"Madey v. Duke" And University Research: The View From One Year Later

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Background

Dr. John Madey established a research laboratory at Duke University that made use of his patented equipment. Dr. Madey subsequently resigned, but Duke continued to operate his equipment. Dr. Madey sued for patent infringement.

A U.S. Federal District Court dismissed the suit on the principle that the university operations were protected under the experimental use exception to patent infringement. On appeal, the U.S. Federal Circuit Court of Appeals reversed the District Court in an October 2002 decision that severely limited the experimental use exception.

In spite of urging by Duke and numerous other universities, the U.S. Supreme Court, in 2003, declined to consider the case.

On June 27, 2003, the Supreme Court refused to grant review of *Madey v. Duke University*. One year later, in spite of all the dire predictions, our interviews of technology transfer officers indicate that the effect of the landmark patent decision, *Madey v. Duke*, on academic research has been minimal so far, but future implications remain unclear. What is clear in the wake of this decision that effectively destroyed the assumption of immunity from patent infringement for academic research is that successful research management now requires a heightened degree of patent awareness.

In a series of interviews with technology transfer experts at some of the nation's leading universities, we found generally that universities are managing their research programs without undue burden after the Madey decision. Although the technology transfer officer at one major school expressed the opinion that the concerns raised to date are "unnecessary," the decision is beginning to have an impact.

Another university notes an increasing number of what is becoming known as "Madey letters" —letters sent by patent owners calling attention to suspected infringement related to academic research projects.

While no one reports any strategic changes in their research programs to meet the challenge of the patent immunity loss, schools nonetheless are adopting common sense practices to minimize the risk of patent infringement. And all schools indicate they are monitoring the evolving ramifications of the decision.

Initially, the Madey decision led to considerable hand wringing and predictions of a chilling effect on academic research that would certainly result. Several authors reacted by calling for the restoration of patent immunity. This reaction ironically assumes that universities should not have to respect the intellectual property rights of others, even though universities themselves are major patent owners and expect others to respect their intellectual property rights. In fact, universities generate substantial income through aggressively marketing their own patented technologies.

Stemming from our work with university and corporate patent operations, we believe that universities can readily manage the post *Madey v. Duke* environment by integrating knowledgeable patent management practices into their research operations and negotiating creative accommodations with patent owners.

We have found the key practice in a well managed operation to be a high degree of patent awareness among research personnel, supported by ongoing patent education tailored to the research organization. Researchers typically appreciate this training since, with increased patent knowledge, they are better able to identify inventions and often end up obtaining more patents of their own.

A high degree of patent awareness can benefit a university in two ways: by generating more patent filings and enabling early recognition of potential infringement issues. Patent-savvy researchers are alert to the implications of any patents found in the course of reviewing the literature related to proposed research projects.

When technology to be used in a research project presents an infringement issue, the university basically has four options:

1. simply ignore the patent, which raises serious ethical and legal liability issues;
2. abandon the project, which may be an unnecessarily drastic step;
3. "design around" the patent to avoid infringement, which may not always be practical or possible; and

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4. seek an accommodation with the patent owner.

When a university becomes aware of patented technology that is required for a research project to proceed, we recommend that the technology transfer officer approach the patent owner to work out a mutually beneficial accommodation.

An accommodation with patent owners does not necessarily involve paying royalties, which most universities find unacceptable. In our experience, when a research project requires use of patented technology, the university often can reach a satisfactory agreement that does not increase the cost of the project.

Universities frequently are in an inherently strong bargaining position even when dealing with corporate patent owners who may be sending out "Madey letters." With the high cost of litigating patent infringement, most corporations as a practical matter consider litigation only as a last resort. Also, many corporations are reluctant to jeopardize valued relationships with universities that may be future resources for technology acquisition or graduate recruitment by closing down an academic research project through patent enforcement.

A corporation may be willing to grant the university a limited royalty-free license in order to generate goodwill. If there is a reluctance to grant a royalty-free license, the university may be able to offer significant non-monetary consideration such as an option for the corporation to acquire royalty-bearing rights to any new technology developed in the project. This mutually beneficial outcome provides the university a potential licensee and the corporation an opportunity to leverage its patented technology.

"Reach through" licensing may make sense when the patented technology is truly significant and important to the success of the university research project. In this approach, the patent owner licenses the university royalty-free while acquiring the right to share in any income later generated by the university in licensing technology resulting from the research. In many cases the university will be able to negotiate a reach through license for a reasonable and relatively modest portion of its ultimate licensing income.

Recognizing that corporations frequently look to universities for new technology, the university should consider exploring with the corporate patent owner the possibility of collaborating in the research project. The corporation may actually be interested in providing supporting cash and/or other resources, in addition to the necessary patent rights.

Where the corporation is not using the patented technology itself, we often find an interest in donating the patent and related technology to the university, which may provide the corporation a tax deduction for the fair value of the donation while generating significant goodwill with the school.

Accommodation is the product of negotiation, taking into account the needs of both parties. Royalty-free licensing, royalty-free licensing giving the corporation an option to the results of the research, reach through licensing, research collaboration and donation are all viable opportunities to be creatively explored by the technology transfer officer.

Universities should also review their employment agreement administration practices with a high level of patent awareness. University employment agreements typically require employees to assign inventions made during the course of employment to the university. Most universities are willing to either assign or license an invention made by an employee to enable the employee to patent and commercialize a development that the university does not intend to pursue. However, universities need to retain royalty-free rights for their own use when releasing an invention to an employee.

The Madey case resulted from a dispute between Duke University and a former employee. Dr. Madey had already patented his technology when he was recruited to join Duke University. We're inclined to believe that Duke would have avoided this dispute by obtaining royalty-free rights to use Dr. Madey's patented technology as part of the consideration for providing facilities to enable him to conduct research embodying his technology.

In summary, university research to date remains unencumbered in the wake of *Madey v. Duke*, and we believe that universities can effectively avoid patent infringement by proactively seeking mutually beneficial accommodations with patent owners without effectively increasing the research budget.