Licensing Technology From An Academic Institution: A “How To” Primer

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Understanding The Traditional Model of University Technology Transfer

Since the passage of The Bayh-Dole Act of 1980 Universities have considered technology transfer a commercial activity.

The licensing process reflects the twin objectives of the University:

- Ensuring broad practical applications of the fruits of its research programs for the benefit of society
- Generating unrestricted income for the University to support further research and education and fund its technology transfer operations-$$$

Figure From “Models and Methods of University Technology Transfer” Samantha R. Bradley, Christopher S. Hayter and Albert N. Link-Working Paper 12-10-June 2013
Licensing University Technology: Getting Started

Key Constituencies-Understanding the Players

➢ Professor/researcher responsible for the research or invention
  o Understand any potential conflicts of interest. Is the Professor/Researcher going to be involved in the business?

➢ INVO-University Technology Transfer Office or “TTO”
  o Decision making authority for licensing university technology.
  o Self-sustaining organizations responsible for funding their own operations entirely from revenues generated by university licenses.
  o Understand the TTO’s motivations
  o Is the TTO “start up” friendly?

➢ Potential Investors
  o Will the proposed license help or hurt your chances of being funded?
Licensing University Technology: Getting Started

Process Overview

➢ Due Diligence
  - Do your homework! The deck is stacked against you!
  - Evaluate the intellectual property proposed to be licensed and its potential value to your business.
  - Can you develop the intellectual property independently without infringing?
  - Is an applied for patent likely to be issued? How strong is the patent?
  - Will you need additional intellectual property protection around the patented technology and can you acquire it?

➢ Understand Proposed License Terms
  - Exclusive vs. Non Exclusive
  - Scope of potential costs and royalties
  - General understanding of other key terms

➢ Negotiate a License Agreement (60-90 days from inception best case)
What a University License is and isn’t…

- A university license is typically a patent license to practice patent rights obtained (or in the process of being obtained) by the university with respect to a novel invention, process or technological innovation.

- A license insures that the university will not sue you if you infringe the university’s patents on the licensed invention, process or technological innovation.

- The limitations on license rights will vary on a case by case basis and are the chief concern of your license negotiation.

- A license is not much more than an agreement by the university not to sue you! Patents are licensed “as is”! No guarantee of future value.
Review of Major Deal Terms

Exclusive vs. Non-Exclusive License Rights

Non-Exclusive Licenses
A non-exclusive license means that the university can make a similar promise not to sue to anyone it wants including all of your competitors!

Exclusive Licenses
University is prohibited from granting licenses to other parties. Only you will be immune from a lawsuit. Your competitors are still at risk!

More typical where a significant investment of time and resources are needed to achieve implementation

Exclusive licenses come with an obligation to commit to diligently develop the technology and objective due diligence obligations

Exclusive licenses often come with minimum royalty obligations

If you plan to raise venture capital money you will need an exclusive license.

Limitations on Your License Rights - Field of Use Restrictions
Will your use of the patented technology be limited to a particular application, industry or geography?
Review of Major Deal Terms
Payment Streams - Understanding Royalties

- Reimbursement of Patent Expenses
- Upfront License Fees
- Continuing Royalty Obligations
- Minimum Annual Royalties
- Sublicense Fees

- Equity Grants
  - Using Equity to Compensate for Backloaded Fees
  - Beware non-dilutive equity
Review of Major Deal Terms
Payment Streams—Understanding Royalties

- Royalty typically expressed as a % of Net Sales—Ranges from 1% to 10% with norm being 3-6%. How is “Net Sales” defined?
- In determining an appropriate royalty rate consider the following factors:
  - Type of Technology
  - Stage of Development
  - Size of the Potential Market
  - Profit Margin
  - Amount of Perceived Risk
  - Strength of the Patents
  - Cost of Bringing the Product to Market and $ Value of Underlying Research
  - Scope of the License Being Granted
  - Royalty Rates for Similar Products

- Royalty Stacking and Component Royalties
Review of Major Deal Terms
Sublicense Rights

- Do you need the right to extend immunity to others? This determination will depend on the industry you are operating in and the type of product you are commercializing.

- What portion of any revenue stream you receive from a sublicensee will the university receive? Sublicense fees typically range from 10-30%.

- Can a sublicensee continue to practice under its sublicense if your license is terminated?
Review of Major Deal Terms
Term and Termination

- How long will my license generally last?
- Can I end my license early?
- Can the university end my license early?
Review of Major Deal Terms
Diligence Obligations

- What purpose do due diligence obligations serve?
- Objective vs. Subjective “milestones”
- Fundraising milestones
- Settling on achievable objectives that insure progress towards commercialization
Review of Major Deal Terms
Patent Prosecution and Enforcement

- Who bears responsibility for patent application process following execution of license agreement?

- Patents typically take at least 22 months to issue

- Responsibility for future filing and maintenance fees

- Who bears responsibility for patent enforcement following execution of license agreement?

- How are damages in a patent infringement suit against a third party divided (50%-50% split following reimbursement of expenses)?
Review of Major Deal Terms
Retained Rights

➢ What rights will the university retain to the patent?
  o Continuing research rights
  o Non-commercial applications
  o Publication rights

➢ Does the government retain any rights in the patent?
  o March in rights for government sponsored research
Review of Major Deal Terms
Assignment/Royalty Buy Out

- Will you be able to transfer your license to another company or person?
- Effect of assignability on ability to sell your business
- Assignability based on transaction size or other qualitative factors
- Royalty buy out provisions to give potential acquirer future flexibility
Other Considerations

- Will you have any rights to future improvements?
- What other technologies may be required to complete your product?
- Continuing support from the university?

✓ Additional Resources
- AUTM-Association of University Technology Managers
- Kauffman Foundation Publications
- Your Licensing/Patent Attorney
Questions?

Additional Information:

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