



# PATENT LICENSE AGREEMENTS

## *Initiation*

Office of Legal & Technology Services  
Naval Medical Research Center

February 15, 2011



# NMRC Office of Legal and Technology Services: Mission and Services

It is the mission of the Office of Legal and Technology Services to ***facilitate the implementation of the NMRC's innovative technologies in products and services to benefit the warfighter and the public.***

## **Primary**

*“Get the technology out there....”*

## **Secondary**

*“If you can bring in a lot of money also, that’s great ...”*



# Why have a tech transfer office?

- **Stevenson-Wydler Technology Innovation Act of 1980**
  - **Office of Research and Technology Applications (ORTA) required**
- **Leveraging of the facility's R&D dollars**
- **Lower-cost, readily-available goods to the Fed Govt.**
- **US job creation**
- **Increase Navy facility name recognition and publicity**
- **Royalty income stream (to inventors and to facility)**
- **Inventor rewards – monetary and intangible**



# Statutory Authorizations to License

- Our legal authority to license federally owned inventions derives from the following statutes and regulations:
  - 35 USC 209 “Licensing Federally owned Inventions”
  - 37 CFR 404 “Licensing of Government Owned Inventions”
  - SECNAVINST 5700.17 “Domestic Technology Transfer”
  - 15 USC 3710c “Distribution of Royalties Received by Federal Agencies”



# Licenses



- **Navy can license issued patents, patent applications, “patentable inventions”, trademarks\***
- **Licenses can be Non-Exclusive, Partially-Exclusive, Exclusive**
  - Partially exclusive = exclusive in a field of use
  - Exclusivity requires meeting requirements
  - Intent to Grant notice in Federal Register required for PX or EX licenses
  - Application for License required, including Business Plan, Date of Practical Application, Sales Forecast
  - “Substantially manufacture in the US” required
- **Government Purpose Licenses**
  - right to manufacture and sell to US Government only.



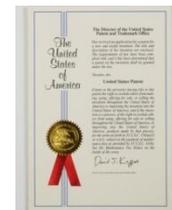
# Requirements for Exclusivity



- the proposed **scope of exclusivity** is not greater than reasonably necessary to provide the incentive for bringing the invention to practical application
- granting the license will not tend to substantially lessen **competition**
- the desired **practical application has not been achieved**, or is not likely expeditiously to be achieved, under any non-exclusive license
- exclusive or partially exclusive licensing is a reasonable and necessary **incentive to call forth the investment of risk capital and expenditures** to bring the invention to practical application.



# License Application Review



- Applications are evaluated based upon the requirements of 37 CFR 404.8
- If the license application is complete and sufficient and the applicant requests an exclusive license, then a Federal Register Notice needs to be published. Most objections received are because the objecting party also wants a license.
- CRADA collaborators don't need to have a Federal Register notice to exclusively license CRADA subject inventions



# License Terms



- Field of Use (critical)
- Annual Royalty reports
  - Quantity sold, Price, Customers (including Fed Govt)
- Periodic Progress Reports
  - Progress toward Practical Application Date
- Sublicensing rights
- Patent enforcement rights



# Typical License Financial Terms:



- *Upfront fee*, typically paid upon execution but installment payments are possible
  - Cash preferred
  - Deferred compensation (“phantom stock”) for start-ups
- *Milestone payments* – lump sums tied to achievements
- *Running Royalty*, paid annually
- *Minimum annual* royalties, paid in advance
- Out-of-pocket *patent expenses reimbursement* required (foreign filing; other fees)



# License Negotiations



- This is a team effort. Successful negotiations require technical, legal, and business expertise.
- Inventor input is essential for technical discussions with license applicants
- Inventor participation in business negotiations creates the appearance of a conflict of interest.
- The market approach is used for valuation.
- The applicant receives a negotiable offer



# License Diligence Requirements



- The license agreement requires the licensee to carry out the submitted plan and to report annually on progress, with reference to the plan.
- Diligence begins with license application review
  - Do we understand the applicant's plan?
  - Is there a clear timeline with milestones?
  - Does the applicant have access to all of the necessary resources to carry out the plan?



# Additional Diligence Requirements



- Target date for offering licensed products or services for sale
- Intermediate milestone dates for making submissions to regulatory agencies.
- Escalating annual license maintenance fees
- Milestone payments
- Requirement to keep licensed products or services reasonably available to the public



# Special Diligence Requirements



- Some applicants may need to find a manufacturing, marketing, financial or technical partner to gain access to resources needed to carry out the commercialization plan.
- Contingency language may be included in the license agreement
- Most commonly, this occurs when applicants are entrepreneurs or startup businesses looking for investors.



# How we Market Technology



- Inventor is usually the primary source of leads
- TTO targeted marketing
- NMRC tech transfer website:  
<http://www.med.navy.mil/sites/nmrc/Pages/ottmain.htm>
- DoD TechMatch website:  
<http://www.dodtechmatch.com>
- Partnership Intermediaries
  - TechLink



# Benefits to Inventors

- Inventors are awarded the first \$2,000.00 of Royalty income received for a particular invention each calendar year, plus 25.0% of any additional income received that year.
- An individual inventor may be awarded no more than \$150,000.00 each calendar year for all inventions licensed without requesting a Presidential waiver to exceed the ceiling.



# Researcher's Role

- **Create the Intellectual Property**
  - **Patents (Including Patentable Software)**
    - **NRL currently has ~700 issued patents and 300 patent applications available for licensing**
  - **Trademarks**
- **Assist the Tech Transfer Office in Marketing**
  - **Alert TTO of potential commercial uses and companies that express interest (contacts at scientific meetings)**
- **Participate in CRADAs if appropriate**
  - **Licensees often need the lab's expertise to commercialize the technology**