

# Partnerships From Donated Patents

BY G. MARIE TALNACK-MOFFETT\*



Last year at the 2004 LES (USA & Canada) Spring Meeting in New York the Industry/University Committee sponsored a workshop on “Partnerships Arising from Donated Patents.” There had been a growing trend in the donation of patents by corporations to universities and other not-for-profit research organizations. With the increased number of patent donations came increased interest and many issues began to surface about the donation process. Such issues included what are the acceptable methods for valuing patents, what is the rationale for corporate patent donations and the amount of allowable tax write-off under Internal Revenue Service guidelines. The workshop examined the benefits and responsibilities for both the donor and the recipient organizations in patent donations as well as the issues surrounding donations from the perspectives of the different parties in the process.

Much has changed regarding the tax deduction allowances for patent donations since the passage of the JOBS Act in October, 2004. Current IRS guidelines found in their recent IRS Bulletin: 2005-23 Notice 41 specify deductions for patent donations at the lesser of the asset’s fair market value or adjusted basis. This change in allowable deductions may significantly discourage the donation of patents to non-profit research institutions such as universities and economic development foundations. However, as was pointed out in the workshop, there are benefits beyond tax deductions for corporations which decide to transfer under utilized patents to others to make use of them. Tax benefits aside, the recycling of these technologies

can make economic sense as well as demonstrate corporate social responsibility. Without enticing tax deductions, will corporations transfer their assets to new users rather than let their patent protection expire?

Maintenance fees on patent portfolios are a significant cost to incur when the underlying asset is not being used. One response is to not maintain the patent fees thus abandoning patent protection. The problem is once the patents are returned to the public domain, their proprietary value evaporates. What is the economic value of an abandoned patent? By transferring the patent rights to another qualified user, such as a small business, new venture start-up or economic development program, the rights can continue to be protected by the new owner. The benefits of patent donations extend beyond tax deductions as discussed by the presenters in the patent donation workshop.

The patent donation workshop featured panelists representing a cross-section of those involved in patent donations. Each contributed a different perspective on the patent donation process and their valuable experience. Presenters included Dr. Gene Partlow, then Vice President Intellectual Property Business for Boeing; Dr. Robert Gruetzmacher, Dupont’s Director of the Technology Commercialization Center for Collaborative Research; Mr. Jim Shea, Director of Constituent Relations, University of California, San Diego; Dr. Sam Khoury, President of Inavisis, International, an intellectual property management firm; and Mr. Stephan Hagelauer, Intellectual Property Consultant for

PLX Systems, Inc., a developer of intellectual property management software.

Tax deductions created opportunities to impact the corporate bottom-line by donating patents to universities or other 501 C (3) organizations. However, beyond the bottom-line impact, patent donations can result in other benefits. Dr. Gene Partlow, speaking from the perspective of Boeing’s intellectual property donation program, discussed some of the reasons why corporations make patent donations:

- Money spent on R&D often results in innovations not directly usable to the company but useful to others;
- Donations allow promising R&D to continue elsewhere;
- Improved relations with key universities;
- Possible public/community relations benefits.

As industries develop, mature, and restructure, the assets needed at different stages change in value. Patents which are donated may be those that a company no longer can use due to shifts in the strategic direction of the company or changes within the industry. This does not mean that they no longer have value. Another party may find new uses for the patent, thereby retaining its economic value or even increasing it with additional research or new market applications.

---

*Marie Talnack-Moffett is a doctoral student in policy and planning studies, researching intellectual property and technology transfer policy at the University of Southern California.*

Dr. Robert Grueztmacher, DuPont Corporation, provided some examples of patent donations which have been successfully commercialized or are close to being successfully commercialized:

- A novel paper manufacturing technology that was donated to the University of Maine has been improved by the donee and subsequently licensed to a paper manufacturer, generating revenues for the university. The donee is currently engaged in discussions with several other interested potential licensees.

- A biotechnology asset that was donated to the University of Maryland has been successfully licensed to a startup company, and physical assets, comprising equipment and pilot plant assets that accompanied the IP donation, are currently in use by another startup company that arose from university research programs.

- A mining technology donated to the University of Nevada-Reno is in the process of being licensed to two mining companies, which will use the technology to improve the environmental footprint of their operations. Use of the donated technology will significantly reduce wastewater contamination in the effluent from the mining operations.

The trend in the donation of patents by corporations to universities and other not-for-profit research organizations for tax purposes, generated debate in how a donated patent should be valued. What are the appropriate methods for valuing donated patents? Dr. Sam Khoury, President of Inavisis International, discussed in detail different approaches to valuing intellectual property and valuation methods.

Universities and other recipients of patent donations have learned that there must be compelling reasons to accept a donation. As actual business cases have developed, research organizations have become increasingly aware of the responsibilities and long-term commitment involved in accepting the donations.

## **Advantages of University/ Industry Partnerships:**

The purpose of discussing patent donations around Partnerships in the workshop was to emphasize how partnerships can coordinate all the parties' interests and provide a greater opportunity for commercial success. The success of these partnerships lies in clear communication among the various parties as to the objective of the partnership and the roles of each member.

Most technologies acquired in a donation, are not through their product development cycle. Commercializing technology requires a great deal of time, resources, expertise and effort; not to mention luck. This is particularly complex in partnerships formed around commercializing a donated patent. Industry/University Partnerships provide an ideal means for continuing research and development.

All members of the partnership need to evaluate the contribution that donated patents can make on their present situation and future development plans. Each partner can use the partnership opportunity to look for:

- 1) New areas of research and new educational challenges;
- 2) How the partnership can help all sides grow;
- 3) Build new partners and new levels of relationships;
- 4) Identifying ways of funding and sustaining new initiatives outside of the donation opportunity.

Each partner has strengths and resources to contribute to moving the donated patent into the marketplace. The corporate donor contributes the idea embodied in the patent and perhaps the initial proof-of-concept testing. Their continued involvement is critical to insure complete and thorough transfer of the patent information to the new researchers at the university or non-profit organization. Much of the information found within the patent, and that which may have been left out, will need to be shared directly with others in order for the technol-

ogy to be successfully transferred.

This may include not only valuable technical information but industry knowledge needed to commercialize the technology. Stephan Hagelauer of PLX Systems, Inc., an intellectual property software management firm, advised potential donors in his presentation to "Make sure that the patent estate is clearly identified and that the donation intent is clearly defined."

The university, or other recipient of the donated patent, contributes to the patent's evolution by conducting tests, analyzing results and thinking through the technical problems to create a working prototype. In some cases, the university or non-profit research institution can identify commercial applications—applications which may not have been its original use. Although, this is not typically the role of universities.

The meeting of two very different cultures—the university environment and the corporate structure—creates an additional level of complexity. It is in fact, the diverse cultures of academia and business that can create the greatest hurdles in the donation process.

## **Differences in Partnership Members' Culture & Objectives:**

Differences in culture and objectives can prevent Industry/University partnerships from becoming effective. Universities are directed at providing education and conducting basic research. University faculty and staff are interested in theoretical research to advance knowledge. It is not necessarily directed at commercial product development. If the research does appear to have industrial or commercial use, it will need to undergo significant transition to a product or service; not a responsibility of universities.

The road to moving the technology into the marketplace begins with the relationship formed between the corporate donor and the recipient organization. If this relationship starts off on the wrong foot, or remains distant, the opportunity for building a successful partnership

can be lost.

A presentation by Mr. Jim Shea, on the recent donation of eleven patents from DuPont to the University of California, San Diego highlighted the university's perspective of patent donations. This technology involved a small adhesive dot to bind materials together more efficiently, thus the name "Tacky Dot™." The donation enabled UCSD to pursue important technology opportunities and, through the dialogue developed as part of the donation process, to forge an entirely new research relationship with the company that has significant mutual benefits. The donations have initiated what is developing into a broad research relationship. "We believe that the intellectual property donation process provided the focus that enabled DuPont and UCSD to recognize the many areas of intersection between us, a process that might otherwise never have developed," says Shea.

UCSD competed effectively with other universities for the donation by showing DuPont their institutional interest not in only the technology, but a long-term relationship with the corporation as well. According to Shea, "They were seeing the things that makes a donation work." This included high-level meetings with university administration and identifying a completely different application than the company had imagined. "This was the first time DuPont had a campus turn a donation to a new use. We now look for this—we have four pending donations which have the same twist," says Dr. Robert

Gruetzmacher, DuPont.

The result of the Tacky Dot™ donation is that the recipient organization feels they have formed a great relationship with the donor, DuPont, beyond the donation. "DuPont has helped the University to leverage our approach to the marketplace, has helped us build bridges to other partners. It's not yet a partnership. There is no new funding, relationships—either philanthropic or contractual—outside of the donation process... But we're just getting started," stated Jim Shea, UCSD.

### Conclusion

Key to successful partnerships are mutual agreement as to the benefits of participating in the partnership (shared resources, building experience and knowledge in a field, positive publicity, etc.) and the expectations of all the parties to the partnership. Agreement as to why everyone is participating, what their contribution and roles will be, and what are their expectations can do much to insure successful relations among the partners.

Expectations regarding the outcomes of collaborative efforts can differ significantly among partners. Corporations may believe that their role is to simply donate the patent and then walk away or periodically show up for presentations on the technology's progress. Universities may be relying more heavily upon the original inventor's input than was expected. After all, as discussed above, few technologies can be successfully replicated without interaction with the inventor. The purpose

of the partnership is to increase the odds of a successful transfer of the technology and to move it beyond research into a commercial product or service.

My own experience with commercialization partnerships is that the viability of the partnership requires commitment and genuine interest in the partnership by all members. Most often at issue is the sharing of resources, trust and involvement among the partners and realistic expectations. The lack of trust, involvement and realistic expectations among the partners threatens the sustainability of the partnership.

"You have to think beyond the deal, to understand the partner. Universities are fundamentally research institutions dependent on philanthropy and committed to the public good. A little philanthropy would go a very long way... but... the money that supports an IP donation is not philanthropy, but a cost of the deal—a transaction cost, not a donation. So it's a gift, but it's not," says Jim Shea, UCSD.

If you wish to learn more about partnerships formed around patent donations, participate in a survey of interest in patent donation partnerships, or post a patent donation go to [www.geocities.com/donatedpatents](http://www.geocities.com/donatedpatents). You will also find a checklist that different partners may want to use to evaluate a patent donation. The Web site is part of my research into patent donations towards my doctorate in public policy and planning. Your participation is greatly appreciated.