To License or to Assign a Patent? – that is the question

Introduction

A patent is an exclusive right to own, use, or sell a method or a product for a limited period, granted to an inventor by the government allowing to commercially exploit his patented invention. Whenever a patent holder is unable to commercially exploit or work the patented invention, he seeks to license or assign his right to any other party under an agreed set of conditions who can take optimal advantage of the invention and in return gives royalty payments to him. Under Indian law, a patent holder has several commercialization paths available viz, the right to use, sale, transfer, license, mortgage, and pledge the patent. However, the decision to license or assign a patent depends upon various crucial factors. This bulletin will explore the various facets of patent licensing and patent assignment and the factors that influence the decision of finding the best commercialization path for a patent holder – to license or to assign?

1.0 Assignment or licensing – crucial aspects

Primarily, it is crucial to understand as to who can assign or license a patent. It is only the owner of a patent who can either assign or license its patent. However, in case of joint owners or co-owners, one of the owners cannot assign or grant license without the consent of the other owner. Pursuant to section 68 of the Patents Act, 1970 (“Act”), any license is not valid unless all the terms and conditions between the parties in relation to the license have been reduced in writing and documented in the agreement, which should be duly executed. Further, section 69 of the Act stipulates that the licensee shall file an application for registration of his rights as a licensee under the concerned license agreement with the Controller of Patents (“Controller”) within six months of the date of agreement. A similar application to register the transfer of interest shall also be filed by the licensor. The Act provides certain crucial features relating to patent licensing which are as follows:

- The terms and conditions of the agreement should be explicit.
- The agreement should be prepared on a stamp paper and adequate stamp duty be paid.
- The document registered will be effective from the date of its execution and not from the date of registration.
- Section 70 enunciates the power of the registered grantee to deal with the patent and recognizes the right of the registered grantee to grant license under, or otherwise deal with the patent, subject to a contract to the contrary.
- If a license is not registered but the parties have acted upon the covenants in the document, then in lieu of the proviso to section 70, equity will grant the licensee such rights as he would be entitled to if the license was registered.¹

• The terms of license shall be kept confidential by the controller, if requested by the patentee or licensee.

2.0 Patent licensing agreement

A licensing agreement is a partnership between a patent holder (licensor) and another who is authorized to use such rights (licensee) in exchange for an agreed payment (fee or royalty). A patent licensing agreement can be either an “exclusive license agreement”, a “non-exclusive license agreement” or a “compulsory license”.

A patent holder, by a license, permit others to make, use, or exercise, the invention which otherwise would not be allowed. An exclusive license excludes all other persons including the patent holder from the use of invention and wherever limitation is provided, it is generally a limitation related to persons, time, place, manufacture, use or sale. Section 2(f) of the Act defines an “exclusive license” as “a license from a patentee which confers on the licensee, or on the licensee and persons authorized by him, to the exclusion of all other persons (including the patentee), any right in respect of the patented invention, and ‘exclusive licensee’ shall be construed accordingly.” The exclusivity may depend on the geographical extent of the licensee’s right, time factor, and/or the exclusivity to exercise the rights licensed.²

3.0 Assignment of patent

The term “assignment” is not defined under the Act. A patent holder can assign the whole or any part of the patent rights to the whole of India or any part thereof. Assignment is in essence a transfer of ownership even if it is partial.³ There are three kinds of assignments: legal assignment, equitable assignment and mortgages. An assignment of an existing patent is a legal assignment where the assignee may enter his name as the patent owner. A certain share given to another person is called an equitable assignment. An equitable assignee cannot have his name entered in the register as proprietor of the patent but he may have notice of his interest in the patent entered in the register.

A grant of patent rights before the grant of patent is an equitable assignment, which gives the assignee the right to call upon the patentee when the patent is granted to assign that patent to the assignee. A mortgage is when patent rights are wholly or partly transferred to obtain money. On repayment of the money the mortgagor becomes entitled to get his name entered in the register as the proprietor. Section 68 provides that the assignment deed shall, when registered, have effect from the date of its execution.⁴

It is crucial to note here that pursuant to section 40 of the Indian Contract Act, a contract which the promisor is required to perform personally is not capable of assignment. Section 37 further says that in absence of a contrary intention, a contract is enforceable against assignees as well. To sum, an assignment agreement has to satisfy the requirements as

² P. Ganguli –“Anatomy of Licensing Agreements.”
⁴ Also, M/s National Research Development Corporation of India, New Delhi vs. M/s Delhi Cloth & Mills Co. Ltd., AIR 1980 Del 132.
provided under the Contracts Act. The assignment agreements create legal and equitable rights in law.

4.0 License or assignment

By assigning the patent right to another party, the patentee transfers the legal title over the invention to the assignee. However, in a license there is no transfer of proprietary interest. Therefore, by assignment, the patentee no longer owns or has any control of the patent. By licensing, the patentee retains ownership to the rights and thus retains control of who manufactures and who sells it. A license is a contract with certain performance obligations and any breach or failure to comply with the agreed obligations may lead to the termination of the license. A license is revocable whereas an assignment is irrevocable. An assignment is permanently divestment of the ownership of patent.

The main advantages of licensing are –

- Enables the inventor to optimally utilize the invention;
- Enables an inventor to share risk of manufacturing, promoting and selling of invention;
- A cost-effective way to enter market;
- Competitive advantages through technology transfer and cross-licensing;
- Minimize research and development expenditures.

Sometimes an assignment is mandatory, such as where employee inventions are assigned by an employee to the employer, or, in some circumstances, by an employer to an employee. Generally only the inventor has the rights to an invention, however, inventions made in the course of employment are by default owned by the employer, subject to circumstances where the invention may have been created without using the employer’s time, material or other resources, or may be beyond the employee’s scope of work.

In case, the revenue strategy sought by the parties is royalty, licensing is the most prudent commercialization pathway. Royalty is the consideration, which the registered user pays to the registered proprietor for a grant of permission to use the patent. Royalties are typically paid over the life of the patent, such as the unexpired 20 year term of a patent. In the event of a breach, the licensor can terminate the agreement. Understandably, the royalty expectations are best served with a license, and not with an assignment. An assignment being a conveyance of title in a patent that is permanent and irrevocable, an assignee that fails to pay royalties does not risk the loss of rights in relation to the patent, since the assignee owns the patent unconditionally. An assignment may be appropriate, where the patent owner prefers to receive a lump sum price, at the time of the assignment, rather than collecting royalties.

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Further, licensee may not want to develop the patent further for the limited rights it has. A licensor will be more concerned about the pre-market entry performance obligations and this may even lead to sometimes the shelving of the patent by the licensee which cannot be a case in assignment wherein the assignee will try to take fullest commercial advantage of the invention.

Conclusion

Essentially, the decision to either assign or license depends upon the most advantageous commercialization pathway that the patent holder can decide. And while deciding these essentials are always to be weighed against the other - the benefits available in getting royalties against getting a lump sum price or giving away title or just give the rights to exploit the invention in a particular territory for a limited period of time. Assignment may be more advantageous on certain occasions than licensing. Despite the fact that the Act protects the interest of a patentee, it is pertinent for the patent holder to create a suitable assignment or license agreement to avoid any potential dispute.

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