

PATENT LICENSING BASICS

Patents provide inventors with a limited right to exclude others from making, selling, and using their invention. Patent rights can be transferred by an outright sale (assignment) or by a license that conveys some, but not all, rights to a third party. Licensing is often preferred because it allows much greater flexibility and reduces the risk that a patent will be over- or under-valued.

A typical patent license will specify the rights granted, the term of the grant, the consideration in exchange for the grant, records and reporting, representations and warranties regarding the patent, how infringement issues will be handled, tort liability for products or services covered by the license, and other factors.

The license's grant clause sets forth what patent rights are being conveyed. The grant can be exclusive (i.e., only the licensee has the right to exploit the patent rights) or non-exclusive (i.e., the licensor can grant similar rights to other parties). The grant can be limited by geography (such as Florida, U.S., world), and field of use (such as for cellular but not conventional phones).

A patent license might also define each party's rights to improvements of the patented technology. Depending on the negotiation, improvements might be solely owned by the licensor, licensee, or jointly owned by both. The party with more bargaining power often insists on controlling the rights to improvements.

There are many ways to structure the consideration paid for the license. Commonly, a licensee pays an upfront licensee fee as well as ongoing royalties based on a percentage of sales or on a per-unit basis. To ensure accurate royalty payments, a license agreement will specify that reports of licensee's sales records be provided to the licensor on a regular basis, and that licensor can audit the licensee's accounting records.

A licensor might also require minimum annual royalties or minimum annual product sales to be sure the licensee is diligently marketing the products or services covered in the patent.

A patent license should also delineate each party's responsibilities for enforcing the

patent rights and liability if the licensee is sued for infringement. Generally, each party wants to control infringement litigation and avoid having to defend or indemnify the other party. However, the licensee often accepts a greater liability for potential injuries since it provides the products or services.

Of course, patent licenses can involve many other considerations, such as antitrust and franchise law implications and the transfer of trade secrets, know-how, software, copyrights, trademarks, and tangible property.

Negotiating a patent license can be complex and time-consuming. While the relative bargaining strength of the licensor and licensee is important, the assistance of experienced counsel can be invaluable for obtaining favorable terms, avoiding pitfalls, and working through the inevitable challenges. ²¹



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