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Technology
Transfer Office
LAUNCHING IDEAS

Start-Up Guide Series:

Taking an Option to Patent Rights from UMA

If you are a faculty member, postdoc or graduate student and you wish to start a technology company based on inventions arising in your research, you will need three things: money, business leadership, and exclusive rights to the UMA patent applications and patents covering your inventions. But how do you get one without having the others first? The UMA Technology Transfer Office (TTO) helps startups overcome this apparent chicken-and-egg problem by providing startups with an exclusive option to obtain an exclusive license to the patent rights on which the company will be founded.

1. What is an "option contract"? Simply put, an option contract creates a binding obligation to enter into another contract, if the option holder so chooses during the option period. For a simple example, suppose you want to buy a classic old automobile, and you find one offered for the price of $5,000. Maybe you are not sure if this is the one you want, or maybe you don't have the money right now. You ask the buyer to hold it for you until the end of the month, and they say, "Sure." But when you come back at the end of the month, it's already been sold! There is nothing you can do, since the agreement to hold it for you was a "gift" that could be withdrawn at the giver's whim. However, if you were a bit more knowledgeable about contracts, you might have offered to pay the owner $50 to hold the car until the end of the month. Then, if you came back at the end of the month and the car was sold, the owner would be in breach of the option contract, for which you could sue. On the other hand, if you decided not to buy the car by the end of the month, the option period would expire; the owner could pocket the $50, and sell the car to whomever they choose.

2. How does an option for a license work? The option contract that UMA offers to startup companies is similarly simple. It is a two-page document in which UMA agrees not to offer a license to the patent rights to any other party during the option period, which is usually 6 to 12 months. Anytime during the option period the company can "exercise" the option by notifying the TTO in writing, and the parties will negotiate a license agreement on commercially reasonable terms. Once the company exercises the option, there is a "negotiation period" of 3 months in which to complete the license, which can be extended if need be. (There is another monograph in this series that describes what to expect in such a license agreement.)

3. How much does the option cost? For a startup company founded by faculty, postdocs and/or students in the absence of a founding investor, the option is only $50.00! UMA's goal is to get the company started, and a commitment of the patent rights can be a good

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catalyst. If on the other hand the company has a founding investor, the cost may be a bit higher, in order to help offset previously incurred patenting costs. An option to a funded company will also generally require reimbursement of ongoing patenting costs.

4. What happens if the company isn't ready for a license before the option expires? In most cases, provided that the company and its founders have made a good faith effort to find investors and business leadership during the initial option term, UMA will agree to extend the option period.

5. Will investors and potential business partners find an option sufficient? The use of such option agreements with university startup companies is fairly standard practice in the U.S., so most investors and business partners will probably be familiar with the practice. If not, please encourage them to call the TTO, and we will explain how our process works.

6. What if investors want to know what the financial terms of the license will be? There is another monograph in this series that explains what to expect in a UMA patent license, which may give investors all the information they need. The TTO staff is also glad to speak with potential investors and business partners, and give them comfort that our licensing practices are fair and reasonable.

   If investors want to know actual royalty rates and fees, the TTO is glad to negotiate a "term sheet" with the company, which is typically a two-page document outlining the license scope and the key financial terms. This term sheet is then appended to a revised option, which specifies that the license to be negotiated will include the term sheet's provisions. However, at the earliest stages of a company's development, it may not be feasible to negotiate a term sheet. In order to do so, it will be necessary for the company to have a fairly well-defined business model, specific product concepts, a product development timeline, and identified target markets. All of these factor into what the fees will be, when they are due, and what royalty rate is reasonable. Another issue is that because of conflict of interest concerns, the TTO is not permitted to negotiate with a UMA employee. So by the time a term sheet is to be negotiated, the company will have to have a non-UMA employee CEO or other authorized executive to negotiate with the TTO. (Another monograph in this series outlines how the UMass conflict of interest policy applies in the startup company context.)