



LICENSING FUNDAMENTALS

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ROCKING IN LICENSING

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1st Edition
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Introduction to Intellectual Property

Intellectual property is a valuable asset for any company. Often, the only way a small business can compete with the Goliaths of the world is through their intellectual property. Intellectual property takes many forms, such as copyrights, trade secrets, trademarks, and patents.

Copyrights protect works of expression expressed in a tangible medium, such as an artist's painting on a canvas or a musician's song lyrics written on paper. Copyrights protect the copying of the work of expression and so if two people create very similar paintings independently, no copyright infringement has occurred. Copyrights include several rights, such as a right to produce copies or reproductions of the work and to sell those copies, a right to import or export the work, a right to create derivative works, a right to perform or display the work publicly, a right to sell or assign these rights to others, and a right to transmit or display by radio or video. In the United States, most existing works have a copyright for a term ending 70 years after the death of the author. If the work was a work for hire (e.g., a work created by an employee of a corporation within the scope of the employee's employment, in which case the corporation is awarded the copyright), then the copyright lasts for 120 years after creation or 95 years after publication, whichever is shorter. An author obtains a copyright once the work of expression is materialized in a tangible medium. They can also be registered with the U.S. Copyright Office to obtain additional benefits.

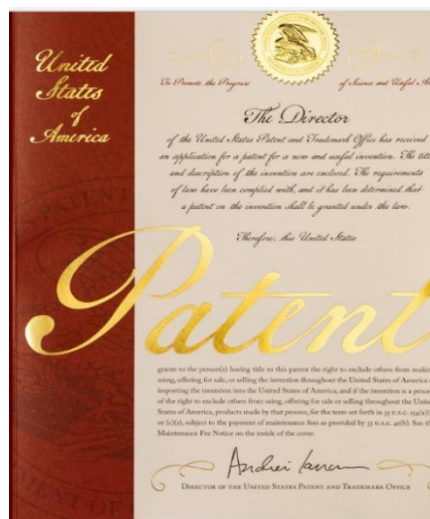
Trade secrets protect secrets of a company that provide a competitive advantage. The formula for Coke® is a classic example. Trade secrets last indefinitely as long as they remain secret. To have a trade secret, a company has to perform steps to keep the information secret, such as by only allowing a few key people to know the secret, securing the information (e.g., formula) in a safe, etc. If someone else finds out about the secret or reverse engineers a product to determine the secret, the trade secret protection is lost for good.

Trademarks are one or more words, graphics, logos, and/or scents that identify a source or origin of a product or service. An example is the Nike® Swoosh. To obtain a trademark, one has to apply for the trademark with the U.S. Patent and Trademark Office (USPTO). The USPTO performs a search to see if any other marks exist that are too similar to the application. If there is a likelihood of confusion with another mark, the USPTO will reject the application. If

you can convince the USPTO that your application should be granted, and if the USPTO does grant the application, the trademark is valid throughout the United States. If you register your trademark, you obtain the right to exclusive use of the mark in relation to the products or services for which it is registered. Typically, the owner of a registered mark can prevent unauthorized use of the mark in relation to products or services which are identical or similar to the registered products or services. The test is always whether a consumer of the goods or services will be confused as to the identity of the source or origin.



Patents are legal documents filed with the USPTO that describe and protect inventions. Patents provide a negative right – the right to exclude others from making, selling, using, or importing the patented invention. People often think of a patent as a monopoly in the claimed invention for a limited period of time. Patents are valid for twenty years from the earliest filing date (excluding provisional applications). In exchange for the monopoly granted by the U.S. government for a limited period of time, the patented invention is published so that others can learn from the patented invention and potentially build upon the knowledge.



Introduction to Licensing

With intellectual property, such as inventions and the related patent(s), a license is equivalent to a lease in a home or apartment. With licensing, you are offering a manufacturer, for example, the right to manufacture and sell your invention for a period of time, and, in return, they will pay you either a lump sum, per item sold, or over time on a schedule. You are the licensor, and the manufacturer in our example is the licensee. It is the parties' responsibilities to negotiate the terms of the license agreement.

If instead of licensing you sell the patent to your invention, it is referred to as assigning the patent. You are the assignor, and the person receiving the title or ownership of the patent is the assignee.

You probably have a better chance of licensing your invention rather than selling your invention. First, it is often difficult to determine the eventual value of the invention. If the value is estimated to be too high, the inventor wins and the assignee company loses. If the estimates are low, the inventor is at a loss. A license can allow both parties to get a fair return from the invention based on its market value. Second, when you sell your invention, you typically lose control of it. Although you may have cash from the sale, the company that you sold the invention to may try to suppress your invention and/or sit on it unless you have a clause in the contract that states that it reverts back to you if the company does not produce the invention.

What can be Licensed

Patentable subject matter, patents, design patents, technology (whether in the form of a trade secret or know-how), a secret formula (a trade secret), a registered trademark, copyrights can all be licensed. Additionally, consulting services can be provided with the license. The consulting services can be included in the price of the license or charged for separately.

Searching for Licensees

Research which companies may have an interest in your invention. You should find out as much as possible about the companies, like the market position, manufacturing capabilities, the consumer pipeline, etc.

Next, visit a variety of places your invention can be sold, for example, for consumer products, you could visit stores (chains, independent stores, general stores, and specialized

stores). You could also visit a trade show or convention for similar products. In addition to getting information for licensing opportunities, you can also meet people in your industry to possibly help you get your idea in front of a decision maker. At each place, spend time looking around.

- 1) Look at other products on the shelves where your product might be found;
- 2) Pay attention to the amount of shelf space given to your type of product;
- 3) Make note of manufacturers that use materials and manufacturing processes your product will need;
- 4) Look at which products dominate shelf space and which offer only one or two items;
- 5) Notice the features and benefits emphasized on the packaging and any collateral promotional material;
- 6) Document the pricing of similar products; and
- 7) Write down the names and addresses of the manufacturer from the packages.

You can also interview a store clerk or manager and generally ask about similar products. Be careful about describing too much about your invention unless you already have a patent or at least a patent application filed. A trade secret or pending patent application may lose its value if disclosed inappropriately. Until you have an issued patent consult with your patent attorney on how much of your invention you can disclose and under what circumstances. In some circumstances you may be able to disclose some of your invention under a non-disclosure agreement.

Ask them how they feel about the invention and why they feel this way. The store manager may tell you valuable information, such as products that offer similar advantages as your invention. Note the manufacturer of the product. You should also ask “If a manufacturer were to introduce a new item along the lines of your invention, which manufacturer do you think it would be?”

Market share versus Distribution Share

Once you have figured out that there is a market for your invention, you now want to determine what type of company you want to approach. You may want to start with companies

based on how important your invention would be to the company. For example, if Company A and Company B have nearly equal distribution share, but Company A is the big player in your industry and has a lot more market share. Your product with Company A may be diluted by the hundreds of other products in its product line. Company B, with its smaller product line, may give your invention more personalized attention and feature it as a special new product.

Making Contact

Once you have ranked your picks for potential licensees, you should start trying to find a contact to present your idea to them.

There are people who can present your idea to companies. Look for respected people in the industry. Tie in the contacts made at the trade shows mentioned above. Never pay upfront for someone to help you pitch your idea, but you may want to offer a percentage in the license to someone who can help you get your idea commercialized, as it may be difficult to get your idea before the decision makers. Make sure that if you do bring in someone to help you market your invention, you have an agreement in place that outlines responsibilities, rights, and payments.

Once you are before the decision maker, the objectives of this initial conversation are to:

- 1) Determine that you are communicating with the right company. (This company is in the field where your invention can be commercialized).
- 2) Determine that you are speaking with the correct person – the one who makes new product decisions.
- 3) Make sure you have a non-disclosure in place if your invention is not yet issued, or at least published by the Patent Office.
- 4) View the company's level of interest in new products.
- 5) View the level of interest in in your specific type of invention.
- 6) Learn its submission procedure.
- 7) Ask questions and get as much information as possible.
- 8) Leave the company with a good impression of you.

