



# Basics of a Licensing Deal

KEYS CONSIDERATIONS AND STEPS FOR BUILDING VALUE, ALWAYS WITH A PROFESSIONAL'S HELP **BY LAWRENCE J. UDELL**

**D**URING THE past half-century, thousands of inventors have asked me about licensing their invention instead of investing lots of money in a new business.

There are no real secrets to successfully licensing a new product or technology, but it does require patience and research time. Here is how to determine whether licensing is right for you.

As codified in the 1952 Patent Act, patents are rights granted to the inventors of new processes, machines, and/or products. The numbers of patent applications and awards have risen greatly over the nation's history. In 1791, 33 utility patents were awarded; in 2019, 354,507 were awarded.

## What to license?

Almost anything with a protected property right can be licensed. Most common are industrial processes, patents, trademarks, copyrights, trade secrets, methods, formulas, customer lists and manuals.

In each case there is a form of legal right, such as the property right granted to an inventor by the U.S. government via the issuance of the patent. The technology covered by the issued patent becomes a valued property for 20 years from the date of filing the patent application, and the patentee has an exclusive right to do whatever he or she desires with it.

## Why license?

Licensing can provide an inventor with income for a long time, with much less financial risk and commitment than it takes to establish and own a company that produces and sells the product. However, the licensor usually receives a small percentage of the profit from the sales of a licensed product or technology, because it is the licensee who must make the required investment to produce the finished product and get it to the buyer or end user.

A license is a contractual business relationship between a seller

(licensor) who authorizes a buyer (licensee) to use his or her patent, trademark, copyright, and/or any form of intellectual property in exchange for compensation (royalty).

In addition to the benefits of royalties in licensing, in many cases the licensor can receive equity in a new business venture, especially if it is being created for the purpose of marketing the product that is the result of the license. The percentage often depends upon the level of commitment and benefits to the venture that the licensor brings.

Licensing to an established corporation provides numerous advantages to the inventor, including access to the corporation's:

- Existing ability to manufacture the new product;
- Means of distribution;
- Established customer base;
- Advertising experience, immediate penetration of domestic and possibly foreign markets;
- Name recognition of the company.

This becomes an almost "no-risk" position for the licensor—providing the license is properly drafted, with minimum guaranteed royalties, and benchmark performance criteria defined.

## How to license

Efforts at licensing should not be attempted without expert legal assistance. There is no standard licensing agreement that can be used as a universal guide.

License negotiations and the document drafting should be custom designed to fit the specific business situation or the technology. The licensing process is a business function.

After all parties have agreed on the details, the final written record of the activity forms a legal document called a "license agreement." In simple terms, it serves as a special kind of contract that has mutual benefit for both parties.

Licensing will grant to the licensee generally limited rights to the property for a fixed period, frequently for a specified use or market. You can only sell a possession once, but you can license a possession of knowledge or value hundreds of times—and in many cases, simultaneously.

Important advice (if you don't remember anything else, remember this): Never do your own negotiating unless you have previous experience that resulted in a successful conclusion.

Potential licensors with no experience in negotiating business agreements should not represent

themselves. I have seen many inventors destroy real opportunities for success because they either got greedy or wanted to do everything themselves. Million-dollar ideas have died because of the ego of their creators.

Recognize your limitations and don't attempt to approach a licensee or be involved in the negotiation, except as a technical expert. It is better to have legal advice on your side from the very beginning rather than seek it when you are desperate. The inexperienced inventor should hire a patent attorney or firm that knows the process and has enough experience to gain the confidence of potential licensees.

## When to license

An idea that can be protected by a patent increases in value as the following events take place (however, this does not apply in all cases):

- A raw idea is formed—very low, if any, value.
- A U.S. patent application is filed to cover the idea.
- A working model or demonstration of the viability of the idea is made.
- Foreign counterpart patents are filed (providing funds are available).
- The U.S. patent issues. Now there is moderate value.
- The idea/invention is commercially marketed. It is ready to be used, and recognized experts support the technology. The value is now increased.
- A license is arranged with an established, financially sound corporation. High value.
- Additional licenses for either other uses or geographic parameters is now instituted. The original idea now has very high value.

The value of an invention is determined by what someone is willing to pay for it. The true value of a licensable technology, idea, patent, or whatever must be based upon the perceived value to the licensee.

If the product fits into the licensee's business, would increase sales and profits, and perhaps enable him or her to diversify into other areas or new markets, the result will be a mutually beneficial and rewarding relationship. ☞

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