

Technology or patent license: What's right for you?

By James R. Young

A small architectural products company (let's call it SidingTech) developed an attractive, durable and watertight metal siding product. The hand-made, prototype siding worked well, so SidingTech applied for a patent.

However, making the required bends in metal to produce the siding product on a large-scale, commercial basis was not so easy. After extensive research, SidingTech finally developed a metal bending machine that could make all the required cuts and bends from a continuous ribbon of metal sheeting without having to reposition the metal by hand.

The unique machine made it possible for SidingTech to bid successfully on high-quality metal siding for upscale buildings. However, the company didn't have the resources to enter the mass market itself. Instead, it found a large building products manufacturer (call it MarketForce) that wanted to make SidingTech's metal siding for its own line of products.

MarketForce had experimented with metal siding before, but it could not come up with an economical product to compete with others already on the market.

The negotiations were typical. MarketForce saw the siding product and liked it, but wanted to know more about how SidingTech was able to make it so efficiently and inexpensively. After getting a confidentiality agreement, SidingTech demonstrated its metal bending machine to MarketForce.

MarketForce was impressed and offered to license SidingTech's patent, and to pay a royalty on any siding products made by MarketForce and covered by the patent. As part of the deal, SidingTech would have to teach MarketForce how to make and use the metal bending machines. The royalty numbers looked good to SidingTech. Should it sign?

Maybe, but maybe not.

While patents can be powerful business assets, it's easy to confuse patent licenses with technology licenses. The reality of patent power in the business world is often limited, and, in many circumstances, the technology or know-how is the strongest and

most valuable asset.

What's the difference?

Your technology is "what you know." It's your methods, materials, skills, designs, inventions, formulations, drawings, specifications, algorithms — anything that can be used to produce or improve products or services. A patent, by contrast, is a grant by the government that gives you the legal right to prohibit others from using only that part of your technology that is covered by the patent claims.

The answer to the question, then, depends on SidingTech's strongest suit, its patent position, or its technological know-how.

Balancing technology and patent rights

While SidingTech considered its options, U.S. and European patent examiners found many existing siding patents with similar bends and features. Therefore, the patent that SidingTech ultimately received on the metal siding was limited in scope. SidingTech also faced the uncertainty that worries many patent owners: that undiscovered patents or publications somewhere in the world might invalidate the patent.

SidingTech asked for help in negotiating and drafting a license agreement. A lot of questions were asked about what made its metal siding better than others. Attorneys also evaluated the patent coverage and its vulnerability. Most importantly, they investigated what MarketForce really needed from SidingTech.

The answer was the unique metal bending machine that SidingTech used to produce the siding. However, SidingTech had been selling and installing siding produced by the machine for more than a year, so the machine design was no longer patentable. But SidingTech understandably wanted a license agreement that would ensure payment of royalties as long as possible.

In this instance, the license should be anchored primarily in the technology rather than the patent. SidingTech would teach MarketForce how to make the bending machine and would grant a license allowing MarketForce to use the machines to fabricate metal siding products. In exchange, MarketForce would agree to keep SidingTech's technology secret (to thwart competitors) and to pay royalties on any siding products made by using any of SidingTech's technology, regardless of whether the siding products are actually covered by the siding patent.

In a separate part of the agreement, SidingTech also granted a patent license to allow MarketForce to make and sell siding products by its patent. Seventy percent of the royalties were attributed to the value of SidingTech's technology and 30 percent to the value of its patent. Therefore, even if the patent should ever

be declared invalid or if the siding made by MarketForce fell outside the patent coverage, the royalties would be reduced by only 30 percent.

A wise licensor will evaluate its strengths before deciding how to structure a license agreement. If your strong suit is a patent, then, by all means, go ahead and structure the deal as a patent license. However, if your strongest suit is what you know, you should anchor your agreement with a technology license. In any event, don't give away your valuable technology for a weak patent license.