

6

THE PRAXISUNICO PRACTICAL GUIDES SERIES

LICENCE AGREEMENTS

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FOREWORD

PraxisUnico is a world-leading membership organisation for Knowledge and Technology Transfer Practitioners. PraxisUnico's mission is to develop, promote and connect an internationally recognised community of professional excellence – sharing and promoting best practice at the interface between academia and industry. PraxisUnico is led by a team of expert volunteers and is a not-for-profit organisation.

PraxisUnico is renowned around the world for its professional training courses, conferences, networking and industry engagement events. We provide consultation responses, surveys and opinion pieces on behalf of the sector, as well as information and practical tools, including this Practical Guides series.

The highly successful and popular set of Practical Guides was first produced in 2005 and funded by the UK Government. In 2014, PraxisUnico has invested its own reserves in a series of updates to the Practical Guides, to ensure that the community continues to have access to this valuable specialist resource. The updated guides have been produced in electronic format only, both for ease of use and for cost effectiveness.

This new and revised edition is a resource for Knowledge Commercialisation professionals in the UK and overseas. The set brings together, in one concise location, practical support materials for anyone dealing with commercialisation or other Knowledge Transfer contracts. Many thousands of practitioners from the UK and beyond have regularly used the guides and the draft template agreements, citing them as an invaluable source of practical information and guidance.

Acknowledgements

The PraxisUnico Practical Guides on Confidentiality Agreements, Material Transfer Agreements, Options, Licence Agreements, and General Legal Issues have been updated to take account of changes in the legal landscape that have occurred since their first publication. The updating has been carried out by Mark Anderson and his team at Anderson Law LLP: Lisa Allebone, Stephen Brett, Mario Subramaniam, and AnnMarie Humphries.

Disclaimer

This Practical Guide includes an overview and discussion of certain legal issues from the authors' perspectives as lawyers who are qualified in England and Wales. This overview and discussion is not intended to be comprehensive and does not constitute and must not be relied upon as legal advice. Readers should consult their institution's own legal advisers on any specific legal issue that may arise. To the fullest extent permitted by law, neither Anderson Law LLP nor PraxisUnico nor any of their employees or representatives shall have any liability, whether arising in contract, tort, negligence, breach of statutory duty or otherwise, for any loss or damage (whether direct, indirect or consequential) occasioned to any person acting or omitting to act or refraining from acting upon any advice, recommendations or suggestions contained in this Practical Guide or from using any template or clause contained in this Practical Guide.

CONTENTS

Chapter

1	General introduction	4
2	Introduction to licence agreements	5
3	Summary of best practice	11
4	Key negotiating issues in licence agreements	13
5	A checklist of common provisions found in licence agreements	16
6	Administration of licence agreements	20

Appendix

A	Template agreements	24
1	Exclusive patent and know-how licence agreement	25
2	Short form non-exclusive licence agreement	53
3	Academic software distribution and licence agreement	67
4	End user software licence terms	95
B	Notes on completing the template agreements	99
C	In-depth discussion of commercial issues in licence agreements	104
D	Special legal issues for licence agreements	131

CHAPTER 1

General introduction

UK universities have now generated significant income from intellectual property licensing. The traditional model, particularly (but not only) in the pharmaceutical sector, has been to grant exclusive, worldwide licences to major, international companies. Another model has been for universities to set up small 'spin-out' companies, to attract investment in those companies, and to assign or license the university's intellectual property to the company in return for shares in the company. In some universities, the spin-out company route seems to have been preferred over the traditional licensing model.

The purpose of this Practical Guide is three fold:

- 1 to provide an introduction to licence agreements and their terms, including discussion of legal, practical and negotiating issues;
- 2 to provide some suggested templates together with guidelines for their completion; and
- 3 to consider and discuss some underlying issues which are problematic or of particular concern for universities.

This Practical Guide attempts to provide information that is useful for both the beginner and the more experienced research contracts or technology transfer professional. The breadth of material covered may give the misleading impression that university contracts are fraught with legal and commercial difficulties. Usually, this is not the case. But sometimes differences of expectation, practice or legal culture can arise between the parties negotiating an agreement, particularly in international transactions. The beginner may wish to focus on the earlier chapters and to use the detailed discussion that appears in later chapters as a reference source if a specific question or problem arises.

CHAPTER 2

Introduction to intellectual property licence agreements

What is intellectual property?

There is no 'official' definition of intellectual property (IP), and for this reason it is often defined specifically in agreements. There are many different types of IP. Depending on the subject matter of the licence agreement, IP may be defined as including patents, copyright, database rights, registered and unregistered design rights, trade marks and similar property and rights. Some of these types of property (eg patents and registered trade marks and designs) are registered with an official body (eg the UK Patent Office), others (eg UK copyright and database right) arise automatically without registration. Applications for registered IP are usually included in the definition of IP, as are rights under the law of confidentiality (ie in respect of unpatented know-how), even though the protection given to confidential information is not, strictly, a recognised form of property.

The term 'industrial property' is sometimes seen, although it is rather old-fashioned and usually has been replaced now by 'intellectual property'. Industrial property is usually understood to mean those types of IP that protect industrial articles. For example, copyright in a work of art would probably not be regarded as industrial property, but copyright in a computer program probably would be.

What is an intellectual property licence agreement?

At its simplest, an IP licence agreement is a contract under which an owner of IP (the licensor) permits another person (the licensee) to engage in activities that, in the absence of the licence agreement, would infringe the licensor's legal rights attaching to the IP.

For example, UK patent law provides that certain acts infringe a UK patent, including making and selling products that are within the claims of the patent. Under a typical university patent licence agreement, a university grants a commercial company a worldwide licence under certain Patents to make and sell Licensed Products in the Field. The detailed licence terms are usually more complicated, but this is the essence. In this example, the terms Patents, Licensed Products and Field would be defined in the licence agreement. In return, the licensee would typically make payments to the university in respect of its use of the Patents, including lump sums and royalty payments. Royalty payments are usually, but not always, calculated as a percentage of the licensee's income from the sale of Licensed Products.

Although many licence agreements have complex provisions, these two elements – the grant of a licence, and payments based on use of the IP – are the core components.

Why do I need a licence agreement?

By entering into a licence agreement, a university may be seeking to achieve a number of objectives (not all of which will be relevant in all cases). These objectives may include:

- to encourage the use of an invention or other university development for the benefit of society, the theory being that, sometimes, securing IP rights for the development and finding licensee(s) to exploit it, is more likely to lead to the development being available to consumers than simply publishing the development and making it freely available. In other situations, this objective may be better realised by taking no steps to protect or commercialise the development. For example, there was some controversy a few years ago over whether it was appropriate for a US company to patent developments arising from the human genome project. Many prominent UK scientists were reported to be opposed to such patenting in principle, feeling that such developments should be freely useable.
- to generate income from an invention or other university development (e.g. software).
- to control the way in which a licensee uses the development, i.e. by including suitable contract terms in the licence agreement. For example, in the case of 'freeware', software is made freely available subject to licence terms, usually contained on a website from which the freeware can be downloaded. The freeware licence terms may include obligations on users of the freeware to make any improvements available to other users. Thus, licence terms are used to assist the further development of the software for the benefit of the wider programming community.

Why is licensing the best route to achieve these objectives?

The technology transfer executive will wish to consider, on a case-by-case basis, whether protecting (e.g. by patenting) and then licensing an invention or other technical development is the best route to achieve the objectives mentioned above. In many cases, particularly if income generation is a significant objective, the main alternatives will be (a) traditional licensing or (b) assigning or licensing the IP into a spin-out company. It may be helpful to make a few broad generalisations about some typical differences between traditional licensing and the use of a spin-out company.

Traditional licensing – long term, specialist technology transfer activities

- It can be hard work finding and generating interest from suitable licensees.
- Licensees tend to be larger companies that can develop, market and sell the licensed product/services. But not in all cases.
- Because of the need to contain IP protection costs, university IP often has to be licensed at an early stage when it is difficult for a potential licensee to assess the potential benefits and therefore value of a licence.

- A licence agreement sets up a long-term relationship between the university and licensee that will require managing by the university's technology transfer specialists over the long term.
- The effective negotiation of licence agreements requires an understanding of some rather technical issues. Negotiations can be time-consuming and protracted.

Spin-out companies – shorter term, 'investment' role

- It is sometimes easier to find investors for spin-out companies than traditional licensees. This depends partly on the investment climate at the time.
- Spin-out companies tend to be small companies that will develop the technology further but may not have, nor expect to have, in-house marketing and sales capability.
- University involvement in a spin-out company tends to reduce over time, as its shareholding is diluted. Many UK universities assign the relevant IP to the spin-out company (either immediately or once the company reaches a defined stage in its development). Usually, the university does not retain much/any control over, or responsibility for, the commercialisation of the IP once it has been assigned. Consequently, the spin-out company route may require less ongoing management by the university and a different set of skills to traditional licensing.
- Standard issues tend to come up in negotiations over investment. Many of these (e.g. percentage shareholdings, control mechanisms, limits of liability, rights of investors, etc) are more readily understandable than some of the technical issues that occur in licence negotiations. Some universities have gained enough experience to develop clear policies on what they are willing to accept. See further, the Guide to Spin-out Transactions.

Of course, many licensing and spin-out transactions do not fit within the above framework. For example, the authors have been involved in licensing transactions where the licensee is a small company that intends to develop the technology further before sub-licensing it to a larger company. Sometimes, a spin-out transaction will be structured to include a licence, rather than an assignment, of university IP into the spin-out company, in which case some of the issues discussed in this Practical Guide will be relevant to the licensing element of the spin-out transaction.

Spin-out transactions are discussed in a PraxisUnico Practical Guide on that subject. The remainder of this Practical Guide assumes that a decision has been taken to license university IP rather than to follow another route to making the technology publicly available.

Can my organisation comply with its obligations under a licence agreement?

There are two issues: is the organisation able to grant a licence under its IP, and can it comply with other obligations that may form part of the licence agreement, e.g. warranties, confidentiality obligations, etc.

Where an academic institution owns a package of IP outright, and has not previously granted any conflicting rights or entered into any conflicting commitments, it should be able to grant a licence under that IP without difficulty. In this situation, the IP is 'clean' or, to use a legal expression, 'unencumbered'.

In practice, however, the institution's IP may be encumbered. For example:

- **Grant conditions.** The IP may have been generated from research that was funded by a charitable or governmental organisation, e.g. the Wellcome Trust or the European Commission. The conditions of the grant may include provisions concerning ownership of any IP that results from the research, who is licensed under it (e.g. other members of a consortium), or requiring the funder's consent before any licence is granted under such IP.
- **Commercial terms.** The IP may have been generated under a research agreement with a commercial sponsor. The terms of that agreement may vest ownership of any resulting IP in, or grant a licence or option of such IP to, the sponsor.
- **Third party rights.** Part of the IP may have been acquired from a third party. For example, if the IP relates to software, the software may incorporate routines obtained from a third party, e.g. as freeware.
- **Joint developments.** The IP may have been generated in collaboration between two universities, and the other university may own an interest in that IP. In such situations the other university may need to give consent to, or become a party to, the licence agreement.
- **Visiting staff and students.** The IP may have been generated at your organisation by an academic who was not an employee of your organisation (e.g. a student or visiting fellow) or by an employee in circumstances where it is not clear whether your organisation owns inventions made by him or her. The question of ownership of employee inventions is discussed in the Practical Guide entitled 'Key Issues in University Commercialisation Agreements'. In practice, many universities deal with this issue by entering into individual assignments and revenue sharing agreements with each inventor before granting any licence under the IP.
- **Dominating IP.** To make use of the IP it may be necessary to make use of some third party IP, e.g. a dominating third party patent. Although this would not, strictly speaking, prevent the IP owner from licensing the IP, it may amount to a breach of an express (explicit) or implicit warranty clause of the licence agreement (as to which, see the commentary later in this Practical Guide).

Even if the university is entitled to license the IP, it may still find itself unable to comply with some of the terms of the licence agreement. The detailed terms of licence agreements will be considered later in this Practical Guide. At this stage, it is worth mentioning a couple of areas of potential difficulty:

- **Limited control.** The licence agreement may assume that the university (or other academic institution) is able to control the activities of its employees, in a similar way to a commercial company. In reality,

academics tend to be fairly independent individuals, whose relationship with the central parts of the employing institution, including the technology transfer group, may be 'semi-detached' at best. This should be borne in mind when the licensee asks the institution to give warranties or comply with obligations (e.g. in relation to confidentiality and publications) that, in practice, depend on the cooperation of an academic. Depending on the obligation, it may be that the most the institution can sensibly promise to do is to take reasonable efforts to comply, or instruct the academic to comply, with the obligation.

- Limited appetite for risk. The agreement may ask the institution to bear risks that may be thought inappropriate for a charitable body that spends public money. For example, the institution may be asked to give warranties or indemnities in relation to the condition of the licensed IP that it would be well advised to reject. Some people would say that charitable institutions should be risk-averse to a greater extent than a commercial licensor might be, even if this results in a reduced income from commercial activities.

Who should draft the licence agreement?

Practice varies. Many universities have their own, preferred form of licence agreements which reflect their policies on issues such as liability, licensee diligence, etc. But some large companies push quite hard to use their standard forms of agreement. In some industries, the licensee may have developed a very specific model for licensing that reflects its view on which products, services, etc are likely to be offered using the licensed IP, and the appropriate royalty structure. Sometimes these models are rather complicated. If the university negotiates using a licensee's preferred form of licence agreement, this may involve additional legal work and expense for the university.

Format of the licence agreement

Typically, licence agreements are drafted in a conventional contract format, similar to the first template in Appendix A.

Sometimes, licences form part of a larger transaction involving other contractual documents, e.g:

- Where the licence is granted pursuant to an earlier option agreement (as to which, see the PraxisUnico Practical Guide on Option Agreements); or
- Where licence terms are included in a research agreement; or
- Where the licensee, as well as taking a licence, also enters into a (separate) research agreement under which it agrees to fund research work in the inventor's laboratory; or

- Where the licence is granted as part of a 'spin-out' transaction, in which the university receives shares in the licensee.

Occasionally, 'short-form' licences are seen, similar to the second template in Appendix B. As the name suggests, these are very short documents that simply grant the licence; sometimes they may be accompanied by a longer agreement containing commercial terms.

CHAPTER 3

Summary of best practice

The following points are put forward for your consideration as possible 'best practice' (on some points, readers may feel they are 'ideal practice') in relation to the preparation of licence agreements.

- *Policy.* Have in place an institutional policy for licence agreements, covering such matters as:
 - Procedures to be followed to ensure that your institution protects its IP, including procedures governing confidential disclosure of information, patent filing, etc).
 - What 'due diligence' the university should do on its IP, and when (e.g. before offering it for licence).
 - The circumstances in which the institution might enter into licence agreements for (a) incoming and (b) outgoing IP, respectively, and including whether exclusive or non-exclusive licences should be agreed.
 - How the commercial terms of licences are determined, including by trying to establish (where appropriate) what are 'normal terms' in the relevant industry sector.
 - Procedures to be followed to ensure that your institution complies with the terms of both incoming and outgoing licence agreements, including confidentiality obligations, warranties, diligence obligations, reporting, patenting obligations, etc.
 - Procedures to be followed to ensure that the other party to the licence agreement complies with its obligations under the licence agreement, including regular audits of a licensee's performance and whether the correct amount of royalties has been paid.
 - Who has authority to sign the licence agreement for the institution?
 - Whether individual academics should [also] sign and/or approve the terms of licence agreements.
- *Templates.* Have in place template licence agreements ready for use in individual transactions.
- *Negotiation.* Who has responsibility for negotiating the provisions of licence agreements? Do they have the required level of training and skill? Is there a procedure for referring difficult issues to a more specialist adviser (e.g. an in-house lawyer)?
- *Terms.* Have in place clear 'bottom lines' as to terms that must, or cannot, be accepted in licence agreements. Possible key issues might include:

- Law and jurisdiction (is it covered by relevant insurance policies?)
- Which warranties, liabilities and indemnities can be accepted, or should be required, in licence agreements
- The scope of any licences granted (in particular, are they limited to specific IP generated by specific academics?)
- Which party is responsible for patenting expenditure, and which party has control over decisions regarding patenting, etc.
- Whether licences to 'improvements' or 'pipelines' should be included in the licence agreement (as to which, see the PraxisUnico Practical Guide on Option Agreements)
- *Monitoring.* Implementing procedures to monitor the licensee's performance, including regular audits, ensuring licensee provides reports and payments on time, etc.

CHAPTER 4

Key negotiating issues in licence agreements: Introduction to frequently-encountered provisions

Key terms of a typical licence agreement

Although the detailed terms of licence agreements vary, they often include terms covering the following points:

- a** *Definitions.* Detailed definitions of the subject matter of the licence agreement and key terms used in the licence agreement, including such items as Licensed IP, Territory, Field, Licensed Product, Net Sales, Valid Claim, etc;
- b** *Licence terms.* A 'grant' clause which describes the scope of the licence being granted, whether sub-licensing is permitted (and, if so, any conditions for sub-licensing), etc;
- c** *Confidentiality and publications.* Where know-how is being licensed, provisions governing confidentiality and publications;
- d** *Assistance from licensor.* Whether the licensor has any continuing obligations to provide information, support, upgrades, etc;
- e** *Payment terms.* Detailed payment terms, including terms covering lump sums, royalties, frequency and time of payments, reports, record-keeping, audit rights, tax issues, etc;
- f** *Licensee performance.* Obligations on the licensee, particularly in exclusive licence agreements, to develop and commercialise the licensed IP, with provisions stating what is to happen if the licensee fails to comply with these obligations;
- g** *Liability.* Warranty, liability and indemnity clauses;
- h** *Termination.* Duration, termination and consequences of termination.

In most cases, licence agreements "look" fairly similar and address the above points and a few other standard points that will be discussed in this Practical Guide.

What are the common areas of negotiation?

The most obvious areas for commercial negotiation, which tend to be discussed at any early stage in the negotiations, include: which IP is to be licensed, and in which fields and territories, whether the licence is to be exclusive or non-exclusive, whether any improvements or pipelines are to be included, publication rights, the amount of any lump sums (and the circumstances in which these sums are to be paid, e.g. as milestone payments), and royalty rates.

It is tempting to think that, once the above 'high-level' issues have been agreed, the rest of the licence agreement is mere, legal detail. Certainly, some of the more remote 'boilerplate' clauses can be regarded as secondary: important but dull. But, unlike some types of commercial agreement, licence agreements usually include a large, intermediate layer of issues that are commercially important, and far more than just 'work for lawyers'. The experienced licensing executive will be familiar with the detail of these issues, and be prepared to negotiate them, sometimes without support from legal advisers. Some of these issues are unique to universities, e.g. the need to retain rights to conduct research, publication rights, and (perhaps) the requirement for a licensee to pay patent costs, and may need to be explained to the licensee. In this sense, negotiating licence terms is a more complex task than, say, agreeing the commercial terms of a spin-out transaction.

Licence agreements often have specially-negotiated terms, and are less 'standard' than some types of agreement. Templates provide a useful starting point, but further drafting may be needed.

Some of the 'standard' issues that tend to be negotiated (both 'headline' and 'intermediate' issues) include the following:

- a** *Definitions and scope of licence.* The technical definitions – IP, Products, Field, etc – which are crucial to the scope of the licence. Sometimes, input from patent and technical specialists is needed when carefully drafting and negotiating these definitions. In the authors' experience, once these definitions are agreed, the actual scope of the licence tends not to be controversial. Although other types of licence are encountered, the most familiar type of licence that a university will grant is an exclusive, worldwide licence to make, have made, use and sell Licensed Products.
- b** *Improvements.* Whether any improvements or upgrades must be licensed and, if so, on what terms. As discussed in the PraxisUnico Practical Guide on Option Agreements, universities should generally be cautious about making these kinds of commitment.
- c** *Sub-licensing.* Whether sub-licensing is permitted and, if so, on what conditions.
- d** *Technology transfer and support.* The extent of any obligations to provide information, support, etc. This is related to the previous point, but would include (e.g.) providing initial assistance in making the technology work. Any such obligation should usually be clearly limited in time and extent.

- e *Financial terms.* The detailed financial terms, including whether royalties are payable on know-how (or just valid claims of granted patents), the definitions of Net Sales (and, where used, Net Receipts) and whether the licensee can deduct payments made to third parties from royalty payments (so-called 'royalty-stacking').
- f *Diligence.* The extent of any obligations on the licensee to exploit the licensed IP, and the consequences of failure to meet those obligations. From a university's point of view this can be a very important issue, but some licensees are reluctant to offer much by way of commitment. A possible compromise approach, involving referral of any dispute over performance to an expert, is set out in the first template agreement included in Appendix A to this Practical Guide.
- g *Warranties.* The extent of any warranties to be given by the university as to the condition of the licensed IP – e.g. does any third party own any rights in the licensed IP, are there any dominating third party patents, is the IP valid and enforceable, etc.
- h *Indemnities.* Whether either party should give any indemnities, e.g. should the licensee indemnify the licensor against product liability claims, and should the licensor indemnify the licensee against third party claims arising out of a breach of warranty.
- i *Consequences of termination.* The consequences of termination and, in particular, whether the university has any option to acquire rights to any developments made by the licensee in relation to the licensed IP during the term of the licence.

These topics and others are considered in further detail in Appendices C and D. General legal issues, such as liability clauses in university contracts, are discussed in a separate Practical Guide on General Legal Issues in University Contracts.

CHAPTER 5

Checklist of preliminary issues and provisions commonly found in licence agreements

The checklist below covers points that may need to be considered as well as the main clauses and issues usually encountered in licence agreements. Most are discussed further in the Appendices, particularly:

Appendix B – notes on completion of template agreements

Appendix C – in-depth discussion of commercial issues

Appendix D – special legal issues in licence agreements

and the Practical Guide entitled General Legal Issues in University Contracts

PRELIMINARY	
<i>Parties</i>	<ul style="list-style-type: none">• Have the correct legal names and addresses been included?• Should the academics sign – as a party or to state they have “read and understood”?• Does the licence agreement refer to group companies being a party? Are the references appropriate? Does the signatory have authority to sign on behalf of group companies?
<i>Authorised Signatory</i>	<ul style="list-style-type: none">• Does the licence agreement need to be signed by a central part of the organisation, e.g. a Research Contracts or Technology Transfer Office?• Do you need to remind the ‘other side’ regarding their authorised signatory?
DEFINITIONS	
<i>Licensed IP, Products, Services, Field</i>	<ul style="list-style-type: none">• Have these definitions been carefully thought through and discussed with the academic and patent advisers?

	<ul style="list-style-type: none"> • Does the product/service definition ensure that royalties are paid on patent applications and use of know-how (if appropriate)? • Is any know-how definition suitably limited (see commentary)? • Where software is being licensed, have the different ways of exploiting the software (by itself, as part of a package, incorporated into devices, used in the provision of a service, etc) been addressed and are there suitable financial provisions covering each potential type of exploitation?
<i>Net Sales, Net Receipts</i>	<ul style="list-style-type: none"> • Do the definitions protect the university's interests fully (see commentary in Appendix C)?
OBLIGATIONS	
<i>Grant of licence</i>	<ul style="list-style-type: none"> • Is the grant clause tightly drafted in terms of IP, products, licensed acts (manufacture, sale, etc)? • Is the licence stated to be exclusive or non-exclusive? Is it exclusive for some IP (e.g. patents) but non-exclusive for others? • Is sub-licensing permitted? Have any conditions for sub-licensing been stated? Do sub-licences survive termination of head licence? • Has the university reserved a right to use the IP for research and teaching? • Are there provisions concerning background IP? Has due diligence been done to check that such a licence does not interfere with other commercialisation plans for background IP? • Does the licence include improvements? Is this acceptable and if so do improvements need to be tightly defined (e.g. by time period, academic team, etc) • If needed, are there appropriate confidentiality and publications clauses?
<i>Assistance from licensor</i>	<ul style="list-style-type: none"> • Are there obligations on the licensor to provide know-how, materials, software, support, etc? Have these obligations been tightly defined in relation to scope, time commitment, liability, etc? • In relation to software, is source code being provided? If so, are the licensee's rights to use that source code clearly stated? If only object code is being provided, should the source code be deposited with an escrow agent and made available to the licensee under the terms of an escrow agreement?

<p><i>Payments</i></p>	<ul style="list-style-type: none"> • Are any lump sums payable? Is it clear when these are to be paid, and whether they are offset against royalties? • Are patent fees to be reimbursed? • Are royalties based on a Net Sales or Net Receipts definition? Is the royalty the same for all types of IP (e.g. know-how royalty is sometimes 50% of patent royalty)? Does the royalty obligation continue after any patents have lapsed (e.g. if know-how is also being licensed)? • Is a minimum royalty payable? NB detailed drafting – see commentary in Appendix C.
<p><i>Payment terms</i></p>	<ul style="list-style-type: none"> • Does the licence agreement include clear provisions concerning frequency and dates of payments, reporting, record keeping, auditing, withholding tax, etc?
<p><i>Performance by licensee</i></p>	<ul style="list-style-type: none"> • Are there objective measures of performance that can be included (e.g. minimum sales, reaching certain stages of development by particular dates, etc)? • Is a general “best efforts” style performance obligation appropriate? • Are the consequences of failing to achieve the required standards/measures stated?
<p><i>Patenting</i></p>	<ul style="list-style-type: none"> • Does the licence agreement include appropriate terms governing responsibility for patenting, dealing with infringers, defending claims from third parties etc? • Who bears the costs of litigation and who keeps any damages etc awarded?
<p><i>Warranties</i></p>	<ul style="list-style-type: none"> • Are the warranties on the licensor acceptable? • Has due diligence been done to check whether the warranties can be given? • If knowledge-based warranties are included, are they “as far as aware but without having conducted searches and investigations” or are they at the higher level of “to the best of knowledge”? • Should the licensee be giving any warranties?
<p><i>Liability and Indemnity</i></p>	<ul style="list-style-type: none"> • Are there any liability and indemnity clauses (if not, liability is unlimited)? • Are these clauses acceptable? Has advice been taken on them? • Do they need to be referred to the university’s insurers?

<p><i>Duration, termination, consequences</i></p>	<ul style="list-style-type: none"> • Is there a clear expiry date? • Can the licence agreement be terminated for breach or insolvency? • Are the consequences of termination clearly stated, including rights to acquire improvements?
<p>MISCELLANEOUS</p>	
<p><i>Law and Jurisdiction</i></p>	<ul style="list-style-type: none"> • Has the law governing the licence agreement been stated? • Has jurisdiction also been specified (i.e. which party's courts would hear any dispute)? • Is it appropriate to specify exclusive or non-exclusive jurisdiction?
<p><i>Contracts (Rights of Third Parties) Act 1999</i></p>	<ul style="list-style-type: none"> • Is it appropriate that any third parties should be given benefits under the licence agreement? (Usually, parties prefer to exclude third party rights – if in doubt, legal advice should be sought.)
<p><i>'Boilerplate' provisions</i></p>	<ul style="list-style-type: none"> • Should any other provisions be included? e.g.: <ul style="list-style-type: none"> • Entire Agreement • Force Majeure • Use of institution's name and logo • Notices (e.g. should they go to Research Contracts or Technology Transfer Office rather than address of legal entity).
<p><i>Schedules</i></p>	<ul style="list-style-type: none"> • Is a Schedule appropriate for a description of the patents/copyright/know-how? • Have the contents been agreed / checked with the academic? • Are they attached?

CHAPTER 6

Administration of licence agreements

It is important to keep track of licence agreements – both during the review and negotiation period and once they have been signed. This is probably best administered centrally, in order to check existing licence agreements that may have already been signed with the same party, and any other agreements, for potential conflicts with the licence agreement under review. A number of administrative issues may need to be addressed, including the following.

Having a Standard Operating Procedure (SOP)

It is extremely helpful to the person negotiating the licence agreement if their institution has an established written policy or written standard operating procedure (SOP) for dealing with licence agreements that includes guidelines regarding particular clauses/issues. It is particularly helpful if written guidance is also issued on non-negotiable provisions as it enables the negotiator to take a more confident stance. It goes without saying that the guidance should be updated regularly and honed in light of practical issues experienced by the negotiators on a daily basis.

In addition to aiding the negotiator, having an SOP is also in the institution's interest as by setting out clear guidelines (and emphasising which clauses should be referred to more senior staff or legal advisers) the potential for errors or matters to be overlooked is reduced. An SOP might usefully include:

- A checklist of provisions that should (or should not) be included.
- Guidance on when to refer particular issues upwards.
- Reminders to enter certain details of a finalised licence agreement on the relevant database and to send a copy to appropriate academics.
- A list of authorised signatories and the relevant procedures for holiday cover.

Getting all the essential information for a new licence agreement

The academic whose IP is to be licensed will often hold essential information that will enable the negotiator to understand some or all of the relevant issues and establish a position that will best protect the interests of the institution (and the academic). It may be possible to ask some standard questions of the academic in a formal questionnaire, particularly in relation to technical aspects of the IP under consideration, but other issues – e.g.

information about products, markets, competitors, etc – may require further investigation, e.g. by conducting a market analysis.

Maintaining records and other administrative procedures

As well as signing a suitably worded licence agreement, it may help the disclosing party to protect his interests in the licensed IP if some practical procedures are adopted, including those set out below.

- 1 Keep records of all documents and information that have been provided to the licensee.
- 2 Ensure that all confidential information that is disclosed is prominently marked as 'confidential'. Where documents are generated electronically, this can be done easily by adding a header or footer to the document. Alternatively a rubber stamp should be used.
- 3 Try to ensure that the licensing department is copied in on all communications between the academic and the licensee.
- 4 Maintain a record of each licence agreement in an electronic database including listing key obligations under the licence agreement and the dates for the performance of these obligations, and have in place a system for 'flagging up' when any of these dates pass and for checking whether the obligations have been performed. If an obligation has not been performed on time, have a practice of following this up with reminder letters etc until the matter is resolved.
- 5 Make sure that each licence agreement is fully signed and that the original is stored safely, e.g. in an office safe and that copies of the signed version are distributed to relevant personnel (perhaps electronically in a non-alterable pdf format).

Making employees and others aware of their obligations

It is good practice to ensure that employees are aware of their obligations in respect of licence agreements. In some cases it may be appropriate to provide a copy of the licence agreement to the employee together with a note summarising key obligations. Where non-employees are to have obligations (e.g. students or visiting fellows), special care should be taken to ensure that they are bound by appropriate obligations, e.g. in the areas of inventions, confidentiality and publications.

Contracts databases

Many universities enter into large numbers of IP contracts, including licence agreements, with many different organisations. Maintaining a general contracts database (or even better having a discrete database just for licence agreements) which includes brief details of the terms of each licence agreement, and searchable fields, can be of invaluable assistance.

When to involve the lawyers

Licence agreements are usually significant contracts for the university or other institution, and usually merit full legal review. Some institutions have their own legal departments that become involved in licence negotiations; others regularly use external lawyers. Some institutions tend not to involve lawyers at all, but instead require their licensing executives to take on the legal/drafting role as part of their duties. Avoiding a formal legal review is understandable where budgets are tight but, in the authors' view, it is misguided if the transaction is significant.

Legal review should, in the authors' view, occur both at the term sheet stage, when the key terms are being negotiated, and during the course of the negotiations over the final agreement. At term sheet stage, the review can usually be quick and brief, and will usually concentrate on the following issues:

- Ensuring that it is clear whether the term sheet is intended to be legally binding or create obligations to negotiate; and
- Checking that the provisions are reasonably clear and unambiguous and do not promise too much. Term sheets vary greatly in their content and language, and sometimes include onerous obligations. Even though the term sheet may be stated to be not legally binding, it may be difficult in practice to 'back track' from a commitment made in a term sheet, sometimes inadvertently.

As to the meaning of 'term sheet' and similar expressions such as memorandum of understanding, letter of intent, etc, see the PraxisUnico Guide on General Issues in University Contracts.

APPENDICES

APPENDIX A

Templates

Included in this Appendix are examples of:

- I. An exclusive patent and know-how licence agreement;
- II. A short form non-exclusive licence agreement;
- III. An 'academic' software distribution and licence agreement;
- IV. End user software licence terms.

Exclusive patent and know-how licence agreement

This Agreement dated _____ 20[.] is between:

- (1) • (the “University”), incorporated [statute in Ireland] [a company incorporated in [Ireland]] whose [principal address or registered office] is at •; and
- (2) • [LIMITED][INC.] (the “Licensee”) a [company incorporated in Ireland] whose principal place of business is at [address].

Background:

University has developed certain technology and owns certain intellectual property rights relating to •, including the Patents and the Know-how.

The Licensee wishes to acquire rights under the Patents and to use the Know-how for the development and commercialisation of Licensed Products in the Field and in the Territory, all in accordance with the provisions of this Agreement.

The Parties agree as follows:

Definitions

In this Agreement, the following words shall have the following meanings:

Affiliate	In relation to a Party, means any entity or person that Controls, is Controlled by, or is under common Control with that Party.
Bribery Event	A breach by a Party and/or its Affiliates and/or their respective officers, directors, employees and representatives of the Prevention of Corruption (Amendment) Act 2010 and/or any corresponding anti-bribery or anti-corruption legislation in the Territory.
Claims	All demands, claims and liability (whether criminal or civil, in contract, tort or otherwise) for losses, damages, legal costs and other expenses of any nature whatsoever and all costs and expenses (including without limitation legal costs) incurred in connection therewith.

Commencement Date

•

Competing Product

Any product, whether ready for marketing or in development that competes, or is likely to compete once developed, with any Licensed Product.

Confidential Information

- (a) All Know-how; and
- (b) All other technical or commercial information that:
 - (i) in respect of information provided in documentary or by way of a model or in other tangible form, at the time of provision is marked or otherwise designated to show expressly or by necessary implication that it is imparted in confidence; and
 - (ii) in respect of information that is imparted orally, any information that the Disclosing Party or its representatives informed the Receiving Party at the time of disclosure was imparted in confidence; and
 - (iii) any copy of any of the foregoing.

Control

Direct or indirect beneficial ownership of 50% (or, outside a Party's home territory, such lesser percentage as is the maximum, permitted level of foreign investment) or more of the share capital, stock or other participating interest carrying the right to vote or to distribution of profits of that Party, as the case may be.

Diligent and Reasonable Efforts

Exerting such efforts and employing such resources as would normally be exerted or employed by a reasonable third party company for a product of similar market potential at a similar stage of its product life, when utilizing sound and reasonable scientific and business practice and judgment in order to develop the product in a timely manner and maximize the economic return to the Parties from its commercialisation.

Disclosing Party

Has the meaning given in Clause 4.

Field

The diagnosis, prevention and treatment of •.

Indemnitees

Has the meaning given in Clause 10.5.

Know-how

Technical information in the Field developed by University under the supervision of the Principal Investigator and relating directly to the inventions claimed in the Patents, including the information described in the attached Schedule 1 Part B.

Licensed Products

Any and all products that are manufactured, sold or otherwise supplied by the Licensee or its sub-licensee (including any Affiliate of the Licensee) and which (a) are within any Valid Claim of the Patents and/or (b) incorporate, or their development makes use of, any of the Know-how.

Net Receipts

The amount of any payment (excluding Value Added Tax), and the value of any non-monetary receipt, obtained by, or due to, Licensee or its Affiliate, in relation to the development or sub-licensing (including the grant of any option over a sub-licence) of any of the Patents and Know-how, and including any of the following:

- (a) up-front, milestone (whether at the stage of development, marketing or otherwise), success, bonus, maintenance and periodic (including annual) payments and royalty payments due under any sub-licence agreement;
- (b) payments in respect of the funding of research or development activities related to any Licensed Product, to the extent that such payments exceed a reasonable level of payment for such activities;
- (c) where any sub-licence is to be granted under cross-licensing arrangements, the value of any third party licence obtained under such arrangements;
- (d) any premium paid over the fair market value of shares, options or other securities in respect of any of the share capital of the Licensee or its Affiliate (such fair market value to be determined on the assumption that University had not granted, nor agreed to grant, any rights to the Licensee in respect of any of the Patents and Know-how);
- (e) any loan, guarantee or other financial benefit made or given other than on normal market terms; and
- (f) any shares, options or other securities obtained from a third party.

Net Sales Value

The invoiced price of Licensed Products sold by the Licensee or its Affiliates to independent third parties in arm's length transactions exclusively for money or, where the sale is not at arm's length, the price that would have been so invoiced if it had been at arm's length, after deduction of all documented:

- (a) normal trade discounts actually granted and any credits actually given for rejected or returned Licensed Products;
- (b) costs of packaging, insurance, carriage and freight, provided in each case that the amounts are separately charged on the relevant invoice;
- (c) value added tax or other sales tax; and
- (d) import duties or similar applicable government levies;

provided that such deductions do not exceed reasonable and customary amounts in the markets in which such sales occurred. Sales between any of the Licensee, its Affiliates and sub-licensees shall not be considered for the purposes of this definition unless there is no subsequent sale to a person who is not the Licensee, its Affiliate or sub-licensee in an arm's length transaction exclusively for money.

Parties

University and the Licensee, and "Party" shall mean either of them.

Patents

Any and all of the patents and patent applications referred to in Schedule 1 Part A, including any continuations, continuations in part, extensions, reissues, divisions, and any patents, supplementary protection certificates and similar rights that are based on or derive priority from the foregoing.

Principal Investigator

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Receiving Party

Has the meaning given in Clause 4.

RPI

The United Kingdom Retail Prices Index as published by the UK Office of National Statistics (or any successor body) or, if that index ceases to exist or the basis of the index is fundamentally changed, the nearest equivalent British official index of increases in retail prices as agreed by the Parties or in the absence of agreement determined by an expert appointed in accordance with Schedule 2.

Territory

-

Valid Claim

A claim of a patent or patent application that has not expired or been held invalid or unenforceable by a court of competent jurisdiction in a final and non-appealable judgment.

2. Grant of rights

2.1 *Licences.* University hereby grants to the Licensee, subject to the provisions of this Agreement:

- (a) an exclusive licence under the Patents, to develop, manufacture, have manufactured, use and sell or otherwise supply, Licensed Products only in the Field in the Territory; and
- (b) a non-exclusive licence to use the Know-how, to develop, manufacture, have manufactured, use and sell or otherwise supply, Licensed Products only in the Field in the Territory.

2.2 *Formal licences.* The Parties shall execute such formal licences as may be necessary or appropriate for registration with Patent Offices and other relevant authorities in particular territories. In the event of any conflict in meaning between any such licence and the provisions of this Agreement, the provisions of this Agreement shall prevail. Prior to the execution of the formal licence(s) (if any) referred to in this Clause 2.2, the Parties shall so far as possible have the same rights and obligations towards one another as if such licence(s) had been granted. The Parties shall use reasonable endeavours to ensure that, to the extent permitted by relevant authorities, this Agreement shall not form part of any public record.

2.3 *Sub-licensing.*

The Licensee shall not be entitled to grant sub-licences of its rights under this Agreement, except with the prior written consent of University, which University may decline to give at its sole and absolute discretion. Where University gives its consent, the Licensee shall be entitled to grant sub-licences of its rights under this Agreement to any person, provided that:

- (a) the sub-licence shall include obligations on the sub-licensee which are equivalent to the obligations on the Licensee under this Agreement and limitations of liability that are equivalent to those set out in this Agreement;
- (b) the sub-licence shall terminate automatically on the termination of this Agreement for any reason;
- (c) within 30 days of the grant of any sub-licence the Licensee shall provide to University a true copy of it; and
- (d) the Licensee shall be responsible for any breach of the sub-licence by the sub-licensee, as if the breach had been that of Licensee under this Agreement, and the Licensee shall indemnify University against any loss, damages, costs, claims or expenses which are

awarded against or suffered by University as a result of any such breach by the sub-licensee.

2.4 *Reservation of rights*

(a) University reserves for itself and its Affiliates the non-exclusive, irrevocable, worldwide, royalty-free right to use, and license other academic institutions to use, the Know-how and the Patents in the Field for the purposes of academic research, publication and teaching.

(b) Except for the licences expressly granted by this Clause 2, University reserves all its rights. Without prejudice to the generality of the foregoing University grants no rights to any intellectual property other than the Patents and Know-how, and reserves all rights under the Patents and Know-how outside the Field.

2.5 *Provision of Know-how.* Upon the Licensee's reasonable request, University shall instruct the Principal Investigator to supply the Licensee with all Know-how in his possession that University is at liberty to disclose and has not previously been disclosed to the Licensee and which is reasonably necessary or desirable to enable the Licensee to undertake the further development of the inventions claimed in the Patents and/or the Licensed Products. The method of such supply shall be agreed between the Principal Investigator and the Licensee but shall not require the Principal Investigator to undertake more than [2] man-days of work, unless otherwise agreed in writing between the Parties. If it is agreed that the Principal Investigator shall travel to the Licensee's premises in connection with such supply, the Licensee shall reimburse all travel (at business class rates), accommodation and subsistence costs incurred.

3. Confidentiality

3.1 *Confidentiality obligations.* Each Party ("Receiving Party") undertakes, for a period of [10] years from the Commencement Date:

(a) to maintain as secret and confidential all Confidential Information obtained directly or indirectly from the other Party ("Disclosing Party") in the course of or in anticipation of this Agreement and to respect the Disclosing Party's rights therein;

(b) to use such Confidential Information only for the purposes of this Agreement; and

(c) to disclose such Confidential Information only to those of its employees, contractors and

sub-licensees pursuant to this Agreement (if any) to whom and to the extent that such disclosure is reasonably necessary for the purposes of this Agreement

(d) to ensure that all those to whom disclosure of or access to Confidential Information has been given, including its officers, directors, employees and professional advisers comply with the provisions of this Agreement and shall be liable to the Disclosing Party for any breach of this Agreement by any of the foregoing.

3.1 *Exceptions to obligations.* The provisions of Clause 3 shall not apply to Confidential Information which the Receiving Party can demonstrate by reasonable, written evidence:

(a) was, prior to its receipt by the Receiving Party from the Disclosing Party, in the possession of the Receiving Party and at its free disposal; or

(b) is subsequently disclosed to the Receiving Party without any obligations of confidence by a third party who has not derived it directly or indirectly from the Disclosing Party; or

(c) is or becomes generally available to the public through no act or default of the Receiving Party or its agents, employees, Affiliates or sub-licensees; or

3.2 Disclosure in accordance with legal obligations. To the extent that the Receiving Party is required to disclose Confidential Information by order of a court or other public body that has jurisdiction over it or under other legal obligations, such as under a bona fide freedom of information request, it may do so, provided that, before making such a disclosure the Receiving Party shall, unless the circumstances prohibit:

(a) inform the Disclosing Party of the proposed disclosure as soon as possible, in any event, no later than five (5) working days after becoming aware of the proposed disclosure;

(b) permit the Disclosing Party to make representations (written or otherwise) in respect of the disclosure and/or confidential treatment of the Confidential Information.

4. Additional Licensee obligations

4.1 The Licensee shall in exercising its rights under this Agreement:

(a) comply with all applicable laws, regulations and other similar instruments in the Territory and shall at all times be solely liable and responsible for such due observance and performance;

(b) permit, and shall use its best endeavours to obtain permission for, University at all

reasonable times and on reasonable notice to enter any place used for the development, manufacture, use or storage of the Licensed Products to inspect the methods of development, manufacture use or storage.

4.2 The Licensee shall not, and shall ensure that its Affiliates and sub-licensees do not:

- (a) use the name, any adaptation of the name, any logo, trademark or other device of University, in any advertising, promotional or sales materials without prior written consent obtained from University in each case
- (b) do or omit to do anything to diminish the rights of the Licensor in the Patents or the Know-how or impair any registration of the Patents;
- (c) use any child labour in the manufacture or distribution of the Licensed Products, and where third parties are to manufacture or distribute those Licensed Products the Licensee shall procure from those third parties written confirmation that they shall not use any child labour in the manufacture or distribution of the Licensed Products; or
- (d) engage in conduct in any Territory that would reasonably be construed as a Bribery Event.

5. Payments

5.1 *Initial payments.* Within 30 days of the Commencement Date, the Licensee shall:

- (a) pay to University the non-refundable, non-deductible sum of £ • (• Pounds sterling) [or which shall be an advance against royalties due under Clause 4.2]; and
- (b) reimburse all of the costs and expenses incurred by University in respect of drafting, applying for and prosecuting the Patents prior to the date of this Agreement.

5.2 *Milestone payments.* Upon achievement of the each of the milestone events set out in the following table, the Licensee shall pay to University the amount(s) set out next to such milestone event in the table:

<i>Milestone event</i>	<i>Amount to be paid</i>

- 5.3 *Annual licence fees.* On each anniversary of the Commencement Date (or such other date(s) as agreed to by the Parties in writing), the Licensee shall pay to University the annual licence fee of £ • (• Pounds sterling). If the Licensee fails to pay any such amount by such date, University may in its sole and absolute discretion either (a) convert the licence granted under Clause 2.1 into a non-exclusive licence or (b) elect to treat such non-payment as a material breach of contract under Clause 11.2(b)(i).
- 5.4 *Royalties on Net Sales.* The Licensee shall pay to University a royalty being a percentage of the Net Sales Value of all Licensed Products or any part thereof sold or otherwise supplied by Licensee or its sub-licensees. The percentage shall be the higher of the following alternative percentages which applies to the Licensed Products in question:
- (a) •% (• percent) in the case of Licensed Products which are within a Valid Claim of a Patent in the country of manufacture or sale; or
 - (b) •% (• percent) in the case of Licensed Products which incorporate, or whose development made use of, any of the Know-how.
- 5.5 *Royalties on Net Receipts.* The Licensee shall pay to University a royalty of [5]% of Net Receipts.
- 5.6 *Indexation of non-royalty payments.* With the exception of payments due under Clauses 5.4 and 5.5, all amounts that the Licensee is required to pay to University under this Agreement shall be adjusted to reflect any increase in the RPI between the Commencement Date and the due date of payment, as in the following example:
- Amount stated to be due under this Agreement = A*
- RPI at Commencement Date = B*
- RPI at due date of payment = C*
- Amount due after adjustment under this Clause = $A + A \times (C-B)/B$*
- 5.7 *Non-monetary consideration; referral to expert.* Where the Licensee accepts Net Receipts in the form of shares in a sub-licensee or other non-monetary receipts, the Licensee shall pay the royalty due under this Agreement to University on such Net Receipts by determining the equivalent cash value of such shares or other non-monetary receipts. If the Parties disagree as to the cash value of such shares or non-monetary receipts, such disagreement shall be referred to an independent expert who shall be appointed and act in accordance with the provisions of Schedule 2 and whose decision shall be final and binding on the Parties.

- 5.8 Combination Products. If any Licensed Products are incorporated in any other product ("Combination Product") supplied by the Licensee or its sub-licensees] and the Licensed Product is not priced separately from the Combination Product, the Net Sales Value of such Licensed Product shall be deemed to be the fair market value of the Licensed Product in the country of sale when sold separately or where the products are not sold separately, that proportion of the Net Sales Value of the Combination Product which is attributable to the Licensed Product, comparing the manufacturing cost of the Licensed Product with that of the Combination Product, as in the following formula: Net Sales Value of Licensed Product = (manufacturing cost of Licensed Product divided by total manufacturing cost of Combination Product) x Net Sales Value of Combination Product.
- 5.9 Minimum royalties. If the royalties payable under Clause 6.4 and Clause 6.5 are less than £ • (• Pounds sterling) ("Minimum Royalty") in any calendar year, the Licensee shall pay to University the amount by which such royalties are less than the Minimum Royalty within 60 days of the end of such calendar year, failing which University shall be entitled to terminate this Agreement and all licences granted under this Agreement by notice in writing to the Licensee given at any time after the expiry of the said 60 day period. If this Agreement ends on any day other than the end of a calendar year, the Minimum Royalty due for that year shall be reduced, pro-rata, i.e. the minimum amount due shall be the Minimum Royalty for a complete year multiplied by the number of days of the final calendar year during which this Agreement was in force, and divided by 365 days.
- 5.10 Royalties to third parties. If, during the continuation of this Agreement, the Licensee considers it necessary to obtain a licence from any third party ("Third Party Licence") in order to avoid infringing such third party's patent(s) in the course of manufacture or sale of Licensed Products, the royalties paid under the Third Party Licence shall be treated as a deductible item when calculating Net Sales Value provided that the amount of royalty payable by the Licensee to University in any quarterly period shall not be reduced by more than 50% of the amount which would have been payable in the absence of this clause. The deductions referred to in this Clause shall only be made where the infringement of the third party patent arises from the use of the inventions claimed in the Patents in accordance with the provisions of this Agreement, and not from the use of any other intellectual property that the Licensee chooses to use in the manufacture or sale of any Licensed Product.
- 5.11 Payment frequency. Royalties due under this Agreement shall be paid within 30 days of the end of each quarter ending on 31 March, 30 June, 30 September and 31 December, in respect of sales of Licensed Products made and Net Receipts generated during such quarter and within 30 days of the termination of this Agreement.

5.12 *Payment terms.* All sums due under this Agreement:

- (a) are exclusive of Value Added Tax which where applicable will be paid by the Licensee to University in addition;
- (b) shall be paid in Euros in cash by transferring an amount in aggregate to the following account number •, sort code •, account name •, held with • Bank plc, [address], and in the case of sales or sub-licence income received by the Licensee in a currency other than Euros, the royalty shall be calculated in the other currency and then converted into equivalent Euros at the buying rate of such other currency as quoted by • Bank plc in London as at the close of business on the last business day of the quarterly period with respect to which the payment is made;
- (c) shall be made without deduction of income tax or other taxes charges or duties that may be imposed, except insofar as the Licensee is required to deduct the same to comply with applicable laws. The Parties shall cooperate and take all steps reasonably and lawfully available to them, at the expense of University, to avoid deducting such taxes and to obtain double taxation relief. If the Licensee is required to make any such deduction it shall provide University with such certificates or other documents as it can reasonably obtain to enable University to obtain appropriate relief from double taxation of the payment in question; and
- (d) shall be made by the due date, failing which University may charge interest on any outstanding amount on a daily basis at a rate equivalent to 3% above the • Bank plc base lending rate then in force in London.

5.13 **Exchange controls.** If at any time during the continuation of this Agreement the Licensee is prohibited from making any of the payments required hereunder by a governmental authority in any country then the Licensee shall within the prescribed period for making the said payments in the appropriate manner use its best endeavours to secure from the proper authority in the relevant country permission to make the said payments and shall make them within 7 days of receiving such permission. If such permission is not received within 30 (thirty) days of the Licensee making a request for such permission then, at the option of University, the Licensee shall deposit the royalty payments due in the currency of the relevant country either in a bank account designated by University within such country or such royalty payments shall be made to an associated company of University designated by University and having offices in the relevant country designated by University.

5.14 *Royalty statements.* The Licensee shall send to University at the same time as each royalty payment is made in accordance with Clause 6.4 or Clause 6.5 a statement setting out, in respect of each territory or region in which Licensed Products are sold, the types of Licensed Product sold, the quantity of each type sold, and the total Net Sales Value, and the total Net Receipts in respect of each type and sub-licensee, expressed both in local currency and Pounds sterling and showing the conversion rates used, during the period to which the royalty payment relates.

5.15 *Records*

(a) the Licensee shall keep at its normal place of business detailed and up to date records and accounts showing the quantity, description and value of Licensed Products sold by it, and the amount of sublicensing revenues received by it in respect of Licensed Products, on a country by country basis, and being sufficient to ascertain the payments due under this Agreement.

(b) the Licensee shall make such records and accounts available, on reasonable notice, for inspection during business hours by an independent chartered accountant nominated by University for the purpose of verifying the accuracy of any statement or report given by the Licensee to University under this Clause 6. The accountant shall be required to keep confidential all information learnt during any such inspection, and to disclose to University only such details as may be necessary to report on the accuracy of the Licensee's statement or report. University shall be responsible for the accountant's charges unless the accountant certifies that there is an inaccuracy of more than 5% in any royalty statement, in which case the Licensee shall pay his charges in respect of that inspection.

(c) the Licensee shall ensure that University has the same rights as those set out in this Clause 6.15 in respect of any person that is sub-licensed under the Patents or Know-how pursuant to this Agreement.

5.16 The provisions of this clause 6 shall remain in effect notwithstanding termination or expiry of this Agreement until the settlement of all subsisting claims by University.

6. Commercialisation

6.1 *General diligence.* The Licensee shall be exclusively responsible for the technical and commercial development and manufacture of Licensed Products and shall use Diligent and Reasonable Efforts to develop and commercially exploit Licensed Products to the maximum extent in the Field and throughout the Territory.

6.2 *Specific milestones.* Without prejudice to the generality of the Licensee’s obligations under Clause 6.1, the Licensee shall achieve the following milestone events by the following dates:

<i>Milestone event</i>	<i>Date by which event must be achieved</i>

6.3 *Development Plan.* Without prejudice to the generality of the Licensee’s obligations under Clause 7.1, the Licensee shall provide at least annually to University an updated, written Development Plan that shall:

- (a) report on all activities conducted under this Agreement since the Commencement Date or the date of the previous Development Plan provided under this Clause;
- (b) set out the projected dates (and, where a milestone has been achieved, the actual dates) for achieving any milestones referred to in this Agreement;
- (c) set out the past, current and projected activities taken or planned to be taken by the Licensee and its sub-licensees (if any) to bring Licensed Products to market and maximise the sale of Licensed Products in the Territory; and
- (d) state the budgeted amounts set out in the Licensee’s management accounts for the performance of the activities described in paragraph (c) above and any variance against any budget stated in the previous report provided to University under this paragraph (d).

University’s receipt or approval of any Development Plan shall not be taken to waive or qualify the Licensee’s obligations under Clause 7.1.

6.4 *Referral to expert.* If University considers at any time during the period of this Agreement that the Licensee has without legitimate reason failed to comply with its obligations under Clause 6.1, University shall be entitled to refer to an independent expert the following questions:

- (a) whether the Licensee has complied with its obligations under Clause 7.1; and if not
- (b) what specific action the Licensee should have taken (“Specific Action”) in order to have so complied.

6.5 *Appointment of expert.* The independent expert shall be appointed in accordance with the provisions of Schedule 2 and his decision shall be final and binding on the Parties.

6.6 *Consequences of expert's decision.* If the expert determines that the Licensee has failed to comply with its obligations under Clause 7.1, and if the Licensee fails to take the Specific Action within 6 months of the expert giving his decision in accordance with Schedule 2, University shall be entitled, by giving, at any time within 3 months after the end of that 6 month period, not less than 3 months' notice to terminate this Agreement and the licences granted to the Licensee under Clause 2.

7. Intellectual property

7.1 *Obtain and maintain the Patents.* The Licensee shall at its own cost and expense:

- (a) co-operate with University and its licensee(s) outside the Field and endeavour to obtain valid patents in the name of University pursuant to each of the patent applications listed in Schedule 1 so as to secure the broadest monopoly reasonably available;
- (b) consult with University in relation to all changes to patent claims or specifications that would have the effect of reducing or limiting the extent of the patent coverage;
- (c) ensure that University shall receive copies of all correspondence to and from patent offices in respect of the Patents, including copies of all documents generated in or with such correspondence; and
- (d) pay all renewal fees in respect of the Patents as and when due;

provided that if the Licensee wishes to abandon any such application or not to maintain any such Patent (or to cease funding such application or Patent) it shall give 3 months' prior written notice to University and on the expiry of such notice period the Licensee shall cease to be licensed under the patent application or patent identified in the notice.

7.2 *Infringement of the Patents*

- (a) Each Party shall inform the other Party promptly if it becomes aware of any infringement or potential infringement of any of the Patents in the Field, and the Parties shall consult with each other to decide the best way to respond to such infringement.
- (b) If the Parties fail to agree on a joint programme of action, including how the costs of any such action are to be borne and how any damages or other sums received from such action are to be distributed, then the Licensee shall be entitled to take action against the third party at its sole expense, subject to the following provisions of this Clause 8.5.

- (c) Before starting any legal action under Clause 8.5(a), the Licensee shall consult with University as to the advisability of the action or settlement, its effect on the good name of University, the public interest, and how the action should be conducted.
- (d) If the alleged infringement is both within and outside the Field, the Parties shall also cooperate with University' other licensees (if any) in relation to any such action.
- (e) The Licensee shall reimburse University for any reasonable expenses incurred in assisting it in such action. The Licensee shall pay University royalties, in accordance with clause 5, on any damages received from such action as if the amount of such damages after deduction of both Parties reasonable expenses in relation to the action were Net Receipts.
- (f) University shall agree to be joined in any suit to enforce such rights subject to being indemnified and secured in a reasonable manner as to any costs, damages, expenses or other liability and shall have the right to be separately represented by its own counsel at its own expense.
- (g) If, within 6 months of the Licensee first becoming aware of any potential infringement of the Patents, the Licensee is unsuccessful in persuading the alleged infringer to desist or fails to initiate an infringement action, University shall have the right, at its sole discretion, to prosecute such infringement under its sole control and at its sole expense, and any damages or other payments recovered shall belong solely to University.

7.3. *Infringement of third party rights*

- (a) If any warning letter or other notice of infringement is received by a Party, or legal suit or other action is brought against a Party, alleging infringement of third party rights in the manufacture, use or sale of any Licensed Product or use of any Patents, that Party shall promptly provide full details to the other Party, and the Parties shall discuss the best way to respond.
- (b) The Licensee shall have the right but not the obligation to defend such suit to the extent it relates to activities in the Field and shall have the right to settle with such third party, provided that if any action or proposed settlement involves the making of any statement, express or implied, concerning the validity of any Patent, the consent of University must be obtained before taking such action or making such settlement.

8. Warranties and liability

8.1 *Warranties by University.* University warrants and undertakes as follows:

- (a) it is the registered proprietor of, or applicant for, the Patents and has caused all of its employees who are named as inventors on such Patents to execute such assignments of the Patents as may be necessary to pass all of their right, title and interest in and to the Patents to University; and
- (b) it has not done, and shall not do nor agree to do during the continuation of this Agreement, any of the following things if to do so would be inconsistent with the exercise by the Licensee of the rights granted to it under this Agreement, namely:
 - (i) granted or agreed to grant any rights in the Patents in the Field in the Territory to any other person; and
 - (ii) assigned, mortgaged, charged or otherwise transferred any of the Patents in the Field in the Territory or (subject to Clause 12.3(b)) any of its rights or obligations under this Agreement.

8.2 *Warranties by Licensee.* Licensee warrants and undertakes as follows:

- (a) neither it nor any of its Affiliates is currently researching, developing, marketing, selling or otherwise commercialising any Competing Product, nor has any of them entered into an agreement with any other person with respect to any Competing Product;
- (b) it shall notify University promptly if it commences researching, developing, marketing, selling or otherwise commercialising any Competing Product or enters into an agreement with any other person with respect to any Competing Product; and
- (c) it has and will continue to have during the term of this Agreement all necessary resources to develop and commercialise Licensed Products.

8.3 *Acknowledgements.* The Licensee acknowledges that:

- (a) the inventions claimed in the Patents, and the Know-how, are at an early stage of development. Accordingly, specific results cannot be guaranteed and any results, materials, information or other items (together "Delivered Items") provided under this Agreement are provided "as is" and without any express or implied warranties, representations or undertakings. As examples, but without limiting the foregoing,

University does not give any warranty that Delivered Items are of merchantable or satisfactory quality, are fit for any particular purpose, comply with any sample or description, or are viable, uncontaminated, safe or non-toxic, accurate, up to date or complete.

(b) University has not performed any searches or investigations into the existence of any third party rights that may affect any of the Patents or Know-how.

8.4 *No other warranties*

(a) each of the Licensee and University acknowledges that, in entering into this Agreement, it does not do so in reliance on any representation, warranty or other provision except as expressly provided in this Agreement, and any conditions, warranties or other terms implied by statute or common law are excluded from this Agreement to the fullest extent permitted by law.

(b) without limiting the scope of paragraph (a) above, University does not make any representation nor give any warranty or undertaking:

(i) as to the efficacy or usefulness of the Patents or Know-how; or

(ii) as to the scope of any of the Patents or that any of the Patents is or will be valid or subsisting or (in the case of an application) will proceed to grant; or

(iii) that the use of any of the Patents or Know-how, the manufacture, sale or use of the Licensed Products or the exercise of any of the rights granted under this Agreement will not infringe any other intellectual property or other rights of any other person; or

(iv) that the Know-how or any other information communicated by University to the Licensee under or in connection with this Agreement will produce Licensed Products of satisfactory quality or fit for the purpose for which the Licensee intended or that any product will not have any latent or other defects, whether or not discoverable; or

(v) as imposing any obligation on University to bring or prosecute actions or proceedings against third parties for infringement or to defend any action or proceedings for revocation of any of the Patents; or

(vi) as imposing any liability on University in the event that any third party supplies Licensed Products to customers located in the Territory.

8.5 *Indemnity.* The Licensee shall indemnify University and its Affiliates, and their respective

officers, directors, council members, employees and representatives, including the Principal Investigator (together, the "Indemnitees") against all third party Claims that may be asserted against or suffered by any of the Indemnitees and which relate to:

- (a) the use by the Licensee or any of its sub-licensees of any of the Patents or Know-how;
- (b) the development, manufacture, use, marketing or sale of, or any other dealing in, any of the Licensed Products, by Licensee or any of its sub-licensees, or subsequently by any customer or any other person, including claims based on product liability laws; or
- (c) a breach by the Licensee of any laws or regulations in the Territory, including any Bribery Event.

8.6 *Liability of Indemnitees.*

- (a) To the extent that any Indemnitee has any liability in contract, tort, or otherwise under or in connection with this Agreement, including any liability for breach of warranty, their liability shall be limited in accordance with the following provisions of this Clause 10.6;
- (b) The aggregate liability of the Indemnitees shall be limited to the total income that University has received from the Licensee (less any expenses that University has incurred in obtaining, maintaining or defending the Patents) during the period of six years preceding the date on which the liability arises, or £50,000, whichever is the higher; and
- (c) In no circumstances shall any of the Indemnitees be liable for any loss, damage, costs or expenses of any nature whatsoever incurred or suffered by the Licensee or its Affiliates that is (a) of an indirect, special or consequential nature or (b) any loss of profits, revenue, business opportunity or goodwill; and
- (d) Nothing in this Agreement excludes any person's liability to the extent that it may not be so excluded under applicable law, including any such liability for death or personal injury caused by that person's negligence, or liability for fraud.

8.7 *Insurance.* Without limiting its liabilities under this Clause 10, the Licensee shall take out with a reputable insurance company and maintain at all times during the term of this Agreement public and product liability insurance including against all loss of and damage to property (whether real, personal or intellectual) and injury to persons including death arising out of or in connection with this Agreement and the Licensee's and its Affiliates' and sub-licensees' use of the Patents or Know-how and use, sale of or any other dealing in any of the Licensed Products. Such insurances may be limited in respect of one claim provided that such limit

must be at least £5 million. Product liability insurance shall continue to be maintained for a further 6 years from the end of the term of this Agreement.

9. Duration and termination

9.1 *Commencement and Termination by Expiry.* This Agreement, and the licences granted hereunder, shall come into effect on the Commencement Date and, unless terminated earlier in accordance with this Clause 11, shall continue in force until the later of:

(a) the date on which all the Patents have expired or been revoked without a right of further appeal; and

(b) the tenth anniversary of the first commercial sale of Licensed Product in the Territory;

and on such date this Agreement and the licences granted hereunder shall terminate automatically by expiry.

9.2 *Early termination*

(a) The Licensee may terminate this Agreement at any time on 12 months' notice in writing to University.

(b) Either Party may terminate this Agreement at any time by notice in writing to the other Party ("Other Party"), such notice to take effect as specified in the notice:

(i) if the Other Party is in material breach of this Agreement and, in the case of a breach capable of remedy within 90 days, the breach is not remedied within 90 days of the Other Party receiving notice specifying the breach and requiring its remedy; or

(ii) if: (A) the Other Party becomes insolvent or unable to pay its debts as and when they become due, (B) an order is made or a resolution is passed for the winding up of the Other Party (other than voluntarily for the purpose of solvent amalgamation or reconstruction), (C) a liquidator, administrator, administrative receiver, receiver or trustee is appointed in respect of the whole or any part of the Other Party's assets or business, (D) the Other Party makes any composition with its creditors, (E) the other Party ceases to continue its business, or (F) as a result of debt and/or maladministration the other Party takes or suffers any similar or analogous action.

(c) University may terminate this Agreement by giving written notice to the Licensee, such termination to take effect forthwith or as otherwise stated in the notice:

- (i) if the Licensee fails to achieve any of the milestone events described in the table in Clause 7.3 by the due date for that event that is stated next to that event in that table; or
 - (ii) if the Licensee fails to pay any annual fee by the due date in accordance with Clause 6.3; or
 - (iii) in accordance with the provisions of Clause 7.7; or
 - (iv) if there is any change of Control of the Licensee; or
 - (v) if the Licensee or its Affiliate acquires rights to or develops a Competing Product; or
 - (vi) if a Bribery Event occurs in relation to the Licensee, its Affiliates or their respective officers, directors, employees and representatives.
- (d) A Party's right of termination under this Agreement, and the exercise of any such right, shall be without prejudice to any other right or remedy (including any right to claim damages) that such Party may have in the event of a breach of contract or other default by the other Party.

9.3 *Consequences of termination*

- (a) Upon termination of this Agreement by expiry under Clause 11.1, the Licensee shall have the non-exclusive right to use the Know-how without charge or other obligation to University.
- (b) Upon termination of this Agreement for any reason otherwise than in accordance with Clause 11.1:
 - (i) the Licensee and its sub-licensees shall be entitled to sell, use or otherwise dispose of (subject to payment of royalties under clause 6) any unsold or unused stocks of the Licensed Products for a period of 6 months following the date of termination;
 - (ii) subject to paragraph (i) above, the Licensee shall no longer be licensed to use or otherwise exploit in any way, either directly or indirectly, the Patents, in so far and for as long as any of the Patents remains in force, or the Know-how;
 - (iii) subject to paragraph (i) above, the Licensee shall consent to the cancellation of any formal licence granted to it, or of any registration of it in any register, in relation to any of the Patents;
 - (iv) each Party shall return to the other or, at the other Party's request, destroy any documents or other materials that are in its or its sub-licensees' possession or under its or its sub-

- licensees' control and that contain the other Party's Confidential Information; and
- (v) subject as provided in this Clause 9.3, and except in respect of any accrued rights, neither Party shall be under any further obligation to the other.
- (c) Upon termination of this Agreement for any reason otherwise than in accordance with Clause 11.1 and at University's request, the Parties shall negotiate in good faith the terms of an agreement between them on reasonable commercial terms under which the Licensee would:
- (i) transfer to University or its nominee exclusively all results and data relating to the development of Licensed Products;
 - (ii) to the extent possible, seek to have any product licences, pricing approvals and other permits and applications transferred into the name of University or its nominee;
 - (iii) grant University or its nominee an exclusive, worldwide licence, with the rights to grant sub-licences, under any improvements and other intellectual property owned or controlled by the Licensee relating to the Licensed Products; and
 - (iv) grant University or its nominee the right to continue to use any product name that had been applied to the Licensed Products prior to termination of this Agreement.
- (d) if the Parties are unable to agree the terms of an agreement as described in Clause 11.3(c) within 90 days of University requesting the negotiation of such an agreement, either Party may refer the terms for settlement by an independent expert who shall be appointed in accordance with the provisions of Schedule 2 and whose decision shall be final and binding on the Parties. At the request of University, the Parties shall promptly execute an agreement on the terms agreed between them or settled by the expert.
- (e) Upon termination of this Agreement for any reason the provisions of Clauses 3 (in respect of sales made prior to termination or under clause 9.3(b)(i)), 8.5, 8.7, 9.3 and 10 shall remain in force.

10. General

- 10.1 *Force majeure.* Neither Party shall have any liability or be deemed to be in breach of this Agreement for any delays or failures in performance of this Agreement that result from circumstances beyond the reasonable control of that Party, including without limitation labour disputes involving that Party. The Party affected by such circumstances shall promptly notify the other Party in writing when such circumstances cause a delay or failure in

performance and when they cease to do so.

10.2 *Amendment.* This Agreement may only be amended in writing signed by duly authorised representatives of University and the Licensee.

10.3 *Assignment and third party rights.*

(a) Subject to paragraph (b) below, neither Party shall assign, mortgage, charge or otherwise transfer any rights or obligations under this Agreement, nor any of the Patents or rights under the Patents, without the prior written consent of the other Party.

(b) Either Party may assign all its rights and obligations under this Agreement together with its rights in the Patents to any company to which it transfers all or substantially all of its assets or business, PROVIDED that the assignee undertakes to the other Party to be bound by and perform the obligations of the assignor under this Agreement. However a Party shall not have such a right to assign this Agreement if it is insolvent or any other circumstance described in Clause 9.2(b)(ii) applies to it.

10.4 *Waiver.* No failure or delay on the part of either Party to exercise any right or remedy under this Agreement shall be construed or operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy preclude the further exercise of such right or remedy.

10.5 *Invalid clauses.* If any provision or part of this Agreement is held to be invalid, amendments to this Agreement may be made by the addition or deletion of wording as appropriate to remove the invalid part or provision but otherwise retain the provision and the other provisions of this Agreement to the maximum extent permissible under applicable law.

10.6 *No Agency.* Neither Party shall act or describe itself as the agent of the other, nor shall it make or represent that it has authority to make any commitments on the other's behalf.

10.7 *Interpretation. In this Agreement:*

(a) the headings are used for convenience only and shall not affect its interpretation;

(b) references to persons shall include incorporated and unincorporated persons; references to the singular include the plural and vice versa; and references to the masculine include the feminine;

(c) references to Clauses and Schedules mean clauses of, and schedules to, this Agreement;

(d) references in this Agreement to termination shall include termination by expiry;

(e) where the word “including” is used it shall be understood as meaning “including without limitation”.

10.8 *Notices*

(a) Any notice to be given under this Agreement shall be in writing and shall be sent by first class mail or air mail, or by fax (confirmed by first class mail or air mail) to the address of the relevant Party set out at the head of this Agreement, or to the relevant fax number set out below, or such other address or fax number as that Party may from time to time notify to the other Party in accordance with this Clause 12.8. The fax numbers of the Parties are as follows: University – •; Licensee – •.

(b) Notices sent as above shall be deemed to have been received three working days after the day of posting (in the case of inland first class mail), or seven working days after the date of posting (in the case of air mail), or on the next working day after transmission (in the case of fax messages, but only if a transmission report is generated by the sender’s fax machine recording a message from the recipient’s fax machine, confirming that the fax was sent to the number indicated above and confirming that all pages were successfully transmitted).

10.9 *Law and Jurisdiction.* The validity, construction and performance of this Agreement shall be governed by and construed in accordance with English law and each Party agrees to submit to the exclusive jurisdiction of the courts of England and Wales, except that a Party may seek an interim injunction in any court of competent jurisdiction.

10.10 *Further action.* Each Party agrees to execute, acknowledge and deliver such further instruments, and do all further similar acts, as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

10.11 *Announcements.* Neither Party shall make any press or other public announcement concerning any aspect of this Agreement, or make any use of the name of the other Party in connection with or in consequence of this Agreement, without the prior written consent of the other Party.

10.12 *Entire agreement.* This Agreement, including its Schedules, sets out the entire agreement between the Parties relating to its subject matter and supersedes all prior oral or written agreements, arrangements or understandings between them relating to such subject matter. Subject to Clause 8.6(d), the Parties acknowledge that they are not relying on any representation, agreement, term or condition which is not set out in this Agreement.

10.13 *Third parties.* Except for the rights of the Indemnitees as provided in clause 10.5, who may in their own right enforce the provisions of that Clause, this Agreement does not create any right enforceable by any person who is not a party to it ('Third Party') under the Contracts (Rights of Third Parties) Act 1999, but this clause does not affect any right or remedy of a Third Party which exists or is available apart from that Act. The Parties may amend, renew, terminate or otherwise vary all or any of the provisions of this Agreement, including Clause 10.5, without the consent of the Indemnitees.

10.14 *Export Control Regulations.*

(a) "Export Control Regulations" mean any United Nations trade sanctions or EU legislation or regulation, from time to time in force, which impose arms embargoes or control the export of goods, technology or software, including weapons of mass destruction and arms, military, paramilitary and security equipment and dual-use items (items designed for civil use but which can be used for military purposes) and certain drugs and chemicals.

(b) The Licensee shall ensure that, in using the Patents or Know-how and in selling Licensed Products, it shall not and nor shall its or its Affiliates employees or sub-contractors breach or compromise, directly or indirectly, compliance with any Export Control Regulations.

Agreed by the Parties through their authorised signatories:

For and on behalf of

For and on behalf of

[full name of University]

[full name of Licensee]

signed

signed

print name

print name

title

title

date

date

Schedule 1

Part A: The Patents

Part B: The Know-how

[Know-how should be described and any key documents listed]

Schedule 2

Appointment of expert

1. Pursuant to Clause _____, University may serve notice on the Licensee ("Referral Notice") that it wishes to refer to an expert (the "Expert") the questions set out in Clause _____.
2. The parties shall agree the identity of a single independent, impartial expert to determine such questions. In the absence of such agreement within 30 days of the Referral Notice, the questions shall be referred to an expert appointed by the President of Law Society of England and Wales.
3. 60 days after the giving of a Referral Notice, both parties shall exchange simultaneously statements of case in no more than 10,000 words, in total, and each side shall simultaneously send a copy of its statement of case to the Expert.
4. Each party may, within 30 days of the date of exchange of statement of case pursuant to paragraph 3 above, serve a reply to the other side's statement of case of not more than 10,000 words. A copy of any such reply shall be simultaneously sent to the Expert.
5. The Expert shall make his decision on the said questions on the basis of written statements and supporting documentation only and there shall be no oral hearing. The Expert shall issue his decision in writing within 30 days of the date of service of the last reply pursuant to paragraph 4 above or, in the absence of receipt of any replies, within 60 days of the date of exchange pursuant to paragraph 3 above.
6. The Expert's decision shall be final and binding on the parties.
7. The Expert's charges shall be borne equally by the parties.

Short form non-exclusive licence agreement

This Agreement dated _____ 20[•] is between:

- (1) • (the "University"), incorporated [statute in Ireland] [a company incorporated in [Ireland]] whose [principal address or registered office] is at •; and
- (2) • [LIMITED][INC.] (the "Licensee") a [company incorporated in Ireland] whose principal place of business is at [address].

Background

- A. University owns certain Intellectual Property relating to •.
- B. The Licensee wishes to acquire rights under such Intellectual Property in accordance with the provisions of this Agreement.

The Parties agree as follows:

1. Definitions

In this Agreement, the following words shall have the following meanings:

Affiliate In relation to a Party, means any entity or person that Controls, is Controlled by, or is under common Control with that Party.

Claims All demands, claims and liability (whether criminal or civil, in contract, tort or otherwise) for losses, damages, legal costs and other expenses of any nature whatsoever and all costs and expenses (including without limitation legal costs) incurred in connection therewith.

Commencement Date •

Confidential Information

All technical or commercial information that:

- (i) in respect of information provided in documentary or by way of a model or in other tangible form, at the time of provision is marked or otherwise designated to show expressly or by necessary implication that it is imparted in confidence; and
- (ii) in respect of information that is imparted orally, any information that the Disclosing Party or its representatives informed the Receiving Party at the time of disclosure was imparted in confidence; and
- (iii) any copy of any of the foregoing.

Control

Direct or indirect beneficial ownership of 50% (or, outside a Party's home territory, such lesser percentage as is the maximum, permitted level of foreign investment) or more of the share capital, stock or other participating interest carrying the right to vote or to distribution of profits of that Party, as the case may be.

Disclosing Party

Has the meaning given in Clause 3.

Indemnitees

Has the meaning given in Clause 7.2.

Intellectual Property or IP

The intellectual property referred to in the Schedule.

Licensed Products

Any and all products that are manufactured, sold or otherwise supplied by the Licensee or its sub-licensee (including any Affiliate of the Licensee) and which incorporate or make use of any of the IP.

[Net Receipts

The amount of any payment (excluding Value Added Tax), and the value of any non-monetary receipt, obtained by, or due to, Licensee or its Affiliate, in relation to the development or sub-licensing (including the grant of any option over a sub-licence) of any of the IP, and including any of the following:

- (a) up-front, milestone (whether at the stage of development, marketing or otherwise), success, bonus, maintenance and periodic (including annual) payments and royalty payments due under any sub-licence agreement;
- (b) payments in respect of the funding of research or development activities related to any Licensed Product, to the extent that such payments exceed a reasonable level of payment for such activities;
- (c) where any sub-licence is to be granted under cross-licensing arrangements, the value of any third party licence obtained under such arrangements;
- (d) any premium paid over the fair market value of shares, options or other securities in respect of any of the share capital of the Licensee or its Affiliate (such fair market value to be determined on the assumption that University had not granted, nor agreed to grant, any rights to the Licensee in respect of any of the IP);
- (e) any loan, guarantee or other financial benefit made or given other than on normal market terms; and
- (f) any shares, options or other securities obtained from a third party.]

Net Sales Value

The invoiced price of Licensed Products sold by the Licensee or its Affiliates to independent third parties in arm's length transactions exclusively for money or, where the sale is not at arm's length, the price that would have been so invoiced if it had been at arm's length, after deduction of all documented:

- (a) normal trade discounts actually granted and any credits actually given for rejected or returned Licensed Products;
- (b) costs of packaging, insurance, carriage and freight, provided in each case that the amounts are separately charged on the relevant invoice;
- (c) value added tax or other sales tax; and
- (d) import duties or similar applicable government levies;

provided that such deductions do not exceed reasonable and customary amounts in the markets in which such sales occurred. Sales between any of the Licensee, its Affiliates and sub-licensees shall not be considered for the purposes of this definition unless there is no subsequent sale to a person who is not the Licensee, its Affiliate or sub-licensee in an arm's length transaction exclusively for money.

Parties

University and the Licensee, and "Party" shall mean either of them.

Receiving Party

Has the meaning given in Clause 3.

Territory

•

2. Grant of rights

- 2.1 Licences. University hereby grants to the Licensee, subject to the provisions of this Agreement a non-exclusive licence under the IP to develop, manufacture, have manufactured, use and sell or otherwise supply, Licensed Products in the Territory.
- 2.2 Sub-licensing. The Licensee shall not be entitled to grant sub-licences of its rights under this Agreement, except with the prior written consent of the University.
- 2.3 Reservation of rights. Except for the licences expressly granted by this Clause 2, University reserves all its rights.

3. Confidentiality

- 3.1 Confidentiality obligations. Each Party ("Receiving Party") undertakes, for a period of [10] years from the Commencement Date:
- (a) to maintain as secret and confidential all Confidential Information obtained directly or indirectly from the other Party ("Disclosing Party") in the course of or in anticipation of this Agreement and to respect the Disclosing Party's rights therein; and
 - (b) to use such Confidential Information only for the purposes of this Agreement.
 - (c) to ensure that all those to whom disclosure of or access to Confidential Information has been given, including its officers, directors, employees and professional advisers comply with the provisions of this Agreement and shall be liable to the Disclosing Party for any breach of this Agreement by any of the foregoing.
- 3.2 Exceptions to obligations. The provisions of this Clause 3 shall not apply to Confidential Information which the Receiving Party can demonstrate by reasonable, written evidence:
- (a) was, prior to its receipt by the Receiving Party from the Disclosing Party, in the possession of the Receiving Party and at its free disposal; or
 - (b) is subsequently disclosed to the Receiving Party without any obligations of confidence by a third party who has not derived it directly or indirectly from the Disclosing Party; or
 - (c) is or becomes generally available to the public through no act or default of the Receiving Party or its agents, employees, Affiliates or sub-licensees; or
- 3.3 Disclosure in accordance with legal obligations. To the extent that the Receiving Party is

required to disclose Confidential Information by order of a court or other public body that has jurisdiction over it or under other legal obligations, such as under a bona fide freedom of information request, it may do so, provided that, before making such a disclosure the Receiving Party shall, unless the circumstances prohibit:

- (a) inform the Disclosing Party of the proposed disclosure as soon as possible, in any event, no later than five (5) working days after becoming aware of the proposed disclosure;
- (b) permit the Disclosing Party to make representations (written or otherwise) in respect of the disclosure and/or confidential treatment of the Confidential Information.

4. Additional Licensee obligations

- 4.1 The Licensee shall in exercising its rights under this Agreement, comply with all applicable laws, regulations and other similar instruments in the Territory and shall at all times be solely liable and responsible for such due observance and performance.
- 4.2 The Licensee shall not, nor directly or indirectly assist any other person to do or omit to do anything to diminish the rights of the Licensor in the IP.
- 4.3 The Licensee shall not use, and shall ensure that its Affiliates and sub-licensees do not use, the name, any adaptation of the name, any logo, trademark or other device of the University, in any advertising, promotional or sales materials without prior written consent obtained from the University in each case.

5. Payments

- 5.1 Initial payments. Within 30 days of the Commencement Date, the Licensee shall pay to University the non-refundable, non-deductible sum of £ • (• Pounds sterling).
- 5.2 Royalties on Net Sales. The Licensee shall pay to University a royalty of [5]% of Net Sales of all Licensed Products or any part thereof sold or otherwise supplied by Licensee or its sub-licensees.

Royalties on Net Receipts. The Licensee shall pay to University a royalty of [5]% of Net Receipts.
- 5.3 Minimum royalties. If the royalties payable under Clause 5.2 and Clause 5.3 are less than £• (• Pounds sterling) ("Minimum Royalty") in any calendar year, the Licensee shall pay to University the amount by which such royalties are less than the Minimum Royalty within 60 days of the end of such calendar year, failing which University shall be entitled to terminate

this Agreement and all licences granted under this Agreement by notice in writing to the Licensee given at any time after the expiry of the said 60 day period.

5.4 Payment frequency. Royalties due under this Agreement shall be paid within 30 days of the end of each quarter ending on 31 March, 30 June, 30 September and 31 December, in respect of sales of Licensed Products made and Net Receipts generated during such quarter and within 30 days of the termination of this Agreement.

5.5 Payment terms. All sums due under this Agreement:

(a) are exclusive of Value Added Tax which where applicable will be paid by the Licensee to University in addition;

(b) shall be paid in Pounds sterling in cash by transferring an amount in aggregate to the following account number •, sort code •, account name •, held with • Bank plc, [address];

(c) shall be made without deduction of income tax or other taxes charges or duties that may be imposed, except insofar as the Licensee is required to deduct the same to comply with applicable laws. The Parties shall cooperate and take all steps reasonably and lawfully available to them, at the expense of University, to avoid deducting such taxes and to obtain double taxation relief. If the Licensee is required to make any such deduction it shall provide University with such certificates or other documents as it can reasonably obtain to enable University to obtain appropriate relief from double taxation of the payment in question; and

(d) shall be made by the due date, failing which University may charge interest on any outstanding amount on a daily basis at a rate equivalent to 3% above the • Bank plc base lending rate then in force in London.

5.6 Records. The Licensee shall keep at its normal place of business detailed and up to date records and accounts sufficient to ascertain the payments due under this Agreement. The Licensee shall make such records and accounts available, on reasonable notice, for inspection during business hours by an independent chartered accountant nominated by University.

6. Intellectual property

6.1 Infringement of any of the IP. Each Party shall inform the other Party promptly if it becomes aware of any infringement or potential infringement of any of the IP, and the Parties shall consult with each other to decide the best way to respond to such infringement.

6.2 Infringement of third party rights. If any warning letter or other notice of infringement is re-

ceived by a Party, or legal suit or other action is brought against a Party, alleging infringement of third party rights in the manufacture, use or sale of any Licensed Product or use of any IP, that Party shall promptly provide full details to the other Party, and the Parties shall discuss the best way to respond.

7. Warranties and liability

7.1 Warranties.

(a) each of the Licensee and University acknowledges that, in entering into this Agreement, it does not do so in reliance on any representation, warranty or other provision except as expressly provided in this Agreement, and any conditions, warranties or other terms implied by statute or common law are excluded from this Agreement to the fullest extent permitted by law.

(b) without limiting the scope of paragraph (a) above, University does not make any representation nor give any warranty or undertaking:

(i) as to the efficacy or usefulness of the IP; or

(ii) that the use of any of the IP, the manufacture, sale or use of the Licensed Products or the exercise of any of the rights granted under this Agreement will not infringe any other intellectual property or other rights of any other person.

7.2 Indemnity. The Licensee shall indemnify University and its Affiliates, and their respective officers, directors, council members, employees and representatives, including the Principal Investigator (together, the "Indemnitees") against all third party Claims that may be asserted against or suffered by any of the Indemnitees and which relate to:

(a) the use by the Licensee or any of its sub-licensees of any of the IP;

(b) the development, manufacture, use, marketing or sale of, or any other dealing in, any of the Licensed Products, by Licensee or any of its sub-licensees, or subsequently by any customer or any other person, including claims based on product liability laws.

7.3 Liability

(a) to the extent that any Indemnitee has any liability in contract, tort, or otherwise under or in connection with this Agreement, including any liability for breach of warranty, their aggregate liability shall be to the total income that University has received from the

Licensee during the period of six years preceding the date on which the liability arises, or £10,000, whichever is the higher; and

(b) in no circumstances shall any of the Parties liable for any loss, damage, costs or expenses of any nature whatsoever incurred or suffered by a Party or its Affiliates that is (a) of an indirect, special or consequential nature or (b) any loss of profits, revenue, business opportunity or goodwill.

(c) nothing in this Agreement excludes any person's liability to the extent that it may not be so excluded under applicable law, including any such liability for death or personal injury caused by that person's negligence, or liability for fraud.

7.4 Insurance. Without limiting its liabilities under this Clause 7, the Licensee shall take out with a reputable insurance company and maintain at all times during the term of this Agreement public and product liability insurance including against all loss of and damage to property (whether real, personal or intellectual) and injury to persons including death arising out of or in connection with this Agreement and the Licensee's and its Affiliates' and sub-licensees' use of the IP and use, sale of or any other dealing in any of the Licensed Products. Such insurances may be limited in respect of one claim provided that such limit must be at least £5 million and shall continue to be maintained for a further 6 years from the end of the term of this Agreement.

8. Duration and Termination

8.1 Commencement and Term. This Agreement, and the licences granted hereunder, shall come into effect on the Commencement Date and, unless terminated earlier in accordance with this Clause 8, shall continue in force for a period of [10] years.

8.2 Termination

(a) Either Party may terminate this Agreement at any time by notice in writing to the other Party ("Other Party"), such notice to take effect as specified in the notice:

(i) at any time on 12 months' notice in writing to the Other Party;

(ii) if the Other Party is in material breach of this Agreement and, in the case of a breach capable of remedy within 90 days, the breach is not remedied within 90 days of the Other Party receiving notice specifying the breach and requiring its remedy; or

(iii) if: (A) the Other Party becomes insolvent or unable to pay its debts as and when they become due, (B) an order is made or a resolution is passed for the winding up of the Other Party (other than voluntarily for the purpose of solvent amalgamation or reconstruction), (C) a liquidator, administrator, administrative receiver, receiver or trustee is appointed in respect of the whole or any part of the Other Party's assets or business, (D) the Other Party makes any composition with its creditors, (E) the other Party ceases to continue its business, or (F) as a result of debt and/or maladministration the other Party takes or suffers any similar or analogous action.

(b) A Party's right of termination under this Agreement, and the exercise of any such right, shall be without prejudice to any other right or remedy (including any right to claim damages) that such Party may have in the event of a breach of contract or other default by the other Party.

8.3 Consequences of termination. Upon termination of this Agreement for any reason:

(a) the Licensee shall no longer be licensed to use or otherwise exploit in any way, either directly or indirectly, the IP;

(b) each Party shall return to the other or, at the other Party's request, destroy any documents or other materials that are in its or its sub-licensees' possession or under its or its sub-licensees' control and that contain the other Party's Confidential Information; and

(c) the provisions of Clauses 3, 5, 7.4 and 9 shall remain in force.

9. General

9.1 *Force majeure.* Neither Party shall have any liability or be deemed to be in breach of this Agreement for any delays or failures in performance of this Agreement that result from circumstances beyond the reasonable control of that Party, including without limitation labour disputes involving that Party. The Party affected by such circumstances shall promptly notify the other Party in writing when such circumstances cause a delay or failure in performance and when they cease to do so.

9.2 *Amendment.* This Agreement may only be amended in writing signed by duly authorised representatives of University and the Licensee.

9.3 *Assignment and third party rights.* Neither Party shall assign, mortgage, charge or otherwise transfer any rights or obligations under this Agreement without the prior written consent of the other Party.

- 9.4 *Waiver.* No failure or delay on the part of either Party to exercise any right or remedy under this Agreement shall be construed or operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy preclude the further exercise of such right or remedy.
- 9.5 *Invalid clauses.* If any provision or part of this Agreement is held to be invalid, amendments to this Agreement may be made by the addition or deletion of wording as appropriate to remove the invalid part or provision but otherwise retain the provision and the other provisions of this Agreement to the maximum extent permissible under applicable law.
- 9.6 *No Agency.* Neither Party shall act or describe itself as the agent of the other, nor shall it make or represent that it has authority to make any commitments on the other's behalf.
- 9.7 *Interpretation. In this Agreement:*
- (a) the headings are used for convenience only and shall not affect its interpretation;
 - (b) references to persons shall include incorporated and unincorporated persons; references to the singular include the plural and vice versa; and references to the masculine include the feminine;
 - (c) references to Clauses and Schedules mean clauses of, and schedules to, this Agreement;
 - (d) references in this Agreement to termination shall include termination by expiry;
 - (e) where the word "including" is used it shall be understood as meaning "including without limitation".
- 9.8 *Notices*
- (a) Any notice to be given under this Agreement shall be in writing and shall be sent by first class mail or air mail, or by fax (confirmed by first class mail or air mail) to the address of the relevant Party set out at the head of this Agreement, or to the relevant fax number set out below, or such other address or fax number as that Party may from time to time notify to the other Party in accordance with this Clause 9.8. The fax numbers of the Parties are as follows:
University – •; Licensee – •.
 - (b) Notices sent as above shall be deemed to have been received three working days after the day of posting (in the case of inland first class mail), or seven working days after the date of posting (in the case of air mail), or on the next working day after transmission (in the case of fax messages, but only if a transmission report is generated by the sender's fax machine recording a message from the recipient's fax machine, confirming that the

fax was sent to the number indicated above and confirming that all pages were successfully transmitted).

- 9.9 *Law and Jurisdiction.* This Agreement shall be governed by and construed in accordance with English law and each Party agrees to submit to the non-exclusive jurisdiction of the courts of England and Wales.
- 9.10 Further action. Each Party agrees to execute, acknowledge and deliver such further instruments, and do all further similar acts, as may be necessary or appropriate to carry out the purposes and intent of this Agreement.
- 9.11 *Announcements.* Neither Party shall make any press or other public announcement concerning any aspect of this Agreement, or make any use of the name of the other Party in connection with or in consequence of this Agreement, without the prior written consent of the other Party.
- 9.12 *Entire agreement.* This Agreement, including its Schedules, sets out the entire agreement between the Parties relating to its subject matter and supersedes all prior oral or written agreements, arrangements or understandings between them relating to such subject matter.
- 9.13 *Third parties.* This Agreement does not create any right enforceable by any person who is not a party to it under the Contracts (Rights of Third Parties) Act 1999, but this clause does not affect any right or remedy of a third party which exists or is available apart from that Act.
- 9.14 *Export Control Regulations.*
- (a) "Export Control Regulations" mean any United Nations trade sanctions or EU legislation or regulation, from time to time in force, which impose arms embargoes or control the export of goods, technology or software, including weapons of mass destruction and arms, military, paramilitary and security equipment and dual-use items (items designed for civil use but which can be used for military purposes) and certain drugs and chemicals.
- (b) The Licensee shall ensure that, in using the IP and in selling Licensed Products, it shall not and nor shall its or its Affiliates employees or sub-contractors breach or compromise, directly or indirectly, compliance with any Export Control Regulations.

Agreed by the Parties through their authorised signatories:

For and on behalf of

[full name of University]

signed

print name

title

date

For and on behalf of

[full name of Licensee]

signed

print name

title

date

Schedule 1

The Intellectual Property

Software distribution and licence agreement

INTRODUCTION

This is a detailed exclusive software distribution agreement, containing provisions that are appropriate for when granting an exclusive licence to software for the purpose of the licensee then developing and distributing the software. In some situations it may be thought to be too detailed and can be cut-down where appropriate.

As in the exclusive patent and know-how licence agreement, this detailed exclusive software distribution agreement includes optional and alternative provisions that may be selected or discarded as appropriate. For example the financial terms in this agreement include upfront fees, annual licence fees, milestone payments, minimum royalties, and royalties on both net sales and net receipts: some but not all of these provisions will typically be encountered in any one agreement of this type.

Dated _____ 20[]

(1) [Name of University]

(2) [Name of Licensee]

EXCLUSIVE SOFTWARE DISTRIBUTION AGREEMENT

This Agreement dated _____ 20[] is between:

- (1) • (the “University”), incorporated [by Royal Charter in the United Kingdom] whose principal address is at •; and
- (2) • **[LIMITED][INC.]** (the “Licensee”) a [company incorporated in England and Wales] whose principal place of business is at [address].

Background:

- A. University has developed the University Software.
- B. The Licensee wishes to acquire rights to develop further the University Software for the development and commercialisation of Licensed Products in the Field and in the Territory, all in accordance with the provisions of this Agreement.

The Parties agree as follows:

1. Definitions

In this Agreement, the following words shall have the following meanings:

Affiliate	In relation to a Party, means any entity or person that Controls, is Controlled by, or is under common Control with that Party.
Bribery Event	A breach by a Party and/or its Affiliates and/or their respective officers, directors, employees and representatives of the Prevention of Corruption (Amendment) Act 2010 and/or any corresponding anti-bribery or anti-corruption legislation in the Territory.
Claims	All demands, claims and liability (whether criminal or civil, in contract, tort or otherwise) for losses, damages, legal costs and other expenses of any nature whatsoever and all costs and expenses (including without limitation legal costs) incurred in connection therewith.
Commencement Date	•

Competing Product	Any product, whether ready for marketing or in development that competes, or is likely to compete once developed, with any Licensed Product.
Confidential Information	<ul style="list-style-type: none"> (a) The University Software; and (b) All other technical or commercial information that: <ul style="list-style-type: none"> (i) in respect of information provided in documentary or by way of a model or in other tangible form, at the time of provision is marked or otherwise designated to show expressly or by necessary implication that it is imparted in confidence; and (ii) in respect of information that is imparted orally, any information that the Disclosing Party or its representatives informed the Receiving Party at the time of disclosure was imparted in confidence; and (iii) any copy of any of the foregoing.
Control	Direct or indirect beneficial ownership of 50% (or, outside a Party's home territory, such lesser percentage as is the maximum, permitted level of foreign investment) or more of the share capital, stock or other participating interest carrying the right to vote or to distribution of profits of that Party, as the case may be.
Copy	Includes reproduction in any material form and storage in any medium, and "Copies" shall be interpreted accordingly.
Device	Any device of equipment that is enabled by, implements, incorporates, Copies, Modifies or is based on the whole or any part of the University Software and/or any Licensed Product.

Diligent and Reasonable Efforts	Exerting such efforts and employing such resources as would normally be exerted or employed by a reasonable third party company for a product of similar market potential at a similar stage of its product life, when utilizing sound and reasonable scientific and business practice and judgment in order to develop the product in a timely manner and maximize the economic return to the Parties from its commercialisation.
Disclosing Party	Has the meaning given in Clause 4.
End User(s)	Any customer of the Licensee who requires the Licensed Product for its own use.
Field	The area of •.
Indemnitees	Has the meaning given in Clause 10.5.
Licensed Products	Any product arising from the development and/or use of the University Software, including any Devices and/or any Software Services.
Modifications	Includes any modification, enhancement, adaptation, translation, abridgement, condensation, revision or re-write and “Modifies” and Modified” shall be interpreted accordingly.
Net Receipts	<p>The amount of any payment (excluding Value Added Tax), and the value of any non-monetary receipt, obtained by, or due to, Licensee or its Affiliate, in relation to the development or sub-licensing (including the grant of any option over a sub-licence) of any of the University Software, and including any of the following:</p> <p>(a) up-front, milestone (whether at the stage of development, marketing or otherwise), success, bonus, maintenance and periodic (including annual) payments and royalty payments due under any sub-licence agreement;</p>

- (b) payments in respect of the funding of research or development activities related to any Licensed Product, to the extent that such payments exceed a reasonable level of payment for such activities;
- (c) where any sub-licence is to be granted under cross-licensing arrangements, the value of any third party licence obtained under such arrangements;
- (d) any premium paid over the fair market value of shares, options or other securities in respect of any of the share capital of the Licensee or its Affiliate (such fair market value to be determined on the assumption that University had not granted, nor agreed to grant, any rights to the Licensee in respect of any of the University Software);
- (e) any loan, guarantee or other financial benefit made or given other than on normal market terms; and
- (f) any shares, options or other securities obtained from a third party.

Net Sales Value

The invoiced price of Licensed Products sold (which shall also include Licensed Products licensed to End Users) by the Licensee or its Affiliates to independent third parties in arm's length transactions exclusively for money or, where the sale is not at arm's length, the price that would have been so invoiced if it had been at arm's length, after deduction of all documented:

- (a) normal trade discounts actually granted and any credits actually given for defective Licensed Products;

- (b) costs of packaging, insurance, carriage and freight, provided in each case that the amounts are separately charged on the relevant invoice;
- (c) value added tax or other sales tax; and
- (d) import duties or similar applicable government levies;

provided that such deductions do not exceed reasonable and customary amounts in the markets in which such sales occurred. Sales between any of the Licensee, its Affiliates and sub-licensees shall not be considered for the purposes of this definition unless there is no subsequent sale to a person who is not the Licensee, its Affiliate or sub-licensee in an arm's length transaction exclusively for money.

Parties University and the Licensee, and "Party" shall mean either of them.

Principal Investigator •.

Receiving Party Has the meaning given in Clause 4.

RPI The United Kingdom Retail Prices Index as published by the UK Office of National Statistics (or any successor body) or, if that index ceases to exist or the basis of the index is fundamentally changed, the nearest equivalent UK official index of increases in retail prices as agreed by the Parties or in the absence of agreement determined by an expert appointed in accordance with Schedule 2.

Software Service Any service provided by the Licensee that uses, implements, Copies, incorporates or is based upon the whole or any part of the University Software.

Territory •.

University Software

The software described in Schedule 1 (in either object or source code form and in the version specified at the Commencement Date, together with any documentation described in Schedule 1 and any other information the University may provide to the Licensee in relation to such software and documentation.

2. Grant of rights

- 2.1 *Licence.* University hereby grants to the Licensee, subject to the provisions of this Agreement an exclusive licence under the copyright in the University Software only in the Field and in the Territory to develop and distribute Licensed Products to End Users, and in the exercise of those rights, but not further or otherwise, to load, run, display, store, Copy, Modify and, subject to Clause 2.2, sub-licence the University Software. The Licensee shall not use the University Software for any purpose except as expressly licensed hereby and in accordance with the provisions of this Agreement.
- 2.2 *Sub-licensing.* Subject to Clause 2.3, the Licensee shall not be entitled to grant sub-licences of its rights under this Agreement, except with the prior written consent of University, which University may decline to give at its sole and absolute discretion. Where University gives its consent, the Licensee shall be entitled to grant sub-licences of its rights under this Agreement to any person, provided that:
- (a) the sub-licence shall include obligations on the sub-licensee which are equivalent to the obligations on the Licensee under this Agreement and limitations of liability that are equivalent to those set out in this Agreement;
 - (b) the sub-licence shall terminate automatically on the termination of this Agreement for any reason;
 - (c) within 30 days of the grant of any sub-licence the Licensee shall provide to University a true copy of it; and
 - (d) the Licensee shall be responsible for any breach of the sub-licence by the sub-licensee, as if the breach had been that of Licensee under this Agreement, and the Licensee shall indemnify University against any loss, damages, costs, claims or expenses which are awarded against or suffered by University as a result of any such breach by the sub-licensee.
- 2.3 *End Users.* The Licensee may grant sub-licences to End Users to use Licensed Products provided that the Licensee shall enter into a sub-licence agreement with each End User on the terms set out in Schedule [End User licence Agreement];

2.4 *Access to University Software.* Except as expressly permitted by this Agreement, the Licensee shall not provide access (including via an internet site) to the whole or any part of the University Software to, nor use it to process the work of, any third party.

2.5 *Reservation of rights*

- (a) University reserves for itself and its Affiliates the non-exclusive, irrevocable, worldwide, royalty-free right to use, and license other academic institutions to use, the whole or any part of the University Software in the Field for the purposes of academic research, publication and teaching.
- (b) In addition, the Licensee understands, acknowledges and agrees that the University may develop the University Software further or develop new software products (“New Software”) as a result of the University’s research activities, and that any New Software so developed may include elements of the University Software. Upon developing any New Software, the University shall promptly notify the Licensee, giving full details of the New Software to the Licensee. If it is able to do so under its contractual agreements with third parties, the University will give the Licensee an opportunity to propose terms for a licence to commercialise the New Software. Any such licence will be by separate agreement.
- (c) Except for the licences expressly granted by this Clause 2, University reserves all its rights. Without prejudice to the generality of the foregoing University grants no rights to any intellectual property other than the copyright in the University Software and reserves all rights under the copyright in the University Software outside the Field.

2.6 *Supply of source code.*

- (a) Within 14 days of the Commencement Date, University shall provide the Licensee with a single copy of the source code of the University Software. The Licensee acknowledges and agrees that no other documentation, manuals or other written information shall be provided to it other than the University Software.
- (b) Except as expressly permitted by this Agreement, the Licensee shall not modify, adapt, disassemble, reverse engineer, decompile, translate or otherwise attempt to discover the source code of the University Software or permit any of these things to happen, except as expressly allowed by applicable law governing the rights of software licensees.
- (c) The University Software is provided “as is” and, without prejudice to the generality of Clause 7, University shall not have any obligations to upgrade, “bug-fix”, provide support or

maintenance services, or provide any information, assistance or consultancy in relation to the University Software.

- (d) The Parties may enter into a further agreement under which the University or the Principal Investigator would provide consultancy services to the Licensee in relation to the further development or support and maintenance of the University Software. Any such agreement would be on the terms of the University's standard consultancy agreement, or such other terms as the Parties may agree in writing.

3. Confidentiality

3.1 *Confidentiality obligations.* Each Party ("Receiving Party") undertakes, for a period of [10] years from the Commencement Date:

- (a) to maintain as secret and confidential all Confidential Information obtained directly or indirectly from the other Party ("Disclosing Party") in the course of or in anticipation of this Agreement and to respect the Disclosing Party's rights therein;
- (b) to use such Confidential Information only for the purposes of this Agreement; and
- (c) to disclose such Confidential Information only to those of its employees, contractors and sub-licensees pursuant to this Agreement (if any) to whom and to the extent that such disclosure is reasonably necessary for the purposes of this Agreement
- (d) to ensure that all those to whom disclosure of or access to Confidential Information has been given, including its officers, directors, employees and professional advisers comply with the provisions of this Agreement and shall be liable to the Disclosing Party for any breach of this Agreement by any of the foregoing.

3.2 *Exceptions to obligations.* The provisions of Clause 3 shall not apply to Confidential Information which the Receiving Party can demonstrate by reasonable, written evidence:

- (a) was, prior to its receipt by the Receiving Party from the Disclosing Party, in the possession of the Receiving Party and at its free disposal; or
- (b) is subsequently disclosed to the Receiving Party without any obligations of confidence by a third party who has not derived it directly or indirectly from the Disclosing Party; or
- (c) is or becomes generally available to the public through no act or default of the Receiving Party or its agents, employees, Affiliates or sub-licensees; or

3.3 *Disclosure in accordance with legal obligations.* To the extent that the Receiving Party is required to disclose Confidential Information by order of a court or other public body that has jurisdiction over it or under other legal obligations, such as under a bona fide freedom of information request, it may do so, provided that, before making such a disclosure the Receiving Party shall, unless the circumstances prohibit:

- (a) inform the Disclosing Party of the proposed disclosure as soon as possible, in any event, no later than five (5) working days after becoming aware of the proposed disclosure;
- (b) permit the Disclosing Party to make representations (written or otherwise) in respect of the disclosure and/or confidential treatment of the Confidential Information.

4. Additional Licensee obligations

4.1 The Licensee shall in exercising its rights under this Agreement comply with all applicable laws, regulations and other similar instruments in the Territory and shall at all times be solely liable and responsible for such due observance and performance.

4.2 The Licensee shall not, and shall ensure that its Affiliates and sub-licensees do not:

- (a) use the name, any adaptation of the name, any logo, trademark or other device of University, in any advertising, promotional or sales materials without prior written consent obtained from University in each case
- (b) do or omit to do anything to diminish the rights of the Licensor in the University Software;
- (c) use any child labour in the manufacture or distribution of the Licensed Products, and where third parties are to manufacture or distribute those Licensed Products the Licensee shall procure from those third parties written confirmation that they shall not use any child labour in the manufacture or distribution of the Licensed Products; or
- (d) engage in conduct in any Territory that would reasonably be construed as a Bribery Event.

5. Payments

5.1 *Initial payments.* Within 30 days of the Commencement Date, the Licensee shall pay to University the non-refundable, non-deductible sum of £• (• Pounds sterling).

5.2 *Milestone payments.* Upon achievement of the each of the milestone events set out in the following table, the Licensee shall pay to University the amount(s) set out next to such milestone event in the table:

<i>Milestone event</i>	<i>Amount to be paid</i>

5.3 *Annual licence fees.* On each anniversary of the Commencement Date (or such other date(s) as agreed to by the Parties in writing), the Licensee shall pay to University the annual licence fee of £• (• Pounds sterling). If the Licensee fails to pay any such amount by such date, University may in its sole and absolute discretion either (a) convert the licence granted under Clause 2.1 into a non-exclusive licence or (b) elect to treat such non-payment as a material breach of contract under Clause 11.2(b)(i).

5.4 *Royalties on Net Sales.* The Licensee shall pay to University a royalty of [•]% of the Net Sales Value of all Licensed Products or any part thereof sold or otherwise supplied by Licensee or its sub-licensees.

5.5 *Royalties on Net Receipts.* The Licensee shall pay to University a royalty of [5]% of Net Receipts.

5.6 *Indexation of non-royalty payments.* With the exception of payments due under Clauses 5.4 and 5.5, all amounts that the Licensee is required to pay to University under this Agreement shall be adjusted to reflect any increase in the RPI between the Commencement Date and the due date of payment, as in the following example:

Amount stated to be due under this Agreement = A

RPI at Commencement Date = B

RPI at due date of payment = C

Amount due after adjustment under this Clause = A + A x (C-B)/B

5.7 *Non-monetary consideration; referral to expert.* Where the Licensee accepts Net Receipts in the form of shares in a sub-licensee or other non-monetary receipts, the Licensee shall pay the royalty due under this Agreement to University on such Net Receipts by determining the equivalent cash value of such shares or other non-monetary receipts. If the Parties disagree as to the cash value of such shares or non-monetary receipts, such disagreement shall be referred to an independent expert who shall be appointed and act in accordance with the provisions of Schedule 2 and whose decision shall be final and binding on the Parties.

- 5.8 *Combination Products.* If any Licensed Products are incorporated in any other product ("Combination Product") supplied by the Licensee or its sub-licensees] and the Licensed Product is not priced separately from the Combination Product, the Net Sales Value of such Licensed Product shall be deemed to be the fair market value of the Licensed Product in the country of sale when sold separately or where the products are not sold separately, that proportion of the Net Sales Value of the Combination Product which is attributable to the Licensed Product, comparing the manufacturing cost of the Licensed Product with that of the Combination Product, as in the following formula: $\text{Net Sales Value of Licensed Product} = (\text{manufacturing cost of Licensed Product} / \text{total manufacturing cost of Combination Product}) \times \text{Net Sales Value of Combination Product}$.
- 5.9 *Minimum royalties.* If the royalties payable under Clause 5.4 and Clause 5.5 are less than £• (• Pounds sterling) ("Minimum Royalty") in any calendar year, the Licensee shall pay to University the amount by which such royalties are less than the Minimum Royalty within 60 days of the end of such calendar year, failing which University shall be entitled to terminate this Agreement and all licences granted under this Agreement by notice in writing to the Licensee given at any time after the expiry of the said 60 day period. If this Agreement ends on any day other than the end of a calendar year, the Minimum Royalty due for that year shall be reduced, pro-rata, i.e. the minimum amount due shall be the Minimum Royalty for a complete year multiplied by the number of days of the final calendar year during which this Agreement was in force, and divided by 365 days.
- 5.10 *Royalties to third parties.* If, during the continuation of this Agreement, the Licensee considers it necessary to obtain a licence from any third party ("Third Party Licence") in order to avoid infringing such third party's intellectual property in the course of manufacture or sale of Licensed Products, the royalties paid under the Third Party Licence shall be treated as a deductible item when calculating Net Sales Value provided that the amount of royalty payable by the Licensee to University in any quarterly period shall not be reduced by more than 50% of the amount which would have been payable in the absence of this clause. The deductions referred to in this Clause shall only be made where the infringement of the third party's intellectual property arises from the use of the University Software in accordance with the provisions of this Agreement, and not from the use of any other intellectual property that the Licensee chooses to use in the manufacture or sale of any Licensed Product.
- 5.11 *Payment frequency.* Royalties due under this Agreement shall be paid within 30 days of the end of each quarter ending on 31 March, 30 June, 30 September and 31 December, in respect of sales of Licensed Products made and Net Receipts generated during such quarter and within 30 days of the termination of this Agreement.

5.12 *Payment terms.* All sums due under this Agreement:

- (a) are exclusive of Value Added Tax which where applicable will be paid by the Licensee to University in addition;
- (b) shall be paid in Euros in cash by transferring an amount in aggregate to the following account number •, sort code •, account name •, held with • Bank plc, [address], and in the case of sales or sub-licence income received by the Licensee in a currency other than Euros, the royalty shall be calculated in the other currency and then converted into equivalent Euros at the buying rate of such other currency as quoted by • Bank plc in London as at the close of business on the last business day of the quarterly period with respect to which the payment is made;
- (c) shall be made without deduction of income tax or other taxes charges or duties that may be imposed, except insofar as the Licensee is required to deduct the same to comply with applicable laws. The Parties shall cooperate and take all steps reasonably and lawfully available to them, at the expense of University, to avoid deducting such taxes and to obtain double taxation relief. If the Licensee is required to make any such deduction it shall provide University with such certificates or other documents as it can reasonably obtain to enable University to obtain appropriate relief from double taxation of the payment in question; and
- (d) shall be made by the due date, failing which University may charge interest on any outstanding amount on a daily basis at a rate equivalent to 3% above the Bank plc base lending rate then in force in London.

5.13 *Exchange controls.* If at any time during the continuation of this Agreement the Licensee is prohibited from making any of the payments required hereunder by a governmental authority in any country then the Licensee shall within the prescribed period for making the said payments in the appropriate manner use its best endeavours to secure from the proper authority in the relevant country permission to make the said payments and shall make them within 7 days of receiving such permission. If such permission is not received within 30 (thirty) days of the Licensee making a request for such permission then, at the option of University, the Licensee shall deposit the royalty payments due in the currency of the relevant country either in a bank account designated by University within such country or such royalty payments shall be made to an associated company of University designated by University and having offices in the relevant country designated by University.

5.14 *Royalty statements.* The Licensee shall send to University at the same time as each royalty payment is made in accordance with Clause 5.4 or Clause 5.5 a statement setting out, in respect of each territory or region in which Licensed Products are sold, the types of Licensed Product sold, the

quantity of each type sold, and the total Net Sales Value, and the total Net Receipts in respect of each type and sub-licensee, expressed both in local currency and Pounds sterling and showing the conversion rates used, during the period to which the royalty payment relates.

5.15 *Records*

- (a) the Licensee shall keep at its normal place of business detailed and up to date records and accounts showing the quantity, description and value of Licensed Products sold by it, and the amount of sublicensing revenues received by it in respect of Licensed Products, on a country by country basis, and being sufficient to ascertain the payments due under this Agreement.
- (b) the Licensee shall make such records and accounts available, on reasonable notice, for inspection during business hours by an independent chartered accountant nominated by University for the purpose of verifying the accuracy of any statement or report given by the Licensee to University under this Clause 6. The accountant shall be required to keep confidential all information learnt during any such inspection, and to disclose to University only such details as may be necessary to report on the accuracy of the Licensee's statement or report. University shall be responsible for the accountant's charges unless the accountant certifies that there is an inaccuracy of more than 5% in any royalty statement, in which case the Licensee shall pay his charges in respect of that inspection.
- (c) the Licensee shall ensure that University has the same rights as those set out in this Clause 5.15 in respect of any person that is sub-licensed under the Patents or Know-how pursuant to this Agreement.

5.16 The provisions of this clause 6 shall remain in effect notwithstanding termination or expiry of this Agreement until the settlement of all subsisting claims by University.

6. Commercialisation

6.1 *General diligence.* The Licensee shall be exclusively responsible for the technical and commercial development and manufacture of Licensed Products and shall use Diligent and Reasonable Efforts to develop and commercially exploit Licensed Products to the maximum extent in the Field and throughout the Territory.

6.2 *Specific milestones.* Without prejudice to the generality of the Licensee's obligations under Clause 6.1, the Licensee shall achieve the following milestone events by the following dates:

<i>Milestone event</i>	<i>Date by which event must be achieved</i>

6.3 *Development Plan.* Without prejudice to the generality of the Licensee’s obligations under Clause 6.1, the Licensee shall provide at least annually to University an updated, written Development Plan that shall:

- (a) report on all activities conducted under this Agreement since the Commencement Date or the date of the previous Development Plan provided under this Clause;
- (b) set out the projected dates (and, where a milestone has been achieved, the actual dates) for achieving any milestones referred to in this Agreement;
- (c) set out the past, current and projected activities taken or planned to be taken by the Licensee and its sub-licensees (if any) to bring Licensed Products to market and maximise the sale of Licensed Products in the Territory; and
- (d) state the budgeted amounts set out in the Licensee’s management accounts for the performance of the activities described in paragraph (c) above and any variance against any budget stated in the previous report provided to University under this paragraph (d).

University’s receipt or approval of any Development Plan shall not be taken to waive or qualify the Licensee’s obligations under Clause 6.1.

6.4 *Referral to expert.* If University considers at any time during the period of this Agreement that the Licensee has without legitimate reason failed to comply with its obligations under Clause 6.1, University shall be entitled to refer to an independent expert the following questions:

- (a) whether the Licensee has complied with its obligations under Clause 6.1; and if not
- (b) what specific action the Licensee should have taken (“Specific Action”) in order to have so complied.

6.5 *Appointment of expert.* The independent expert shall be appointed in accordance with the provisions of Schedule 2 and his decision shall be final and binding on the Parties.

6.6 *Consequences of expert’s decision.* If the expert determines that the Licensee has failed to comply with its obligations under Clause 6.1, and if the Licensee fails to take the Specific Action within 6 months of the expert giving his decision in accordance with Schedule 2, University shall be

entitled, by giving, at any time within 3 months after the end of that 6 month period, not less than 3 months' notice to terminate this Agreement and the licences granted to the Licensee under Clause 2.

7. Intellectual property

7.1 Infringement of copyright in the University Software

- (a) Each Party shall inform the other Party promptly if it becomes aware of any infringement or potential infringement of any copyright in the University Software in the Field, and the Parties shall consult with each other to decide the best way to respond to such infringement.
- (b) If the Parties fail to agree on a joint programme of action, including how the costs of any such action are to be borne and how any damages or other sums received from such action are to be distributed, then the Licensee shall be entitled to take action against the third party at its sole expense, subject to the following provisions of this Clause 7.1.
- (c) Before starting any legal action under Clause 7.1(a), the Licensee shall consult with University as to the advisability of the action or settlement, its effect on the good name of University, the public interest, and how the action should be conducted.
- (d) If the alleged infringement is both within and outside the Field, the Parties shall also co-operate with University' other licensees (if any) in relation to any such action.
- (e) The Licensee shall reimburse University for any reasonable expenses incurred in assisting it in such action. The Licensee shall pay University royalties, in accordance with clause 4, on any damages received from such action as if the amount of such damages after deduction of both Parties reasonable expenses in relation to the action were Net Receipts.
- (f) University shall agree to be joined in any suit to enforce such rights subject to being indemnified and secured in a reasonable manner as to any costs, damages, expenses or other liability and shall have the right to be separately represented by its own counsel at its own expense.
- (g) If, within 6 months of the Licensee first becoming aware of any potential infringement of the copyright in the University Software, the Licensee is unsuccessful in persuading the alleged infringer to desist or fails to initiate an infringement action, University shall have the right, at its sole discretion, to prosecute such infringement under its sole control and at its sole expense, and any damages or other payments recovered shall belong solely to University.

7.2 *Infringement of third party rights*

- (a) If any warning letter or other notice of infringement is received by a Party, or legal suit or other action is brought against a Party, alleging infringement of third party rights in the manufacture, use or sale of any Licensed Product, that Party shall promptly provide full details to the other Party, and the Parties shall discuss the best way to respond.
- (b) The Licensee shall have the right but not the obligation to defend such suit to the extent it relates to activities in the Field and shall have the right to settle with such third party, provided that if any action or proposed settlement involves the making of any statement, express or implied, concerning the copyright in the University Software, the consent of University must be obtained before taking such action or making such settlement.

8. Warranties and liability

8.1 *Warranties by University.* University warrants and undertakes as follows:

- (a) it is the proprietor of the copyright in the University Software and has caused all of its employees who contributed to the development of the University Software to execute such assignments of their rights as may be necessary to pass all of their right, title and interest in and to the University Software to University; and
- (b) it has not done, and shall not do nor agree to do during the continuation of this Agreement, any of the following things if to do so would be inconsistent with the exercise by the Licensee of the rights granted to it under this Agreement, namely:
 - (i) granted or agreed to grant any rights in the University Software in the Field in the Territory to any other person; and
 - (ii) assigned, mortgaged, charged or otherwise transferred any of the copyright in the University Software in the Field in the Territory or (subject to Clause (b)) any of its rights or obligations under this Agreement.

8.2 *Warranties by Licensee.* Licensee warrants and undertakes as follows:

- (a) neither it nor any of its Affiliates is currently researching, developing, marketing, selling or otherwise commercialising any Competing Product, nor has any of them entered into an agreement with any other person with respect to any Competing Product;
- (b) it shall notify University promptly if it commences researching, developing, marketing, selling or otherwise commercialising any Competing Product or enters into an agreement with any other person with respect to any Competing Product; and

- (c) it has and will continue to have during the term of this Agreement all necessary resources to develop and commercialise Licensed Products.

8.3 *Acknowledgements.* The Licensee acknowledges that:

- (a) the University Software are at an early stage of development. Accordingly, specific results cannot be guaranteed and any results, materials, information or other items (together “Delivered Items”) provided under this Agreement are provided “as is” and without any express or implied warranties, representations or undertakings. As examples, but without limiting the foregoing, University does not give any warranty that Delivered Items are of merchantable or satisfactory quality, are fit for any particular purpose, comply with any sample or description, or are viable, uncontaminated, safe or non-toxic, accurate, up to date or complete.
- (b) University has not performed any searches or investigations into the existence of any third party rights that may affect the University Software.

8.4 *No other warranties*

- (a) each of the Licensee and University acknowledges that, in entering into this Agreement, it does not do so in reliance on any representation, warranty or other provision except as expressly provided in this Agreement, and any conditions, warranties or other terms implied by statute or common law are excluded from this Agreement to the fullest extent permitted by law.
- (b) without limiting the scope of paragraph (a) above, University does not make any representation nor give any warranty or undertaking:
 - (i) as to the efficacy or usefulness of the University Software; or
 - (ii) that the use of the University Software, the manufacture, sale or use of the Licensed Products or the exercise of any of the rights granted under this Agreement will not infringe any other intellectual property or other rights of any other person; or
 - (iii) that the University Software or any other information communicated by University to the Licensee under or in connection with this Agreement will produce Licensed Products of satisfactory quality or fit for the purpose for which the Licensee intended or that any product will not have any latent or other defects, whether or not discoverable; or
 - (iv) as imposing any obligation on University to bring or prosecute actions or proceedings

against third parties for infringement of the copyright in the University Software; or

- (v) as imposing any liability on University in the event that any third party supplies Licensed Products to customers located in the Territory.

8.5 *Indemnity.* The Licensee shall indemnify University and its Affiliates, and their respective officers, directors, council members, employees and representatives, including the Principal Investigator (together, the "Indemnitees") against all third party Claims that may be asserted against or suffered by any of the Indemnitees and which relate to:

- (a) the use by the Licensee or any of its sub-licensees of the University Software;
- (b) the development, manufacture, use, marketing or sale of, or any other dealing in, any of the Licensed Products, by Licensee or any of its sub-licensees, or subsequently by any customer or any other person, including claims based on product liability laws; or
- (c) a breach by the Licensee of any laws or regulations in the Territory, including any Bribery Event.

8.6 *Liability of Indemnitees.*

- (a) To the extent that any Indemnitee has any liability in contract, tort, or otherwise under or in connection with this Agreement, including any liability for breach of warranty, their liability shall be limited in accordance with the following provisions of this Clause 8.6;
- (b) The aggregate liability of the Indemnitees shall be limited to the total income that University has received from the Licensee (less any expenses that University has incurred in obtaining, maintaining or defending the Patents) during the period of six years preceding the date on which the liability arises, or €50,000, whichever is the higher; and
- (c) In no circumstances shall any of the Indemnitees be liable for any loss, damage, costs or expenses of any nature whatsoever incurred or suffered by the Licensee or its Affiliates that is (a) of an indirect, special or consequential nature or (b) any loss of profits, revenue, business opportunity or goodwill; and
- (d) Nothing in this Agreement excludes any person's liability to the extent that it may not be so excluded under applicable law, including any such liability for death or personal injury caused by that person's negligence, or liability for fraud.

8.7 *Insurance.* Without limiting its liabilities under this Clause 8, the Licensee shall take out with a reputable insurance company and maintain at all times during the term of this Agreement public and product liability insurance including against all loss of and damage to property (whether real,

personal or intellectual) and injury to persons including death arising out of or in connection with this Agreement and the Licensee's and its Affiliates' and sub-licensees' use of the University Software and use, sale of or any other dealing in any of the Licensed Products. Such insurances may be limited in respect of one claim provided that such limit must be at least £5 million. Product liability insurance shall continue to be maintained for a further 6 years from the end of the term of this Agreement.

9. Duration and Termination

9.1 *Commencement and Termination by Expiry.* This Agreement, and the licences granted hereunder, shall come into effect on the Commencement Date and, unless terminated earlier in accordance with this Clause 11, shall continue in force until the later of:

- (a) the date on which copyright in the University Software have expired or been revoked without a right of further appeal; and
- (b) the tenth anniversary of the first commercial sale of Licensed Product in the Territory;

and on such date this Agreement and the licences granted hereunder shall terminate automatically by expiry.

9.2 *Early termination*

- (a) The Licensee may terminate this Agreement at any time on 12 months' notice in writing to University.
- (b) Either Party may terminate this Agreement at any time by notice in writing to the other Party ("Other Party"), such notice to take effect as specified in the notice:
 - (i) if the Other Party is in material breach of this Agreement and, in the case of a breach capable of remedy within 90 days, the breach is not remedied within 90 days of the Other Party receiving notice specifying the breach and requiring its remedy; or
 - (ii) if: (A) the Other Party becomes insolvent or unable to pay its debts as and when they become due, (B) an order is made or a resolution is passed for the winding up of the Other Party (other than voluntarily for the purpose of solvent amalgamation or reconstruction), (C) a liquidator, administrator, administrative receiver, receiver or trustee is appointed in respect of the whole or any part of the Other Party's assets or business, (D) the Other Party makes any composition with its creditors, (E) the other Party ceases to continue its business, or (F) as a result of debt and/or maladministration the other Party takes or suffers any similar or analogous action.

- (c) University may terminate this Agreement by giving written notice to the Licensee, such termination to take effect forthwith or as otherwise stated in the notice:
 - (i) if the Licensee fails to achieve any of the milestone events described in the table in Clause 7.3 by the due date for that event that is stated next to that event in that table; or
 - (ii) if the Licensee fails to pay any annual fee by the due date in accordance with Clause 5.3; or
 - (iii) in accordance with the provisions of Clause 6.6; or
 - (iv) if there is any change of Control of the Licensee; or
 - (v) if the Licensee or its Affiliate acquires rights to or develops a Competing Product; or
 - (vi) if a Bribery Event occurs in relation to the Licensee, its Affiliates or their respective officers, directors, employees and representatives.
- (d) A Party's right of termination under this Agreement, and the exercise of any such right, shall be without prejudice to any other right or remedy (including any right to claim damages) that such Party may have in the event of a breach of contract or other default by the other Party.

9.3 *Consequences of termination*

- (a) Upon termination of this Agreement for any reason otherwise than in accordance with Clause 9.1:
 - (i) the Licensee and its sub-licensees shall be entitled to sell, use or otherwise dispose of (subject to payment of royalties under clause 5) any unsold or unused stocks of the Licensed Products for a period of 6 months following the date of termination;
 - (ii) subject to paragraph (i) above, the Licensee shall no longer be licensed to use or otherwise exploit in any way, either directly or indirectly, the University Software, in so far and for as long as the copyright in the University Software remains in force
 - (iii) subject to paragraph (i) above, the Licensee shall consent to the cancellation of any formal licence granted to it, or of any registration of it in any register, in relation to the University Software;

- (iv) each Party shall return to the other or, at the other Party's request, destroy any documents or other materials that are in its or its sub-licensees' possession or under its or its sub-licensees' control and that contain the other Party's Confidential Information; and
 - (v) subject as provided in this Clause 9.3, and except in respect of any accrued rights, neither Party shall be under any further obligation to the other.
- (b) Upon termination of this Agreement for any reason otherwise than in accordance with Clause 9.1 and at University's request, the Parties shall negotiate in good faith the terms of an agreement between them on reasonable commercial terms under which the Licensee would:
 - (i) transfer to University or its nominee exclusively all results and data relating to the development of Licensed Products;
 - (ii) to the extent possible, seek to have any product licences, pricing approvals and other permits and applications transferred into the name of University or its nominee;
 - (iii) grant University or its nominee an exclusive, worldwide licence, with the rights to grant sub-licences, under any improvements and other intellectual property owned or controlled by the Licensee relating to the Licensed Products; and
 - (iv) grant University or its nominee the right to continue to use any product name that had been applied to the Licensed Products prior to termination of this Agreement.
- (c) If the Parties are unable to agree the terms of an agreement as described in Clause 9.3(b) within 90 days of University requesting the negotiation of such an agreement, either Party may refer the terms for settlement by an independent expert who shall be appointed in accordance with the provisions of Schedule 2 and whose decision shall be final and binding on the Parties. At the request of University, the Parties shall promptly execute an agreement on the terms agreed between them or settled by the expert.
- (d) Upon termination of this Agreement for any reason the provisions of Clauses 3 (in respect of sales made prior to termination or under clause 9.3(i)), 8.5, 8.7, 9.3 and 10 shall remain in force.

10 General

- 10.1 *Force majeure.* Neither Party shall have any liability or be deemed to be in breach of this Agreement for any delays or failures in performance of this Agreement that result from circumstances beyond the reasonable control of that Party, including without limitation labour disputes involving that Party. The Party affected by such circumstances shall promptly notify the other Party in writing when such circumstances cause a delay or failure in performance and when they cease to do so.
- 10.2 *Amendment.* This Agreement may only be amended in writing signed by duly authorised representatives of University and the Licensee.
- 10.3 *Assignment and third party rights.*
- (a) Subject to paragraph (b) below, neither Party shall assign, mortgage, charge or otherwise transfer any rights or obligations under this Agreement, nor any of the Patents or rights under the Patents, without the prior written consent of the other Party.
 - (b) Either Party may assign all its rights and obligations under this Agreement together with its rights in the University Software to any company to which it transfers all or substantially all of its assets or business, PROVIDED that the assignee undertakes to the other Party to be bound by and perform the obligations of the assignor under this Agreement. However a Party shall not have such a right to assign this Agreement if it is insolvent or any other circumstance described in Clause (ii) applies to it.
- 10.4 *Waiver.* No failure or delay on the part of either Party to exercise any right or remedy under this Agreement shall be construed or operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy preclude the further exercise of such right or remedy.
- 10.5 *Invalid clauses.* If any provision or part of this Agreement is held to be invalid, amendments to this Agreement may be made by the addition or deletion of wording as appropriate to remove the invalid part or provision but otherwise retain the provision and the other provisions of this Agreement to the maximum extent permissible under applicable law.
- 10.6 *No Agency.* Neither Party shall act or describe itself as the agent of the other, nor shall it make or represent that it has authority to make any commitments on the other's behalf.
- 10.7 *Interpretation.* In this Agreement:
- (a) the headings are used for convenience only and shall not affect its interpretation;
 - (b) references to persons shall include incorporated and unincorporated persons; references

to the singular include the plural and vice versa; and references to the masculine include the feminine;

- (c) references to Clauses and Schedules mean clauses of, and schedules to, this Agreement;
- (d) references in this Agreement to termination shall include termination by expiry;
- (e) where the word “including” is used it shall be understood as meaning “including without limitation”.

10.8 *Notices*

- (a) Any notice to be given under this Agreement shall be in writing and shall be sent by first class mail or air mail, or by fax (confirmed by first class mail or air mail) to the address of the relevant Party set out at the head of this Agreement, or to the relevant fax number set out below, or such other address or fax number as that Party may from time to time notify to the other Party in accordance with this Clause 10.8. The fax numbers of the Parties are as follows: University – •; Licensee – •.
- (b) Notices sent as above shall be deemed to have been received three working days after the day of posting (in the case of inland first class mail), or seven working days after the date of posting (in the case of air mail), or on the next working day after transmission (in the case of fax messages, but only if a transmission report is generated by the sender’s fax machine recording a message from the recipient’s fax machine, confirming that the fax was sent to the number indicated above and confirming that all pages were successfully transmitted).

10.9 *Law and Jurisdiction.* The validity, construction and performance of this Agreement shall be governed by and construed in accordance with English law and each Party agrees to submit to the exclusive jurisdiction of the courts of England and Wales, except that a Party may seek an interim injunction in any court of competent jurisdiction.

10.10 *Further action.* Each Party agrees to execute, acknowledge and deliver such further instruments, and do all further similar acts, as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

10.11 *Announcements.* Neither Party shall make any press or other public announcement concerning any aspect of this Agreement, or make any use of the name of the other Party in connection with or in consequence of this Agreement, without the prior written consent of the other Party.

10.12 *Entire agreement.* This Agreement, including its Schedules, sets out the entire agreement

between the Parties relating to its subject matter and supersedes all prior oral or written agreements, arrangements or understandings between them relating to such subject matter. Subject to Clause (d), the Parties acknowledge that they are not relying on any representation, agreement, term or condition which is not set out in this Agreement.

10.13 *Third parties.* Except for the rights of the Indemnitees as provided in clause 8.5, who may in their own right enforce the provisions of that Clause, this Agreement does not create any right enforceable by any person who is not a party to it ('Third Party') under the Contracts (Rights of Third Parties) Act 1999, but this clause does not affect any right or remedy of a Third Party which exists or is available apart from that Act. The Parties may amend, renew, terminate or otherwise vary all or any of the provisions of this Agreement, including Clause 8.5, without the consent of the Indemnitees.

10.14 *Export Control Regulations*

- (a) "Export Control Regulations" mean any United Nations trade sanctions or EU legislation or regulation, from time to time in force, which impose arms embargoes or control the export of goods, technology or software, including weapons of mass destruction and arms, military, paramilitary and security equipment and dual-use items (items designed for civil use but which can be used for military purposes) and certain drugs and chemicals.
- (b) The Licensee shall ensure that, in using the University Software and in selling Licensed Products, it shall not and nor shall its or its Affiliates employees or sub-contractors breach or compromise, directly or indirectly, compliance with any Export Control Regulations.

Agreed by the Parties through their authorised signatories:

For and on behalf of

[full name of University]

signed

print name

title

date

For and on behalf of

[full name of Licensee]

signed

print name

title

date

Schedule 1

Part A: The University Software

[The software source code, any documentation and other information should be described and any resources (such a CD-ROM) listed]

Schedule 2

Appointment of expert

1. Pursuant to Clause _____, University may serve notice on the Licensee (“Referral Notice”) that it wishes to refer to an expert (the “Expert”) the questions set out in Clause _____.
2. The parties shall agree the identity of a single independent, impartial expert to determine such questions. In the absence of such agreement within 30 days of the Referral Notice, the questions shall be referred to an expert appointed by the President of Law Society of England and Wales.
3. 60 days after the giving of a Referral Notice, both parties shall exchange simultaneously statements of case in no more than 10,000 words, in total, and each side shall simultaneously send a copy of its statement of case to the Expert.
4. Each party may, within 30 days of the date of exchange of statement of case pursuant to paragraph 3 above, serve a reply to the other side’s statement of case of not more than 10,000 words. A copy of any such reply shall be simultaneously sent to the Expert.
5. The Expert shall make his decision on the said questions on the basis of written statements and supporting documentation only and there shall be no oral hearing. The Expert shall issue his decision in writing within 30 days of the date of service of the last reply pursuant to paragraph 4 above or, in the absence of receipt of any replies, within 60 days of the date of exchange pursuant to paragraph 3 above.
6. The Expert’s decision shall be final and binding on the parties.
7. The Expert’s charges shall be borne equally by the parties.

End user software licence

Terms and conditions

1. Grant.

- 1.1 *Licence.* [In consideration of the payment of any Licence Fee (as defined [overleaf]) and the acceptance of the provisions of this Licence,] the Licensor grants the Licensee a non-exclusive and non-transferable licence, for internal use only, for any User (as defined [overleaf]) to install, load, display, run and make necessary back-up copies of the Software (as defined [overleaf]) during the Licence Period (as defined [overleaf]) and subject to and in accordance with the following provisions.
- 1.2 *Access.* The Licensee shall supervise the use of the Software, control access to it and keep it secure. The Licensee remains fully responsible at all times for all acts and omissions of anyone it allows to use the Software and for ensuring such person understands and observes this Licence. This responsibility includes without limitation any employee, student, independent contractor or visiting researcher.
- 1.3 *Confidentiality.* The Licensee acknowledges that the Software is confidential. Unless required to disclose by law, stock exchange or in connection with legal proceedings the Licensee shall keep the Software confidential and secret, together with all know-how, techniques, ideas, principles and concepts which underlie the Software and all information supplied by the Licensor in relation to the Software or which is otherwise identified as confidential. The obligations in this Clause do not apply to information which is in or becomes part of the public domain in a lawful manner. The obligations in this Clause shall survive the expiry or earlier termination (for whatever reason) of the Licence Period for a period of [three] years.
- 1.4 *Modifications, etc.* [The Licensee shall not modify, adapt, disassemble, reverse engineer, decompile, translate or otherwise attempt to discover the source code of the Software or permit any of these things to happen except as expressly allowed by applicable law governing the rights of software Licensees.] *or, if source code is being provided* [The Licensee may correct errors, modify the Software and create derivative works. The Licensee shall copy all error corrections promptly to the Licensor and hereby assigns copyright in them to the Licensor. The Licensee shall own modifications and derivative works it makes of the Software but not any Software incorporated in them. The restrictions in clause 1.5 shall also apply to any modification or derivative work, to the extent that it is based on or utilises the Software,

unless the Licensor's prior written consent to vary the restrictions has been obtained. Such consent shall be subject to payment and to such other terms as may be fair and reasonable in the circumstances.

- 1.5 *Sub-licensing, etc.* The Licensee shall not distribute, sub-Licence, sell, lend, provide access (including without limitation via a public-access or internal internet site) to the whole or any part of the Software to, or use it to process the work of, any third party.
- 1.6 *No other licence.* Except for the rights expressly set out in this Licence, no licence is granted and all rights, title, interest in and to the Software (including without limitation any patent rights) in all formats and media throughout the world now or hereafter are and shall remain the exclusive property of the Licensor and other rights holders.
- 1.7 *Acknowledgements.* The Licensee shall acknowledge the authors and use of the Software in the publication of any results achieved through use of the Software. The Licensee shall reproduce a copyright notice on every copy of the Software (including partial copies) and on any accompanying manuals and documentation in the form "Copyright © [] University of []. All rights reserved.," with the date the Software was written inserted after the sign "©". Trademark and other proprietary notices must also be reproduced but the Licensee has no other right to use the name, arms, trademark, logo or other designation of the University of [].

2. Warranties and liability

- 2.1 *Errors, etc.* The Licensee acknowledges that the Software is at an early stage of development and is not error-free, that it is provided "as is" and that specific results and uninterrupted running cannot be expected. The Licensee therefore agrees that the existence of errors in the Software shall not constitute a breach of this Licence. The Licensor shall not have any obligations to upgrade, "bug-fix", provide documentation, support or maintenance services, or provide any information, assistance or consultancy in relation to the Software.
- 2.2 *Disclaimer.* No warranty, condition, undertaking or term, express or implied, statutory or otherwise, is given or assumed by the Licensor, including without limitation as to non-infringement or the condition, performance, satisfactory quality or fitness for purpose of the Software and all such warranties, conditions, undertakings and terms are hereby excluded to the fullest extent permitted by law.
- 2.3 *Indemnity.* The Licensee shall indemnify the Licensor and its officers, directors, Council members, employees and representatives (together, the "Indemnitees") against all third party Claims that may be asserted against or suffered by any of the Indemnitees and which relate to the use by the Licensee of any of the Software. "Claims" means all demands, claims and

liability (whether criminal or civil, in contract, tort or otherwise) for losses, damages, legal costs and other expenses of any nature whatsoever and all costs and expenses (including without limitation legal costs) incurred in connection therewith.

2.4 *Liability of Indemnitees.*

(a) To the extent that any Indemnitee has any liability in contract, tort, or otherwise under or in connection with this Licence, including any liability for breach of warranty, their liability shall be limited in accordance with the following provisions of this Clause 2.4.

(b) The aggregate liability of the Indemnitees shall be limited to the total amount of any Licence Fee or [£10,000], whichever is the higher; and

(c) In no circumstances shall any of the Indemnitees be liable for any loss, damage, costs or expenses of any nature whatsoever incurred or suffered by the Licensee that is (a) of an indirect, special or consequential nature or (b) any loss of profits, revenue, business opportunity or goodwill.

2.5 *Saving.* Nothing in this Licence excludes any person's liability to the extent that it may not be so excluded under applicable law, including any such liability for death or personal injury caused by that person's negligence, or liability for fraud.

3. Termination.

3.1 *Breach.* The Licensor may terminate the Licence Period early by written notice if the Licensee fails to comply with any provision of this Licence, including without limitation non-payment of the whole or any part of the Licence Fee, within 14 days of being required to do so in writing.

3.2 *Consequences of termination.* Upon termination the Licensee shall immediately stop using the Software and shall certify to the Licensor within 5 days that the Licensee has removed all copies from its systems. The expiry or termination of the Licence Period is without prejudice to any other rights or remedies of either party under the Licence or at law and does not affect any rights or obligations which have arisen or accrued up to and including the date of expiry or termination. Clauses 1.3, 2, 3 and 4 shall survive termination or expiry.

4. General

4.1 *Assignment.* The Licensee shall not assign or otherwise transfer all or any part of this Licence, without the Licensor's prior written consent.

- 4.2 *Law and jurisdiction.* The validity, construction and performance of this Licence shall be governed by English law and shall be subject to the exclusive jurisdiction of the English courts to which the parties hereby submit, except that a Party may seek an interim injunction in any court of competent jurisdiction.
- 4.3 *Entire agreement.* This Licence constitutes the entire agreement and understanding of the Licensor and Licensee relating to the subject matter of this Licence. This Licence cannot be waived or varied except in writing signed by the Licensor. If the whole or any part of a provision of this Licence is void, unenforceable or illegal in a jurisdiction, it is severed for that jurisdiction, unless it alters the basic nature of this Licence or is contrary to public policy.
- 4.4 *Third party rights.* Except for the rights of the Indemnitees as provided in clause 7.5, who may in their own right enforce the provisions of that Clause, this Licence does not create any right enforceable by any person who is not a party to it ('Third Party') under the Contracts (Rights of Third Parties) Act 1999, but this clause does not affect any right or remedy of a Third Party which exists or is available apart from that Act. The Parties may amend, renew, terminate or otherwise vary all or any of the provisions of this Licence, including Clause 7.5, without the consent of the Indemnitees.

APPENDIX B

Completing the template agreements

Introduction

The following section provides a quick step-by-step list of some points to note when drafting/completing a 'standard' licence agreement – the assumption, for the purposes of this text, being that the licence agreement is similar to (or the same as) the first three templates set out in Appendix A, although the comments below are generic enough to be of universal value. The issues have already been discussed in the main text, but it seems appropriate to re-state them briefly, as an aide-memoire to completing a simple licence agreement.

As a general observation, drafting a licence agreement is likely to require more preparation and thought than drafting some of the other types of agreement in the PraxisUnico Practical Guide series (e.g. a CDA or option agreement). Many licence agreements have unique features, and template agreements are only a starting point for the draftsman. This is particularly (but not only) true of the template for a software distribution and licence agreement, which includes a large number of optional clauses and alternative provisions. Although it is hoped that these will cover many situations that the university licensing executive encounters, it is nevertheless likely that the agreement will need to be modified to meet individual circumstances.

Which template should I use?

Where the licence includes the provision of software, an important first question is which of the template agreements should be used as a starting point. The following comments may be of assistance.

The exclusive patent and know-how licence agreement contains provisions that are appropriate for when granting an exclusive licence to valuable patents and know-how. In some situations it may be thought to be too detailed. A cut-down version of this agreement, which includes key provisions that should probably always be included even in small-value transactions, is set out in the Short Form Non-Exclusive Licence Agreement. The exclusive patent and know-how licence agreement includes optional and alternative provisions that may be selected or discarded as appropriate. For example the financial terms in this agreement include upfront fees, annual licence fees, milestone payments, minimum royalties, and royalties on both net sales and net receipts: some but not all of these provisions will typically be encountered in any one licence agreement. The overall balance of terms in this agreement favours the University. However, these can be varied to suit each transaction.

The short form non-exclusive licence agreement is suitable for copyright and know-how, though for copyright in software, it may be more appropriate to use the software licence agreements. It includes some core terms dealing with commercial and intellectual property issues. It is not suitable for significant transactions, where the more detailed exclusive patent and know-how licence agreement should be used as a starting point. Where appropriate, clauses could be cut and pasted from that more detailed agreement into this simplified licence agreement.

The software distribution and licence agreement in Appendix A is based upon the exclusive patent and know-how licence agreement. Although many of the provisions of the two agreements are similar, the software licence agreement includes provisions that are specific to software licensing, particularly in the clauses that describe the rights being granted, the obligations to supply a copy of the software, and the financial provisions.

It will be noted that, in some respects, the software distribution and licence agreement looks more like a patent licence agreement than a typical commercial software distribution agreement as used by commercial software companies. This is deliberate, as in the authors' experience when universities license software they tend not to be offering the same type of 'product' as a commercial software company would. Usually, the software is not fully developed as a commercial product, and the university is not offering a full support and maintenance service. Moreover, the university may wish to make use of the software in other research projects, develop it further or for different applications, etc. The software distribution and licence agreement in Appendix A includes some optional provisions clarifying that the university has certain rights to use parts of the software for other purposes.

Some university licence agreements are concerned with licensing a package of technology that may include several types of IP, such as for an engineering product. The key terms of such a licence agreement may include:

- Licences of patents and know-how
- Licences of software that assists in the design of an engineering product
- Supply of a prototype engineering product for testing by the licensee
- Supply of consultancy services to assist the licensee to develop a commercial engineering product
- Training to the licensee's engineer in the use of the technology, including the software

In this example, it may be most appropriate to use the exclusive patent and know-how licence agreement as the starting point, and adding provisions to deal with specific software licensing issues (as well as other terms dealing with consultancy and training, etc).

Where the transaction is principally concerned with appointing a distributor of software, the third template should be used.

Sometimes, where software is licensed, the licensee is the end user of the software rather than a distributor or someone who is seeking to sell or license it to others. The fourth template in Appendix A is a set of typical, but fairly brief, end user licence terms. Sometimes, terms of this kind will be included on a website from which the software can be downloaded. In other situations, a licence agreement will be signed by both parties. For simplicity this document has been prepared as a set of terms rather than in any particular agreement format. Licensing executives should take care to ensure that, if they use these terms, they are effectively incorporated into the contract. For example if they appear on a website from which software can be downloaded, has the user explicitly agreed to the terms, eg by clicking on an “I accept” button? Legal advice should be sought as to the best way to ensure that the terms have been effectively incorporated into the contract in particular circumstances.

Where the end user licence terms are used in conjunction with a distribution licence (e.g. if the distributor is required to ensure that its customers agree to be bound by the terms of the end user licence), it will be important to check that the end user terms reflect the requirements of the distribution licence (e.g. that the end user licence terminates on any termination of the distribution licence) and make any necessary modifications. Similarly, the end user licence terms may need to be modified to reflect any specifically agreed terms for commercial or academic end users, e.g. in relation to publications.

Where the transaction is of high value or importance, a more detailed end user licence agreement may be required. Generally, readers should consider the suitability of the terms for the particular transaction and take advice where appropriate.

Completing the agreements

The following comments concern some general issues for preparing a licence agreement based on the first, second and third templates. They relate to preparation of the first draft of the licence agreement. In practice, licence terms are often negotiated and revisions are made to the detailed wording.

Signature date

This means the date of the licence agreement, and is usually (unless otherwise agreed) the date on which the last person/party signs. As stated in the Practical Guide entitled General Legal Issues in University Contracts, one should not backdate the licence agreement by inserting a date before the date of signature, at the beginning of the licence agreement; if the licence agreement is to cover periods prior to the date of the licence agreement one should insert, in the definitions section, a separate definition of ‘Commencement Date’, ‘Effective Date’, or something similar – i.e. the rights and obligations under the licence agreement are effective from that date.

Parties

For the University – make sure that the signatories are authorised signatories (e.g. ensure they are not a senior member of an academic department who, whilst they think they have authority to sign, actually do not have any authority whatsoever to enter into legally binding agreements on behalf of the university). If a university-owned company is the licensor, consider whether the university also needs to be a party (e.g. to perform research obligations) or whether the university company will ‘procure’ that the university performs those (defined) obligations.

For UK companies make sure to insert the full address (it may be the registered address or a business address – but you have to state which it is). Also consider inserting the company ‘number’ (a company can change its name, but the original number given to it by Companies House never changes (like one’s National Insurance Number, even if one changes one’s name). A similar approach should be applied for non-UK companies.

For individuals – make sure their home address is given (people move from one employer to another, which can prove problematic if they need to be found to sign further documents or in the event of a dispute). A further disadvantage of stating their work address, particularly in the case of academic staff, is that sometimes this may create ambiguity as to whether they are entering into the licence agreement in a personal capacity or as a representative of their employer.

The ‘Recitals’ or ‘Whereas’ section

Generally appears on the first page of the licence agreement, after the ‘Parties’ section, but before the main body of the licence agreement (which is the bit that usually commences along the lines of ‘It is agreed as follows’. Recitals are intended to give some background to the licence agreement, but they are not strictly necessary, and they are sometimes omitted.

The main ‘operative’ provisions

It is important to define clearly and accurately the IP that is being licensed (perhaps listing it in a schedule), the types of product or service that are being licensed, and any field, territory and other limitations. These points come up both in the definitions and in the main grant clause. If the university is reserving rights to conduct research using the licensed IP, the extent of these rights may require careful drafting. An exclusive licensee may wish to put limits on the types of commercial research that can be conducted and which might lead to competing products or services.

Often, the financial terms are the subject of negotiation and non-standard provisions may be included. If any payments are based on achieving milestones, the milestones should be carefully defined. Complex royalty provisions, e.g. a sliding scale of royalties depending on sales, require careful drafting. The university’s bank account details may need to be included in the payment clause.

It is a matter of commercial judgment whether to include some of the commercial provisions that are to be found in the attached templates. For example, a 'royalty-stacking' clause, allowing deductions from royalties if the licensee pays royalties to a third party, is not in the university's interests, but the version set out in the template may be better than an alternative clause that a licensee may propose.

Generally, the templates include some optional provisions in square brackets. The draftsman needs to decide which of these provisions to include in the first draft of the licence agreement. For example, Clause 5 of the exclusive patent and know-how licence agreement provides for both annual licence fees and minimum annual royalties. Sometimes, a licence agreement will have one or the other type of clause, but rarely both in the same agreement.

If a version of the template is being used, that has been revised by the university, it is strongly recommended that steps are taken to maintain the integrity of a master version, e.g. by saving it as a 'read only' document. The authors have encountered many university agreements that, although recognisable as being originally based on a template, include inappropriate provisions that have 'crept in' over a period of time, and omit other important provisions that were in the original version. Usually what has happened is that the draftsman has based his document on the most recently-used version of an agreement, which includes variations on the standard document. If this happens repeatedly over a series of transactions, the working document moves further and further away from the original master document.

If the parties are to cooperate in a development project or in the overseeing of a development project, terms relating to this cooperation will need to be added either to the licence agreement or set out in a separate agreement.

Schedules

It is important to scrutinise any schedules prepared by others, e.g. lists of patents or descriptions of technology or support activities, to ensure that they do not make inappropriate commitments or conflict with the main body of the licence agreement.

APPENDIX C

In-depth discussion of commercial issues in licence agreements

Introduction

This Appendix will focus on some detailed drafting and negotiation issues in licence agreements. The main topics to be covered will be:

- Defining the subject matter and scope of the licence
- Sublicensing
- Provision of know-how, materials, software, support and improvements
- Payments and payment terms
- Obligations to develop and commercialise licensed products/services
- Protecting and litigating IP
- Warranties and liability
- Duration, termination and consequences of termination
- Boilerplate clauses

Drafting and negotiation of 'legal' issues are discussed in a separate Practical Guide entitled 'General Legal Issues in University Contracts', which covers, among other matters:

- Backdating the licence agreement
- Parties
- Law and jurisdiction
- Injunctive relief
- Export control laws

Subject matter of the licence agreement

Which IP?

It is strongly recommended that the licence agreement should include a precise description of the IP that is being licensed. Ideally, there will be schedule(s) list the items of IP being licensed, including:

- In the case of patents, a table listing all the patents and applications in each country, which should be checked with the university's patent agents;
- In the case of copyright works, eg software, a list of the works, including any modules and stating any version numbers and/or dates of creation. Ideally, there should also be a statement of where one can find the definitive versions that are being licensed, so as to avoid the kind of ambiguity and dispute that might arise if software is simply referred to by a name, eg "SOFTHEAD version 3.1" Typically there would be a licence under the "University Intellectual Property" in respect of these works, where copyright, and possibly rights in respect of confidential information, are the main rights being licensed;
- In the case of know-how, a list of key documents and a few descriptive paragraphs of the know-how being licensed. From the legal certainty aspect, and in light of the requirement of the European Commission's Technology Transfer Block Exemption Regulation that know-how be "secret, substantial and identified" (see further, Appendix D to this Practical Guide), it is strongly recommended that the licensed know-how be described in the licence agreement, and that the draftsman resist any pressure from the academic along the lines of "we can't really define the know-how, it is just what is in my head". Usually there will be some documentation that can be referred to.

It may be appropriate for the university to conduct some internal 'due diligence' to verify whether the university owns all the IP that it is licensing, and to obtain written assignments (and confirmation that they have not knowingly used any third party IP – e.g. freeware) from employees, students, visiting academics and others in appropriate cases. Due diligence issues are discussed in a separate Practical Guide entitled 'Key Issues in University Commercialisation Agreements'.

Which licensed products or services?

In some situations, the licensed product will already be known at the time of granting the licence, e.g. if it is a suite of computer programs that the university has developed, and a list of specific licensed products can be included in the licence agreement, or its schedule(s). In other situations the licensed product will not be known at this stage, e.g. if it is a pharmaceutical drug that has yet to be identified or developed by the licensee using the university's technology.

Particularly where the product is not yet known, Licensed Product may be defined as any product that would, in the absence of the licence, infringe the Licensed Intellectual Property. A number of practical and negotiating points arise, including:

- Where patents are being licensed, should Licensed Products be defined as including any product within the claims of *patent applications* as well as granted patents?
- Sometimes, Licensed Products are defined as products within the *Valid Claims* of patents (and/or patent applications), where Valid Claim is defined so as to exclude claims that have expired, been withdrawn or been held invalid.
- Sometimes, Licensed Products are defined as including products that have been developed using the Licensed Know-how, or which incorporate the Licensed Know-how. Licensees sometimes object to paying royalties on products that are not protected by the licensed patents. In other words, they want access to the know-how but are not prepared to pay a royalty on it. Sometimes the argument is that a lump sum (e.g. an upfront payment) is being paid for access to know-how. On the other hand, the university will probably wish to ensure a royalty payment in countries where patents have not been obtained. These are important commercial points for negotiation. If a know-how royalty is paid, it is sometimes agreed that the royalty rate is lower than in the case of patent royalties.
- If the Licensed Products are defined as including improvements, this raises important policy issues, as to which see below under *Improvements*.

Field

Licences are often limited to a particular field, e.g. “the use of the Licensed Products as a therapy for the treatment of cancer in humans”. Sometimes the field definitions are highly technical. They need to be drafted carefully. In the authors’ experience, where very complex technical definitions are used, it can take several iterations between scientist and draftsman to make the wording both clear and technically accurate.

Territory

Where the licence is to be a worldwide licence, a territory definition is unnecessary if the word “worldwide” appears in an appropriate place in the grant clause.

If the territory is to be Europe, the specific countries should be stated (rather than just say “Europe”), to avoid uncertainty over whether countries such as Turkey, Israel, Russia and others are within, or wholly within, Europe.

Sometimes parties define the territory as the member states of the European Union and/or countries within the European Economic Area (covering certain countries such as Norway that have chosen to remain outside

the EU). In such cases it is important to be clear on whether the territory is just the countries within those categories at the date of the licence agreement or if it includes countries that, for example, join the EU after the date of the licence agreement.

If the territory is North America, check whether Mexico is intended to be included.

If the territory includes China and/or Taiwan, bear in mind that China claims sovereignty over Taiwan, so that some 'belt and braces' wording may be desirable to make clear whether Taiwan is included.

Generally, it may be better to avoid definitions based on Continents and instead list the relevant countries.

Grant of licences and sub-licences

Grant clause

A conventional way of drafting an IP licence is to use wording such as the following:

University hereby grants Licensee an exclusive, worldwide licence under the University Intellectual Property to make, have made, use and sell Licensed Products.

Sometimes, the wording of the grant clause fails to make a sufficient distinction between (1) the IP being licensed, and (2) the products or services that the licensee is authorised to make, use and sell under the licence. The above wording avoids this confusion. By contrast the following wording is less attractive:

University hereby grants Licensee an exclusive, worldwide licence to use and sell the Licensed Software.

This wording fails to make clear which IP rights are being licensed and may create uncertainty as to whether:

- The university is licensing a specific package of IP, e.g. copyright in the Licensed Software, or is licensing any IP rights that the university may own that may protect the Licensed Software. In the latter case, this may 'suck in' to the licence other developments, e.g. inventions made in other departments of the university, which may not be the university's intention.
- The university is making any kind of promise that it is licensing all IP rights that exist anywhere in the world, that protect the Licensed Software. Clearly this would be an unacceptable promise to give, not least because the university may have no way of knowing whether, for example, an unpublished third party patent application may exist that claims some aspect of, in this example, the Licensed Software.

In this example, it may be desirable to state specifically (e.g. via a definition of University IP) which IP rights are being licensed, e.g. all of the university's copyright in the Licensed Software, and to give appropriate warranties

as to how the software was developed (e.g. solely developed by university employees who have assigned all their IP in the software to the university, and not using any third party software).

The *activities* being licensed should be clearly stated. A conventional grant clause might grant rights to 'make, have made, use and sell'. In an ideal world, the list of licensed activities would mirror the list of 'infringing acts', i.e. the activities that would, in the absence of the licence, infringe the Licensed IP. However, this will often be impractical for a number of reasons, including:

- Where a patent licence covers several territories, the infringing acts in each territory will depend on national patent laws, and may be worded differently in each country's patent laws.
- Where a licence covers several types of IP (e.g. both patents and copyright), the infringing acts (as described in the relevant IP statute) may be different depending on the type of IP. For example, the relevant copyright statute may refer to 'making copies' whereas the relevant patent statute focuses on selling products that are within the claims of the patents.

This point is mentioned because some licence agreements, particularly those drafted outside the UK, include lists of permitted activities that are not immediately familiar to a UK draftsman. Any such lists should be scrutinised carefully. For example, it may be inappropriate to grant an exclusive licence to 'export', as this might imply the grant of rights outside the licensee's territory.

Sometimes, special wording is included in the licence agreement to clarify the meaning of 'exclusive licence' in the context of the European Commission's Technology Transfer Agreements Block Exemption Regulation (as to which, see Appendix D). This special wording is of particular relevance if the EU territory is being divided up between different licensees. Typically, the wording clarifies whether each licensee is allowed to market outside its territory, and whether it may accept unsolicited orders from customers located outside its territory. These are a couple of the many, detailed issues that are addressed in the block exemption regulation.

Formal licences

In some countries it is necessary or desirable to register the licence agreement with the Patent Office or with some other government agency. For example, in the UK it is important to register an exclusive patent licence with the UK Intellectual Property Office within 6 months of the licence coming into effect, in order to take advantage of section 68 of the Patents Act 1977. In some countries, the licence must be in a prescribed form; in others, it may be necessary to register the signed licence agreement or a summary of its terms, and these details may be included on a publicly available register. In some countries, the licence will not have any legal effect until it is registered. It can be useful to include in the licence agreement a clause stating, in effect, that:

- The parties will register the licence
- The licence agreement will, to the extent possible, be legally binding on the parties prior to any required registration taking effect
- In registering the licence, the parties will try to avoid placing the commercial terms of the licence agreement on a public register
- If the terms that must be registered are prescribed by law and differ from the terms of the signed licence agreement, the parties will as far as legally possible operate in accordance with the terms of their signed agreement and not on the terms of the formally registered licence.

It is a matter of commercial judgment whether to take the trouble to address the above points in the licence agreement. Some of them are only relevant to relatively minor territories (Brazil springs to mind, perhaps unfairly). A *formal licences* clause appears in the first of the templates included in this Practical Guide.

Sub-licensing

Some licence agreements require the licensee to obtain the licensor's specific consent for any sub-licensing agreement. Other agreements allow sub-licensing without consent, but subject to certain conditions. An example of the latter approach appears in the first template agreement in Appendix A. The conditions tend to be negotiated.

If the university's income under the licence agreement is to be based wholly or partly on the terms of the licence agreement between licensee and sub-licensee (especially where the licence granted is exclusive), it may be important for the university to have some control over the terms that the licensee agrees to.

Usually, it is accepted that the licensee is responsible for the actions of its sub-licensee, and that certain obligations in the head licence must be passed down to the sub-licensee.

A question that sometimes comes up is whether sub-licences should survive the termination of the head licence, e.g. if the university terminates the head licence due to the licensee's breach. In some situations it may be appropriate to allow the sub-licence to continue, usually as a direct licence agreement between the university and the (sub) licensee. Many sub-licensees will insist on some protection against losing their licence in circumstances where they have not been at fault. In some agreements, the university has the right but not the obligation to take over the sub-licence agreement. In other agreements, this is for the sub-licensee to decide. If the university is to become bound by the obligations of the sub-licence agreement, it will usually require a right of approval of both the terms of the sub-licence agreement and the identity of the sub-licensee prior to the grant of the sub-licence.

Reservation of rights

In exclusive licence agreements, the university typically either reserves a right to use the licensed intellectual property for the purposes of research and teaching, or is granted a licence back for these purposes. In the authors' view, a reservation of rights is preferable.

Where the right reserved is briefly stated, e.g. "academic research", there may be some uncertainty as to which research activities are allowed. Ultimately, it would be for a court to construe the wording of the clause. Views may differ as to whether "academic research" covers:

- *Conduct*: Any research conducted by an academic;
- *Control*: Any research that is controlled by the academic and not by an industrial sponsor (e.g. a clinical trial of a company's pharmaceutical drug where the academic, rather than the drug company, is the "sponsor" for regulatory purposes);
- *Charitable status*: Any research that qualifies under charity and tax law as part of the charitable activities of the university;
- *End product*: Any research that is not explicitly directed to the development of a commercial product;
- *Funding*: Any research that is not [wholly] funded by a commercial organisation.

In the absence of a body of English case law on the point, it is difficult to predict how an English court would interpret this phrase. Reported court decisions in the USA may be of very little relevance to English law in this area. The authors' personal view is that activities that are in the nature of commercial consultancy would not qualify as academic research, but that research funded by a commercial company might be regarded as academic research if the research programme has objectives that are wider than the development of a specific commercial product and if the company does not have a veto over publications.

To avoid this uncertainty, some universities have sought to include in their licence agreements a definition of what qualifies as academic research, e.g. by stating specifically that it includes research funded by another commercial organisation. A possible downside of this approach is that if the university is not firm in the negotiation of such wording, the end result may be unambiguous but unhelpful to the university, e.g. if it explicitly prohibits commercially-funded research.

Supply of information, products, services, improvements

Know-how

University licence agreements often include a licence of know-how. This raises a number of issues, including:

- Should there be a hand-over of a package of know-how and/or training in the use of the know-how (sometimes referred to, e.g. by the Inland Revenue, as 'show-how')? Should the licence agreement define the package and/or place a limit on the amount of time that the university must commit to this process without additional charge (e.g. up to 2 man-days' work)?
- Should any licence to know-how be exclusive or non-exclusive? Some universities are willing to grant exclusive patent licences but insist that any know-how licence is non-exclusive, either because the know-how is of a general nature and may be relevant to other licensees, or to enable the university to make use of it in further research. In the first template in Appendix A, the licence granted to the know-how is non-exclusive.
- Is the university making any promises as to the secrecy of this know-how and that it will remain secret? Indeed, does the academic wish to retain a right to publish any of the know-how? Does the university have any genuine ability to prevent use or disclosure of the know-how by the lead academic or others within the university? A few institutions take the view that they are not able to control know-how within their organisation and for this reason they are not prepared to license it. Similar considerations apply to the question of whether a university should enter into confidentiality agreements.
- If the know-how is published, will the licensee lose a competitive advantage? More generally, does the know-how provide the licensee with a genuine competitive advantage, such that payments for the know-how (lump sums and/or royalties) are appropriate?
- Should the licensee be under any obligations with respect to the know-how, e.g. to keep it secret?
- What warranties should the university give in relation to know-how? (See discussion of warranties, later in this Appendix).

It can be seen that there is potentially a conflict between the role of a university in disseminating ideas and information, and the obligations of a licensor under a know-how licence agreement. It is not suggested that this makes it impossible for a university to grant know-how licences. Rather, the technology transfer executive may wish to consider on a case-by-case basis what know-how terms are appropriate for the individual licence agreement.

Materials

Particularly in the biotechnology and pharmaceutical fields, biological and chemical materials may be transferred between the parties to a licence agreement. Material transfer agreements are the subject of a separate PraxisUnico Practical Guide. In the context of licensing, the following points may be important:

- To define the quantities and specifications of any materials to be transferred
- To clarify whether the materials comply with any safety, quality or regulatory standards (e.g. that they have been manufactured in accordance with GMP or GCP) or to disclaim any such compliance
- To clarify the use to which the materials may be put (e.g. not to be used in humans)
- Where the materials are of human origin, to comply with any relevant regulations and guidelines (e.g. the MRC Guidelines)
- To allocate liability between the parties for any injury or damage caused by the materials (e.g. by way of indemnities)

The term “materials” is also sometimes used to refer to documents and other records of research etc. See further the discussion of software, below.

Software

Where computer programs and related materials such as manuals (together commonly known as software) are being provided, it is important to specify exactly what is being provided and its development status. Usually, academic software has not been developed and validated to the point of being a fully commercial product. Academics sometimes underestimate the amount of work that needs to be done to academic software to turn it into commercial software, i.e. to make it robust, user-friendly, bug-free, etc.

An important issue is whether the licensee is to have access to the source code of the software, or is just to be provided with an object code version. The source code may be essential if the licensee is to develop further or maintain the software. Sometimes, licensors are not willing to provide source code and instead enter into ‘escrow agreements’ under which an independent third party (the escrow agent) holds the source code and agrees to release it to the licensee only in defined circumstances, e.g. if the licensor becomes insolvent or fails to maintain the software.

In the UK, the most prominent escrow agent is the National Computing Centre (NCC) in Manchester. The NCC has a set of standard escrow agreements which can, to some extent, be adapted to meet individual circumstances (although it is understood that the NCC charges more for considering changes to their standard agreements).

Licensees sometimes need access to interface codes for the licensed software in order to create software that is ‘inter-operable’ with the licensed software. Readers should be aware that European software copyright laws permit a licensee of software, in certain situations, to make use of interface codes, to make back-up copies of software, etc, and that it may not be permissible to include provisions in the licence agreement that remove these rights. Legal advice should be sought in appropriate cases.

Support

In university licence agreements, there tend to be relatively few ongoing support obligations, beyond an initial hand-over of know-how, software, etc. Ongoing support may instead be dealt with by a separate consultancy agreement with the lead academic.

In the context of software licensing, a university may sometimes be willing to provide ongoing maintenance of the software, on similar lines to a commercial provider of software. More often, though, this will not be a role that is well-suited to an academic environment. Usually, the university will not be providing a 'commercial' product and will not be offering commercial support services in relation to the product.

Sometimes, where an academic is using software for some other purpose, e.g. as a design tool for a commercial product, the licence agreement may be structured as a licence agreement, although in reality what is being provided is a design consultancy service that happens to make use of software and where part of the consideration is a royalty on the sale of the resulting product.

Improvements

Licensees often ask for rights over any improvements that the university may make to the licensed IP. There is sometimes an understandable concern that some or all of the value of the licence may be lost if the licensed technology is superseded by a new version which may be licensed to a competitor. Investors in spin-out companies are sometimes exercised by this potential risk to the value of their investment.

From the university's point of view, a new generation of technology shouldn't necessarily be licensed to the same company as the original version of the technology, and even if it is, the value of the new technology should be recognised by additional payments. Some universities have developed policies on this issue, e.g.

- Only to license improvements that are within the scope of the originally licensed patents and are not separately patentable; and/or
- To grant an option over improvements, on terms to be negotiated; and/or
- To limit any rights over improvements, e.g.
 - By time (e.g. the improvement must be made within 12, 24 or 36 months of the date of the original agreement)
 - By originators (e.g. the improvements must be made by the principal investigator(s) who invented the originally licensed patents)
 - By field or technical description (e.g. only analogues of the originally licensed compounds are subject to the improvements clause)

- To improvements that are not encumbered, e.g. under the terms of any agreement with a funder under which the improvement was made

This subject is discussed further in the PraxisUnico Practical Guide on Options, in the discussion of ‘pipeline agreements’.

A further question in relation to improvements is whether the licensee’s improvements should be made available to the licensor. This is likely to raise competition law concerns, as mentioned in Appendix D. Any contractual provisions that require the licensee to grant back rights to improvements should be reviewed by a lawyer who is familiar with competition laws in this area.

Payments and payment terms

Upfront and milestone payments

Lump sum payment obligations are usually fairly simple to draft. In the case of payments that are due against the achievement of ‘milestones’ in the development of licensed products (e.g. on obtaining regulatory approval for the sale of the product) it is important to define clearly the point at which the milestone is met. For example, when providing for a payment in a pharmaceutical licence agreement, rather than use a shorthand expression such as “start of Phase II” it would be desirable to define Phase II, perhaps by reference to the relevant part of the US regulations on the development of pharmaceutical products, and to clarify the meaning of “start”, e.g. enrolment of the first patient in the first Phase II trial being conducted by the licensee.

It may also be useful to clarify whether any lump sum payment is creditable against royalties – usually the university will not wish such a payment to be so creditable. In the case of upfront payments, these are often stated to be non-refundable.

Royalties

The expression ‘royalty’ probably derives from the time when monarchs granted letters patent (not necessarily in respect of new inventions) that gave monopolies to favoured subjects, e.g. the exclusive right to import a specified product into the kingdom. In modern times, the word is mainly used to refer to periodic payments under IP licence agreements (and, apparently, mining leases), particularly payments that are linked to the volume of sales. It is not necessary to use the word ‘royalty’ and indeed the authors were once asked not to use the term in negotiations with some fervent anti-royalists!

Royalty payments can take different forms, including:

- A fixed amount per unit sold
- A percentage of the sale price
- A percentage of any payments that the licensee receives from its sub-licensee
- A percentage of the profits generated by the licensee from the use of the licensed IP.

Royalties based on profits may be attractive to a licensee, but are less likely to be attractive to a licensor. The main reason for this is that profits are to some extent within the control of the licensee and outside the control of the licensor, and may be depressed due to accounting manipulation or simple inefficiency by the licensee.

A disadvantage of a fixed price per unit is that the fixed price may become inappropriate over time, e.g. because of price inflation or because the price of the underlying product may go up or down. It is therefore more usual to find royalties calculated as a percentage of income, as in the second and third bullets above.

Sometimes, licensors wish the royalties to be calculated on the price at which the products are sold to an end user, rather than the price at which the licensee sells the products. Although this sounds superficially attractive, there may be practical difficulties in determining what was the sale price to the end user, particularly if that sale was by a distributor or retailer whose accounts are not available for inspection by the licensor. It is therefore more common to see royalties calculated on the sale price of the licensee or sub-licensee, after deduction of certain items such as VAT and delivery charges (sometimes defined as Net Sales). Where sub-licensing occurs, an alternative to the sale price of the sub-licensee is to calculate royalties on the amount received by the licensee from the sub-licensee (sometimes defined as Net Receipts). Usually the percentage rate for Net Receipts is significantly higher than the percentage rate for Net Sales. Much will depend on the economics of the individual deal, but as a rough guide, a royalty of 5% of Net Sales might equate to a royalty of 15%-25% of Net Receipts. See further Anderson, *Technology Transfer: Law, Practice and Precedents*, Bloomsbury, third edition, 2010, chapter 2.

Various detailed points on royalty payments may need to be considered when drafting and negotiating a licence agreement, including:

- The definitions of Net Sales and Net Receipts, including the deductions that may be made;
- Whether sales to an affiliate or other connected party attract a royalty and at what rate. Generally, how royalties should be calculated on sales that are not “at arm’s length”;
- How to calculate royalties on products that are incorporated into other products;
- Whether deductions can be made if the licensee pays royalties to third parties (sometimes called ‘royalty-stacking’ – see further the discussion of infringement of third party rights, below).

These and other detailed issues are addressed in the wording of the royalty definitions and provisions of the first template in Appendix A.

Minimum royalties

Some licence agreements include minimum royalty provisions. These can be used as an incentive to the licensee either to develop and exploit the licensed IP or, if it doesn't wish to do so, to terminate the licence agreement to avoid paying the minimum royalty. If used for this purpose, it is important to ensure that the minimum annual payment is sufficiently large to make it unattractive to the licensee to pay the minimum in order to keep the licence alive but without taking any active steps to commercialise.

Issues that can come up in relation to minimum royalties include the following:

- Being clear as to exactly when the minimum royalty obligations start (e.g. on the third anniversary of the date of the licence agreement) – for a reported case where the licence agreement was not clear on this point, resulting in litigation, see *Cambridge Display Technology v E I DuPont de Nemours* [2005] EWCA Civ 224 (CA);
- Being clear as to the start and end dates of the year for which the minimum royalty is due;
- When is the minimum payment due, e.g. 60 days after the end of the royalty year;
- Are royalties on sales creditable against the minimum royalty or are they entirely separate payment obligations;
- If royalties on sales are creditable, and if those royalties are less than the amount of the minimum royalty, can the licensee make a 'top up' payment to achieve the minimum royalty, or if the licensee's performance is so poor that it does not reach the minimum amount via royalties on sales, does the licensor wish to be able to terminate the licence agreement;
- What are the consequences of failure to pay the minimum – can the licensor terminate the licence agreement?

Some of these issues are addressed in the first template in Appendix A.

Payment terms

Typically, the licence agreement will clarify:

- that the payments are exclusive of VAT
- the currency of payment and how any payments calculated in another currency are to be paid

- bank account details of the licensor
- withholding tax issues – see below
- that a specified rate of interest is payable on late payments
- what is to happen if the licensee is prevented from making any payment by exchange control laws

Tax issues

The main tax issues that tend to arise in licence agreements are either practical issues that can be briefly dealt with in standard wording, or tax planning issues that are more complex. See further Anderson, *Technology Transfer: Law, Practice and Precedents*, Bloomsbury, third edition 2010, chapter 17.

The practical issues include the following:

- whether payments are inclusive of VAT

Payments for intellectual property are treated as payments for services under UK tax rules and attract VAT in the same way as payments for other 'intellectual' services. Usually parties will intend any amounts stated in the licence agreement to be exclusive of VAT (and that VAT should be paid in addition to the stated sum); a clause should be included in the licence agreement to state this position.

- how to deal with 'withholding tax' issues, including that the parties will cooperate to take advantage of double tax treaties

In most countries, lump sum and royalty payments under licence agreements are subject to the withholding tax regime. In other words the licensee must deduct income/corporation tax (which it must pay to the tax authorities) before paying the net amount to the licensor. This is the licensor's tax, being deducted by the licensee. If the licensor also pays tax in its home territory, a double tax payment may arise. Double tax treaties between the country of the licensor and the country of the licensee may allow the licensee to pay the royalties without deducting withholding tax, or allow the licensee to reduce the deduction.

Typically, if a licensor provides evidence to the licensee that it is a taxpayer in the licensor's home territory, this evidence can be presented to the tax authorities in the licensee's territory, and permission can be obtained to make payments without deduction of tax or deduction at a reduced rate. For example, the double tax treaty between the UK and the USA allows payment without deduction of tax. By contrast the UK-Japan treaty only allows a reduction of the withholding tax to 50% of the full rate (which last time the authors were involved in this, meant that a payment by a Japanese licensee to a UK licensor was subject to a 10% withholding, rather than the full 20% deduction).

Clearly this is a highly specialist subject on which specialist tax advice should be sought.

The other main type of tax issue is concerned with whether a licence agreement can be structured in a particular way to be tax efficient for one or both parties. The scope for tax planning of this kind has been reduced in recent years. This topic is beyond the scope of this Practical Guide.

Records, reports, auditing

It is important for a licensor to receive regular reports on the licensee's activities under the licence. Where products are on the market, these may include sales reports. The licensor will wish to ensure that the licensee keeps proper records of its sales and other activities, and that these records can be inspected by the licensor. Anecdotal evidence suggests that auditing of a licensee's records sometimes reveals significant underpayments of royalties.

A university may also wish to ensure that it has a direct right of audit of the sub-licensee's records, although this can be controversial.

The first template agreement in Appendix 1 includes some fairly standard provisions dealing with these matters.

Obligations to exploit the IP

Diligence obligations

Where a university grants an exclusive licence (as in the first template in Appendix A), it is usual to expect the licensee to be diligent in developing and commercialising licensed products or services. Where a non-exclusive licence is granted, it may or may not be appropriate for the licensee to have such obligations.

The best kind of diligence obligations are those which are objective and measurable, so that there should be very little opportunity for debate over whether the obligation has been met. Examples might include:

- Minimum royalty obligations (see discussion above). Ideally any such obligations should be based on the expected level of sales. In practice, particularly where early stage technology is being licensed, and where it is difficult to predict future sales, there is a tendency to set any minimum royalty at a level that is just high enough to discourage the licensee from holding on to the licence, e.g. a few tens of thousands of pounds. The latter kind of minimum payment might better be described as a maintenance fee.
- Obligations to achieve defined milestone events by certain dates, e.g. to commence commercial sales of the product, to obtain regulatory approvals, or to conduct specified development activities, e.g. clinical trials. When licensing technology that is closer to the market, the authors have seen sales-related milestones, e.g. to recruit a certain number of full-time sales representatives by a certain date.

- Obligations to provide regular reports of the licensee's development and commercialisation activities and to provide an updated plan of future activities. The obligation to provide a plan is sometimes accompanied by an obligation to conduct the activities described in the plan. The licensee will usually require control over the contents of the plan, including the right to amend it, which calls into question the value of an obligation to perform the activities set out in the plan. However, it is not unknown for a licensee to ignore the niceties of revising its plan to match its activities. At a commercial level, these kinds of obligations are sometimes useful even if they don't guarantee a protection of the licensor's interests from a contractual perspective.

Rather than adopt objective measures of diligence, as described above, parties sometimes include in their licence agreement a general obligation of diligence, using words such as "the licensee shall use its best endeavours to develop and commercialise the licensed IP". Or such an obligation may be included in the licence agreement in addition to the more objective type of obligation.

Sometimes, the negotiations over this general obligation take the form of a ritual dance. The university proposes that the licensee use 'best endeavours'. The licensee strikes out the word 'best' and substitutes the word 'reasonable'. Sometimes, the dance stops here. Sometimes, the university inserts the word 'all' before the word 'reasonable' or, as a recent variation on the dance, inserts the words 'commercially'.

The main problem with all of these phrases – best endeavours, reasonable endeavours, etc – is that it is difficult to know, in practice, whether the obligation has been met. Unlike the more objective standards referred to earlier, there is no simple way of telling whether a particular set of activities by the licensee measures up to the required standard. Ultimately, it is a matter for the judge or arbitrator in any litigation over the point to decide. If the licensee has completely abandoned the licensed IP, it is likely not to have met the standard. But many situations are more 'grey' than this – the licensee may have put the technology on 'the back burner' but may be able to demonstrate that it is still spending a certain amount of money and effort on the project.

A further problem with these phrases is that there are some reported cases on their meaning. The English courts view 'best endeavours' as rather a high standard. The party that has such an obligation is usually expected to put in the level of effort that it would if it wanted to achieve the outcome for itself, and not just because it is under a contractual obligation to do so. This is regarded as a very high level of obligation, probably higher than most licensees would wish to accept.

The equivalent obligation in the US is usually worded as 'best efforts'. It is sometimes said that a US obligation of 'best efforts' is less onerous than the English best endeavours.

By contrast, an obligation of 'reasonable endeavours' is probably lower than a licensor would find acceptable. The courts have indicated that a party under a reasonable endeavours obligation has to weigh up the obligation in a metaphorical set of scales. Into one pan of the scales, the party puts his obligation of reasonable endeavours. Into the other pan, it puts all other relevant factors, including its own business interests. Thus, if

it is not in that party's business interests to continue developing and exploiting the licensed IP, it may not be required to do so, despite being under an obligation of reasonable endeavours. This would seem to make reasonable endeavours rather a subjective test, dependent on the circumstances of the individual licensee.

In the authors' view there has not been sufficient judicial interpretation of phrases such as 'all reasonable endeavours' and 'commercially reasonable efforts' to say with confidence that the courts would regard these phrases as imposing a higher level of obligation than reasonable endeavours/efforts. Even if they do, the precise nature of the obligation is not clear.

The above comments represent a very brief, non-legal summary and interpretation of the English courts' approach.

If it is appropriate to include a general level of obligation of this kind, the authors' view is that in some circumstances it may be better to use a defined term such as 'Diligent Efforts' and to include wording in the definition that makes it more objective than a reasonable endeavours obligation would seem to be, e.g. by referring to the level of effort that a *reasonable third party* would undertake when seeking to maximise the economic return to *both parties* from the development and commercialisation of the licensed IP. In this way, somewhat sterile debates as to whether the obligation should be best or reasonable endeavours can be avoided.

Disputes over whether the licensee has been diligent

Consider a situation where:

- A licence agreement includes a clause permitting the university to terminate the licence if the licensee fails to achieve a defined standard of diligence in commercialising the licensed IP;
- The university considers that the licensee is in breach of this obligation for failing to progress the development of licensed products;
- The university terminates the licence agreement for breach of contract;
- The licensee denies that the licence agreement has been validly terminated, citing various R&D activities that it has conducted that relate to the licensed IP;
- The university seeks to license the IP elsewhere, and the new licensee asks for a warranty that the university is not aware of any allegation that a third party has any rights in respect of the licensed IP;
- The university discloses the allegation of the former licensee that it is still licensed; and
- The new licensee decides not to take a licence until the dispute with the (former) licensee has been resolved.

The university may find itself in a stalemate unless it is prepared to embark on litigation with the former licensee (e.g. for a declaration that the licence agreement has been validly terminated). Universities have tended to be

reluctant to engage in litigation, not least because of the expense. It can also be time-consuming, and in the meantime the technology is not being exploited and (in the case of patented technology) the patent life is reducing. Litigation over a vague obligation such as 'reasonable endeavours' may be regarded as more than usually risky, because of the difficulty in predicting the outcome. In English litigation, there is also the risk of having to pay the other side's legal costs, particularly (but not only) if the other side wins the case.

A university may therefore wish to avoid the situation where the only way of telling whether the licensee has been diligent is to take the matter to court or arbitration. A possible alternative, that the authors have developed in discussions with certain university clients, is to refer any dispute over diligence to an expert, ask the expert to decide what, if anything, the licensee should do in order to avoid being in breach, and then give the licensee an opportunity to comply with the expert's decision. See clause 5 of the first template at Appendix A. Once it is explained to the licensee that this is a relatively benign mechanism, that doesn't cause the licensee immediately to lose its licence and doesn't give the university the final say over whether the licensee has been diligent, most licensees (in the authors' experience) find this approach acceptable.

A possible alternative to referral to an expert, is referral to arbitration using an 'expedited procedure'. For example, the American Arbitration Association model rules for arbitration anticipate that an expedited procedure may be used in certain situations. The advantage of using such a procedure may be that costs and delays are reduced. But of course 'quick and dirty' procedures do not always give the best result. These ideas are being put forward for your consideration, and not as a perfect solution in all cases.

Consequences of failure to be diligent

Often, a university will wish to terminate the licence agreement if the licensee is not diligent. Other solutions that are sometimes used include the following:

- Converting an exclusive licence into a non-exclusive one;
- Allowing the licensor to co-market or co-promote the licensed products (probably more relevant to company licensors that may have or be able to recruit a sales force); or
- Changing the financial terms of the licence.

Protecting and litigating IP

Detailed IP provisions may be important, but in some agreements they can become rather complicated and theoretical, using standard language for its own sake rather than because the parties have thought through how they wish to deal with situations that may or may not arise in the future. However, as licence agreements

provide for a long term relationship between the parties, a certain amount of 'crystal ball gazing' is perhaps inevitable, and it is probably better to include some provisions dealing with prosecution and infringement of IP, rather than leave the matter unstated.

Prosecution of IP

This topic is mainly relevant to the prosecution of patents, although universities are sometimes involved in obtaining other types of registered IP, e.g. trade marks or registered designs. There are several aspects to prosecution: who controls it, who does it, and who pays for it?

Usually, prosecution is conducted by an external patent agent. The patent agent will wish to know who is the client, from whom instructions are taken, and who will pay the prosecution costs?

In the authors' experience, a university usually requires its licensee to pay any prosecution costs. Exceptions to this general rule may include (a) where the costs are shared between several licensees, and (b) in some multi-party licensing, the university may prefer to deal with all aspects of prosecution, including bearing the costs.

As a separate issue from who bears the costs, in many situations it will be in the university's interests to control the prosecution of the licensed IP. A licensee's commercial interests with respect to prosecution will not always coincide with the licensor's – in some situations it may benefit the licensee for the patents to be weak or not cover some aspect of the licensee's products, or the licensee may simply be indifferent to some aspect of prosecution that the university considers to be important. In this context, the university may wish to be the party giving instructions to the patent agent, perhaps after consultation with the licensee.

In other situations, the university may be willing to accept that the licensee is to be the primary giver of instructions to the patent agent, perhaps subject to an obligation on the licensee to consult with the university in respect of all major prosecution decisions.

Where the university and its licensee are joint owners of IP (which is sometimes agreed in relation to IP developed during the course of a collaborative relationship between them), both parties must consent to any change to the specification of the patent (see changes to section 36(3) of the Patents Act 1977, introduced by the Patents Act 2004).

If the party that controls the prosecution of a patent application no longer wishes to pursue that patent application, the licence agreement will usually provide for that party to notify the other party and give the other party an opportunity to take over the prosecution, usually in the other party's name. Consideration should also be given to whether such action affects any other provisions in the licence agreement. For example if the licensee abandons a patent application and the university takes over prosecution, is the licensee still to be licensed under that application? If the university abandons a patent application and the licensee takes over prosecution, is the licensee still required to pay royalties on the use of that patent application? The answers to

these questions are not always obvious, and may depend in part on the importance of the abandoned IP to the overall licence agreement.

Bringing claims against infringers

In exclusive licence agreements where a university is the licensor, it is usually the licensee's primary responsibility to deal with any infringers. Where the licence is non-exclusive, it is more common for the licensor to have primary responsibility, although universities may be reluctant to incur litigation costs.

Usually, the party that has primary responsibility for dealing with infringers has the right, but not the obligation to sue infringers. If he fails to do so, the other party may have rights to step in and sue the infringer.

If the infringer pays damages or makes payments under a settlement agreement, the question arises as to which of the parties to the licence agreement should benefit from such payments. A commonly-encountered solution in university licence agreements is that, assuming the licensee conducts action against the infringer, the licensee first recovers its costs of pursuing the infringer (and perhaps pays the university its costs, if any have been incurred), and the net amount is then treated as Net Sales, on which the licensee pays the university a royalty.

Although this approach is often seen, it can be argued that it short-changes the university. Any damages award to the licensee is more in the nature of profit rather than turnover. Net Sales royalties are effectively calculated on turnover. Arguably, the university's share of any damages should be at a higher percentage rate than the royalty it gets on Net Sales.

It is understood that certain US universities include a clause in their licence agreements that:

- treats any damages award as a notional "profit" by the licensee;
- requires the licensee to work backwards from that profit to identify what turnover on sales of licensed products would have been required to achieve that level of profit; and
- requires the licensee to pay a royalty on that notional turnover, ie a royalty on Net Sales as provided for elsewhere in the agreement.

Take the example of a licence agreement which provides for a royalty of 5% of Net Sales. Assume that the licensee usually makes a profit on sales of licensed products of 30%. Assume that the licensee has been awarded damages of £500 (after recovery of costs). A clause along the lines just mentioned could treat the £500 as profit and require the licensee to work backwards to a notional turnover. In this example, Profit = 30/130 x Turnover. Therefore, Turnover = 130/30 x £500 = £2166.67. The university would then be entitled to 5% of £2166.67 = £108.33.

This is equivalent to 21.67% of the damages award, which is obviously much better from the university's point of view than 5% of the damages award.

A similar result may be achieved by stating that the licensee must pay a royalty on any damages received as if they were Net Receipts on sales by a sub-licensee. This assumes that the licence agreement includes a Net Receipts royalty (as the templates in Appendix A allow for), and that the royalty rate on Net Receipts is at a suitably high level.

An alternative approach is that the university has the right to contribute a fixed percentage of the costs of pursuing the infringer, and is entitled to receive the same percentage of any payments from the infringer. Some universities are reluctant to 'invest' in litigation in this way.

Defending claims of infringement

Usually, universities prefer to have the licensee deal with any claims by third parties that their rights have been infringed. The question then arises as to whether the licensee is entitled to reduce its payments to the university to take account of any obligations to pay damages or royalties to third parties.

A solution that is sometimes encountered is the so-called 'royalty-stacking clause', in other words a clause giving the licensee a right to reduce royalties to the university where it also has to pay royalties to one or more third parties. These clauses, if they are included, come in different guises. A common 'boilerplate' clause that is sometimes used allows the licensee to deduct 50% of the royalties paid to the third party, subject to a cap on deductions of 50% of the royalties that would otherwise be due to the university. Whether this is an appropriate solution depends in part on the economics of the deal; sometimes one suspects it is included for want of an obvious alternative. Other solutions that are encountered include:

- Deducting third party royalties from Net Sales;
- Including a different cap, e.g. if the licence agreement provides for a payment of a 5% royalty to the university, in no circumstances will the royalty be reduced below 4% of Net Sales.

Another important issue is when third party payments qualify for deduction under a royalty-stacking clause. From a university's point of view it is important to be clear that the deduction should only be made if the use of the licensed IP inevitably involves infringement of third party rights. If the infringement only occurs because of some 'add-on' technology that the licensee chooses to use in the development of licensed products, it may be regarded as less appropriate that a deduction be made. In this context, the reported case of *Cambridge Antibody Technology v Abbott* [2004] EWHC 2974 is highly instructive as an example of where two commercial companies were prepared to engage in fierce High Court litigation over the interpretation of a royalty-stacking clause.

Warranties, liability and indemnities

Which warranties should a university give?

As mentioned above, universities tend to be risk-averse organisations. Some would argue that they should be, given that they receive public funding and have charitable purposes.

The warranties that are seen in licence agreements vary significantly from agreement to agreement. Some universities, and their technology transfer companies, have developed a standard approach to warranties in licence agreements. For example:

- One university technology transfer company is prepared to warrant that it has obtained assignments from both the university and the principal academics who generated the licensed technology. This company is very reluctant to give any further warranties.
- Some universities are prepared to warrant that they are registered as the proprietor of the licensed patents, and that they have not granted any licences that would conflict with the grant of rights to the licensee.

Some licensees ask for much more extensive warranties than those referred to above, including:

- That the university does not own any other IP that the licensee may need to use
- That all registrations and filings in respect of the licensed IP are in good order
- That there is no reason why the licensed patent applications will not be granted with their current claims
- That no third party has any rights in the licensed IP
- That use of the licensed IP will not infringe any third party intellectual property
- That no-one has brought any claims against the university in relation to the licensed IP
- Etc etc.

If the university is willing to give any of the above warranties, it may wish to limit them to matters within the university's actual knowledge. Warranties in relation to validity and infringement are often strongly resisted.

Increasingly, general warranties are being included in agreements concerning the ability of the parties to enter into the contract and perform its obligations. Usually, these warranties do not present a problem, but the detailed wording needs to be scrutinised.

See further the discussion of warranties in the PraxisUnico Practical Guide to General Legal Issues in University Contracts.

Which warranties should the licensee give?

Licence agreements tend not to include extensive warranties on the part of the licensee, beyond the general warranties on both parties, just mentioned. Sometimes a licensee may be asked to warrant that it has certain regulatory qualifications (e.g. that its manufacturing plant is accredited under the Good Manufacturing Practice, or GMP, regime) or that it is capable and has the resources to commercialise the licensed IP. Such warranties are sometimes rather general and of limited value. The licensee may have ongoing obligations, e.g. to exploit the licensed IP, but these tend not to be described as warranties. The expression 'warranty' is usually used in relation to promises as to existing facts, e.g. the ownership of the licensed IP, rather than forward-looking obligations.

Sometimes, a licensee is asked to warrant that it is not developing or commercialising any product that would compete with the licensed product. A separate clause may give a right of termination of the licence if the licensee subsequently commercialises a competing product. Such provisions are sometimes used as an alternative to an obligation on the licensee not to commercialise competing products, as the latter may fall foul of competition laws.

Limiting liability

Universities often seek to include 'limitation of liability' clauses in university contracts. In the case of pure licence agreements (i.e. those that do not include any R&D obligations or similar, including improvements clauses), the main obligations on the university as licensor are:

- Breach of any confidentiality obligations
- Breach of warranty

A university may wish to include specific provisions limiting its liability for breach of contract, but typically such clauses are two-way, i.e. the same limitation would apply to the licensee, which overall the university may decide is not in the university's interests, particularly if the obligations on the university have been narrowly drafted. Perhaps for this reason, many licence agreements do not include general limitation of liability clauses and instead focus on indemnities against third party claims, discussed below. However, there is no reason in principle why such clauses should not be drafted to protect just one party. Ultimately, this is a matter for commercial negotiation.

If liability clauses are included, it is conventional to include both:

- A financial limit on liability for 'direct' losses; and
- A total exclusive of liability for 'indirect and consequential' losses and financial losses such as loss of profits.

See further, the discussion of liability clauses in the PraxisUnico Practical Guide on General Legal Issues in University Contracts.

Indemnities

Typically, a university will wish to obtain an indemnity from the licensee in respect of any third party claims that may arise from the licensee's activities under the licence. For example, if a licensed product injures a consumer, the consumer may try to sue the university in addition to, or instead of, the licensee. The basis of any such claim will vary from country to country, but might include the fact that the university is the registered proprietor of the patents. Strictly speaking, under English law, ownership of patents should not by itself be a ground for a claim against the university by a consumer, although participation in the development of a licensed product might give rise to a claim in negligence. Ownership of trade marks may in some situations give rise to a claim under the Consumer Protection Act. This is a complex subject, on which legal advice should be sought in appropriate cases. The important commercial point is that the university will generally wish to obtain a broad indemnity from the licensee.

It seems to be conventional in US indemnities to exclude from the indemnity any liability arising from the 'gross negligence or wilful misconduct' of the indemnified party. It may be difficult to persuade some parties not to include such an exception. Gross negligence is not such a well-developed concept in English commercial law as it seems to be in the US, and sometimes the word 'gross' is omitted from the exception. This is a potentially very significant omission, as it converts the exception from one that may only operate in extreme circumstances of wrongdoing, to one that could apply if the university has (merely) been negligent. Accordingly, universities may wish to resist such an exception.

Sometimes universities are asked to give indemnities. Some US universities claim not to be permitted to give indemnities under State law. In general, a university will wish to resist giving an indemnity.

The protection given by an indemnity depends in part on the resources of the party giving the indemnity. For this reason, indemnities are sometimes accompanied by obligations on the part of the indemnifying party to maintain insurance cover. Sometimes the insurance obligation includes an obligation to name the other party on the insurance policy. Any such obligations should generally be discussed with the university's insurers. Generally, any liabilities accepted by the university (particularly if they go beyond those set out in the university's standard agreements that have been notified to the insurers) may need to be checked with the university's insurers to establish whether the liability is covered, in principle, by the university's insurance policies.

Duration, termination and consequences of termination

How long should the licence go on for?

Subject to the parties' rights of early termination, discussed below, licence agreements tend to have the following durations and royalty terms. Usually the duration of the licence and the duration of the royalty obligations is the same.

- Patent licences tend to continue, on a country-by-country basis, for the life of the patents in each country of the territory.
- Know-how licences have tended to continue for a period of 10 years from the date of first commercial sale of licensed products. Whether this is appropriate or not will depend in part on the anticipated 'shelf-life' of the know-how. The 1996 European Commission Technology Transfer Block Exemption Regulation permitted certain exclusivity in know-how agreements for a 10 year period, and it may be that the current practice of granting 10 year know-how licences derives from this legislation. However, the most recent European Commission Technology Transfer Block Exemption Regulation, introduced in 1994, removed the 10 year limit, so that as long as the know-how remains secret, substantial and identified, exclusive know-how provisions may continue in force without limit of time. The current European Commission Technology Transfer Block Exemption Regulation is due to expire on 30 April 2014. The author understands that the European Commission have consulted on a new Technology Transfer Block Exemption Regulation, which if adopted, will commence on 1 May 2014.
- The duration of software licences can vary considerably from agreement to agreement. Sometimes, a period such as 5 or 10 years is agreed. In other agreements, there is no limit on duration – sometimes the licence is stated to be 'perpetual'. Lawyers are sometimes nervous about using the word 'perpetual' as it conjures up memories of an arcane principle from probate law, that certain bequests under wills are void if they offend against the 'rule against perpetuities'. In the authors' view, the rule against perpetuities is extremely unlikely to be relevant to most technology licence agreements, although they do recall seeing a clause dealing with this point in a trade mark licence agreement that had been drafted by a major London law firm about 30 years ago. In any event, at a practical level, software tends to become outdated after a few years, and a shorter term such as 10 years may be more than sufficient in many cases.

Early termination

Typically, licence agreements include provisions allowing a party to terminate if the other party becomes insolvent or is in breach of contract. In the case of breach of contract, the termination clause usually allows the breaching party a period in which to 'cure' the breach. In the case of insolvency, the termination clause usually lists a series of different insolvency events, usually based on the insolvency laws applicable in the draftsman's home territory, with perhaps a sweep-up clause that refers to analogous insolvency events in the other party's territory.

Occasionally, licensees argue that the licensor should not be allowed to terminate the licence, but instead should sue for damages if there is a breach, and that if the licensee becomes insolvent, the licence agreement should not terminate because it is an asset that the liquidator or other official (e.g. administrator) should be able to sell. Usually, a university will wish to strongly resist these arguments.

Licensees sometimes propose that if the licensor is in breach, the licensee should have the option not to terminate the licence agreement but instead to benefit from different financial terms, e.g. paying reduced or no royalties, or having no diligence obligations. Usually, a university will wish to strongly resist these arguments.

Typically, licence agreements include a provision allowing the licensee to terminate on notice, e.g. on 90 days notice. Sometimes, this right only begins after an initial period, e.g. one or two years.

Other grounds of termination that are sometimes seen include:

- A kind of probationary period (e.g. a year) for the licensee to demonstrate its ability to exploit the licensed IP;
- If the licensee fails to make payments on time (i.e. a stricter right of termination than the general right of termination for breach); or
- If there is a change of control of one of the parties (see further, the discussion of boilerplate clauses, below)

If the licence agreement contains no termination provisions other than for breach or insolvency, and no fixed term (e.g. for the life of the patents) the English court may be prepared to imply a term that the licence agreement can be terminated on reasonable notice. This is a solution of last resort, as any well-drafted agreement will include appropriate termination provisions.

Detailed consequences of termination

Licence agreements are usually designed to provide for a long-term relationship between licensor and licensee. As with other long-term commercial relationships (joint ventures and distribution agreements spring to mind), the consequences of terminating that relationship need to be considered carefully, and may require a detailed clause in the licence agreement. Issues that may need to be considered include:

- Which clauses survive termination and for how long (it may be different for different clauses);
- If products are already on the market, whether the licensee can sell these off and/or meet orders that have already been placed but not filled at the date of termination;
- Cancellation of registrations of licences, etc;
- Whether the licensor is entitled to acquire any rights to any developments to the licensed IP made by the licensee (e.g. clinical data, regulatory approvals, etc). This type of clause raises competition law issues.

Boilerplate clauses

Certain legal issues affecting 'boilerplate' clauses – those clauses at the end of the contract, sometimes headed 'Miscellaneous' – are discussed in the PraxisUnico Practical Guide 'General Legal Issues in University Contracts'. This section will focus on a few boilerplate clauses that receive particular attention in licence agreements. For further discussion of boilerplate clauses generally, see Anderson & Warner, *A-Z Guide to Boilerplate and Commercial Clauses*, Bloomsbury, third edition 2012.

Assignment and change of control

Many commercial agreements include a provision stating whether a party may assign its rights under the licence agreement. Sometimes, such clauses go further and state whether a party may assign and transfer its rights and its obligations under the agreement to a purchaser of its business.

As a related issue, agreements sometimes include a provision stating that a party may terminate the agreement if the other party undergoes a change of control, e.g. if the shares in that other party are sold.

These clauses are linked because a business sale can usually be effected in one of two ways. Either the assets of the business are sold (in which case an assignment of contracts relating to the business may be needed) or the shares of the company owning those assets are sold (in which case the contracts remain in force, as the contracting party remains the same legal entity).

The usual argument for prohibiting a party from assigning its rights and for enabling the other party to terminate if there is a change of control, is that the other party has entered into the contract on the basis of the identity of the first party, and that it might not have been willing to contract with the purchaser of the first party's business.

Technology-based companies often wish to have flexibility in relation to future corporate transactions. It may reduce the value of the company if its contracts can be terminated on a change of control. One of the first items to be checked on a 'due diligence' exercise into a company's contracts may be the assignment and change of control clauses of those contracts.

These clauses, which at first sight are rather remote boilerplate clauses, can therefore acquire a greater significance. Universities should consider carefully the basis on which they grant IP licences and how important the identity and ownership of the licensee is to them. If it is important, both the assignment and change of control clauses may need to be modified.

APPENDIX D

Special legal issues in licence agreements

'General legal issues affecting university contracts' are discussed in the Practical Guide bearing that name. This section will discuss certain legal issues that tend to feature in licence discussions. These issues, or similar issues, will sometimes be relevant to other types of agreement.

Competition law issues

Introduction

Many licence agreements, particularly exclusive licence agreements, are within the scope of UK and European competition laws. The main area of concern is Article 101(1) of the Treaty on the Functioning of the European Union (TFEU). In addition, Chapter I of the (UK) Competition Act 1998 introduced very similar rules to those of Article 101(1)'s predecessor, Article 81 of the EC Treaty, in respect of activities purely within the UK. The following comments will focus on Article 101(1). Where an agreement complies with Article 101(1), it is very likely to comply also with the requirements of the UK rules.

Why is Article 101(1) a problem?

In brief outline, Article 101(1) prohibits agreements and concerted practices that:

- May affect trade between members states of the EU; and
- Have as their object or effect the prevention, restriction or distortion of competition within the EU;
- Including those which:
 - Fix prices
 - Limit or control production, markets, technical development or investment
 - Share markets, etc

Agreements (or, sometimes, just the anti-competitive provisions of agreements) that breach Article 101(1) are automatically void, unless either:

- The terms of the agreement can be justified in court under Article 101(3), which permits certain restrictive provisions if they can be shown to have certain pro-competitive effects and the restrictions are necessary to achieve those effects; or
- The agreement comes within the scope of a so-called 'block exemption' regulation (such as the European Commission Technology Transfer Block Exemption Regulation (TTBER)). Block exemption regulations provide a 'safe harbour' for certain types of agreement that are considered to be acceptable under Article 101(1).

Further consequences of breaching Article 101(1) are:

- The parties may be fined up to 10% of their worldwide group turnover; and
- Any third party that has suffered loss from the anti-competitive activities may be able to sue the parties to the agreement for damages.

Anti-competitive terms in licence agreements

Various provisions in IP licence agreements may fall foul of Article 101(1). In general, the competition authorities are suspicious of IP rights as the exercise of such rights can create monopolies and reduce competition. Potentially anti-competitive provisions include the following (non-comprehensive) selection:

- The grant of exclusive rights
- Territorial restrictions (including restrictions on sales from one EU country to another)
- Customer restrictions
- Sales limits
- Non-compete provisions (e.g. preventing the licensee from selling competing products)
- Price-fixing (e.g. dictating the price at which the licensee sells licensed products)
- Tying clauses (making the licensee buy other goods from the licensor)
- Exclusive grant-back clauses (making the licensee assign rights to improvements)
- Restricting the licensee's right to challenge the validity of the licensor's intellectual property
- Certain settlement agreements which involve a value transfer or restriction not based on the value of the technology (sometimes referred to as "pay for delay" or "reverse payment patent settlement" agreements)

How can I tell whether my agreement breaches Article 101(1)?

This is a complex subject where specialist competition law advice may be required. Specialist textbooks on competition laws provide assistance in the analysis of whether a competition law problem exists. The questions to consider will typically include:

- Is there a Community dimension to the agreement (most licence agreements are likely to have a Community dimension)
- Does the Notice on Agreements of Minor Importance apply? If it does, then the agreement may be acceptable under Article 101(1) and not require further analysis, at least whilst the parties' market shares remain unchanged.
- Does the agreement present a prima facie risk of breach of Article 101(1)? In this context, the detailed commentary set out in the European Commissions' Guidelines on TTBER may provide assistance.
- If the licence agreement is potentially in breach of Article 101(1), do the terms of the agreement fall within the block exemption agreement for licences, namely the TTBER? Alternatively, could the restrictions be individually justified if the matter came to court?

Some licence agreements include research and development (R&D) obligations, and some R&D agreements include licence terms. The European Commission has separate guidelines for so-called Horizontal Agreements, including R&D agreements, and a separate block exemption regulation for R&D agreements. Where the agreement is a hybrid, i.e. it contains elements of a licence agreement and of an R&D agreement, the correct approach is to work out where the 'centre of gravity' of the agreement lies, i.e. is it primarily an R&D agreement or a licence agreement, and to apply the rules applicable to that type of agreement.

Does my agreement fit within the TTBER?

Typically, where the agreement is primarily a licence agreement, the prudent course of action is to try to make sure the terms fit within the scope of the TTBER. Or, if this is not possible, to make sure that any non-compliant terms are not so-called 'hardcore' terms, such as price-fixing, which are unlikely to be acceptable in any circumstances, and to consider whether it is appropriate to modify any other non-compliant terms. When deciding whether the block exemption is available, it is necessary to consider carefully the detailed terms of both the TTBER and its guidelines and the agreement in question. Please do not rely on this summary, therefore, when deciding whether the block exemption applies. Some of the key features of the TTBER are:

- It covers licence agreements that include manufacturing rights. Pure sales licences are not covered.
- The current version of the TTBER covers software (copyright) licensing as well as patent and know-how licensing. Previous versions did not cover software licensing.

- The block exemption continues for as long as the relevant IP right continues in force (e.g. 20 years for most patents). In the case of know-how, this means as long as the know-how remains “secret, substantial and identified”.
- The block exemption has different provisions for agreements between competitors, and non-competitors, respectively. Where the parties are competitors, the block exemption will not apply if the parties’ combined market share does not exceed 20%. In the case of non-competitors, the cap is a 30% market share by each party. There are detailed rules about how market shares are to be calculated. Different rules apply for product markets and for technology markets, respectively.
- The block exemption is not available if the agreement contains any ‘hardcore’ restrictions. The hardcore restrictions are different for competitors and for non-competitors, respectively, but focus in each case on:
 - Price fixing
 - Output limitations
 - Customer and market allocation
- Certain other types of restriction are not ‘hardcore’ but will not benefit from the block exemption, including:
 - Obligations on the licensee to assign or exclusively license to the licensor any improvements and new applications
 - Obligations on the licensee not to challenge the ownership or validity of the licensed IP
 - Where the parties are not competitors, restrictions on the licensee from exploiting its own technology or restrictions on either party from conducting R&D. (Where the parties are competitors, such restrictions are treated as hardcore restrictions.)

Practitioners who draft licence agreements on a regular basis, and who are used to considering the detailed provisions of the TTBER, become familiar with some of the areas where competition problems may arise. To take just one example, obligations to pay royalties on products that are no longer protected by IP rights may be regarded as anti-competitive. It is unrealistic, at least in a summary Guide of this kind, to try to produce a definitive list of all the types of provision that are negotiated in licence agreements and that may, potentially, be in breach of competition laws.

The European Commission makes available its legislation relating to Article 101(1) at the following web-site: <http://ec.europa.eu/competition/antitrust/legislation/legislation.html>

In international licence agreements, there may also be competition laws in the country of the licensee that need to be considered, particularly on larger-scale transactions.

Tax issues

Like competition law, tax is an area of law where a little knowledge can be dangerous, and where specialist advice should be obtained. Some of the tax issues that tend to come up when negotiating licence agreements include the following:

- What is the correct tax treatment of any payments made to academic inventors under university revenue sharing policies? It is understood that different universities may have different policies in this area, which in some cases may have received approval from local tax offices. The authors have been involved in assisting a client to obtain specialist tax counsel's opinion in this area. Among the issues to consider are the following:
 - Should the university deduct PAYE and National Insurance from payments made to employee inventors?
 - Should the inventor charge the university VAT on any share of revenues that it receives from the university?
- What is the correct tax treatment of any payments made by a licensee to a university licensor, including:
 - Are lump sums and other payments to be treated as capital or income payments?
 - Are lump sum payments subject to the 'withholding tax' regime that applies to royalties?
 - Can permission be obtained for the licensee to pay royalties gross, i.e. without deducting 'withholding tax', either under the domestic UK rules or, in an international transaction, under a double tax treaty between the UK and the licensee's country?
 - Is VAT chargeable on the payments, and if so who is liable to pay the VAT and in which country?
- Should any tax avoidance schemes be implemented, e.g. involving use of offshore companies?
- Do the terms of the agreement prejudice the charitable and tax-exempt status of the university, e.g. if the academic is prevented from publishing the results of academic research?

A detailed discussion of these topics is well outside the scope of this Practical Guide. Where substantial payments are anticipated under a licence agreement, it may be possible to structure the deal in a more tax-efficient way. Specialist tax advice should generally be sought. Please bear in mind that the taxation of IP payments is a specialist subject within tax law (a niche within a niche), and that most tax advisers are unlikely to be specialists in this area.

Implied terms in licence agreements

The English courts are very reluctant to imply terms into commercial agreements. Generally, they will not do so unless the term is needed to make the agreement ‘work’ and is one that the parties would have agreed if they had put their mind to it.

This approach is very different to the one taken by the courts in some other countries. For example, it is understood that under French and Belgian law, it may be implied in a patent licence agreement that the licensor will provide any know-how and improvements that may assist the licensee to exploit the licensed patents. Such terms are unlikely to be implied in most patent licence agreements made under English law.

The English courts have construed (i.e., interpreted) the terms of IP licence agreements in a number of cases. Such cases provide guidance on how a particular term might be construed in another case, but will generally not be binding on any future court, not least because the context of how the term is used may be different in each case. For further information, please see Anderson: Technology Transfer Agreements – Law, Practice and Precedents, Bloomsbury, third edition, 2010, chapter 10.

Recent case law on the interpretation of licence agreements

Over the years, the reported cases on the interpretation of IP licence agreements have been few and far between. In the last couple of years there has been a flurry of activity. Three cases in particular stand out:

Minimum royalties

In *Cambridge Display Technology Limited v E I DuPont de Nemours and Company* [2005] EWCA Civ 224, the Court of Appeal construed a minimum royalty clause in a patent licence agreement. The question was, when did the minimum royalty obligation commence? The case illustrates how important it is to draft time periods clearly in licence agreements.

‘Royalty stacking’ clauses

In *Cambridge Antibody Technology v Abbott Biotechnology Limited* [2004] EWHC 2974 (Pat), Laddie J construed a royalty-stacking clause in a patent licence agreement in respect of a product known as HUMIRA. The agreement allowed Abbott to reduce CAT’s royalties by 50% of the amount of any royalties paid to third parties “in order to license rights needed to practice or have practiced the technology claimed in the Patents.” In a nutshell, Abbott argued that this enabled them to deduct third party royalties in respect of other patented technology it used in the development of HUMIRA. However, CAT successfully argued for a narrower interpretation, ie

that Abbott were only entitled to deduct royalties paid in respect of licences to enable Abbott to use the technology licensed by CAT. Abbott was given leave to appeal. According to press reports, the parties settled the case in October 2005 on terms under which Abbott was to pay CAT a lump sum of US\$255 million and certain other lump sum and royalty payments.

Exclusive jurisdiction clauses

In *Celltech R&D Ltd v Medimmune Inc* [2004] EWCA Civ 1331, the Court of Appeal considered a conventional clause in a licence agreement, which gave exclusive jurisdiction to the English courts in respect of all claims “relating to the validity, construction or performance” of the agreement. The question before the court was whether this clause enabled the English court to decide whether a product would infringe a Valid Claim of a US patent, and therefore would be royalty-bearing. The Court of Appeal held that the parties had agreed that the English court could decide whether a product infringed a US patent, and that it was appropriate for the English court to do so in the circumstances of the case.

Such an outcome may suit an English party in proceedings over the interpretation of a patent licence agreement. Where such an outcome is not desired, possible drafting techniques might include:

- Stating that the exclusive jurisdiction of the English courts does not apply to disputes relating to the validity or infringement of any intellectual property right; or
- Giving the English courts only non-exclusive jurisdiction.

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