The "Penn State Two-Step"

A New Approach for Academic Licensing to Catalyze and

Drive Open Innovation with Faster, Better Technology Transfer

Penn State, in an effort to more completely fulfill its mission as a legacy land-grant university and also to fulfill more completely its obligations to federal funding agencies and to the public from which these agencies derive their funds, is implementing a new approach to academic intellectual property licensing. Penn State seeks to catalyze and drive open innovation and faster, better technology transfer.

From this point forward any of Penn State's current or future U.S. patents will be offered to any interested party, whether an individual, a new venture or an ongoing concern in the private sector according to the new "Penn State Two-Step" process. The two-step process is simple because it is literally only two steps –

> Step 1) The interested party decides to take an option to license Penn State IP for a period of one, two or three years.
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> Step 2) The option holder at the end of the option period may opt to license the technology or it may choose to opt out of any further activity with this IP.

The first step, the option to license, is the innovation. It will give the private sector partner the opportunity to examine and to test the IP quite thoroughly, to exclusively evaluate its efficacy in its own laboratory or application for a field of use and to make a rational and informed decision on whether or not to seek a longer term license of the IP.

At the end of the option period, if the decision is made to license the technology, then it should also be much easier to establish a fair price for the license based upon the now much more fully understood commercial value to the market of the product derived from that IP. This will serve both parties well. First, it reduces the capital at risk to the private entity, and second it should reduce negotiation time when a license is opted for, since both parties will better know the estimated value of the IP. The private sector wins because they can test more IP for their use at small risk and Penn State wins because negotiation time, a real cost, can be reduced when the license is opted for and because more IP will be tested by the private sector for its commercial value.

Another quite significant issue also is solved by the Penn State Two–Step. When industry funding is a pass-through of federal dollars, Penn State is required by federal law to retain the ownership of the intellectual property. (See our document entitled “Penn State’s New Approach to the Management of Intellectual Property: Four Simple Rules of Engagement with Industry Partners” to understand the instances when Bayh-Dole applies and when it does not). In such cases the private entity typically will seek as a part of the research agreement negotiation what the cost will be for a license if IP is created. Under federal law, Penn State cannot pre-value the IP by setting the cost for a license before the IP is created. However, the realization of uncertainty and risk that this causes is often too much for the private sector entity to bear. First, if they cannot know the cost for a license, then they cannot plan. Second, if they choose not to procure a license on this IP, then a competitor may do so immediately, even though that competitor played no role in the creation or funding of the research that led to the IP. For many such cases the risk to the private entity in this scenario is deemed by them to be so high that they decide it is ***strategically less risky to not do the research at all.*** When this happens, everyone loses. The private entity, Penn State and the taxpayer all lose because the research is not done and whatever value it may have had is never realized. This then hinders not only technology transfer, but also open innovation. Yet this nation needs open innovation today more than ever. Private sector, public sector and academic partnerships must promote open innovation to lift the economy, not to hinder it.

To solve this problem and to stay within the spirit and letter of the law, the Penn State Two-Step will provide the option to license, as a step prior to taking the license itself. Exclusive options in a single field of use will be offered for periods of one, two or three years for $3000, $6000 or $9000, respectively. If the patents have not already issued, there will also be ongoing patent prosecution expenses included as is typical. Entities that wish to enter into a license agreement at the end of the option period can take the second step by one of three typical arrangements: 1) royalty and fee-based financial terms, 2) equity-based financial terms or 3) a one-time, up-front license issue fee.

At the end of the option period, if the private entity that has taken the option determines that it will take a license on the IP, then another advantage of the Penn State Two-Step also emerges; the negotiation of the cost of the license will be faster. The negotiation will begin with that private sector entity’s honest evaluation of the value of the IP and their best estimate for an equitable cost for the license. When the private entity deals with Penn State in good faith, Penn State will seek to come to agreement over the cost for the license quickly, that is in less than 30 days.

The Penn State Two-Step breaks down barriers by reducing risk and by taking a more innovation centric approach to licensing. Our goal is to be the single best university in the world with which to collaborate and do open innovation. We are -- an engine for open innovation.