

Seven Things to Consider Before Making a Product Acquisition

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Many companies are considering acquisition of existing products as a route to growth in uncertain economic times. When a company acquires a product from another company or individual, what the company really wants is the right to make, use and sell the product and, hopefully, a right to exclude competitors from making using and selling the product acquired. This is where patent-based intellectual property related to the product comes in. The following are some things that should be considered when investigating a product that you may want to acquire.



Are you going to take a license in the intellectual property or an assignment?

A license grants less than the entirety of the intellectual property rights or something less than full ownership of a patent or patent application. Generally, licenses are taken on issued patents, not patent applications. A license may be exclusive or non-exclusive. A non-exclusive license leaves open the

possibility that the patent owner may grant rights to others. If a license is taken, the patent owner may reserve certain rights for themselves in addition to ownership.

Assignment of the patent rights grants ownership of intellectual property asset and all the rights thereto. Assignments are generally exclusive, though on occasion, an assignment can be made to more than one entity.

Is the IP actually held by the entity with which you are making the deal?

Under United States patent law, patent rights initially vest in the inventors of the invention covered by the patent or patent application. Transfer or ownership of a patent or patent application to someone other than the inventor(s) must be done by a proper assignment. This includes, under most circumstances, employers, corporations or other purchasing parties. Proper assignments are governed by the patent statute and United States Patent & Trademark Office (USPTO) rules.

Each inventor has an undivided interest in the patent or application. That means that if you receive an assignment of rights from one of several co-inventors, another co-inventor can still sell his rights in the patent or patent application to another party. If there is no other agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell or sell the patented invention within the U.S. or import the

patented invention into the United States without the consent of and without accounting to the other owners.

Make sure that the IP is properly assigned to the company from which you are buying the product.

Under U.S. law, assignments of patent rights must meet specific rules and a contract to assign does not necessarily act as an assignment. A contract such as an employment or consulting agreement may create an obligation for an employee or consultant to assign patent rights while not actually assigning or transferring ownership of the rights. Thus, if you purchase a patent from an employer and the employee-inventor is obligated to assign under an employment agreement, but has not actually executed an assignment, you might have to go to court to obtain actual transfer of ownership of the intellectual property assets.

Make sure that the assignments or licenses are properly recorded.

While an assignment is effective whether it is recorded or not, proper recordation of the assignment with the USPTO provides additional rights against later purchasers for value. According to the patent statute, an assignment, grant or conveyance shall be void against any subsequent purchaser or mortgagee for valuable consideration, without notice, unless the assignment is recorded in the USPTO within three months from its date or prior to the date of such subsequent purchase or mortgage. Accordingly, proper recordation of the assignment provides protection against the assignor later assigning the same rights to a different purchaser.

There may be value in recording both assignments and licensees related to the patent.

If you decide to take a license, who will be responsible for asserting or enforcing the patent rights against infringers?

So, you have received an exclusive licensee to make, use and sell the patented invention and you discover that a competitor has started knocking off the product that you have acquired, and is thus cutting into your market share. Who is responsible for enforcing the patent rights? Will the licensor sue the infringer or will you have to do so to enforce the patent rights? There may be good reasons for requiring the licensor to enforce the patent, particularly if you are not an exclusive licensee. However, if no one enforces the patent rights against infringers, the rights are considerably less valuable. Accordingly, a license should clearly identify who will be responsible for enforcing the patent rights against infringers and at whose expense. In addition, the license should clearly state who will make the decision whether to take enforcement action against infringers and under what circumstances.

Make sure that the license obligates the licensor to be joined in any enforcement action you take against infringers.

If you are obliged to enforce the patent rights, the license should require that the patent owner agree be joined as co-plaintiff in the enforcement action. If the license does not require this, and if the licensor is unwilling to be joined as a co-plaintiff in the lawsuit, you may lack standing to bring suit in court.

Has the patent owner, properly paid all of the maintenance or annuity fees to keep the patent in force?

U.S. utility patents generally have a term of 20 years from the earliest priority date. However, maintenance fees need to be paid at about 3.5, 7.5 and 11.5 years from the date of issue of the patent to keep the patent in force. If maintenance fees are not paid in a timely fashion and a patent becomes abandoned, it may be possible to revive the patent under some circumstances, but this is not always possible. Similarly, countries outside of the U.S. often require the pay

ment of annual annuity fees to keep a patent in force. Failure to pay these annuities may lead to expiration or abandonment of the patent.

As can be seen from the above, the acquisition of a product and its associated intellectual property rights may require more thought, research and due diligence than merely finding a product that seems to fit with your business plan and making a deal with the product owner to purchase the product line.



Paul Onderick is a patent attorney and licensed optometrist whose practice focuses on assisting clients in seeking patent protection and developing and managing patent portfolios. Much of Dr. Onderick's practice focuses on seeking to protect innovations in technologies that relate to his background in optometry, including optical products such as microscopes and digital projectors; clinical and surgical instrument-related products; heads-up and night vision displays; and laser-refractive technologies. He also assists clients in technical areas such as medical devices, vascular surgery, forensic investigation and printing. Dr. Onderick's broad scientific background, coupled with first-hand knowledge of the challenges of running his own business, allows him to relate to clients on many levels. Dr. Onderick can be reached at (612) 349-5766 or onderick@ptslaw.com.