Chapter 18

Monetize Your Patent

(how Alex turned claims on paper into dollars, deals, and leverage)

Alex decided early that "monetize" didn't mean "sue." It meant **match the right kind of right** (the claims you actually have) to the **right kind of buyer** (a customer, licensee, partner, or acquirer) at the **right moment** in the product's life. That mindset kept Alex from chasing every shiny opportunity and instead built a repeatable playbook that turned the patent family into revenue, pricing power, and negotiation leverage—without burning the brand or the runway.

This chapter shows how Alex did it: the **inventory** Alex built, the **models** Alex used (sell, license, partner, finance, or broker), the **numbers** behind royalties and valuations, the **materials** that made conversations move, the **clauses** that actually mattered, and where **IP brokering** fit when an external market-maker could accelerate the outcome. You can follow the same sequence.

Step 1 — Make an honest inventory (what you can sell, license, or trade)

Before calling anyone, Alex made a one-page **portfolio map**:

- **Claims that bite:** Which issued or pending claims actually read on the flagship product? Which read on a competitor's? Alex kept two colored claim charts: **blue** for internal practice, **red** for potential evidence-of-use (EOU) externally.

- **Markets & use-cases:** Lighting controllers for commercial buildings; retrofit kits for industrial bays; OEM modules for fixture makers.

- **Geography:** U.S. issued; EPO/CN pending; design rights filed in key look-driven markets.

- **Lifeline:** projected term (Ch. 16), with a bold line at each **maintenance** window (Ch. 13).

- **Family roadmap:** a continuation already filed on premium-SKU windows; a factory **method** continuation teed up for supplier leverage.

The map answered three questions any counterparty would ask: *What do you own? Where does it matter? How long does it last?* With that clarity, Alex chose a monetization model per target rather than a one-size pitch.

(A)Idea — Action: Build your map once, update it quarterly. It's cheaper than improvising under an NDA clock.

Step 2 — Choose the monetization model per target

A) Make & sell (pricing power and channel leverage)

Alex's first dollars weren't royalties; they were **margin**. The patent let Alex justify:

- **Premium pricing** where the performance moat (low ripple on cheap silicon) mattered.
- **Channel commitments** (distributor exclusivity by territory) backed by patent claims.
- **Supplier bargaining**: method-of-manufacture claims around torque/pressure windows gave Alex leverage to enforce process quality, not just specs.

What changed the math: clear **virtual marking**, a one-paragraph **moat story** in sales decks, and the confidence to hold price when knockoffs surfaced.

B) License (field-of-use, territory, or channel)

Alex split the world by **who** needed what:

- **OEM license** to a major fixture maker: **non-exclusive**, restricted to "commercial indoor fixtures," royalty as a %

of **net sales**, with **minimums** and an **advance** that funded Alex's next filing.

- **Field-of-use license** to a controls integrator: **exclusive** for "retrofit kits for warehouses" in North America for three years, contingent on **minimum annual performance** (units or revenue).

- **Manufacturing license** to a contract manufacturer: limited to **making for Alex** and for specific named licensees; **no sales rights**.

Alex never offered exclusivity without **performance gates** and a **reversion** if gates weren't met.

C) Partner (JV/tech transfer/white label)

Where a partner brought sales muscle and certification pathways, Alex structured a **tech transfer** with:

- A **setup fee** to cover engineering handoff and validation.

- A **per-unit fee** that stepped down with volume but never to zero.

- **Joint IP** rules for improvements (owned by the improver, **licensed back** royalty-free for the partner's field; Alex kept rights outside that field).

D) Sell the asset (assignment)

For a non-core sub-embodiment that a bigger player valued, Alex considered a straight **assignment** for cash plus a **grant-back** license to Alex for a narrow internal use. Alex sold only when the asset wouldn't power future continuations or when the buyer's distribution made the dollars obvious.

E) Enforce-to-license (assertion with an offramp)

Alex preferred business-first, but when a competitor launched a copycat, counsel prepared a **professional first letter**: two-page moat story, two annotated figures, a short claim chart. The **ask** was a license at market terms, not a threat. If traction stalled, Alex had contingency-litigation counsel and discussion points for **litigation funding**—but used those paths sparingly.

F) IP brokering (market-making for licenses or a sale)

For a broader outreach campaign—especially outside Alex's sales network—Alex engaged an **IP broker** on a **time-boxed, semi-exclusive** basis. The broker:

- Built a **target list** (fixture OEMs, controls vendors, module suppliers, retrofit kit brands).
- Prepared a **teaser** (non-confidential), then a **CIM** (confidential information memo) behind NDA: claim summaries, family tree, EOU snapshots, market use-cases.
- Coordinated **intro calls**, tracked interest, and guided term-sheet rounds.

How Alex structured the broker engagement:

- **Scope & term:** 6–9 months, exclusivity limited to **named accounts** or a territory; Alex kept carve-outs for existing conversations.

- **Fee model:** modest **retainer** credited against a **success fee** on signed deals; success fee tiered to deal size.

- **Deliverables:** monthly outreach reports, pipeline stages, and feedback notes ("why we passed").

- **Diligence readiness:** broker had permission to share pre-approved EOU excerpts and the clean chain-of-title letter from counsel.

Brokers don't create value; they surface it faster. Alex used one when speed to multiple doors beat going one-by-one.

Step 3 — Get the numbers right (royalties, advances, minimums)

Licenses die on definitions, not decimals. Alex learned to negotiate **structure** first, **rate** second.

Common royalty structures Alex used:

- **% of net sales** (with a tight **net** definition): permitted deductions capped (returns, actual freight, taxes), **no** deduction for internal transfers or "allocated overhead."

- **Per-unit fee** (simple for modules/OEM components).

- **Milestone fees** (certification achieved, SKU launched, volume thresholds).

- **Upfront/advance** (creditable against early royalties) + **annual minimums** (convertible into a true-up at year-end).

Ranges and tiers: rates depended on the **share of value** the patent delivered, the **alternatives**, and the **cost to design around**. Alex used tiers (e.g., a higher rate for shipments into performance-critical markets) and a **most-favored-nation** (MFN) carefully circumscribed (apples-to-apples field/territory/volume only).

Audit rights and reporting: quarterly reports with SKU-level roll-ups; audit not more than once per year, with cost-shifting if underpayment exceeded a threshold.

Sublicensing: allowed only with **consent** or within a defined partner network; **revenue share** on sublicense income spelled out.

Improvements & grant-backs: each party owned what they invented; the other received a **non-exclusive** license limited to the licensed field. Alex avoided blanket assignments of improvements.

Termination: for breach, **non-payment**, or failure to meet **minimums**—with a cure period. Post-termination **sell-off** rights were narrow and time-limited.

(A)Idea — Advisory: "Net sales" is where deals go to die. Define it in one paragraph, test it with three invoice scenarios, and attach an example to the license.

Step 4 — Valuation that doesn't waste time

Alex didn't need a 70-page valuation to set an anchor. Alex built three **sanity checks**:

1. **Relief-from-royalty (income approach):**
   - Estimate licensee revenue attributable to the patented feature.
   - Apply a conservative royalty rate (triangulated from industry norms and the design-around cost).
   - Discount to present value over the **remaining term**.
2. **Market comps (market approach):**
   - Look at disclosed deals in adjacent controls hardware/software.
   - Adjust for claim strength, geography, and stage.
3. **Design-around cost (cost approach):**
   - Engineer a viable alternative (different sampling regime or more expensive silicon).

   - Price the **performance, BOM, and time** penalty.
   - Use this as a ceiling on a rational license price.

The point wasn't precision; it was **credible ranges** that made a term sheet feel grounded.

Step 5 — Materials that move deals (EOU without oversharing)

Alex prepared a **lightweight data room** before the first outreach:

- **Executive brief:** one page, plain English: problem, mechanism, technical effect, business impact.
- **Family tree:** filing dates, jurisdictions, status, projected term.
- **EOU snapshot:** 2–3 slides mapping **claim elements** to a public datasheet or teardown pics (redactions OK).
- **Title & maintenance letter:** counsel's letter confirming chain of title and maintenance being current.
- **Draft term sheet:** fields/territories, royalty structure, audit, improvements, performance gates.

Everything else was **on deck** but not sent until needed: full claim charts, prosecution histories, lab protocols. The goal: enough to excite, not enough to arm a design-around.

(A)Idea — Avoidance: Don't email source files or full charts casually. Use a controlled data room; watermark exports; log access.

Step 6 — Negotiation posture (give-get, not tit-for-tat)

Alex treated each concession as a **trade**, not a gift:

- **Give:** narrower field-of-use → **Get:** higher rate or bigger minimums.
- **Give:** early exclusivity → **Get:** aggressive performance gates and a reversion plan.
- **Give:** lower advance → **Get:** earlier audit right and a floor on annual minimums.
- **Give:** broader sublicense rights → **Get:** share of sublicense income and approval rights for top-tier subs.

Alex anchored with the **structure** (field, territory, term, exclusivity, minimums), then adjusted the **rate** within a modest band. This kept the conversation about **surplus sharing**, not horse-trading commas.

Where enforcement fits (assert, mediate, settle, or press)

Even good-faith negotiations sometimes stalled. Alex's escalation ladder:

1. **Business letter** (not a legal broadside): short EOU, invitation to discuss license.

2. **Standstill + NDA** to explore; mediation clause as a low-drama path.

3. **File first** if needed to preserve rights or venue, while still pursuing settlement.

4. **Litigation funding** conversations only with a prepared dossier (clean title, clear EOU, budget).

Alex's aim was a **license by design**, not trial by ordeal. Still, taking preparatory steps quietly (venue analysis, expert preliminaries) made the license more likely.

IP brokering — deeper on the when and how

Alex called a broker when:

- The **buyer universe** was broad and global.

- The team lacked bandwidth to open **20–40** doors in parallel.

- The goal was a **portfolio sale** or multi-party licensing program, not just a single OEM deal.

Broker checklist Alex used:

- **Track record** in your technology and buyer set (ask for anonymized case studies).
- **Conflicts** disclosed (who else they represent).
- **Exclusivity** narrowed (time-limited; named-account list; carve-outs for existing talks).
- **Playbook** clarity (how many touches per target; who speaks first; what's the escalation script).
- **Data hygiene** (how they handle confidentials; watermarks; access logs).

Alex held brokers to **pipeline metrics** (intros made, NDAs signed, term sheets in play) and insisted on **shared dashboards**. The relationship worked when both sides operated transparently.

International twists (so the deal you sign can be performed)

- **Territories:** split by country or by **sales region** aligned with your partner's org chart.

- **Currency & taxes:** specify currency of account, withholding tax handling, and FX conversion dates.
- **Export controls:** some tech transfer clauses require export-control compliance; Alex's counsel templated these.
- **Local exhaustion/resale:** make sure **territory** aligns with real distribution patterns to avoid gray-market leakage.

AI as an accelerator (and the guardrails)

Helpful uses Alex kept:

- **Target discovery:** clustering potential licensees by product lines and patent citations.
- **EOU prep:** first-pass mapping of public datasheets to claim elements (human-verified).
- **Deal simulation:** royalty sensitivity tables and "what if" scenarios.
- **Outreach drafting:** customizing first-contact emails per target segment.

Guardrails Alex enforced:

- **No confidentials** into public models; enterprise/local models only.
- **Human redlines** on anything that touches claims or EOU.
- **Attribution checks:** AI can hallucinate citations; every reference was verified by a person.

(AI)dea — Advisory: Measure AI by **hours saved per deal stage**, not by the length of a generated memo.

Common traps Alex avoided

- **Exclusivity without teeth.** Every exclusive grant carried **minimums** and a **reversion**.
- **Sloppy net sales.** Alex closed loopholes (internal transfers, bundled discounts, transfer pricing).
- **Improvements land-grab.** Narrow, reciprocal **grant-backs** instead of blanket assignments.
- **Perpetual sublicensing.** Sublicense rights tied to the **term** and **performance** of the head license.
- **MFN overreach.** MFN limited to the **same field/territory/volume** and to **headline rate**, not to every

commercial term.

- **Letting "IP-only" drive the whole P&L.** If a license cannibalized Alex's core product margin, Alex priced or scoped it differently—or walked.

Alex's two-page term sheet (anatomy you can reuse)

Page 1 — Business terms

- Parties; covered patents/applications; definition of **Licensed Products**.
- **Field-of-Use** and **Territory**.
- **Exclusivity** (if any) with performance milestones and reversion.
- **Royalty structure**: % of net sales or $/unit; **advance**; **minimums**; **milestones**.
- **Term** (to patent expiry or fixed years if know-how included).
- **Sublicensing** rules and revenue share.

Page 2 — Protections

- **Net sales** definition; **audit** rights; **reports** cadence.
- **Improvements/Grant-backs**; **ownership** clarity.
- **Marking** obligations and **brand** usage rules.
- **Warranties** (limited) and **indemnity** scope.
- **Confidentiality**; **export controls**; **assignment/change of control**.
- **Termination** and **sell-off**; **governing law**; **dispute resolution** (mediation/venue).

Term sheets set expectations; the long-form should color **inside** these lines, not redraw the picture.

A compact checklist Alex ran before signing anything

- Do we have **clean title** and current **maintenance**?
- Does the license leave room for **our** product roadmap (field carve-outs)?
- Are the **minimums** and **exclusivity** conditions realistic and enforceable?

- Is **net sales** defined so our finance team can implement it?
- Are **audit** and **reporting** rights meaningful?
- Are **improvements** and **sublicensing** scoped so we don’t lose control?
- Do **territory**, **currency**, and **tax** terms reflect how money actually moves?
- Do we have a **plan B** (another target, broker campaign, continuation strategy) if this deal stalls?

Alex learned that deals close when both sides can explain them to their finance teams in a single slide. That became the bar.

Why this chapter mattered to Alex

A patent is a story with receipts. The **story** is the technical mechanism and the market pain it solves; the **receipts** are claims, charts, figures, sales impact, and a clean file. By mapping the portfolio, picking a model per target, getting numbers and definitions right, preparing materials that respected both excitement and caution, and using brokers only when they accelerated access, Alex turned a single filing family into **multiple** revenue streams—margin on Alex’s own products, royalties from partners, leverage with suppliers, and real options for future financings or exits.

Monetization was not a one-time event; it was a cadence—quarterly pipeline reviews, annual license audits, and continuation filings that kept the moat aligned with where money flowed. With that cadence in place, Alex was ready for the next realities of the market: **enforcement basics**, **infringement and intent**, and **how to use cease-and-desist letters** to resolve disputes quickly when business-first conversations weren't enough.