

Licensing your Own Patents Should be Easier

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Research institutions like universities generate many inventions and secure patent rights for these inventions. One way to ensure that the institutions can harvest inventions from their employees and trainees is by an agreement. Such an agreement often requires, as a condition for employment or training, that the employees and trainees assign all inventions they make to the institutions if the inventions are made using the resources of the institutions. The agreement may also require assignment even if the employees or trainees are not hired for the purpose of making the inventions, or the inventions are made outside the scope of the employment or training. Such an agreement thus can capture much more than inventions made for hire and the traditional shop right.

When an inventor employee or trainee wishes to commercially exploit his invention assigned to the institution, he must usually license from the institution the patent covering the invention. In a licensing negotiation with the institution, the inventor employee or trainee is usually surprised to find that he is in a weaker position than a third party unrelated to the institution. One reason for the weaker position is that the inventor employee or trainee risks facing not only a patent infringement lawsuit but also disciplinary actions including termination, if he engages in an unlicensed use. Another reason is that the inventor employee (or a company he founds) cannot challenge the validity of the patent because he is the assignor of that patent, under the doctrine of assignor estoppel [1].

A patent license from the institution often comes with many conditions besides obligation to pay royalties. These conditions reflect the institution's interest in making sure that the licensee is on a right track to commercial success. These conditions often include multiple milestones, for example, deadlines by which the licensee must raise certain amounts of capital, must hire certain numbers of employees, and must reach certain production volumes, etc. If any milestone is not satisfied, the institution can revoke the license. If the licensed patent is essential to the licensee's business, which is true for many startups, losing the license is a death sentence. In many cases, these conditions imposed by the threat of revocation of the license essentially make the institution the entity running the licensee's business. Such a license also creates uncertainty that may discourage investment into the licensee's business.

The inventor may decide to delay his licensing negotiation with the institution until he is more ready to meet the milestones. During the delay, the inventor may further develop the invention, using the institution's resources. However, this further development has to be assigned to the institution, too. The more work done using the institution's resources, the more the inventor must license from the institution in the future, the more he has to pay, and the more imposed milestones are attached [2].

What should the inventor employee or trainee do? There are several possibilities. One, the inventor should move the further development out of the institution as soon as possible. This may not be feasible because, for example, a tenured position is too valuable to give up, leaving a course of study prevents award of the academic

degree, or the inventor has no financial resources to support the further development. Two, the inventor can negotiate a non-exclusive license and secure patents on downstream controlling technologies not owned by the institution. A non-exclusive license is usually cheaper and may have fewer conditions attached because the non-exclusive license does not prevent the institution from licensing the same patent to others. Securing downstream controlling technologies preserves the inventor's monopoly even if a third party licenses or purchases the non-exclusively licensed patent. Three, the inventor may design around the patent the institution owns and avoid taking any license on that patent. However, if the patent the institution owns lapses or another person licenses it, the inventor may lose his monopoly. Four, the inventor may negotiate an option to license or a non-exclusive license with an option to exclusively license. An option is usually inexpensive and carries fewer conditions. The option gives the inventor more time to consider his strategy of licensing. These possibilities are by no means mutually exclusive. The inventor should make a case-by-case decision.

What can the institution do to make licensing less painful to its own employees or trainees? One, the institution can package patents by the same inventor in a licensing deal, which may include options or non-exclusive licenses to future patents of the inventor. The inventor will not have to engage in repeated negotiations on licensing his future patents and will be less worried about his competitors getting hold of his patents. Two, the institution may refrain from imposing many milestones. The institution is not in the business of running a startup. The easier a licensing negotiation with the institution is the more people will license its patents, and the more royalties it will receive. Three, the institution can trade the license for equity in the startup. Holding equity in the startup at least partially aligns the interest of the institution and the startup and the institution may reap greater returns than mere royalties if the startup is successful. The institution has limited downside if the startup fails because the failing startup probably cannot pay the royalties.

Both the institution and the inventor employee or trainee should keep an open mind in licensing negotiations and focus on long term gains. They should not treat each other as an adversary. The inventor knows the invention the best and is usually devoted to developing the invention into commercial success, which thus increases the institution's chance financial return.

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