Paragraph 9.3, the section which provides whether there are ongoing responsibilities with respect to the patent rights after termination of the Agreement.*

After effective termination of this Agreement and subject to any previously signed License Agreement, each Party shall pay its Share of Patent Expenses in the ongoing preparation, prosecution, and maintenance of Patent Rights unless it has previously elected to discontinue paying such expenses or subsequently declines to make such payments. If any Party has previously declined to pay its Share of Patent Expenses or subsequently does so,

then the Declining Party covenants and agrees that for so long as the other Party(ies) continue to pay such expenses, that the consequences set forth in Paragraph 2.4 will apply and the Declining Party will not grant any interests in the Patent Rights, such covenant and agreement to survive termination of this Agreement. Each paying Party hereto shall be entitled to separately license its interest in the Patent Rights.

**Change in Lead Institution.**

*The following paragraph can be added at the end of the Agreement to enable a change in Lead Institution for the initial Lead Institution failing to enter into a license within three years or declining to continue paying costs for a substantial portion of the Patent Rights.*

**17. Change in Lead Institution**

An Other Institution may elect to become the Lead Institution by providing written notice to the Lead Institution if either: (a) the Lead Institution has elected to withdraw from paying its Share of Patent Expenses for all or a substantial portion of the Patent Rights in accordance with Paragraph 2.3 and such Other Institution has elected to pay Patent Expenses to maintain such Patent Rights, or (b) the current Lead Institution has been the Lead Institution for more than three years and the Agreement is terminable in accordance with Paragraph 9.2 because no License Agreement is currently in place and the Lead Institution is not actively engaged in a License Agreement negotiation. Such election shall become effective 30 days after written notice is given. In the event of a change in Lead Institution, the previous Lead Institution shall be entitled to the Administration Fee, if any, from License Consideration paid prior to the change. The Party serving as replacement Lead Institution shall be entitled to the Administration Fee, if any, from License Consideration paid after the change. There will be no change in each Party's Share of Patent Expenses as a result of a change in Lead Institution.

**Change in inventors.**

*The following are alternative clauses that can be added to the end of the Agreement to address the situation involving a subsequent change in inventorship.*

*A. Sole owner may remove patent from IIA:*

**18. Change in Inventors**

Should any patent or patent application included in the Patent Rights no longer be co-owned by the Parties (e.g., because all of the inventors of a divisional of the parent application are from one of the Institutions or because of an inventorship determination), the Institutions hereby agree that such patent application or patent shall remain included within the definition of Patent Rights set forth in Section 1 of this Agreement. However, the Party owning such solely-owned patent application or patent may notify the other Party(ies) that such solely owned patent application or patent shall no longer be subject to this Agreement, provided that at the time of the notice, the solely owned patent application or patent is not subject to an existing License Agreement or active license negotiations with a third party.

*B. If change is significant, then the parties negotiate changes in sharing percentages:*

## 18. Change in Inventors

If (a) it is subsequently determined that any inventor identified in the Patent Rights is not actually an inventor under patent law or an additional inventor exists with respect to the Patent Rights and (b) such removal or addition of inventors results in a significant change in the contributions of the Parties to the Patent Rights, then the Parties shall negotiate in good faith to amend prospectively the Share of Net Consideration and Share of Patent Expenses provisions of this Agreement to more accurately reflect the contribution of each Party to the Patent Rights.

Questions?



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