

What Are Patent Assignments? Patent Licensing?

A patent is a form of Intellectual Property. It may be sold (assigned) or licensed to somebody else.

What Is A Patent Assignment?

Patent law provides for the transfer or sale of a patent by a written agreement called an "**assignment**" that can transfer the entire ownership interest in the patent. The **assignee**, when the patent is assigned to him or her, becomes the owner of the patent and has the same rights that the original patentee had.

Patent law also provides for the assignment of a part interest, that is, a half interest, a fourth interest, etc., in a patent.

You can also grant an assignment that is only for a particularly specified part of the United States.

Use a Notary Public

An assignment, grant, or conveyance of any patent or application for patent should be acknowledged before a notary public or officer authorized to administer oaths or perform notarial acts. The certificate of such acknowledgment constitutes undisputable evidence of the execution of the assignment, grant, or conveyance.

Recording of Assignments

The US Patent Office records assignments, grants, and similar instruments sent to it for recording, and the recording serves as notice. If an assignment, grant, or conveyance of a patent or an interest in a patent (or an application for patent) is not recorded in the US Patent Office within three months from its date, there can be no subsequent purchaser(s).

Assignments - Correct Style

Any written document should identify the patent by number and date. The name of the inventor and title of the invention as stated in the patent should also be given. An written document relating to a patent application should identify the application by its application number and date of filing, the name of the inventor, and title of the invention as stated in the application should also be given.

Sometimes an assignment of an application is executed at the same time that the application is prepared and before it has been filed in the Office. Such assignment

should adequately identify the application, as by its date of execution and name of the inventor and title of the invention, so that there can be no mistake as to the application intended.

Assignee - Listed on Patent

If an application has been assigned and the assignment is recorded, on or before the date the issue fee is paid, the patent will be issued to the assignee as owner. If the assignment is of a part interest only, the patent will be issued to the inventor and assignee as joint owners.

Joint Ownership - Patent Licensing

Patents may be owned jointly by two or more persons as in the case of a patent granted to joint inventors, or in the case of the assignment of a part interest in a patent. Any joint owner of a patent, no matter how small the part interest, may make, use, offer for sale and sell and import the invention for his or her own profit provided they do not infringe another's patent rights, without regard to the other owners, and may sell the interest or any part of it, or grant patent licensing to others, without regard to the other joint owner, unless the joint owners have made a contract governing their relation to each other. It is accordingly dangerous to assign a part interest without a definite agreement between the parties as to the extent of their respective rights and their obligations to each other if the above result is to be avoided.

Patent Licensing

The owner of a patent may grant licenses to others. Since the patentee has the right to exclude others from making, using, offering for sale or selling or importing the invention, no one else may do any of these things without his/her permission. A patent licensing agreement is in essence nothing more than a promise by the licensor not to sue the licensee. No particular form of license is required; a license is a written contract and may include whatever provisions the parties agree upon, including the payment of royalties, etc.

The drawing up of a license agreement (as well as assignments) is within the field of an attorney at law familiar with patent matters and/or Intellectual Property. A few States have prescribed certain formalities to be observed in connection with the sale of patent rights.

If you have a patent you can attempt to license your patent rights. A license gives permission to the Licensee to use the patent in return for a fee, or royalties.

Create a list of potential manufacturers who may be interested in your product.

Find manufacturers by looking in stores and magazines for similar products. Visit product related tradeshows. Your local library should have great reference material on

manufacturers. Use online manufacturer databases such as the Thomas Register to search for companies that make a product like yours. You can do an Internet search for manufacturers by using the keywords of your product.

Send a Marketing Letter

Send a brief individually tailored and professional looking marketing letter to each company on your list. The letter will state that, you are willing to consider selling or licensing the patent rights to your invention. A short one-page color brochure with photos, that describes your invention and its benefits, should also be included with the marketing letter. A second choice would be to send a copy of your patent drawings. Wait one month, if a company has not replied you can then telephone them to see if they are interested in your product. **Treat Your Licensing Agreement Seriously** If you have the opportunity to negotiate for a licensing agreement, you may want to use an experienced lawyer. It is not advisable for you to negotiate the contract on your own. The license agreement will include provisions for upfront payments, royalty percentages and infringement issues. You can give an exclusive license to one party, or a non-exclusive license to more than one party. You can set a time or territory limit on the license or not.

First, the owner of the patent (licensor) must determine if it will grant an exclusive or non-exclusive license. A patent license is a waiver by the licensor of the right to exclude the licensee from practicing under the patent rights. Licensees would prefer to obtain an exclusive license if possible. In addition to the commercial disadvantages of a non-exclusive license, a non-exclusive licensee acquires no affirmative rights with respect to the enforcement of the licensed patents. Unless the non-exclusive license specifically provides some protections, the licensor has no duty to protect the non-exclusive licensee's interests in the event of patent infringement, abandonment of the patent, or other licensee's with better terms. The licensor may want to preserve the ability to license to several licensees in order to ensure that the patent rights are fully utilized, instead of tying the patent rights to just one entity. One of the biggest fears of a licensor is that the licensee will not fully commercialize the intellectual property and the licensor is left with nothing to show for its patent efforts. As discussed below, the licensee can address these fears by including certain provisions, such as minimum royalties or milestones that the licensee must meet, or by limiting the license to a particular field of use.

An exclusive license provides the licensee the promise that the licensor will not practice under the patent, and that the licensor will not grant licenses to any other parties. No reservation of rights in the licensor is implied in an unequivocal exclusive license, although many licensees may wish to specifically state that no such rights are reserved for the licensor to practice under the patent rights. There are some authors who believe that an exclusive license does not in and of itself preclude the patent owner from issuing any more licenses and they feel that the license should expressly

state this fact. An exclusive license does not imply, however, that the licensor has not granted any non-exclusive licenses prior to this grant of an exclusive license, and the license agreement should specifically provide a representation that the licensor has not issued any prior licenses. In addition, an exclusive license does not alone grant a right to sublicense. This right must be separately granted.

In order to obtain an exclusive license, the licensee may have to agree to a minimum annual royalty provision. The licensee may expect to commercialize the patent rights in the very first year of the license, or more likely, after a period of time. A minimum royalty provision typically provides that if the royalties do not total a set minimum amount after an agreed upon commercialization period, the licensor may terminate the license agreement or the licensee must pay the difference in what the actual royalties paid and the set minimum annual royalty amount. The alternative to the termination provision, which is extremely severe to a new company trying to commercialize under the patent rights, is to convert the license agreement to a non-exclusive license, unless the licensee pays the minimum royalty amount.

The licensor may also attempt to ensure that the exclusive licensee commercializes the patent rights by a general "best efforts" clause. Both parties should avoid this clause in favor of more objective standards. The courts may interpret such a clause to require the dedication of all of the licensee's resources towards exploitation of the licensed patents, when realistically most licensees will have a number of other significant business endeavors to support. Instead, the parties may rely on the minimum annual royalty provision to ensure commercialization efforts or strive to place objective milestones that the licensee will have to meet. The milestones can be anything definitive that the licensee feels it can realistically meet in the stated time frame. For example, the licensee may be required to obtain an approved New Drug Application with the Food and Drug Administration by a certain date. Licensees should be aware that there is an implied obligation to exploit the licensed patent on the part of an exclusive licensee.

An exclusive license may also be limited to a field of use as a way to limit the licensor's risk of licensee non-exploitation. Under this approach, a licensor can grant exclusive rights to different licensees in distinct markets or application areas. Care must be taken in defining the field of use in these arrangements.

The licensor may want to retain rights to practice the patent rights and insert a reservation of rights in grantor clause in the license agreement. Generally such rights are limited to noncommercial research uses, allowing the exclusive licensee the ability to fully commercialize under the patent rights. Or the licensor may have granted prior non-exclusive licenses to other parties and therefore it needs to reserve some rights in recognition of these licensees.

It is also important in patent license agreements to address the issue of improvements. Improvements can be broadly defined as anything that does the same function as the licensed invention in a better or cheaper way; or a modification of a part or process in the invention; or anything that would perform a similar function as

the licensed patent and that would infringe one or more of the claims of the licensed patent. Either the licensor or the licensee may be capable of creating an improvement and the parties should carefully consider if they want the benefit of the improvement. If so, then there should be a grant of the improvement to the other party, similar in scope to the grant of the main patent rights.

The issue of royalties tends to be the most contentious in the patent licensing negotiation process. The licensee wants to be sure that the costs in the commercialization effort are recouped, while the licensor wants to recover its patent costs and reap the rewards of the invention. Both parties try to look into the crystal ball to see what the market will bear, what the costs to produce will be, and set a realistic royalty rate that allows for a reasonable profit margin. The parties should look to the market place and what other royalty rates have been negotiated for similar products to be able to set some reasonable rate for their invention. The base for royalty calculations should reflect the licensee's use of the patent rights and also be easily subject to accounting and reporting. Sometimes licensors desire to use the licensee's profit on the licensed product as the royalty base, while licensees are usually reluctant to open their books to such inspection. The costs of raw materials may also be considered but as these costs tend to fluctuate, without regard to the value of the licensed product, they may not be appropriate as a base. Usually the net sales price is used as the base, after deduction for trade and quantity discounts, but before deductions of such other costs such as freight and commissions. Payment of royalties on the use of licensed products that are not sold but otherwise disposed (such as used by affiliates of the licensee) should also be addressed in the agreement.

When considering the method of calculating royalties and royalty rates, it is important not to overlook the mechanics of reporting and payment due date obligations. The agreement should clearly specify when reports are required to be made and when royalty payments are due. Payment needs to be made in conjunction with a quarterly or semi-annual accounting report on the royalties received by licensee. Licensors usually reserve the right to annually audit the records, at their expense, to be sure they are receiving the proper amount of royalties. Licensors are advised to also include a provision to audit for a period of time after termination of the license to be sure they have received all the royalties that are due and owing to them. Most license agreements provide that licensee shall pay for the audit if there is an underpayment of a certain percentage.

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