

Type/Clase :	Contrat-type et guide de rédaction/Model contract with users's guide/Modelo de contrato con guías de redacción
Source/Procedencia :	Centre du Commerce International CNUCED/OMC International Trade Centre UNCTAD/WTO Centro de Comercio Internacional UNCTAD/OMC
	Palais des Nations 1211 Genève 10 Suisse
Date de publication :	01/02/2001
Date of publication :	
Fecha de publicación :	
Tél/Tel :	(41-22)730 01 11
Fax :	(41-22)733 44 39
Web :	www.intracen.org
✉	itcreg@intracen.org

Avertissement: Les contrats et guides de la présente collection ont été sélectionnés à seule fin d'illustration. Leur contenu et leur utilisation n'engagent pas la responsabilité de *Juris International*.

Please note: The contracts and guides contained in the present collection have been selected for illustrative purposes only. *Juris International* shall not be liable for their contents or use.

Advertencia: Los contratos y las guías de la presente colección han sido seleccionados únicamente a manera de ilustración. Su contenido y utilización no comprometen la responsabilidad de *Juris internacional*.

**NEGOTIATING AND DRAFTING PATENT LICENSING
CONTRACTS UNDER THE TRIPS AGREEMENT:**

THE BUSINESS DIMENSION

**NEGOTIATING AND DRAFTING PATENT LICENSING CONTRACTS
UNDER THE TRIPS AGREEMENT:
– THE BUSINESS DIMENSION –**

This paper has been prepared by Professor Dr. Johan Erauw, University of Ghent, Belgium and Washington College of Law (American University - Washington D.C.), and consultant to the International Trade Centre. Jean-François Bourque, Senior legal adviser on international trade, International Trade Centre, provided technical and editorial assistance and contributed Part I on the TRIPS agreement.

Most of this material has been used in several international seminars including two joint WIPO/ITC seminars on negotiating and drafting patent licensing agreements held in Cape Town, South Africa and Doha, Qatar in 1999 and 2000.

Geneva, February 2001

CONTENTS

PART I

The TRIPS Agreement and its impact on patent licensing contracts –an overview

PART II

Fundamental clauses in licensing agreements

PART III

Examples of contracts for the negotiation of licensing agreements

PART IV

Negotiating and drafting licensing agreements: A mock negotiating and drafting exercise between the parties Africo and CHEMICAL

PART I

THE TRIPS AGREEMENT AND ITS IMPACT ON PATENT LICENSING CONTRACTS AN OVERVIEW

Research and technology-based economic activity is a characteristic of the last decades and part of daily international business life. Inventors – be they a small university institute or larger companies – and buyers of technology, have an interest in understanding the rules that ensure protection of inventions for products and processes.

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), negotiated in the Uruguay Round, spells out minimum standards to be applied on a world-wide basis for the protection of intellectual property (IP) rights, for patents, copyright, trademarks, industrial designs, layout-designs and integrated circuits, undisclosed information and geographical indications. With regard to patents, the TRIPS Agreement does not create a uniform patent law. It provides a package, setting universal minimum standards, while allowing leeway for national laws to define a number of important aspects within the harmonized framework.

Within the TRIPS Agreement, two categories of rules particularly concern patent licensing contracts: those related to patents and those concerning undisclosed information. The purpose of this overview is to etch the key features of the Agreement concerning these two groups of provisions. Prior to this, some general rules of application will be briefly described.

CHAPTER 1

RULES OF GENERAL APPLICATION

1) When are the TRIPS provisions applicable ?

As part of the WTO Agreement, the TRIPS Agreement is binding on all WTO members. It entered into force on 1 January 1995.

However:

- developing countries which are obliged by the TRIPS Agreement to extend product patent protection to types of products not previously patentable in their country, have until 1 January 2005 for applying the provisions of the Agreement to such products; and
- least-developed countries are not required to apply the provisions of the TRIPS Agreement before 1 January 2006.

2) Incorporation by reference of the Paris Convention

The TRIPS Agreement requires countries to comply with the essential substantive provisions (Articles 1 through 12 and 19) of the Paris Convention for the Protection of Industrial Property as revised in 1967 in Stockholm.

3) National Treatment and Most-Favoured-Nation Principles (MFN)

Both the national treatment and the most-favoured-nation principles are embedded in the TRIPS Agreement.

The first principle requires that a State accords to foreigners treatment no less favourable than what it accords to its own nationals.

The second (MFN) principle requires that any advantage granted to the nationals of any other country are accorded also to the nationals of all other WTO Contracting States.

4) Security exceptions

States are not prevented by the TRIPS Agreement from taking any action which they deem necessary for the protection of their essential security interests (such as those relating to the traffic in arms and ammunition and of other material carried on for the purpose of supplying a military establishment).

5) Computer programs and compilations of data excluded from patent protection

The TRIPS Agreement opts to protect computer programs and compilations of data under copyright rules instead of patent regulations. The question still remains open vis-à-vis patent protection of program-related inventions.

CHAPTER II – RULES CONCERNING PATENTS

1) Granting patents

The key provision concerning patents is Article 27.1 of the TRIPS Agreement which states that:

".. patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application."

"(...) patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced."

Concerning the three requirements for granting patent protection contained in Article 27.1 (novelty, inventive step and industrial application), which may be more specifically defined at the national level, the Agreement gives the following precision: the “inventive step” can be synonymous with “non-obvious”, and the expression “capable of industrial application” synonymous with “useful”.

Article 27.3 (b) specifies that plant varieties must be protected, either by patents, or by an effective *sui generis* regime, or by a combination of both.

2) Limited exclusions from patentability

The very broad wording of Art. 27 does not leave countries with much leverage to exclude certain products or processes from protection (this was possible before, under the Paris Convention). As

mentioned above, plant varieties and micro-organisms must be protected, and no field of technology can be excluded from patentability as a whole.

Still, certain products and processes may be excluded from patent protection (Art. 27.2 and .3):

- when such an exclusion is necessary to protect ordre public, morality, human, animal or plant life or health or to avoid serious prejudice to the environment;
- diagnostic, therapeutic and surgical methods of treatment for humans or animals;
- plants and animals, other than micro-organisms; and essentially biological processes for the production of plants or animals (States must then provide for the protection of *plant varieties* by patents or by another system).

Countries may also allow for "limited exceptions" to the exclusive rights conferred by a patent (Art. 30), provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent, do not prejudice the legitimate interest of the patent owner, and take into account the legitimate interests of third parties.

And more generally, the TRIPS Agreement lays down the broad "principle" (Art. 8) that States may adopt measures necessary to:

- protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development;
- to prevent the abuse of intellectual property rights by holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

3) Basic rights of patent holders

A patent owner has the following exclusive rights (Art. 28.1.):

Concerning product patents: to prevent third parties not having the owner's consent from the acts of making, using, offering for sale, selling, or importing the product.

Concerning process patents: to prevent third parties not having the owner's consent from the act of using the process, and from the acts of using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.

Note that in this bundle of exclusive rights includes the patent holder's right to supply the market with imports of patented products and processes.

4) Contracting rights of patent holders

The TRIPS Agreement (Art. 28.2.) confers as well basic contracting rights to patent owners.

Patent owners have the right:

- to assign (sell) the patent, or transfer it by succession; and
- to conclude licensing contracts.

5) Term of patent protection

According to Article 33, the minimum term of protection available is 20 years as from the filing date of the patent. Countries are not under any obligation to extend the patent protection period beyond the 20-year period. Several countries apply the minimum 20 year-protection time.

6) Limitations in time and space of patent rights

Patent protection is limited in time and in space. **This is central to patent licensing negotiation strategy.** The inventor discloses confidential information in exchange of a protection limited in time (at least 20 years) and space (territories where the patent holder has sought and obtained protection).

The TRIPS Agreement does not confer automatic universal protection. The patent holder must file (and pay) for protection in the countries where he/she requires protection. This must be done either directly through each national patent office or through the Patent Cooperation Treaty facilities managed by WIPO, within a limited period (usually one year) of the filing of a patent request. In other words, for many countries, and particularly for many developing countries, patents registered elsewhere are in the public domain and the unprotected disclosed information could be legally used free of charge by local businesses.

7) The patent holders' obligations

The main obligation of patent holders is to disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art (Art. 29.1). Full disclosure of the invention, a basic principle of patent legislation, ensures that the invention is explained in such a manner that an expert may understand it and use it once the patent protection has expired.

Furthermore, a patent applicant may be required to indicate the best mode for carrying out the invention, as well as information concerning corresponding patent applications and grants. This last requirement aims at preventing inventors from benefiting from patent protection while concealing from the public the simplest or preferred uses of their inventions.

8) Compulsory licenses

The TRIPS Agreement (Art. 31) also lays down conditions for granting uses of patents without the authorization of a patent-holder. Such uses are called compulsory licences. Member countries can determine the grounds to allow such uses. Circumstances of "abuse" by patent holders have been described by leading authors. These could include, speculatively, cases where a patentee fails to work a patent locally, refuses to grant licenses on reasonable terms, does not supply the national market with sufficient quantities, or demands excessive prices for such products.

According to the TRIPS Agreement, all compulsory licenses are subjected to the following rules:

- the would-be licensee must first seek to obtain a license from the patent holder (except where the abuse by the right holder is deemed anti-competitive by national judicial or administrative authorities);
- the scope and duration of the use are limited;
- use is non-exclusive and non-assignable;
- use must be made predominantly for the national market (no exporting);
- the right holder must be paid adequate compensation;
- any decision on compulsory licensing (authorization, payment terms) shall be subject to judicial review.

9) Infringement: reversal of the burden of proof

Reversal of the burden of proof in civil proceedings relating to infringement of process patents is provided for in Article 34. This means that judicial authorities have the authority to order an alleged infringer (the defendant) to prove that the process to obtain an identical product is different from the patented process.

CHAPTER III TRADE SECRETS

1) Protection of undisclosed information

Article 39 is the only provision of the TRIPS Agreement dealing with the protection of confidential information a company or a private individual may have, which is not protected under a patent or under another intellectual property right. What can be emphasized here is that Article 39 is the first provision in a multilateral treaty protecting trade secrets.

Article 39 legitimizes protection of trade secrets in order to ensure "*effective protection against unfair competition*". The term used in the Agreement to describe trade secrets and confidential information is "*undisclosed information*". (In practice, the terms "trade secrets" or "confidential information", and sometimes also "know-how", are used to describe undisclosed information.)

Three conditions are laid down in Article 39 for giving natural and legal persons the possibility of preventing disclosure, acquisition or use by others without their consent, of undisclosed information. The information must:

- be secret (not known or accessible);
- have a commercial value;
- have been subjected to reasonable steps to keep it secret, by the person in control of the information.

Article 39 deals specifically with secret data submitted for the approval of new chemical entities for pharmaceutical and agrochemical products: this data should be protected by Governments against disclosure and/or unfair commercial use.

2) Impact on licensing agreements

It is often more difficult to obtain a trade secret under a licence agreement than a patent right, because patents deal with technology that is disclosed while trade secrets are protected by themselves.

In the context of North-South transfers of technology, Article 39 may have a favourable impact, inasmuch as the risk premium calculated in the lump-sum at the request of the provider of a trade secret could be diminished, should there be speedy and fair judicial procedures to cater cases of violation of a secrecy agreement.

In practice, the obligation not to disclose confidential information is contractual in nature. It will take the form of a confidentiality agreement, a secrecy agreement, a non-circumvention-non-disclosure agreement, a licensing agreement, etc. Examples of secrecy agreements will be provided in the next pages.

Secrecy agreements are frequent at the start of negotiations concerning an unpatented invention or process. The inventor who wishes to assign (sell) his/her invention prior to any registration of the invention as a patent, has to maintain a delicate balance between attracting interest on an invention and preventing a potential buyer from capturing the idea.

In the context of relations between employers and their former employees working for a competing entity, disputes may arise on the sensitive issue of use by a former employee of knowledge obtained in his/her previous job.

In the context of licensing agreements, disputes may arise, as to whether licensees, at the expiry of the license agreement, should return know-how used for the making of a product, when the know-how at issue has not become public.

As can be seen from this overview, the TRIPS Agreement leaves considerable room to deal, through legislative and judiciary measures, with a series of issues, and it should never be forgotten that it also leaves contracting parties ample space to clarify these issues in their contractual terms.

PART II

Fundamental Clauses in Licensing Agreements

Contents

- 1) The negotiating environment of international licensing agreements**
 - Cultural approaches
 - Structure of Licensing agreements
 - Licensing agreements: at the crossroad of legal disciplines
 - Definitions: a drafting technique
 - Language and applicable law
 - Conditional nature of licensing agreements

- 2) Letter of intent and Memorandum of understanding**
 - Putting intentions to paper
 - Is a letter of intent binding on the parties ?
 - Letter of intent and failed negotiations
 - Drafting suggestions

- 3) Identification of the contracting parties**
 - A matter of precision
 - Practical verifications
 - Drafting suggestions
 - Other aspects related to the identity of the parties

- 4) Recitals (Preamble)**
 - Recitals – Example of a clause

- 5) Clauses regarding intellectual property rights**
 - Identifying the IP rights concerned
 - Strategy: decide on what to give and what to get
 - License Grant, license type (exclusivity, etc.) – Example of a clause
 - Description of the licensed territory – Example of a clause
 - Warranties and representations – Example of a clause
 - Registration, notification or recordation of the transaction – Example of a clause
 - Improvements – Example of a clause
 - Most-favoured licensee – Example of a clause
 - Right of first refusal – Examples of clauses

- 6) Payment and related clauses**
 - Lump-sum payments
 - Royalties
 - Other clauses related to payment
 - Payment terms or financial conditions – Examples of clauses
 - Duration and termination of payment – Examples of clauses
 - Financial reporting – Example of clauses

- 7) Infringements of intellectual property rights**
 - Defending IP rights against third parties' infringements
 - Infringements – Example of a clause
 - Responding to claims from third parties that an invention is infringed

- 8) **Enforcing due diligence in exploitation**
 - Due diligence – Example of a clause
- 9) **Liabilities towards third parties**
 - General remarks
 - Liability – Example of a clause
- 10) **General clauses ("boilerplate clauses")**

CHAPTER ONE

THE NEGOTIATING ENVIRONMENT OF INTERNATIONAL LICENSING AGREEMENTS

1) Cultural approaches

There is an important question of style and language in contracting internationally. Take the example of an "American style" contract with the long Recitals, its Definitions, its detail and the whole set of standard dispositions ("boiler plate"). Then compare it with a German or European approach. Here the law is considered to be well spelled-out in the books. Only essential points are agreed between parties and for the rest they confide in the law, so that the gap-filling may be left to the rules as they are provided in the applicable national law.

It is not our intention to expand on the cultural differences in contract drafting (or in negotiating contractual arrangements). However, the reader's attention should at least be drawn to differences in structure, length (the level of detail and sophistication) and language that are to be found in licensing agreements.

2) Structure of licensing agreements

American-type contracts, as compared to continental Europe contracts, are long and they are increasingly taking over the world scene of legal transactions. They are of course the valuable products of a tradition and the result of much experience in the bulk of the great contracts in this sector that we will be discussing. The United States of America has perhaps the most developed body of law in the field of Intellectual Property Law and it is the scene where highly specialised lawyers come into sharp confrontation with one another. American courts too have made their input in the matter through many well-known cases that flow from a rich source of countless disputes. Parties dealing with contracts based on that experience will be confronted with a highly tuned "product" built up from experience in commercial companies and in law firms. Under the *title* of the transaction and the identification of the *parties* one will find the *recitals* and then the *definitions* followed by the *main sections on the rights* that are exchanged. Then will follow a number of *warranties and representations* from one or both sides and the detailed description of *subsidiary rights and obligations* trailed by dispositions on *liabilities* and on *termination and execution and disputes*. Under the heading of *miscellaneous provisions* one then finds several standard clauses that are at every occasion moved forward from the lawyer's "boilerplate".

3) Licensing agreements: at the crossroad of legal disciplines

We are working in a sector in which very specialised and completely different areas of the law meet. On the one hand there is the scientific field of the inventions that give rise to a specific terminology of their own and are connected to the legal discipline of patent law.

On the other hand there is the field of civil and commercial law (in which more persons are trained) that presides over the transactions concerning how and under what rights the inventions and the rights that cover them will be used. This commercial contract law has a lot to do with property and with payments and corporate law. It is also a difficult field because the international element in the transactions causes complications. Parties should be warned against unprepared entry into this doubly difficult terrain.

4) Definitions: a drafting technique

The technique of using *Definitions* deserves to be pointed out. Drafters can shorten the formulation of complex issues by introducing shorthand references to parties, to rights, to inventions, to institutions and to products or even to legal notions. The list can grow out to 40 or more *ad hoc* definitions that are subsequently used with capitals in the body of the agreement. This requires sharp attention and an analytical mind (or much work in proof-reading). Once this technique is mastered it certainly helps to formulate clauses precisely and avoids repetition of the same lines throughout the contract.

Use of *Definitions* has to be understood in connection with an often-used clause which states that the titles of the Sections (or Articles) have no value for the interpretation of the terms in the contract. That clause underscores the fact that only the content of the wording used counts, and not the table of contents nor the indicative titles under which some elements are grouped together. One must be careful and be aware that a rule on, for example, liability, could be unobtrusively introduced in a section that says it discusses another topic; whereas the title about "Liabilities" is clearly above another set of Articles.

5) Language and applicable law

This area is fraught with risks for legal advisers, be they in-house legal counsel or lawyers, as they will work in a highly formalised environment of model contracts and model clauses; with agreements of high financial value, relating to what are nowadays major assets of companies. Those whose mother tongue is not that of the contract run a double risk. Much negotiating and much drafting will be going on by people who do not fully understand the meaning behind the legal terms used in these contracts. And even if one commands the language used the legal environment may be uncertain because the applicable law may be that of a third country. The confrontation with different national legal rules is the most daunting aspect of international licensing law. Only humility can save you.

6) Cost and time factors in negotiating licensing agreements

The length, the technicality and the language of international licensing agreements command a note on the cost factor. Costs are not only economically determined as to what a party can afford but are linked to expectations of style and service. Many big companies have experienced the great value these contracts have for their future and their success. Responsible business-people have seen their survival depend on them. But in some countries it is still considered uncouth to delay the signing of a contract and to insist on too many formalities. It would be considered obstructive if one would make many remarks or ask amendments for any serious length of time. Some companies, with their deep pockets,

will however drag negotiations on in time and can keep paying the best lawyers to refine the agreements under discussion, until the counterpart's pockets are empty. There is a strategic element in this; for example once a party is caught infringing a right of another company then discussions must be understood in the light of the sword of a possible law-suit hanging over its head. Negotiations can then be under great pressure of time and costs.

7) Conditional nature of many licensing agreements

It must finally be understood that agreements are often conditional in nature. This means that either their conclusion or their becoming effective may depend on the prior fulfilment of certain conditions ("conditions precedent") or that some later realities shall trigger certain consequences so that more conditions show up in subsections of the agreements ("conditions subsequent"). This is so in the sector of intellectual property rights where the delivery of patent rights or the feasibility of certain technologies must be assessed before obligations are taken on. This too requires from the lawyer and the negotiator some experience in estimating the requirements and time needed for the development of a technology or an application and for its commercialisation. It requires some good drafting. Parties must do prior "due diligence" to check on internal processes for the valuation and the acceptance of a technology. This has to do with investment, with expertise as well as with markets for the exploitation of inventions. It should remind us that the activity of contracting is only in function of the economic realities and indeed this effort will be judged depending on how the parties are guided towards realising their projects.

CHAPTER 2

LETTER OF INTENT AND MEMORANDUM OF UNDERSTANDING

1) Putting intentions to paper

A "Letter of intent" is a first agreement that should define the broader intentions of the parties with regard to a planned or intended conclusion of a mutually binding agreement. One is indeed often confronted by the request of persons working for an institution or corporation to have a document that may by way of speaking set in motion an administrative process and put the possible co-operation on the agenda.

Such a Letter should state that parties have started and will continue their negotiations over this development and that they wish to move towards a license agreement (perhaps to the exclusion of all other parties) that will need to be concluded. Preferably it should be indicated within which given period of time the final Agreement must be concluded.

2) Is a letter of intent binding on the parties ?

Not all systems of national law of contract have the same view on the legal consequences of *Letters of intent*. Some national laws do however attach some binding obligations to them. Other legal system will accept that a Letter of intent illustrates the seriousness of the negotiations and that some facts are established by the document. That is helpful when it comes to a breakdown of the relationship and when eventually damages are claimed based on the unwarranted breach of trust in negotiations.

The form of appearance of such a "letter" can be quite diverse. Sometimes one indeed just has a letter holding a promise. Sometimes the acceptance of such a letter may be requested in writing from the

addressee, so that one ends up with an "agreement" through mutual exchanges of letters such as in the diplomatic style - where the content is repeated in the letter of acceptance.

The parties might settle for a "*Gentlemen's Agreement*", which indicates a legally non-binding commitment in terms of personal honour. The content of the promise is then, just as for contracts, to be closely looked into, because one must check which promises are made on both sides and notably whether an obligation of means was taken up or an obligation to reach or guarantee a certain result. Liabilities could ensue.

Often the short form of an outline of an envisaged agreement is made up in the form of a *Memorandum of Understanding* (MOU). The title evidently introduces a difference with a binding contract, but again the wording of the understanding that was reached and the consequences for the future actions and expectations of the parties, is the essential element.

For a legal analysis one must first see whether the **external form** that was used is formally fit to create binding rights and obligations for those concerned: the law applicable to questions of formal validity must be checked. In most systems of private international law the form of a "contract" is, as to its validity, judged either:

- under the law applicable to the contract in its entirety; or, alternatively,
- under the law of the place where the document was signed (or in case the parties were not both present at one place then under either of the laws applicable at the places from which the parties communicated by phone, fax, e-mail or otherwise).

From there, one must ask questions about **the content** or about the interpretation of the intention of the parties: this matter is decided under the law applicable to the (contractual) relationship. That will be the law chosen as applicable by the parties or the one indicated by judges (or arbitrators) as the proper law following rules of conflicts-of-law.

3) Letter of intent and failed negotiations

Parties should anticipate the failure of the negotiations and seeing this document, the letter of intent, standing alone. In general terms, after the signature of the letter of intent, the parties either succeed in their plan to make a definitive Agreement, or fail to come to an agreement and they may need to look at the consequences of such a breakdown in negotiations. The most important legal question to anticipate in this connection is: "Which law may be called upon to decide the question of liability for fair negotiations at the pre-contracting stage"? This is to be taken seriously.

It is speculative to say before which national courts one may be sued and which national rule of conflict of law any given court or tribunal over the world will use to decide this question of the pre-contractual relationship. It may well be the law of the place where the damage was caused by the unforeseen and unfriendly (inequitable) withdrawal from negotiations. In countries of the continental European tradition "tort" could indeed be the qualification of an action that unexpectedly cuts off the signing of a contract in an unreasonable manner. If the other party had justified expectations in the signing of an agreement and incurred costs for the preparation of the agreement of which the breaching party should have been well aware, then judges might impose compensation. This could include payments for consultation, costs for setting-up banking agreements, scientific trials, investment in production facilities and eventually compensation for missed chances of other deals. In most common law countries all of this would be a contractual issue; and a request for relief as under a binding contract would be reluctantly considered, unless breach of trust would be involved or if the tort of representation would have been committed.

4) Drafting suggestions

(a) "For discussion purposes only". It is safe for parties who are still negotiating a final version of their Agreement and who exchange drafts with that goal, to note on top of each new draft (and perhaps on each page thereof) "*For discussion purposes only*" or "*Non-binding draft*". And in case a complex written offer is made; one that is only to be considered binding if it were accepted in full, without amendments or splitting-up, one should note that it is only valid if accepted unconditionally and in full.

These lessons apply to Letters of intent and to differently named similar pre-contractual exchanges as well as to the consecutive steps in negotiations, even if they are not formalised in a written document signed by both parties.

(b) "Not a binding contract but an agreement to negotiate". If the general framework of a relationship is agreed in writing between the parties, but if that understanding is then still to be formalised and to be detailed by the lawyers, then write clearly that this is "not a binding contract but an agreement to negotiate". Be sure that you should only create moral obligations if such is your intention.

If however an early agreement is written down as an agreement on a few basic points of understanding, then be careful that such an agreement could be binding for those important stipulations and for the basic points in the relationship. Such an agreement would under several systems of national law be further complemented or "constructed" in detail as comprising the dispositive (gap-filling) rules of the applicable national law of the contract. The shorter the written agreement is all the more important it will be to know which system of national contractual law will be your frame of reference (and thus a clear agreement on the law applicable to your agreement seems necessary in the Letter of intent and in any pre-agreement).

(c) Recitals in the letter of intent. Be careful with the words you use and the presumptions you create. A preamble ("recitals") to precede the substantial clauses of the Letter of intent could help in explaining the exact intentions of the parties.

(d) Main provisions of a letter of intent. The question then comes up which aspects of the relationship will be laid down in a Letter of intent. But evidently one should have certainty over which legal entities will be entering into the relationship. And if any legal obligation could arise from this written document, then one must be sure that a number of basic elements are in it, so that it can stand alone if the envisaged final deal is not struck (or the transaction is not concluded in the time foreseen). It is therefore advisable to consider most of the following aspects:

- full (long version) of party identification;
- description of the intellectual property right;
- description of the unpatented know-how;
- secrecy obligations;
- way the future agreement will be concluded either by a new consensual agreement or by one of the parties calling an option to conclude;
- type of rights that are to be given in or that are negotiable for the main agreement;
- field or the different types of applications;
- geographical area of which parties are thinking;
- whether simultaneous negotiations with other parties are allowed;
- perhaps particulars or expectations about financial compensation;
- do you put a time-limit on the negotiations;
- do you decide the binding nature of the pre-agreement;
- do you give detail about the applicable law and dispute resolution;

One would do well to precisely foresee the problems of interpretation and of the binding nature of this pre-contractual memorandum and thus to determine which courts have power to decide, besides saying which law applies.

CHAPTER 3 IDENTIFICATION OF THE CONTRACTING PARTIES

1) A matter of precision

Company identification is particularly important to begin with in agreements for the transfer and the exploitation of intellectual property rights. Party identification is of prime importance because only those entities that are named and that sign the contract are bound to the contract - precisely as they are **named**. And the transfer requires precision with regard the old and new proprietors of such rights, while the use and exploitation of those rights create long-term relationships of co-operation during which many questions regarding the right-holders and the obligees may come up.

In naming the parties, one must pay attention to every letter and diacritic sign; to the particular **address** written down and to the particular **legal form** in which the corporate parties are incorporated. They are only bound if the **representation** by the signatories of the document is legally sufficient. For a corporate legal entity to be bound, there must appear the signatures of well-identified corporate officers who have the capacity or a mandate to sign and who act within the confines of the corporate goals as they are described in the bylaws of the company. Sometimes specifications on corporate representation and empowerment may be repeated in the *Representations and warranties* clauses, in order that the physical persons who sign also bind themselves personally in the contract should they be guilty of misrepresentation.

2) Practical verifications

Though the identification of your partner is of great importance at the time of the conclusion of the contract; holding onto your partner through the developments that will follow with time may be crucial as well. Several elements of a corporate identity can change and some entities have been known to change them intentionally to evade an important contract partner. The corporate name may be changed. That name may even be given to another entity that is dropped in your nest but that may be an empty shell (a new, poorly capitalised entity or a worthless partner). The corporate seat might undergo change. There may be mergers with other entities or parts may be split off to form separate entities. For that purpose the precise identification is via **the registration number** of a corporate entity. This may be a number given in a national commercial register (in many countries) or in tax-records or for purposes of publication of annual accounts or for a stock exchange. This differs from country to country.

Do check the **solvability** as well as the representation of your contract partner. Company profiles, creditworthiness and annual accounting information can best be researched with the specialised companies or on web-sites of government or commercial registers (e.g. S & P; Dunn & Bradstreet). And as far as representation is concerned, ask for details regarding the officers: plainly but confidently ask excerpts from the latest information in the official company registry.

3) Drafting suggestions

(a) Introduce an **abbreviated reference** to the legal persons who are the contracting partners, for ease of drafting. And be sure you identify the particular obligee of one or other specific obligation in specific subsections (articles) of the contract, especially if more than one legal entity is named on the one "side" of the interested parties. Within a group of companies with a similar but not equal positions in your contract, an entity may become uncooperative and unwilling to take on an obligation before a partner does so.

Now, subsequent to determining who are the contracting parties and thus who is your contract partner, several important issues must be considered as they are tied to this question. These elements are discussed very briefly here. Some are developed elsewhere in the materials for this Workshop.

(b) Affiliated companies should be defined (see Definitions and eventual addenda) and one must think through, the consequences of the definition of *Affiliated companies* in the clauses on sublicensing etc.

(c) Obligees to the royalty-payments must be well indicated and one must determine which company's sales are subject to royalties and which corporation's turnover is the basis for the royalty calculation.

(d) External accountant controls can be imposed on the contracting party but not on other parties that are not bound by the contract. So, one may seek - on the side of the main contract - undertakings from the known affiliated companies who will be important in the life of the contact (e.g. for the distribution of goods under the license). Or one should ask an undertaking of the contracting party to impose controls on the other entities failing which breach of contract penalties would ensue (if that would, realistically speaking, be enforceable for a particular client)

4) Other aspects related to the identity of the parties

(a) Sub-licensing. If sublicensing is to be allowed, then anticipate the consequences of this fact with regard to several obligations under this contract. It may make a great difference on the level of income for the licensor if the license is for selling products using the patented technology or technique and the licensee is not making the turnover itself; if the sub-licensee books the turnover and then only pays a fee or royalty to the licensee, this could greatly reduce the income of the licensor. This point is discussed in the paper on the payments clause.

The licensor should preferably ask information from the contract-partner as to the identities of future sub-licensees. And the parties should agree whether those entities are subject to obligations included in their contract (and if so, in which manner they will be), such as the obligation of discretion, of providing information and eventually of reporting and of submitting to controls as to their turnover and their own proceeds.

(b) Whether assignment of rights will be allowed or not must also be thought over: a party who is a partner today could be gone tomorrow.

(c) Mergers and acquisitions. Think of the consequences of mergers & acquisitions for the future. The nice and friendly people with whom you contract may not be there in the same capacity for long. And certainly large commercial entities will not nowadays accept to exclude by blanket clauses the possibility of an assignment in the form of a transfer of a section or considerable part of the business of the contracting party. That would diminish the value of their company for potential partners.

(d) Secrecy. Imposing secrecy obligations may be particularly difficult if your contract-partner will need to co-operate with third parties - even with affiliated companies - in order to perform under this contract. Clarify the obligations and the consequences of breach of the secrecy obligation. Avoid losing the secrets about know-how or about the project that is under way through other parties (whether on your side of the deal or on the side of your major partner) and nevertheless getting the blame and the liability on your company.

(e) Procedural guarantees. This also relates to the question as to who is your partner and for which obligations: Think of eventually introducing procedural guarantees and think of which entities you might be able to sue if things go wrong (as mother company perhaps in its own right or as a guarantor). If there will be more than one partner in the venture, then stipulate promises to accept consolidation of procedures (merging already pending litigation or allowing judges to bring them together). And if arbitration is agreed as the only mode of resolving disputes over the contract and its execution then one must certainly have a prior agreement to consolidate and to unify eventual disputes because arbitration is strictly on the basis of mutual agreement. If not, one runs the risk of not being able to call in a party to help defend or to warrant its own obligations without starting separate proceedings.

(f) Effectiveness of liabilities. Liabilities and clauses about "keeping harmless" very much depend on the contracting parties' dependability. You should look for a solvent party that can vouch vis-à-vis your client that it will fulfil its obligations. The commercial partner should preferably also be known to third parties, such as banks and credit-insurers, as solid and dependable. Such a contract-partner would indeed be interesting to choose as the defendant in the eventuality of litigation. You should avoid an unattractive party that has no assets to attach or that gives no assurance of fulfilling those obligations. A partner could be all but immune from prosecution because it may be sheltered in a legal safe haven. Some countries attract shaky businesses because of their low level of guarantees regarding the solvability of corporations or their unsure means of legal enforcement (perhaps with very slow court procedures or with excessive protection over assets in bank accounts). Or they may have a bad history of international co-operation in the field of enforcement of foreign judgements.

(g) Foreseeing consequences of bankruptcy. Foresee or try to foresee the consequences of bankruptcy and the occurrence of similar procedures of court-controlled settlements with creditors. Think especially of the increased costs (risks) in international bankruptcy and insert, wherever possible, acceleration clauses, regarding the maturity of obligations vis-à-vis your client and the return of rights afforded in the contract and of know-how and confidential goods, samples or stocks delivered.

If you accept as contract-partner a company from a country that is shaky on the level of legal protection of creditors or that is politically or economically unpredictable, you may also want to add a guarantee to the main agreement. You could refer to the linked Agreement with a solvent and a well-established corporation in a country with a legal system and a banking system with which you are acquainted. If your contract-partner explains that its use of certain company is without further consequence to you and that the particular legal body in the more risky jurisdiction is only used for tax purposes, then you get just the leverage to ask for a **guarantee contract**. You should then namely be able to make your own point about receiving reasonable coverage in case the one corporation defaults on its obligations. In this case re-read all the clauses in the contract and pay attention to the consequences of the use of "affiliated companies".

CHAPTER 4 RECITALS (PREAMBLE)

1) Use of Recitals

Recitals or the Preamble are narrative clauses (the "whereas" clauses) at the beginning of a contract, giving a number of facts or declarations in the context of which the contract is set. There are differences in approach to the Preamble according to different legal systems. One will also find different corporate traditions in this area. Generally speaking, in licensing agreements, one may say that fact-finding is influenced by this recital of elements. They are elements that will be considered as proven vis-à-vis the contract-partner. They give an indication of the contract's broader goal because they bring elements of expectation, motivation and concern. They may also indicate the economic incentive of the parties to contract. Their content is extremely varied.

Recitals clause – Example :

WITNESSETH

Whereas Ms. Sandra Eureka invented a method of glazing microscopically small chemical particles with a coating that is neutral, providing a chemical or a pharmaceutical compound a physical stability under conditions of heat and humidity encountered in tropical climates that allows easier handling, storage and dosage in small quantities;

Whereas the inventor invented the technology while in the employment of Arica Corporation (hereafter "Africo") and whereas she has together with the help and support of Applied Chemical Formulations ("CHEMICAL") improved the know-how on the production technology and on the range of Products that could be treated with this Technology;

Whereas Africo has applied for a patent under N° USA 1,234,567 (of 31 April 2000);

Whereas LICENSORS are the owner of the PATENT RIGHTS and certain KNOW-HOW (as later defined herein) and has the right to grant licenses under said PATENT RIGHTS and KNOW-HOW.

Whereas no valid and existing license for the use of the rights of LICENSORS to the invention has been previously granted;

Whereas LICENSORS and LICENSEE entered into an Agreement called " Research Agreement – Development of the Application of the technology of glazed coating to a pharmaceutical compound for lowering blood pressure in humans" on 12 January 2000 whereby terms were agreed under which LICENSEE sponsored a project, run at the Africo production facility;

Whereas the "Research Agreement" contains clauses regarding the intellectual property rights to resulting foreground knowledge that may or may not be patentable, and in which the title to such new inventions is determined and a right to a license is discussed;

Whereas under the "Research Agreement" the LICENSORS refined their background knowledge but no new patentable invention was done; and whereas the licensing of background knowledge was not then agreed upon;

Whereas a KNOW-HOW was developed by the Parties during the Research Agreement and leading to new PRODUCTS for a better embodiment of the LICENSED TECHNOLOGY.

Whereas it is hereby the intention of the LICENSORS to grant a license to the existing PATENT RIGHTS and KNOW-HOW developed under the "Research Agreement";

Whereas due attention shall be paid to co-operation between all parties toward the eventual improved protection of the additional KNOW-HOW of Africo regarding the pending Patent-application;

Now, therefore, in consideration of the foregoing premises and the mutual obligations set forth hereinafter, the parties agree as follows:

CHAPTER 5

CLAUSES REGARDING INTELLECTUAL PROPERTY RIGHTS

1) Identifying the intellectual property rights concerned

Before drafting, there must be an agreement on the rights that are to be contracted.

- a) Describe **the rights** that are to be contracted: identify patent applications that are existing; or name delivered patents; indicate the area of protection claimed or obtained;
- b) Pay particular attention to who holds the existing know-how or the patent (and eventually the brands connected to the product or services)? Describe the "background" know-how well, and be careful about secrecy in this regard.
- c) Think of the future: what is to be the property status of eventual results in further research and development (payment regarding such work is a different question).
- d) Recitals, Definitions and Addenda are helpful tools in respect of description of, and reference to, patents. Look very closely at different levels or concepts used in the Definitions (the "Invention"; the "know-how"; the "IPR"; the "Technology"; the "Product", "Improvements" etc.). For example, when using the standard description of "*Improvements, additions, renewals, patent applications and any and all re-examinations, reissues, extensions, continuations, continuations-in-part, divisions, substitutions, certificates of invention, foreign counterparts, renewals, patents of addition, and patents of importation thereof, as well as any additional patent certificates related thereto*", know what you are contracting for.
- e) Think of the bundle of rights connected to intellectual property rights (who is owner? where?): those rights differ from country to country; one must have all the owners agree on the assignment of a right and also to the giving of a license; check also the exactness of the application with regard to inventors; it is preferable to have the inventors agree also on the rights given if they are academic inventors or at least check their assignment to their Research institution.

f) Link rights to warranties. When receiving rights, ask for warranties and representations. When granting rights think of providing them to your contract partner. This will give him so assurance on your professionalism and reliability.

2) Strategy: decide on what to give and what to get

a) An invention can be either sold (assignment) or licensed (giving the right to use an invention, to make products and sell them). In the following pages, it is presumed that parties have agreed on a license contract.

b) Exclusivity/non-exclusivity. This clause is to be linked to the payment clause. An exclusive license will often entail lump-sum payments.

c) In which area and for what length of time (duration of the patent ?).

d) Decide whether the know-how (in most countries not fit for protection as an "Intellectual Property Right") is to be distinguished from the patented knowledge (IP right in the strict sense of the word). The distinction may be used for deciding on payment terms. It may be used in determining the geographical area where royalties will be due and for which length of time. Do you include a trademark in the contract? Will you also contract for services such as research and development?

e) In general, think of all the related issues that have a bearing on the right for which you contract and the financial compensation for it, such as:

- Payments with regard patenting: who maintains the patent? Who pays the patent-agent?
- How much must the licensee or assignee pay for Improvements, Additions, Renewals?
- Who will defend the IP right against infringing third parties ?
- Who is liable for products put in the market or for producing goods by using the patented technology ?
- Distinguish costs and damages of the parties themselves and of third parties
- Know the consequences of eventual mistakes in the patent prosecution and in upholding the patents in the agreed countries

License Grant, License type (exclusivity, etc.) clause – Example:

1 - Licensor hereby grants to Licensee, subject to the terms and conditions of this Agreement, an exclusive world-wide license under the Licensed Patents and Licensed Technical Information, to manufacture, use and sell Licensed Products for any and all uses.

2 - Licensor herewith grants licensee an exclusive license for the manufacture, the use and sale of the Licensed Item.

3 - The license will have an exclusive character during the first 5 years starting from the validity date of this contract. At the expiry of the above time-period, and for the same territory, the license will be non-exclusive.

4 - MIBS hereby grants and Licensee hereby accepts a non-exclusive license in each country of the Licensed Territory under MIBS GRF Patents to produce, have produced, to manufacture, have manufacture for it, to use and or sell Patented products to the end user...

Description of the Licensed Territory clause – Example:

1 - The Territory of this license is the Federal Republic of Germany. Sales to France are permissible, until licensor has granted a license in France and has so informed the licensee by registered mail with receipt.... Licensee does not have the right to sell licensed items produced under the patent to other countries. In each case of a violation of this clause, licensee is obligated to pay three times the licensee fee as herein defined, to the licensor. With respect to the European Common Market, this sales limitation ends 5 years from the marketing of the licensed product.

2 - The Licensed Territory shall be the area of the full Member States of the European Communities, as that organisation may be constituted from time to time, plus Switzerland, Sweden, Norway and Finland.

Note: Territorial restrictions may be considered in some jurisdictions to produce an anti-competitive effect, especially when the geographical area is particularly limited (as concerns sales for example). Parties are advised to obtain a legal opinion before attempting to confine activities to a very limited area.

Registration, Notification or Recordation of the Transaction clause – Example:

1 - Each party hereunder has the right to request the registration of the license at the German Patent Office at its own costs. Licensor promises to issue licensee all necessary powers and to make all necessary signatures for this purpose.

2 - If the terms of this agreement are such as to require or make it appropriate that the agreement or any part of it be registered with or reported to national or supranational agency of any area in which LICENSEE will do business under the agreement, LICENSEE will within _days of the effective date of the agreement, and at LICENSEE expense, undertake such registration or report. Prompt notice and appropriate verification of the act of registration or report of any agency ruling resulting from it will be supplied by LICENSEE to LICENSOR.

Any formal recordation of this agreement required by the law of ___ as a prerequisite to enforceability of the agreement in the courts of ___ or for other reasons shall also be carried out by LICENSEE at its expense, and appropriately verified proof of recordation shall be promptly furnished to LICENSOR.

Improvements clause – Example:

*1- Changes and Improvements by Licensee:
Structural changes of the Licensed Item are only permissible after written approval by licensor.*

All improvements of the Licensed item shall be reported by licensee to the licensor. Depending upon licensor's participation in the improvement, licensor has the right to be mentioned as a joint inventor, and to exploit and utilise the improvement by taking a license thereunder. The conditions are to be negotiated by the parties in good faith.

*2 - Improvements and changes of the Licensed Item by Licensor:
Licensor shall inform the licensee of all improvements of the Licensed Item without charge. This provision is applicable also for improvements for which a patent*

application is filed. The licensee has the right to obtain a license for such improvements in accordance with the conditions of this agreement.

3- The term Licensee's Improvements shall mean those advances or developments which are directly in utility and application and may be related to the Licensed Patent and which are eligible for patent protection.

Most favoured Licensee clause – Example

1 - MIBS agrees that it will not issue any license granting the right to sell products covered by the MIBS GRF Patents to the general public to any person, firm or corporation under terms and conditions more favourable than those granted to Licensee hereunder without giving Licensee the benefit thereof as of the date on which such more favourable terms and conditions shall become effective. In the event that MIBS enters into any such more favourable license, MIBS will promptly notify licensee to that effect, offering Licensee a reasonable opportunity to accept all such terms and conditions.

2 - If under similar and substantially the same terms and conditions as contained in this Agreement, a license or agreement is concluded by the Licensor with any third person in [specified country (countries)] in respect of the terms and conditions of [this Agreement] [the Articles on royalty rates] on more favourable terms and conditions than those of this Agreement, the Licensee shall be entitled to have the terms and conditions of [this Agreement] [the Articles on royalty rates] modified as of the earlier date on which such other person conducts operations under such favourable terms and conditions to such extent that the same shall as those granted to such third person, but only for so long as such terms and conditions shall be applicable to such third person.

Note: "The merit of a most-favourable terms and conditions provision in a license or agreement is debatable. Effective implementation of such a provision presupposes knowledge of the terms and conditions under other license or agreements or access to information about those which contain more favourable terms and conditions. In the absence of assurances of such information by the Licensor or technology supplier or the existence of governmental machinery to assist in obtaining such information, it may be difficult to invoke such a provision. (...) Further, in many cases it may be difficult to determine which terms or conditions are more favourable, particularly if the license or agreement is the result of a number of interdependent elements or is a part of an integrated technology transfer transaction. (WIPO, Licensing Guide for Developing Countries, 1977, p. 118)

Warranties & Representations – Example:

Representations, Warranties and Covenants Made by Africo:

Africo represent and warrant to CHEMICAL that :

1. (a) Africo has full contractual rights to grant EXCLUSIVE sublicenses of the PROPERTY in the FIELD to CHEMICAL.

(b) Africo also has full contractual rights to grant a non-exclusive sublicense to CHEMICAL in the FIELD of all IMPROVEMENTS.

2. (a) None of the PATENT PORTFOLIO at this date has lapsed by reason of abandonment or non-payment of annuities or will lapse within two (2) months of the Effective Date.

(b) Issued patents included in the PATENT PORTFOLIO are at the EFFECTIVE DATE valid to the best of Africo 's knowledge, subsisting and free and are with reference to the FIELD of this sublicense clear of all liens, claims, security interests, licenses and encumbrances. No opposition was filed with respect to the European patent during the period of opposition.

(c) The execution and performance of this Agreement by Africo will not violate any provision of law, any order of any court or any agency of government, or the charter or bylaws or other internal regulations or decisions of the Africa Corporation Pty Ltd., and will not violate or result in the acceleration of any material obligation under any agreement or instrument of any kind to which Africo are parties or by which they are bound.

3. There are no material claims, actions, suits or proceedings pending, or to the knowledge of Africo, threatened against or affecting Africo arising out of or relating to the PROPERTY or hinder the consummation of the transactions contemplated hereby.

4. Africo represents that it has not received notice or has not been charged with infringement or violation of any adversely held patent, invention or trade secret relating to the PROPERTY. Africo expressly warrants and represents that, at the time of this Agreement, it does not know of any information or inventions related to the PROPERTY that would render it obsolete or would substantially reduce its value to CHEMICAL such that, had CHEMICAL known of the information or inventions, before entering into this Agreement, it would not have done so.

5. Africo acknowledges that CHEMICAL shall assume no liabilities or obligations of Africo whatsoever whether with respect to the PROPERTY or Africo IMPROVEMENTS or otherwise.

6. Africo shall, after the EFFECTIVE DATE, at the request of CHEMICAL and without further consideration, execute and deliver such further instruments and take such further actions as CHEMICAL may reasonably request in order to enable it to exercise and protect its rights under this Agreement, or to comply with recordation in any jurisdiction where the PROPERTY or IMPROVEMENTS exist.

7. Africo further covenants and agrees that it will, whenever requested and without cost, promptly communicate to CHEMICAL or its representatives any facts known to it relating to the PROPERTY, the IMPROVEMENTS, testify in any interference or legal proceedings involving the same and execute any additional papers that may be necessary to enable CHEMICAL or its representatives or successors to secure full and complete protection for the same, in as far as such request, testimony or action relates directly to applications of the PROPERTY within the FIELD.

"Right of first refusal" option clauses

– Example 1:

(a) The Licensors hereby grant to Chemical a right of first refusal to acquire an Exclusive world-wide license, including the right to sublicense, to develop, make, have made, promote and sell Products covered by issued patent claims of the Property and to use the additional data and results generated and owned or in-licensed by the Licensors for all the Optional Applications in the field of

medicines for application in humans (hereafter: "Optional Applications").

Chemical may exercise such right of first refusal at any time during the period of five (5) years commencing with the Effective Date. Such right of first refusal may be extended beyond such five-year period by mutual agreement of the parties.

- (b) *The Licensors shall give Chemical prompt written notice of the development of each such Optional Application upon completion of proof-of-principle as demonstrated in appropriate human clinical trials, together with all data and results generated by the Licensors to the date of such notice with respect to such Optional Application in order to enable Chemical to make an informed decision whether or not to exercise its right of first refusal with respect to such Optional Application. Chemical shall have sixty (60) days from receipt of such notice to give the Licensors written notice of Chemical's intention to negotiate with the Licensors for rights to such Optional Application. For a period of ninety (90) days following Chemical's notice, the parties shall in good faith negotiate the key financial terms of a sublicense to such Optional Application. It is understood and agreed that the key financial terms of each such sublicense shall be similar to the key financial terms set forth in this Agreement. If the parties are unable to negotiate such sublicense during such ninety (90) day period, then the period of negotiation will be extended automatically for an additional forty-five (45) days. If during such additional forty-five (45) day period, the parties are unable to reach final agreement, Chemical shall make its best offer to the Licensors upon the expiration of such additional forty-five (45) day period. If the Licensors do not accept Chemical's best offer, the Licensors may negotiate and enter into an agreement with a third party with respect to such Optional Application, provided, that the initial good faith offer by the Licensors to the third party is no more favourable to the third party than the best offer previously made by Chemical to the Licensors. In the event of any disagreement between the parties as to the comparability of an offer to a third party and the best offer made by Chemical, the parties shall mutually designate a neutral individual unrelated to either party to resolve the disagreement*
- (c) *During the negotiation period and, if applicable, the extended negotiation period referred to in Article 3.2(c); the Licensors shall continue to disclose to Chemical all data and results generated by the Licensors with respect to such Optional Application; and the Licensors shall not negotiate or otherwise communicate with any third party with respect to such Optional Application.*
- (d) *In the event that Abbott exercises such right of first refusal, Chemical shall pay seventy-five percent (75%) of the clinical development costs incurred subsequent to the date of the negotiated and signed contract with respect to the Optional Application involved. For such purpose, "clinical development costs" shall be as mutually agreed. As of the date of this Agreement it is not the intention of Chemical to pay clinical development costs incurred prior to the date of the negotiated and signed contract; however, Chemical agrees to consider and discuss the possibility of paying for a portion of such costs.*

– Example 2 :

5.7.1 INSTITUTION hereby grants CHEMICAL an option to negotiate an exclusive, world-wide, royalty-bearing license to make, use or sell under any Joint Intellectual Property. CHEMICAL shall have three (3) months from disclosure of any such Invention to notify INSTITUTION of its desire to enter into such an agreement, and an agreement shall be negotiated in good faith within a period not to exceed six (6) months from CHEMICAL's notification to INSTITUTION of its desire to enter into an agreement, or within such period of time as the parties shall mutually agree. If

CHEMICAL and INSTITUTION fail to enter into an agreement during that period of time, the parties shall be entitled to exploit the Joint Intellectual Property in any manner consistent with their respective rights under the patent law.

5.7.2 INSTITUTION agrees to grant to CHEMICAL an option to negotiate an exclusive or non-exclusive, world-wide, royalty-bearing license, to make, use or sell under any INSTITUTION Intellectual Property. CHEMICAL shall have three (3) months from disclosure of any invention or discovery to notify INSTITUTION of its desire to enter into such a license agreement, and a license agreement shall be negotiated in good faith within a period not exceed six(6) months from CHEMICAL's notification to INSTITUTION of its desire to enter into a license agreement, or within such period time as the parties shall mutually agree. In the event that CHEMICAL and INSTITUTION fail to enter into an agreement during that period of time, then the rights to such inventions and discoveries shall be disposed of in accordance with INSTITUTION's policies, with no obligation to CHEMICAL. CHEMICAL agrees to pay a reasonable royalty to be negotiated in good faith for the use of any such INSTITUTION Intellectual Property. Until such invention or discovery has been presented as set forth above, INSTITUTION shall not offer rights to that invention or discovery to any third party.

5.7.3 CHEMICAL may direct that a patent application or application for other intellectual property protection be filed with regard to INSTITUTION or Joint Intellectual Property. If CHEMICAL so directs, INSTITUTION shall promptly prepare, file and prosecute any U.S. and foreign applications in INSTITUTION's name, or cooperate in such preparation, filing and presentation in both parties' names in the case of Joint Intellectual Property, and CHEMICAL shall bear all costs incurred in connection with such preparation, filing, prosecution and maintenance of U.S. and foreign applications. If CHEMICAL subsequently decides to discontinue the financial support of the prosecution or maintenance of the application(s), INSTITUTION may at its discretion and own expense, prepare, file, prosecute or maintain any such patent(s) or patent application(s), but such patent(s) or patent application(s) shall not be subject to the option(s) in Section 5.7.1 and 5.7.2 of this Agreement.

CHAPTER 6

PAYMENT CLAUSES

Determine first of all your company's strategy for either an early lump-sum payment, a compensation based on the later success of the Invention (royalties) or both.

1) Lump-sum payments

Lump-sum (fixed payments) clauses may be made on the basis of:

- up front payments or alternatively in instalments;
- annual or periodical payments depending on certain defined steps in the development of a Product that uses the Invention.

2) Royalties.

Royalties are deferred payments tied to commercial results. This may well allow for a larger compensation than a lump sum because licensor shares in the risk that the project may eventually come to a halt and may fail. Licensor's own preference for royalties based on returns and thus his choice to wait and share the proceeds of the successful application, may be seen as an expression of his own belief in the technology's potential.

The following should be considered:

(a) To what commercial results are the royalties linked ?

- Are the parties contracting for royalties on revenue created by sales turnover of the Product (Net Sales as defined) or alternatively based on a fixed sum per Product sold or produced ?
- Distinguish well between **royalty-rate** on the turnover of a good registered in the books of **the licensee**, on the one hand, **and a royalty-share of the proceeds** that others shall pay to your licensee for a particular use by **the sub-licensee** on the other hand (one could end up with a percentage of a percentage). What will be the financial compensation in case sublicenses are allowed? Royalty rate and/or royalty share?

(b) Calculating royalties:

- As a percentage of the company profit (there are bookkeeping uncertainties) or
- As a percentage of annual or periodical (e.g. quarterly) turnover and define either Gross Sales-Turnover or Net Sales?
- Define narrowly the Product of which the turnover will be basis for calculation (one small computer-chip or a minor subpart of a machine v/ the entire printing press): it makes a world of difference when you calculate percentages.
- How do you define the value of the one Product produced or sold (at which point of finishing or of transfer)?
- Do you wish to exclude certain sales or transactions from the accounting process?
- What will happen when the Licensee makes an agreement with a third party that infringed its exclusive license (to produce or to sell) - is the royalty applicable to amicable settlements; is it applicable to court imposed fines and damages?
- How does one prevent discussions about exchanges of favours between commercial partners - e.g. offering a Product at reduced price in exchange for another product of theirs (e.g. in a cross-licensing deal)?
- How would you determine value in case of barter of Products?

(c) Determining the duration of the obligation to pay.

This can depend on the time of patent protection from particular country to country or on the longest running protection. The duration could, in the case of added payments for a well-defined know-how, continue as an obligation in part even for the time all patent-protection has lapsed.

Distinctions can be made between the first and later years.

Eventually balance the up-front payments with the royalties into a package that can suit both parties - eventually compensating the early payments by later deductions or set-off.

(d) Laying down, in a formula, certain changes in the royalties-rates over time and depending on business contingencies:

- "curves" in the ratio of royalty related to the volume of sales or of production;
- curves going up or down or royalty rates in step;

Fluctuating royalties may be justified depending on the agreement over investments of either of the parties to be recovered in a first phase, or of efforts to be done in offering a lower Product-price in order to win new markets or on higher (or fluctuating) marginal profits being foreseeable as production rises.

3) Mixed payments

Parties may choose to negotiate a mixed payment: part early compensation, for investments made by licensor and for the patent application costs and then followed by royalties based on turnover of products using the technology.

4) Other clauses related to payment

- Draft a clause **assuring diligence in commercialisation**, by requiring a minimum of royalties to be paid up, irrespective of the turnover of business.
- Introduce perhaps **clauses of "force majeure" or "hardship"** and the need to renegotiate constructively for a better balance of parties' rights or to have a neutral third party intervene in the adjustment of the contract to unforeseen economic circumstances.
- Draft the **Termination clause** for payment obligations (fully paid up license).
- Look at who carries the **costs of prosecution** for defending against others who claim existing rights. And who carries the costs of chasing after and suing those third parties who might infringe on the monopoly to produce or to sell or import?
- Look at the Clauses controlling the past turnover and the payments offered, through external accountants' controls on request of the Licensor or Assignor.
- The same rules and the same need for strategic planning are applicable when your company has infringed on intellectual property rights of a right-holder and when you are negotiating a settlement payment and eventually an agreement for future use (license).

Payment terms or financial conditions clauses

Example 1:

ARTICLE 4- FINANCIAL CONDITIONS

4.1. – Without prejudice to the provisions of Article 4.2. and in further consideration of the intellectual property assigned/licensed to CHEMICAL under this present Agreement the rights granted to Africo pursuant to Article 2 are royalty-free.

4.2. – CHEMICAL shall pay Africo during the term of this Agreement a royalty of 2 % on the Net Sales generated by CHEMICAL, its Affiliates, licensees (including for the avoidance of doubt any Sub-licensee) and/or distributors in the CHEMICAL Field and the Sub-licensee Field.

4.3. – Without prejudice to the provisions of Article 4.2, if a Sub-licensee grants sublicenses to independent third parties in the Sub-licensee Field, allowing such third party to use the Licensed Technology in one or more Products selected by it, the Africo, CHEMICAL and the Sub-licensee have agreed that in lieu of the obligation to pay royalties on the Net Sales

generated by such Sub-licensee in accordance with the provisions of Article 4.2, Africo, and CHEMICAL will divide the consideration to be paid by such Sub-licensee by virtue of which Africo shall receive 25 % of all milestone payments (including any signing fees) and eventual royalties payable by any such Sub-licensee on its Net Sales of Products. Payment of Africo's share and the related reporting shall be submitted by CHEMICAL in accordance with the quarterly royalty payments due in accordance with Article 5. No further royalties shall be due by CHEMICAL to Africo on the Net Sales value of any Product sold by such a Sub-licensee in the event that the parties have shared the royalties and milestone-payments as aforementioned

In the event CHEMICAL exercises its right of first refusal with respect to a given Product that can qualify as its Own Improved Product in accordance with the provisions of Article 9.1, the royalty payable by CHEMICAL, its Affiliates, Sub-licences or distributors on the Net sales of such Product in Territory shall be reduced to 1.75%.

Example 2:

Article 4 – Royalties:

4.1. – Payments:

LICENSEE and its Affiliates and its Sub-licensees (if they are Sub-licensees to sell) shall in compensation for the above right of use and exclusive license pay to LICENSORS periodically deferred payments also called "earned royalties" on NET SELLING PRICE of LICENSED PRODUCTS as follows:

LICENSEE will pay to LICENSOR deferred payment of nine percent (7.5 %) of the NET SELLING PRICE of LICENSED PRODUCTS.

Such obligation to make payments under this paragraph shall expire upon termination of the last to expire of any PATENT RIGHT effective in the place in which the LICENSED METHOD is used and the LICENSED PRODUCT is used and sold.

4.2. – Discount on the deferred payments (royalties):

According to article 2 of the Agreement, a sum of 25.000 U.S. dollars was paid for the research and work that will lead to the application of the Invention LowBloodMed of CHEMICAL. It is agreed that this is an advance payment to be set off against future royalties that may be received as proceeds from the commercialisation of the Invention by CHEMICAL. Therefore royalty payments shall commence only from the date where the sum of 25.000 U.S. dollars will have been accounted for by deductions from the royalties that are virtually due under this Article 5.1.

4.3. – No deferred payments (royalties) shall be payable on sales between the LICENSEE and its own AFFILIATES and its own Sub-licensees.

4.4. – All taxes assessed or imposed against, or required to be withheld from deferred payments due to the LICENSORS, shall be deducted from amounts payable hereunder only after notification to the Africo and shall be paid to appropriate fiscal or tax authorities on behalf of the LICENSORS. Tax receipts received by LICENSEE evidencing payment of such taxes shall be forwarded promptly to the LICENSORS.

4.5. – Adjustment in event of infringement:

In the event the manufacture or use of the LICENSED Technology or the manufacture, use or sale of a LICENSED PRODUCT infringes patent rights of a third

party in any country where they are used or sold and if LICENSEE notifies LICENSORS in writing and provides LICENSOR with evidence adequate to establish infringement, the parties agree to negotiate with a view to downwardly adjusting the royalty obligation on LICENSED PRODUCT used or sold, no later than 3 (three) months after furnishing said notice and evidence.

In case of absence of agreement between the Parties for longer than three months, Parties hereby accept to appoint a neutral third party that hereby is afforded the necessary mandate interpret and to adjust the clauses of this Agreement so as to diminish the royalties foreseen herein in a binding manner, and proportional to the loss of revenue of the Licensee. This neutral third party may maximally reduce the royalties to half the rate presently agreed. If in the view of such a third party the compensation to be given by Licensee to a third right-holder of intellectual property, then either of the parties shall have the right to terminate this Agreement - because that would demonstrate that the Patent rights were effectively invalidated.

The amount of the downward adjustment shall be equal to the amount of royalty payments to be paid to the owner of the infringed third party patent rights.

4.6. – Payment and interest:

Payments due under this Agreement will be subject to interest from the day of their maturity at the rate of six percent (6%) per annum.

Payment due under this Agreement shall be paid to Africo on Bank-account number 001-111222333 - 01 of the ABC Bank Cape Town branch (international paying code n° Xyz).

Payments shall be made by LICENSEE and shall be in either U.S. dollars or in Euro-currency, within ninety (90) days after the last day of each fiscal quarter for LICENSEE'S operations for payments accruing on sales of LICENSED PRODUCT or METHOD during such fiscal quarter. Deferred payments shall be computed in Euro at the exchange rate prevailing for each country where income is generated at the close of the last business day of the third week next after the date on which such deferred payments shall be payable. The exchange rates used for such conversion shall be those published by (the World Bank).

Example 3:

Article 4 - Financial Compensation

The consideration for the transfer of know-how and for the license given in Article 2 by AFRICO to CHEMICAL is determined as follows.

4.1. – Milestone payments :

	<u>Amount in US\$</u>	<u>Event</u>
(1)	100.000	On 1st June 2000
(2)	100.000	On 1st September 2000
(3)	50.000	Within two months after the successful completion of a trial batch of glazed coating applied to the LowBloodMed active compound to be delivered by the customer of CHEMICAL
(4)	50.000	Within two months after the successful completion by CHEMICAL in its own production facilities of an industrial size batch of glazed coating applied to LowBloodMed active compound for use in human medicine

- (5) 200.000 *Within two months after the start-up of a clinical trial program for Phase 1 studies for the LowBloodMed active compound after treatment with the Invention of the coating*

4.2. – Royalties

- (a) *In consideration of the transfer of the license hereby given and of the know-how and the support services provided for in Article 2 and subject to the remaining provisions of this Article 3.2, CHEMICAL shall pay or cause to be paid total royalties in accordance with the following schedule on the world-wide Net Sales of Products covered by issued patent claims of Property during each Sales Year commencing with the second Sales Year. CHEMICAL shall have no obligation under this Agreement to pay or cause to be paid royalties on Net Sales during the first Sales Year.*

For only that portion of Net Sales during each Sales Year commencing with the second Sales Year which are :

	<u>Net Sales in US\$ Million</u>	<u>Royalty Rate</u>
(1)	<i>Less than 5</i>	<i>1.50 %</i>
(2)	<i>Between 5 and 10</i>	<i>1.75 %</i>
(3)	<i>Between 10 and 25</i>	<i>2.00 %</i>
(4)	<i>Between 25 and 50</i>	<i>2.50 %</i>
(5)	<i>Between 50 and 100</i>	<i>2.00 %</i>
(6)	<i>Over 100</i>	<i>1.50 %</i>

- (b) *Notwithstanding Article 3.2. (a), and subject to the remaining provisions of this Article 3.2, in the event that CHEMICAL acquires from AFRICO any additional application of the Invention under the Optional Added Applications; and if and only in case such an additional application may become the object of a Specific Patent in the United States for the new application in question, which Patent, in the opinion of independent patent counsel who is reasonably acceptable to both parties, is a valid and enforceable Patent, then with respect to Net Sales of Products covered by issued patent claims of such a Specific Patent (“Covered Net Sales”), CHEMICAL shall pay or cause to be paid prospectively total royalties in accordance with the schedule detailed above under Article 3.2. but with an increase in every part of the schedule of 1.75 % in the royalty rate.*
- (c) *The royalty rate or rates otherwise applicable under this Article 3.2 shall however be reduced by twenty percent (20 %) of such rates in the event of sales by one or more competitors of products which use a technology with comparable qualities regarding the stability of the chemical or pharmaceutical compound under conditions of tropical heat and humidity and which are competitive with one or more of the Added Optional Products.*
- (d) *In the event of issuance to a third party of a patent which claims a glazed neutral coating technology whereby, in the opinion of independent patent counsel who is reasonably acceptable to both parties, sale of Products would constitute an infringement of such claims, then, as of the date of such issuance, CHEMICAL shall have no further obligation to pay royalties to AFRICO under this Agreement.*

(e) *The royalty obligation under this Article 3.2 will last until expiration of the patents included in the Patents on the Invention and the future Improvement Patents.*

4.3. – *Royalty payments shall be made in United States dollars within fifteen (15) days after the date whereupon CHEMICAL will have obtained the adequate information from the Commercial Partners with respect to the world-wide Net Sales of Products.*

4.4. – *All taxes assessed or imposed against, or required to be withheld from royalty payments due by AFRICO shall be deducted from amounts payable hereunder and shall be paid to appropriate fiscal or tax authorities on behalf of AFRICO. Tax receipts received by CHEMICAL evidencing payment of such taxes shall be forwarded promptly to AFRICO. If tax receipts are not available from the taxing authority, CHEMICAL shall promptly obtain and send the best available evidence of payment.*

Article 5 - Payment

5.1. – *Payments due under this Agreement will be subject to interest from the day of their maturity at the rate of six percent (6 %) per annum.*

5.2. – *Payments due under this Agreement shall be made to AFRICO by bank transfer to accounts duly notified by AFRICO to CHEMICAL.*

Duration and termination of payment clauses:

Example 1:

The deferred payment obligation under this Article 4 will last until expiration of the longest running patent of the patents included in the PATENT PORTFOLIO, the IMPROVEMENT PATENTS plus an eventual APPLICATION-SPECIFIC-PATENT and the IMPROVEMENTS made thereto. Thereafter LICENSEES will have fully paid up the right to develop, make, have made, promote and sell PRODUCTS world-wide without payment of further compensation to the LICENSORS.

Example 2 (alternatively):

Article 5 - ROYALTIES ON SALES

CHEMICAL shall pay to the Licensors or to their assigns, in accordance with the provisions of this present Article 5, a royalty in the amount of four per cent (4%) of the Net Sales of each Product in the Territory as well as of any material value or reduction that CHEMICAL may obtain from the purchasers of the Product in compensation for the Product and of any payment or settlement for disputes with third parties over the use or purchase of the Product.

5.1 – *CHEMICAL's obligations to pay the royalties required by this present Article 5 shall cease, in any particular country with respect to the Product:*

upon the expiry of the patent-protection for the Africo Technology covering the Product in that country; or

on the 15th anniversary of the First Sale of the Product in that country if no patent protection was applied for obtained in that country, and thereafter the license granted to CHEMICAL shall be a paid-up royalty-free license.

5.2. – *CHEMICAL shall notify the Licensors of the date of the First Sale of the Product by itself, its Affiliated Companies, or its Licensees the Product in the Territory within thirty (30) days of that First Sale.*

The royalties required by Article 5 shall be due and payable within sixty (60) days of the end of March, June, September and December with respect to sales of the Product in the three (3) month periods ending on last days of March, June, September and December. Such royalties shall be paid to the Licensors, to such bank account as the Licensors may designate, in U.S. dollars. CHEMICAL shall on payment of royalties submit a written statement summarising on a country by country basis the accrual of the royalties in question together with a copy of the quotations of the main banker of CHEMICAL on the currency rates in question.

5.3. – Upon expiry of CHEMICAL's obligation to pay royalties in respect of the Net Sales of the Product in any particular country, CHEMICAL and its Affiliated Companies and its Sub-licensees shall have a perpetual, non-terminable paid-up license to use the know-how for that Royalty Bearing Product and to Manufacture and Market that Product in that particular country without further obligation to the Licensors.

Financial reporting clauses:

Example 1:

Article 5: Payments and reporting

5.1. – CHEMICAL shall keep true and detailed accounts and records of all royalties accrued and payable and other sums due and payable under this Agreement and shall cause its licensees and distributors to do the same. It shall impose inter alia upon licensees the obligation to allow direct controls by Africo. CHEMICAL shall deliver to Africo a statement of such sums due and payable within forty-five days after the last day of March, June, September and December in each year for the three month period ending on March 31, June 30, September 30 and December 31 and these reports shall relate to the turnover and Net Sales of Products during the calendar quarter preceding those respective dates, irrespective of whether CHEMICAL, CHEMICAL's licensees or the latter's sub-licensees made that turnover and those Net Sales.

5.2. – All royalty payments (or other payments) to be made by CHEMICAL to Africo shall be converted into U.S. dollar at the average rate of exchange for the calendar quarter for which royalty payments are being remitted according to CHEMICAL's normal procedures, as consistently applied by CHEMICAL for its other products.

All payments shall be made by wire transfer to a designated Africo account within forty five (45) days following the end of each calendar quarter as indicated above. In the event that royalties are payable with respect to Net Sales in a country whose currency cannot be freely converted, such currency shall be converted in accordance with the normal procedures consistently applied by ACF.

5.3. – Should CHEMICAL make defaulting payments of the royalties and other sums due hereunder within the period specified in Article 5.2 the amount due shall bear interest at an annual rate of 8%.

5.4. – Any income or other taxes which CHEMICAL is required by law to pay or withhold on behalf of Africo with respect to royalties and any other moneys payable to Africo under this Agreement shall be deducted from the amount of such royalties and moneys due. CHEMICAL shall furnish Africo with proof of such payments. Any such tax required to be paid or withheld shall be an expense of and borne solely by Africo. CHEMICAL shall promptly provide Africo with a certificate or other documentary evidence to enable Africo to claim a refund or a foreign tax credit with respect to any such tax or withheld or deducted by Africo.

Both parties will reasonably cooperate in completing and filing documents required under the provisions of any applicable tax treaty or under any other applicable law, in order to enable CHEMICAL to make such payments to Africo without any deduction or withholding.

Article 6. Audit of accounts

Africo shall have the right to nominate an independent certified public accountant acceptable to and approved by CHEMICAL who shall have access, on reasonable notice, to CHEMICAL and its Affiliates' records during reasonable business hours for the purpose of verifying the royalties payable as provided in this Agreement for the two preceding years. This right may not be exercised more than once in any calendar year, and once a calendar year is audited it may not be re-audited. The said accountant shall disclose to Africo only information for the purpose of verifying the accuracy of the royalty report and the royalty payments made according to this Agreement.

Any adjustment required by such audit shall be made within thirty (30) days of the determination by the accountants. If the adjustment payable to Africo is greater than five percent (5%) of the amount paid for the relevant period, then the cost to Africo for the audit shall be paid by ACF.

CHEMICAL shall cause its licensees to grant the same rights (similarly limited) as described above, to the Africo to audit the accounts of its licensees.

Example 2:

Article 6 - Reports

6.1. – Within sixty (60) days of the end of each calendar quarter, CHEMICAL shall send to the Licensors a statement disclosing the Net Sales of the Product for the just ended calendar quarter, and the royalties due to the Licensors.

6.2. – CHEMICAL, if required so to do by any applicable tax law, may deduct any governmental withholding tax required to be deducted by it on payment of royalties hereunder or on payment of any of the development fees set out in Section 3, but shall account to the relevant tax authorities for the sum so deducted and provide the Licensors with proof of such payment from such authorities. CHEMICAL shall provide reasonable assistance to the Licensors in securing any benefits available to the Licensors with respect to governmental tax withholdings by any relevant law or double tax treaty.

6.3. – CHEMICAL shall keep at its registered office, and shall cause its Affiliated Companies and its Sub-Licensees to keep, full and accurate records of the sales of the Product for each country for purposes of compliance with its obligations hereunder. Such records shall be made available following the First Sale of the Product in the Territory, for inspection by the Licensors or an independent certified public or chartered accountant of the Licensors' choice during normal business hours after reasonable notice, up to two (2) years after the termination or expiration of this Agreement, and at the Licensors' expense. Such inspection shall occur no more often than once a year, except in the year following the discovery of any discrepancies, during which quarterly inspections shall be permitted.

CHAPTER 7

INFRINGEMENTS OF INTELLECTUAL PROPERTY RIGHTS

1) Defending the IP right against third party infringements

If a third party infringes on the protected intellectual property of which you have contracted out the exclusive use - either to produce or to sell (and import) - then you must spell out in the contract how

such a party shall be called to order and eventually be sued. - How do parties report the facts to one another?

- Who takes initiative: one or the other or either party?
- Who shall invest in this risky business of procedures over IP rights and who shall thus advance the money for the legal action?
- Who shall ultimately carry the costs and legal fees; how shall they be paid or set-off against other financial obligations?

In case you are successful in sanctioning the infringement of third parties, then how do the proceeds of an amicable settlement or of damages under a court order come into the calculation of royalties under the contract?

Example:

1.1 – The parties hereto shall inform each other promptly of any infringement of the patents rights in the territory which are subject to this agreement. Licensor shall defend the licensed patent against validity challenges of third parties. Licensee shall take the necessary actions against infringers of the licensed patent to stop this infringement.

1.2. – The cost of the infringement suit shall be borne by licensee, the cost for an invalidation procedure shall be borne by the licensor. Licensor may at its own cost join the licensee in its infringement litigation.

1.3. – If licensee pursues infringement litigation by himself and licensee receives damage payments for lost profits or a reasonable royalty, then licensee shall pay 25 percent of these damage payments to licensor as the contractual royalty.

2.1. – The Licensee shall promptly advise the Licensor in writing of any notice or claim of infringement and of the commencement of any suit or action for infringement of any patent against the Licensee which is based upon the use of any invention that is the subject of the Patent (s) or of any patent of an Improvement granted to the Licensor and which is used by the Licensee under the authority and in accordance with the terms of this Agreement.

2) Responding to claims from third parties that an invention is being infringed

If you are the Licensor you might be called as a defendant to a claim of third parties who say that you infringe on their IP right with the technology for which you claim proprietary rights. If you are Licensee then too you may be sued for infringing on the IP rights of a third party. Contracting parties should therefore state how they will exchange information on such claims and say who shall bear the burden of defending the technology before courts of law. The agreement should detail how costs and legal fees in such an eventuality shall be carried in the first place and then shall be divided ultimately. And then finally stipulate what will happen in case indeed your own rights are not upheld in such a law-suit and how will this be of influence on the termination of the licensing contract?

Example of a clause:

The Transferor also agrees to indemnify and hold harmless the Transferee and its directors, officers and employees from any and all claims for loss of or damage to the Product manufactured using any Technical Information furnished under this Agreement and from any and all claims for damage or injury to persons or property

or for loss of life arising out of or in connection with the manufacture or the use of the Product manufactured using the Technical Information furnished under this Agreement.

CHAPTER 8

ENFORCING DUE DILIGENCE IN EXPLOITATION

A major concern is that the contract partner should drop your project after the date of contracting. There are many temptations to do just that. Means are limited. Doubts may come up. There may be a competitive product or another invention in the company that wins favours. Due diligence should be considered and discussed.

In discussing value of an invention the Licensee will usually stress that it will create great value at a given (low) rate of royalties. That is the time to tie in the promise to deliver on the contract. Certain benchmarks can be introduced as minimum turnover rates where a fixed royalty is imposed as a minimum. Conversely, if such a contract obligation is not feasible or wishful parties might agree on imposing a date or market introduction, whereby absent this performance there shall be a return of the rights to the license, back to the Licensor.

A clause assuring diligent exploitation (due diligence criteria) ask of you certain strategic choices:
- minimum criteria could have to be introduced with quality-standards to be met (eventual external controls), with numbers of a minimum annual turnover or of customers to be approached or customers made;

- how strongly do you believe in your invention and in your partner (future take-overs, changes in strategy and future technical developments);

- remedies should be considered against non-performance of the criteria for production or sale within the agreed period:

- agreed up-front payments (total or partial) need to be negotiated either in the form of royalty obligations for a minimum agreed turnover or of contractual penalties;

- further formal steps may be necessary in case of an eventual return of the license or of all IP rights.

Example 1:

Article 9 - Diligence, Promotion and Minimum Royalties

9.1. – CHEMICAL shall use, or shall cause a Sub-Licensee of CHEMICAL to use, commercially reasonable efforts to market, promote and sell the Royalty Bearing Product in the Territory.

9.2. – In case CHEMICAL causes no actual turnover of Products and thus no Net Sales of Product in the Territory after a period of 4 (four) full years after this Effective Date, a sum of 250.000 (two-hundred and fifty thousand) U.S. dollars shall nevertheless have to be paid by CHEMICAL to Africo, as a minimum lump-sum payment. Such payment shall be on an ongoing annual basis, after each year in which no turnover is caused, starting with the fourth unproductive year. Payment shall be done in the following month of January for as long as CHEMICAL has not brought a

Product to the market and until CHEMICAL will have terminated the contract under the terms of Article 13.

Example 2 (alternatively):

Article 9: Due Diligence, Activity Reports, Termination with Reversal of Rights

9.1. (a) CHEMICAL will be responsible for the development of any PRODUCT, at its own cost and at its own discretion in order to obtain the necessary regulatory approval for any such PRODUCT.

(b) CHEMICAL shall keep the Africo apprised by a report in writing made every six months after the effective date, of any development work with respect to any PRODUCT, it being understood that the CHEMICAL will have the complete and exclusive authority in carrying out such development and in deciding on the eventual commercialisation of such PRODUCT.

(c) In carrying out such development the CHEMICAL will use its best efforts to bring PRODUCT to markets in the LICENSING AREA in full accordance with the applicable regulations but in a diligent manner. It is however understood that CHEMICAL does not guarantee that it will be successful in leading a PRODUCT to the market.

(d) In case it is established 18 months after the Effective date or later that CHEMICAL is not with due diligence actively proceeding with the steps towards developing the market introduction of PRODUCT, all rights given to CHEMICAL under this Agreement will terminate and revert to the Africo under the conditions described in paragraph (f) on this Article.

(e) In case it is established at least two years after the Effective date, that CHEMICAL has not lead a PRODUCT to market or that at least a market introduction is not imminent, all rights given to CHEMICAL under this Agreement will terminate and revert to the Africo under the conditions described in paragraph (f) of this Article.

(f) If on or after the dates mentioned in paragraphs (d) and (e) of this Article Africo wants to have all rights back from CHEMICAL because of the latter's lack of diligence in exploiting the license to the PROPERTY, then Africo shall notify CHEMICAL by registered letter of its intention to terminate this Agreement based upon Article 7. The Africo shall motivate the allegation of lack of due diligence. Then, if CHEMICAL so accepts, the contract shall terminate 90 days after the mailing of such letter. If before those 90 days CHEMICAL responds by registered letter to the Africo, saying that it does not agree and if motivates this allegation then a neutral third person with knowledge of pharmaceutical regulations in general and acceptable to both parties, shall decide whether this Agreement was justly terminated after the first 90 days or not. Parties mandate the neutral third person to authoritatively interpret and decide this contractual issue in their name.

9.2 (a) CHEMICAL shall use all reasonable efforts to introduce a PRODUCT in at least one market within six months after obtaining the necessary price approval and reimbursement or the permission to sell.

(b) Any business decision, including those relating to design, manufacture, sale, price and promotion of PRODUCT (except for the matters described in Articles 16 and 17)

as well as the decision whether to sell or continue to sell a particular PRODUCT in a particular country shall be within the sole discretion of CHEMICAL.

(c) CHEMICAL shall advise the Africo in writing every six months, of its decisions whether or not to sell a particular PRODUCT on a country-by-country basis or whether to cease sales of the PRODUCT entirely.

CHAPTER 9

LIABILITIES TOWARDS THIRD PARTIES AND

DAMAGES AND OTHER CONSEQUENCES CAUSED BY THE PROTECTED PRODUCTS

1) General remarks

Determining the possible future liabilities for protected products put in the market or for producing goods with the use of the patented technology is good foresight. One must be careful as inventor not to run excessive risk for what damages the licensees may cause in their applications of the technology (whether it is patented or not).

Distinguish costs and damages of the parties themselves from those of third parties. It is imaginable that a licensor might accept to carry some costs that could unexpectedly arise in the course of the development of an invention. This could be a measure to show confidence in the invention or the Product and may be part of the risk investment of the licensor to push towards effective application of the invention. One could combine this to up-front payments and to compensation limited to certain sums. A good risk awareness and cost-assessment is commendable. And insurance coverage should go along with the risks taken.

For most products it will be unusual that the risk comes on the licensor; licensees will accept their own liability. But make sure about the procedural protection if your company is sued directly by third parties who suffer damage and who have been turned away by your licensor or contracting partner. Include clauses of acceptance of jurisdiction or of arbitration and include pledges to take over the defence of your client and the costs of defence. And introduce a pledge to "keep harmless", that is, to compensate the damages and the costs after for any eventual imposition of liability under any system of law that would indeed hold the inventor or the first party in a "chain" of liable parties directly responsible.

Draft a liability exemption for the inventor and keeping harmless for costs of liability proceedings initiated by third parties (e.g. consumers)

Example:

Article 16- Liability:

16.1. – CHEMICAL shall indemnify, defend and hold Africo harmless from, against and in respect of any damages, claims, losses, liabilities, charges, actions, suits, proceedings, penalties and reasonable costs and expenses (including without limitation reasonable attorneys' fees) (collectively, the "Losses") imposed on, sustained, incurred or suffered by or asserted against Africo and/or its Affiliates incurred in the defence or settlement of a third party lawsuit or in a satisfaction of a third party judgement arising out of or resulting from the use by or administration to any person of any Product developed or commercialised by CHEMICAL, its Affiliates, licensees or distributors, except to the extent such Losses arose or resulted from negligence by Africo, so long as:

- (a) Africo allows the CHEMICAL to control at its own expense the defence of a claim or action for which indemnification is sought under this Article paragraph;*
- (b) Africo does not compromise or settle such claim or action without the prior written consent of CHEMICAL, which shall not be unreasonably withheld; and*
- (c) Africo provides all reasonable assistance in the conduct of the defence of such claim or action.*

16.2. - CHEMICAL shall not be liable to Africo for consequential and incidental damages related to its obligation to hold Africo harmless pursuant to the provisions of the above paragraph.

CHAPTER 10

GENERAL CLAUSES ("BOILERPLATE CLAUSES")

The following clauses may apply to different types of international contracts. As they are not specifically intended for licensing agreements, they are listed below as a general reference. A further study would be required to describe these clauses in detail.

- Technical assistance (research)
- No-challenge or no-competition clause
- Four corners clause or Entire Agreement-clause
- Hardship and re-negotiation
- Force Major
- Severability and survival of clauses
- Termination and acceleration clause
- Avoidance or dissolution
- Applicable law clause
- Communication between parties
- Language clause (interpretation)
- No assignment clause
- Penalty clause
- Applicable law clause
- Settlement of disputes clause

-- O --

PART III

Examples of Contracts for the Negotiation of Patent Licensing Agreements

Contents

- 1) Example of a Research Agreement
- 2) Example of a Confidentiality Agreement
- 3) Example of a Secrecy Agreement
- 4) Example of an Agreement to Negotiate a License

RESEARCH AGREEMENT (EXAMPLE)

This Agreement is made this day of _____, 19 (the "Agreement Date"), by and among CHEMICAL Formulations whose principal offices are at North Shore Drive 3600, Sarasota, Florida 01234, ("CHEMICAL"); and The University of Ghent <component>, whose address is <address of component> ("INSTITUTION"), (collectively "the Parties"). The Parties agree as follows:

ARTICLE I – Research Program

1.1. – INSTITUTION shall use its best efforts to complete the clinical study (the "Study") entitled "<title>"; Study No. ##### in accordance with the protocol attached as Exhibit A (the "Protocol") and any amendments thereto. In addition, INSTITUTION shall conduct the Study in accordance with Good Clinical Practices and all federal, state and local laws and regulations, applicable to the Study.

1.2. – <Principal Investigator> ("Principal Investigator") will serve as the principal investigator, and will supervise and direct INSTITUTION's participation in the Study.

1.3. – INSTITUTION shall permit representatives of CHEMICAL or the United States Food and Drug Administration ("FDA") at reasonable times and in a reasonable manner to inspect the research facilities and all subjects' medical records and other records relating to the subject Agreement.

1.4. – In full consideration for INSTITUTION's work under this Agreement, CHEMICAL agrees to pay not more than \$<amount> subject to the following conditions.

1.4.1 – CHEMICAL will pay \$<amount> per evaluable subject and completed case report forms ("CRFs") acceptable to CHEMICAL, up to a maximum of evaluable subjects and acceptable CRFs. An evaluable subject is one who was properly entered into the Study under the Protocol, has adhered to the Protocol, and has completed the entire Study.

1.4.2. – CHEMICAL will make such payments according to the following schedule:

1.4.2.1. – \$<amount> as an initial payment in advance of the start of the Study;

1.4.2.2. – An additional \$<amount> after evaluable subjects have been completed and acceptable CRFs have been provided for these subjects; and

1.4.2.3. – An additional \$<amount> after evaluable subjects have been completed and acceptable CRFs have been provided for these subjects; and

1.4.2.4 – An additional \$<amount> after evaluable subjects have been completed and acceptable CRFs have been provided for these subjects; and

1.4.2.5 – An additional \$<amount> after evaluable subjects have been completed and acceptable CRFs have been provided for these subjects; and

1.4.2.6. – The final \$<amount> after all evaluable subjects have been completed, acceptable CRFs have been provided for all subjects, and the entirety of the data has been transferred to CHEMICAL for analysis.

1.4.3. – If a subject is withdrawn due to an adverse experience, CHEMICAL shall not be obligated to make a payment for that subject unless a final visit is performed and acceptable CRFs have been provided.

1.4.4. – Except as provided in Sub-Section 1.4.3 above, CHEMICAL shall not be obligated to make a payment for any subject who does not complete the entire study.

1.4.5. – CHEMICAL shall make all payments under this Section 1-4 by check payable to The University of Ghent <component>, Tax I.D. Number <tax i.d. #>, for delivery to INSTITUTION at the address provided in Section 6.1 below.

ARTICLE 2 – Term and Termination

2.1. – This Agreement shall commence on the Agreement Date and shall continue in force for a period of months. At the end of the month period, CHEMICAL shall have the option to renew this Agreement for a period it chooses for up to one year under the same terms of this Agreement. Section 1.3 and Articles 3, 4, 5 and 6 shall survive termination of this Agreement.

2.2. – This Agreement may be terminated prior to completion of the Study as follows:

2.2.1. – CHEMICAL or INSTITUTION may terminate this Agreement immediately if required to halt the Study by FDA or compelled to do so by reasons of subject safety;

2.2.2. – CHEMICAL or INSTITUTION may terminate this Agreement at any time upon thirty (30) days, written notice;

2.2.3. – CHEMICAL or INSTITUTION may terminate this Agreement upon thirty (30) days' written notice in the event of a breach by the other party of its obligations under this Agreement and a failure by the other party to correct its breach(es) within that thirty (30) day notice period; or

2.2.4. – CHEMICAL or INSTITUTION may terminate this Agreement in the event that Principal Investigator can no longer serve as principal investigator and the Parties cannot agree upon an available, acceptable substitute.

2.3. – In the event of early termination of this Agreement, INSTITUTION shall immediately return any unspent and uncommitted portion of any payments made by CHEMICAL pursuant to Section 1.4. In the event of early termination of this Agreement by either party pursuant to Sub-Sections 2.2.2, or by 2.2.4, by CHEMICAL pursuant to Sub-Section 2.2.2, or by INSTITUTION pursuant to Sub-Section 2.2.3, CHEMICAL shall reimburse INSTITUTION for all reasonable expenditures on materials supported by invoices that were incurred prior to notice of termination, subject to the maximum amount to be paid under Section 1.4 above.

ARTICLE 3 - Confidentiality and Publication

3.1. – Except as required by law, INSTITUTION and Principal Investigator shall retain CHEMICAL's information relating to products, know how, processes and practices which was disclosed to INSTITUTION or Principal Investigator ("Confidential Information") in strict confidence during the term of this Agreement and for seven (7) years thereafter, unless at some earlier time CHEMICAL consents to its disclosure or the information otherwise becomes generally available to the public through no breach of this Agreement by INSTITUTION or Principal Investigator. INSTITUTION and

Principal Investigator represent and agree that only INSTITUTION employees who are bound by INSTITUTION Policies regarding treatment of Confidential Information (which is consistent with the obligations of this paragraph) shall be given access to Confidential Information or allowed to conduct the Study research.

3.2. – In the event that INSTITUTION or Principal Investigator proposes to publish any report, including abstracts or oral presentations, which contains information developed specifically as a result of the Study, such report shall be made available to CHEMICAL for its review at least thirty (30) days prior to submission for publication or presentation. CHEMICAL shall have the right to comment on the proposed report, and to make revisions in the proposed report necessary to protect Confidential Information or intellectual property which is owned jointly or solely by CHEMICAL. CHEMICAL shall review and notify the Principal Investigator of revisions promptly, but in no case later than thirty (30) days from the date of CHEMICAL's receipt of the proposed report. In the event that CHEMICAL determines that patent protection should be obtained for information contained in a proposed report, the submission of the proposed report shall be withheld at CHEMICAL's request until appropriate patent applications can be filed but in no case shall such delay exceed six (6) months from the date of submission of the report to CHEMICAL.

3.3. – In the event that the Study is a multiple site study, INSTITUTION and Principal Investigator shall not without CHEMICAL's prior written consent publish any report, including abstracts or oral presentations, prior to the publication of the report of the results of the entire multiple site study but in no event shall INSTITUTION be so restricted after the expiration of eighteen (18) months from completion of INSTITUTION's performance of the Study.

ARTICLE 4 - Indemnification

4.1. – INSTITUTION represents and agrees that it is under no obligation to any third party that would interfere with its rendering to CHEMICAL the services described herein or be inconsistent with any of its representations or obligations under this Agreement. INSTITUTION represents that it has the authority necessary to consummate this Agreement.

4.2. – INSTITUTION shall, to the extent authorized under the Constitution and laws of the State of Texas, indemnify and hold CHEMICAL harmless from liability or loss resulting from the wrongful or negligent acts or omissions of INSTITUTION, or its agents or employees pertaining to the activities to be carried out pursuant to this Agreement; provided, however, that INSTITUTION shall not hold CHEMICAL harmless from claims arising out of the negligent, reckless or willful malfeasance of CHEMICAL, its officers, agents, or employees or any person or entity not subject to INSTITUTION's supervision or control.

4.3. – CHEMICAL shall indemnify and hold INSTITUTION, The University of Ghent System, their Regents, officers, agents and employees harmless (collectively referred to as "University"), from and against liability or loss resulting from judgments or claims against them resulting from University's activities conducted pursuant to the Protocol, including but not limited to the use by CHEMICAL of the results of the Study; provided, however, that CHEMICAL's obligations under this section shall not be applicable to, and CHEMICAL shall not be responsible for any liability or loss arising out of: (a) University's failure to adhere to the terms of the Protocol, this Agreement or CHEMICAL's written instructions concerning the Study; (b) University's negligent acts or omissions, or reckless or willful misconduct or malfeasance; or (c) any claim or suit about which University does not notify CHEMICAL in writing promptly or as to which University does not at its own expense, and subject to the statutory duties of the Texas Attorney General, fully cooperate in the defense, including attending hearings and trials, securing and giving evidence, and obtaining the attendance of witnesses required by CHEMICAL. Upon receipt of notice, CHEMICAL and/or its insurer may retain counsel to appear

and defend the claim or action and to assess its/their responsibility under this Agreement. University shall, at its own expense, and subject to the statutory duties of the Texas Attorney General, cooperate with CHEMICAL, its insurer and/or either or both of their counsel in defending any claim or action, shall use its best efforts to mitigate any losses or damages for which it may seek indemnity hereunder, and shall make no compromise or settlement of any claims or actions without the prior written consent of CHEMICAL. CHEMICAL, through its insurer, shall have the sole authority as to the settlement or litigation of any claim or action of which it receives notice.

ARTICLE 5 - Intellectual Property

5.1. – Invention. The term "Invention" shall encompass any new process, system, formulation, article or manufacture, compound, composition of matter, use or apparatus, or any improvement thereon, whether patentable or unpatentable, made in connection with or arising out of the Study.

5.2. – Existing intellectual property. The inventions and technologies of CHEMICAL, INSTITUTION and Principal Investigator existing as of the Agreement Date are their separate property, respectively, and are not affected by this Agreement. None of the Parties shall acquire any claims to or rights in such existing inventions or technologies of another of the Parties by virtue of this Agreement.

5.3. – CHEMICAL intellectual property. All rights and title to Inventions conceived and reduced to practice by employees of CHEMICAL shall belong to CHEMICAL and shall not be subject to the terms and conditions of this Agreement.

5.4. – Notice of Invention. INSTITUTION and Principal Investigator shall provide to CHEMICAL a written report describing any invention promptly after such invention is made or conceived.

5.5. – INSTITUTION Intellectual Property. The term "INSTITUTION Intellectual Property" shall refer to any Invention that is conceived and reduced to practice solely by one or more employees of INSTITUTION in conducting the Study, and not from CHEMICAL's Confidential Information provided to INSTITUTION and/or Principal Investigator in connection with the Study.

5.6. – Joint Intellectual Property. The term "Joint Intellectual Property" shall refer to any Invention of which one or more employees of INSTITUTION and one or more employees of CHEMICAL are joint inventors under the patent law ("Joint Intellectual Property"), which shall belong jointly to CHEMICAL and INSTITUTION.

5.7. – Option.

5.7.1. – INSTITUTION hereby grants CHEMICAL an option to negotiate an exclusive, worldwide, royalty-bearing license to make, use or sell under any Joint Intellectual Property. CHEMICAL shall have three (3) months from disclosure of any such Invention to notify INSTITUTION of its desire to enter into such an agreement, and an agreement shall be negotiated in good faith within a period not to exceed six (6) months from CHEMICAL's notification to INSTITUTION of its desire to enter into an agreement, or within such period of time as the parties shall mutually agree. If CHEMICAL and INSTITUTION fail to enter into an agreement during that period of time, the parties shall be entitled to exploit the Joint Intellectual Property in any manner consistent with their respective rights under the patent law.

5.7.2. – INSTITUTION agrees to grant to CHEMICAL an option to negotiate an exclusive or non-exclusive, worldwide, royalty-bearing license, to make, use or sell under any INSTITUTION Intellectual Property. CHEMICAL shall have three (3) months from disclosure of any invention or discovery to notify INSTITUTION of its desire to enter into

such a license agreement, and a license agreement shall be negotiated in good faith within a period not exceed six (6) months from CHEMICAL's notification to INSTITUTION of its desire to enter into a license agreement, or within such period of time as the parties shall mutually agree. In the event that CHEMICAL and INSTITUTION fail to enter into an agreement during that period of time, then the rights to such inventions and discoveries shall be disposed of in accordance with INSTITUTION's policies, with no obligation to CHEMICAL. CHEMICAL agrees to pay a reasonable royalty to be negotiated in good faith for the use of any such INSTITUTION Intellectual Property. Until such invention or discovery has been presented as set forth above, INSTITUTION shall not offer rights to that invention or discovery to any third party.

5.7.3. – CHEMICAL may direct that a patent application or application for other intellectual property protection be filed with regard to INSTITUTION or Joint Intellectual Property. If CHEMICAL so directs, INSTITUTION shall promptly prepare, file and prosecute any U.S. and foreign applications in INSTITUTION's name, or cooperate in such preparation, filing and presentation in both parties' names in the case of Joint Intellectual Property, and CHEMICAL shall bear all costs incurred in connection with such preparation, filing, prosecution and maintenance of U.S. and foreign applications. If CHEMICAL subsequently decides to discontinue the financial support of the prosecution or maintenance of the application(s), INSTITUTION may at its discretion and own expense, prepare, file, prosecute or maintain any such patent(s) or patent application(s), but such patent(s) or patent application(s) shall not be subject to the option(s) in Section 5.7.1 and 5.7.2 of this Agreement.

ARTICLE 6 - General Provisions

6.1. – Notices under this Agreement shall be in writing and shall be deemed to be given when delivered by hand or by express service, sent by telex or telecopier (provided such is promptly confirmed by airmail), or mailed by registered or certified airmail and, if intended for CHEMICAL, addressed to:

Scott B. Phillips, M.D.
Director, Drug Discovery, CHEMICAL Corporation
600 Knightsbridge Parkway, Lincolnshire, Illinois 60069

if intended for INSTITUTION, addressed to:

<component's address>

and, if intended for Principal Investigator, addressed to:

<Principal Investigator's address>

6.2. – Headings. Article and Section headings used in this Agreement are inserted for convenience of reference only and shall not effect the construction or interpretation of the respective Articles and Sections.

6.3. – Validity. If any provision of this Agreement is or becomes invalid, is ruled illegal by any court of competent jurisdiction, or is deemed unenforceable under then current applicable law from time to time in effect during the term of this Agreement, such provision shall be deemed deleted from this Agreement and replaced by a valid and enforceable provision which so far as possible achieves the

parties' intent in agreeing to the original provision. The remaining provisions of this Agreement shall continue in full force and effect.

6.4. – Waiver. Any waiver, whether express or implied, by any of the Parties of a breach by another party, shall not operate as a waiver of future breaches of the same or a different character.

6.5. – Counterparts. This Agreement may be executed by the parties in counterparts, which together shall constitute one agreement.

6.6. – Amendments and Assignments. Any amendments to this Agreement must be in writing signed by authorized representatives of all parties. The rights and obligations under this Agreement shall not be assignable by INSTITUTION or Principal Investigator without CHEMICAL's prior written consent.

6.7. – Further Assurances. Each party agrees to use reasonable and practical efforts to perform any further acts and execute and deliver any and all further documents or instruments which may be reasonably necessary or desirable to carry out the provisions of this Agreement.

6.8. – Independent Contractors. INSTITUTION, Principal Investigator and CHEMICAL shall not be deemed to be partners, joint venturers, or each other's agents, and no party shall have the right to act on behalf of any other except as expressly provided for under this Agreement or otherwise expressly agreed upon in writing.

University of Ghent _____

By: _____
Name

Title: _____

Date: _____

CHEMICAL Corporation

By: _____
Name

Title: _____

Date: _____

I have read this Agreement and understand my obligations hereunder.

By: _____
(Principal Investigator)

CONFIDENTIALITY AGREEMENT (Example)

THIS CONFIDENTIALITY AGREEMENT (this "Agreement"), dated this _____, 2000 is by and between

CHEMICAL FORMULATIONS Inc., at address at North Shore Drive 3600, Sarrasota, Florida 01234, USA and

Africo Company Pty Ltd. with an address at _____.

For the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1) Background.

Each party hereto (the "Receiving Party") has requested certain confidential and proprietary information of the other party (the "Disclosing Party") for the purposes of evaluating a transaction between the parties (the "Transaction"). As a condition precedent to providing any such confidential or proprietary information and continuing to negotiate the terms of the Transaction, Disclosing Party requires Receiving Party to execute this Agreement and abide by the terms hereof.

2) Confidential Information.

As used in this Agreement, "Confidential Information" shall mean all tangible and intangible non-public information in any form (including written information, oral statements, visual observations of Disclosing Party's operations at its business premises, and electronically stored data) regarding the Disclosing Party or its business operations, including (i) information concerning Disclosing Party's (a) trade secrets, systems, know-how, products, processes (including manufacturing processes), inventions, computer software programs, or marketing or sales techniques, (b) financial condition, costs, business interests, initiatives, objectives, plans, or strategies, (c) customers, clients, suppliers, lenders, underwriters, vendors, consultants, independent contractors, attorneys, accountants or employees, and (ii) all other information (a) identified by the Disclosing Party as confidential or proprietary, or (b) deemed confidential, protected, a trade secret, or proprietary under applicable law.

3) Confidentiality and Use

(a) Receiving Party agrees that it:

- (i) shall not directly or indirectly disclose or make available any Confidential Information to any person, firm, corporation, agency, or other entity (collectively, a "Person"), other than to Receiving Party's attorneys and accountants or as otherwise required by law,
- (ii) shall protect and keep the Confidential Information in the strictest confidence and disclose it only to its employees who need to know such Confidential Information to evaluate the Transaction or to perform the obligations of the Receiving Party under any transaction or transactions between the parties,
- (iii) shall use the Confidential Information solely for the purpose of evaluating the Transaction and performing the obligations of the Receiving Party under any transaction or transactions between the parties, and not in any fashion that is detrimental to Disclosing Party,
- (iv) shall not copy or reproduce the Confidential Information or remove any Confidential Information from Disclosing Party's business premises without Disclosing Party's prior written consent, and
- (v) shall not make notes, abstracts, or any other documents or materials regarding or containing any Confidential Information without Disclosing Party's prior written consent.

(b) Notwithstanding the foregoing, it is understood and agreed that this Agreement will not prevent the Receiving Party from using or disclosing, in a manner not inconsistent with this Agreement, any Confidential Information which the Receiving Party can show:

- (i) to have available to the public or trade prior to the Receiving Party having received the Confidential Information or which becomes or became available to the public or trade after the Receiving Party received the Confidential Information, in a manner not in breach of this Agreement;
- (ii) to have independently developed as a result of its own efforts and not as a result of disclosure of the same information by Disclosing Party;
- (iii) is at any time lawfully received by the Receiving Party from a source other than Disclosing Party, provided that such source is not thereby in breach of any obligation of confidence to Disclosing Party; or
- (iv) is to be required to be disclosed by the Receiving Party by law, pursuant to subpoena or other legal process.

4) Return of Confidential Information

Receiving Party shall promptly deliver to Disclosing Party all Confidential Information (including all copies and excerpts thereof and all documents and materials containing any Confidential Information) upon the termination of negotiations or business dealings between the parties, whichever is later to occur.

5) Proprietary Rights

The Confidential Information is, and shall at all times remain, the sole and exclusive property of Disclosing Party, and no right, title, interest, or license in or to such Confidential Information is conveyed, granted, or conferred upon or to Receiving Party with respect to such Confidential Information, except the right to use such Confidential Information for the sole purpose of evaluating the Transaction in accordance with the terms hereof, and performing the obligations of the Receiving Party under any transaction or transactions between the parties. Disclosing Party is not obligated to disclose any Confidential Information to Receiving Party, and Disclosing Party makes no representations or warranties, express or implied, regarding the Confidential Information or the accuracy, completeness or timeliness thereof.

6) Equitable Relief

(a) Any breach of this Agreement by Receiving Party will cause the Disclosing Party irreparable harm for which there shall be no adequate legal remedy. In the event of any actual or threatened breach of this Agreement by Receiving Party, Disclosing Party shall be entitled to injunctive and all other appropriate equitable relief (including a decree of specific performance), without being required to:

- (i) show any actual damage or irreparable harm,
- (ii) prove the inadequacy of its legal remedies, or
- (iii) post any bond or other security.

(b) If Receiving Party breaches this Agreement, Disclosing Party shall also be entitled to an accounting and repayment of all profits, compensation, and benefits directly or indirectly realized by Receiving Party as a result of such breach. Disclosing Party's remedies in this Section 6 may be exercised without prejudice to (and are cumulative with) Disclosing Party's other available rights and remedies at law, in equity, or under this Agreement, including Disclosing Party's right to monetary damages arising from any breach of this Agreement by Receiving Party.

7) Indemnity

Receiving Party shall release, defend, indemnify, and hold Disclosing Party harmless of and from all damages (direct, consequential, or otherwise), claims, losses, causes of action, liability, costs

(including attorneys fees and experts fees at trial and on appeal) and expenses arising out of or relating to any breach of this Agreement by Receiving Party.

8) Term and Scope

(a) This Agreement and the obligations imposed upon Receiving Party hereunder, shall:

- (i) exist and continue until (5) years after the later of the date hereof and the date the parties no longer have any contract or business relationship between them,
- (ii) exist and continue, irrespective of whether Receiving Party and Disclosing Party enter into the Transaction, and
- (iii) be independent of either party's performance or failure to perform with respect to the Transaction.

(b) The existence of any claim or cause of action by Receiving Party against the Disclosing Party, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Disclosing Party of any of the provisions of this Agreement.

(c) The restrictions and remedies set forth in this Agreement are fair and reasonable and are reasonably required for the protection of the trade secrets, good will and other legitimate business interests of Disclosing Party. In the event that any court of competent jurisdiction determines that any provision of this Agreement exceeds the maximum time period or scope enforceable under applicable law, said provision shall be deemed automatically reformed to reflect the maximum enforceable time period or scope permitted under applicable law, which reformation shall be retroactive to the date of this Agreement first set forth above.

9) Enforcement Costs

In the event of any action or proceeding relating to the interpretation or enforcement of this Agreement or any breach hereof, the prevailing party in such action or proceeding shall be entitled to recover from the other party all court costs, expenses and reasonable attorneys' fees (including all pre-trial, trial and appellate proceedings) incurred by the prevailing party in that action or proceeding, in addition to any other relief to which such prevailing party may be entitled.

10) Notices

All notices, demands, requests, and consents given under this Agreement shall be:

- (i) in writing,
- (ii) mailed to the parties via overnight or certified mail at the addresses listed on the first page hereof, and
- (iii) effective, in the case of mailing by certified mail, three (3) business days after deposit in the U.S. mail, postage prepaid, or, in the case of overnight delivery, one (1) business day after delivery to a reputable overnight commercial delivery service for delivery on the next business day.

11) Miscellaneous

(a) This Agreement represents the complete and final understanding and agreement between the parties with respect to the subject matter hereof, and supersedes all other negotiations, understandings and representations (if any) made by or between such parties.

(b) This Agreement may be amended only by way of a written document making specific reference to this Agreement and signed by the party against whom enforcement is sought.

(c) This Agreement shall inure to the benefit of, and be binding upon, the parties and their respective heirs, administrators, legal representatives, successors and assigns. No waiver of any term, provision, right, or covenant in this Agreement, nor any consent by either party to the other party's departure

from the terms hereof, shall be valid or enforceable, unless such waiver is in writing and signed by the party against whom enforcement is sought, and then shall apply only to the specific term, provision, right, or covenant identified in such waiver on that particular instance. Receiving Party shall not assign or delegate its rights or obligations hereunder without the prior written consent of Disclosing Party, and any attempt to do so shall be void.

(d) This Agreement shall not be construed more strictly against one party than against the other merely because it may have been prepared by counsel for one of the parties, it being recognized that both parties have contributed substantially and materially to its preparation.

(e) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

(f) Nothing contained in this Agreement shall obligate either party to enter into the Transaction or take any other action with respect thereto.

12) Governing Law

Any dispute arising out of or relating to this Agreement shall first be brought to the American Arbitration Association. In the event Arbitration is unsuccessful, the dispute shall be brought to the city and state of choice of the defending party within the United States.

IN WITNESS WHEREOF, the undersigned have executed this Agreement effective as of the date first set forth above.

CHEMICAL FORMULATIONS Inc.,
North Shore Drive 3600, Sarasota,
Florida 01234, USA

Represented by

Name:

Title:

Witness:

Print Name:

By:

Name:

Title:

Witness:

Print Name:

**SECRECY AGREEMENT
(EXAMPLE)**

Letterhead of the DISCLOSING COMPANY

Addressed to the (RECIPIENT COMPANY)

SECRECY AGREEMENT

Dear Sirs,

We understand that you are interested in obtaining technical information on our technology in order to evaluate its incorporation in a future plant which you are contemplating to set up for the manufacture of For this purpose, we are prepared to disclose to you, either directly or through a party authorized by us to do so, the necessary technical information concerning our technology, which we have developed over many years and in which we have invested substantial time and money. In consideration of our disclosure to you of such information for above purpose, we hereby ask you to agree as follows :

1. PROCESS shall mean a process for the manufacture of
..... as developed by us and briefly described
in
2. TECHNICAL INFORMATION shall mean data, plans, specifications, flow sheets, drawings, operating instructions, and similar information relating to PROCESS.
3. You agree to hold in confidence and not to disclose to third party any part of TECHNICAL INFORMATION furnished directly or indirectly, in writing or otherwise, to you by us, except such parts :
 - a) which at the time of the disclosure to you by us are in the public domain, or which later on become part of the public domain through no breach of this agreement,
 - b) which you can show were in your possession prior to the disclosure to you by us and were not previously obtained by you directly or indirectly from us, or
 - c) which you can show were received by you after the time of disclosure hereunder from a third party who did not acquire such information directly or indirectly from us.
4. This agreement shall not be construed as granting to you any license rights or other rights relating to PROCESS, except as expressly provided herein or specifically agreed to by us.
5. You agree to make no commercial use of and not to incorporate in any plant any part of TECHNICAL INFORMATION, except as specifically agreed to by us.
6. You agree to assume responsibility for the actions of such of your executives and employees who

may have access to TECHNICAL INFORMATION.

If the foregoing terms and conditions are acceptable to you, please indicate your confirmation by signing and returning to us the duplicate copy of this letter.

Yours faithfully,
DISCLOSURE COMPANY

Accepted and agreed
RECIPIENT COMPANY ;
By
Title..
Date

**AGREEMENT TO NEGOTIATE A LICENSE
(EXAMPLE)**

This Agreement to negotiate a license, effective _____, _____ ("Effective Date"), is between the Board of Regents ("BOARD") of The University of GHENT ("SYSTEM"), on behalf of _____ ("UNIVERSITY"), whose address is _____,

and

_____ ("COMPANY"), located at _____.

NOW, THEREFORE, in consideration of the mutual covenants and premises herein contained, the parties agree as follows:

1. – The parties wish to set forth the conditions under which they will negotiate a license in good faith for the technology described in Exhibit A ("Technology") such license to be effective no later than 180 days from the Effective Date (the "Term").
2. – During the Term, BOARD will not pursue any license agreements relating to the Technology in the field of _____ with any other organization, commercial entity, private business, or individual.
3. – Within 60 days from the Effective Date, COMPANY will submit a plan acceptable to UNIVERSITY for securing third party funding for further development of the Technology.
4. – BOARD, UNIVERSITY, and COMPANY will begin to negotiate a license within 30 days after company's receipt of the funding or by the end of the Term, whichever is sooner. COMPANY agrees to submit to BOARD and UNIVERSITY plans for commercializing the Technology when the negotiations begin.
5. – The parties wish to negotiate a license that grants COMPANY an exclusive, royalty-bearing, world-wide license, with the right to grant sublicenses, to use the Technology to manufacture, have manufactured, use, sell, import, and/or offer for sale licensed products or methods for use within a certain field.
6. – This license will include at least the following provisions:
 - (a) reimbursement to UNIVERSITY of all domestic and foreign patent expenses to date, if any;
 - (b) payment of future expenses;
 - (c) payment of an up-front license fee;
 - (d) payment of a running royalty rate;
 - (e) milestone payments if appropriate;
 - (f) diligence requirements for commercializing the Technology; and
 - (g) indemnification, confidentiality, and publication provisions and other reasonable and customary terms in a license agreement, all in conformity with the Constitution, the laws of the State of Texas and BOARD'S Rules and Regulations.

7. – COMPANY agrees to pay BOARD \$_____ (the "Fee") due and payable when this Agreement is signed by COMPANY. Company further agrees to reimburse BOARD for all patent expenses that become due during the Term.

8. – The parties will treat each other's confidential information as follows:

8.1. – BOARD and COMPANY each agree that all information contained in documents marked "confidential" and forwarded to one by the other:

(a) are to be received in strict confidence,
(b) used only for the purposes of this Agreement, and
(c) not disclosed by the recipient party, its agents or employees without the prior written consent of the other party, except to the extent that the recipient party can establish competent written proof that such information:

- 1. was in the public domain at the time of disclosure;
- 2. later became part of the public domain through no act or omission of the recipient party, its employees, agents, successors or assigns;
- 3. was lawfully disclosed to the recipient party by a third party having the right to disclose it;
- 4. was already known by the recipient party at the time of disclosure;
- 5. was independently developed by the recipient; or
- 6. is required by law or regulation to be disclosed.

8.2. – Each party's obligation of confidence hereunder shall be fulfilled by using at least the same degree of care with the other party's confidential information as it uses to protect its own confidential information. This obligation shall exist while this Agreement is in force and for a period of 3 years thereafter.

8.3. – BOARD recognizes and agrees that COMPANY may from time-to-time need to enter into related confidentiality agreements with third parties. COMPANY agrees that confidential information will not be disclosed to third parties unless a confidentiality agreement has been fully executed between COMPANY and the third party. Such confidentiality agreement will be at least as restrictive as the sample agreement set forth in Exhibit B. COMPANY agrees to provide BOARD a copy of all confidentiality agreements within 30 days of their execution.

IN WITNESS WHEREOF, parties hereto have caused their duly authorized representatives to execute this Agreement.

BOARD OF REGENTS OF THE UNIVERSITY OF GHENT

Exhibit A

Technology

Exhibit B

PART IV

Negotiating and drafting licensing agreements

A mock negotiating and drafting exercise between the parties Africo and CHEMICAL

(The following text together with the exchange of correspondence and internal memoranda should be read before the training session commences.)

1. The invention:

Africo Company Ltd. has, in its Technology Department, invented a new method of coating microscopically small components, whereby chemical components are stabilized and are not altered chemically. After treatment the chemical substances and pharmaceutical components become easier to handle, to store and to dosage, especially under humid and hot conditions. This makes the invention attractive for the tropics. Medicinally active compounds can furthermore, because of the coating, be subjected to a controlled or slowed-down delivery in the body of humans and of animals. The invention also holds potential for avoiding evaporation of dangerous or smelly chemicals and diminishing the blowing away of dirty or dangerous substances. The invention can thus be used in the pharmaceutical industry as well as for environmental (eventually also agricultural) purposes.

The method has been laboratory tested on certain materials.

The new technology has not been made public. Its development is still in an early phase. It has, as a matter of fact, not yet been the subject of a patent application.

2. The parties and their respective expectations:

The inventor and the company she works for (**Africa Corporation Pty Ltd.**, in short "Africo") know this field of technology very well and they are comfortable that the coating technology is novel and inventive. But work on an industrial size application and better data on the physical and chemical qualities and processes would undoubtedly strengthen a patent application. To do so Africo needs money (for a researcher and for costs of outside production and neutral evaluation). It is also taken for granted that the application should be well prepared and should then be taken on a very broad geographical scale - so here again the financial support of a strong commercial partner is considered necessary.

The inventor believes this technology holds promise for the improved application of several existing medicines in the human and veterinary area. But if the success could be demonstrated by applying the technology this would create a much bigger value for the invention. The Africo company also holds promise; it has had a number of scientific and commercial successes and is making inroads into markets of African countries through a number of good connections in the distribution and the transport and storage of chemicals and fertilizers.

Africo's goal is to maximize profit from the invention. It wants a considerable lump-sum paid as soon as possible after the signing of the agreement. This way it can cover the costs of earlier research and of patenting (to come). The inventor, on her part, has expectations too: she has been

involved in finding the commercial partner; and she will play an important role in the negotiation and after that in the application of the invention to the particular use that the Licensee wishes to develop first. She would be especially happy with a big up-front payment and is less interested in the promise of future income by way of royalties on sales of the product, because she personally receives a premium on the date of closing of the agreement to commercialize.

There is now an interested party from the industrial sector: **Chemical Formulations Inc.** (abbreviated as "CHEMICAL"). This is a company with good footing in the field of pharmaceutical commodities, in particular in tropical medicines and with good relations with chemical industries and even with its own distribution companies in South America and in Asia and Africa. CHEMICAL is an American company (incorporated in the State of Florida). It has heard of the new invention through one of its employees, who was briefly active in a University project in Africa. After that CHEMICAL sent a scientist to an international meeting where Africo gave a rather general presentation of the work it is doing. CHEMICAL does not have all the know-how about the new technology. It has asked the inventor to receive all information on the technology and to start negotiation on the exclusive and overall assignment and transfer of all rights with a view to the development and the commercial exploitation of the invention.

The technology that Africo has invented, has however not been tested on consistency in production batches of the particular medicinal compound that interests the potential licensee.

Chemical Formulations Inc.(CHEMICAL) stated that it had, among the products it produces for one of its major customers, an interesting opportunity for application (which it would at first not name). It said that it wanted to become more active in developing and marketing this technology for several applications, together with other partners.

In fact, although Africo is not fully aware of this, CHEMICAL has an urgent need for this technology because it delivers this chemical commodity to a pharmaceutical company that has a successful medicine of which the patent is running out and for which the distribution in tropical area's of the world could be dramatically improved using this technology. They wanted to move quickly and therefore they invited a team of three negotiators from Africo to the beach resort area of Sarrasota (Florida) suggesting that the contract should be concluded there and then. The Africo team has held off its trip.

CHEMICAL has now, when this negotiation starts, asked the technology manager of Africo for a price offer for the technology in all its applications.

(Of course one can see the same exercise as a case of transfer of technology in the direction of Africa. Then the alternative for the mock case to negotiate is, that Africo is a company working in the field of pharmaceutical production in the tropics and is interested in eventually improving the technology found in the United States of America or held in property by the Florida company. In that case Africo company would be ambitious enough to try and find new applications of the coating technology, possibly for distribution and use in other continents.)

3. Previous written exchanges:

There were four letters exchanged, identified as letters n^{os} 1 to 4.

- 1) a letter from CHEMICAL dated 24 October 1999
- 2) a letter from Africo dated 16 November 1999
- 3) a letter from CHEMICAL dated 30 November 1999
- 4) a letter from Africo dated 12 December 1999.

Previous written exchanges: Letter n° 1

Chemical Formulations Inc.

Mr. Charles Barnum,
Product Development Manager
North Shore Drive 3600
Sarasota, Florida 01234
Tel. (913) 00 11 28
Fax. (913) 00 11 00 e-mail: cbarnum@baily.usa

To: Ms. Sandra Eureka
Technology Development Department
Africo Corporation Pty Ltd.
New Standards Building nr. 4
Lions Head, Cape Town
Rep. of South Africa

24 October 1999

Our ref.: Barnum prop. 476

Dear Ms. Eureka,

We had the pleasure of meeting you at the Rand Technology Conference last month and we have had the chance to consider possible applications of the new technology you presented on the poster about neutral fine coating in pharmaceutical active compounds.

My company and the Commercial Development Board in particular shows great interest in this new technology. We are eager to enter into talks with a view to testing the application of this coating to a compound used by one of our major clients. Please put us into contact with the persons responsible for the commercialization of your invention and please send us details regarding the patent or patent application for your invention.

We could be interested in the broadest possible applications as we are a technology company that provides customers with commodities and chemical compounds. If we in effect would find promise in your invention, it would be a matter of principle for us to acquire the property rights to the invention; so we look forward to negotiating with you for a broad and for you a very advantageous contract.

Please send us your e-mail address. I look forward to doing business with you.

Yours truly,

Charles Barnum.

Previous written exchanges: Letter n° 2

Africa Corporation Pty Ltd.

Office of Technology Development
S. Xanadu - Department Head
New Standards Building nr. 4
Lions Head, Cape Town
Rep. of South Africa

To : Mr. Charles Barnum,
Product Development Manager
Chemical Formulations
North Shore Drive 3600
Sarasota, Florida 01234
United States of America
Per fax: 00.1.913.00 11 00

16 November 1999

Re: Glazing spray

Our reference: SX/Sec/9911116

Dear Mr. Barnum,

Our researcher Ms. Sandra Eureka has forwarded your letter to us, containing your proposal to enter into an exchange about our new technology of coating chemical compounds with a hot spray in order to stabilize the compound.

I enclose herewith a model of a confidentiality agreement that we require to be signed by representatives of your corporation in order to allow us to proceed with our negotiations. Please return this to me at your earliest convenience.

I can tell you that this new technology is at present not being actively developed and that we are indeed interested in proving its feasibility and its industrial application, in which we have the fullest confidence. Cooperation with your company would be seriously studied. We would look towards concluding with you a research agreement to sponsor the further refinement and the scale-up of the application to the pharmaceutical compound you are thinking of. Please send me particulars about the compound you wish to submit to this technological process. We can then tell you whether we have done similar products before and we will consider to exchange our earlier test results with you.

I look forward to receiving the signed confidentiality agreement and to entering into negotiations with you and your company.

Yours sincerely,

S. Xanadu.

Enclosures: Confidentiality agreement

Previous written exchanges: Letter n° 3

(Note to the trainees: After the last exchange of letters a confidentiality agreement was indeed concluded. See PART III of this presentation that holds examples of Discretion Agreements or Confidentiality Agreements.)

Chemical Formulations Inc.

Mr. Charles Barnum,
Product Development Manager
North Shore Drive 3600
Sarasota, Florida 01234
Tel. (913) 00 11 28
Fax. (913) 00 11 00 e-mail: cbarnum@baily.usa

To: S. Xanadu - Department Head
Office of Technology Development
Africa Corporation Pty Ltd.
New Standards Building nr. 4
Lions Head, Cape Town
Rep. of South Africa

30 November 1999

Our ref.: Barnum prop. 476
Your reference: SX/Sec/991119

Dear Sir, Madame,

Your letter of 11 November was well received and I thank you for it.

I have forwarded your request for a confidentiality agreement (and the model contract which you have included) to our legal department and I have no doubt this will be processed quickly. I may return to you on this matter in case one or more queries would arise. Will you allow that we eventually revert to the model or to some of the standard clauses that we often use and with which we in the trade are comfortable? I hope to send you a signed proposal for agreement in the days before Christmas.

At this stage I cannot disclose more about the compound for which we seek to test your invention. We have now understood that you stand at an early phase in the development but I am still eager to hear which patent application you have made. Our technical people are asking me for information on your production procedure or on technical specifications and for the text of your patent claims.

Please consider that our company is a technology company and that we have been developing for many years applications for treatment of chemicals such as this coating. We would like to ask you to quickly and intensively cooperate so that we may test your technology and so that we may decide on our interest for it. We want to, even at this stage, announce that we would want to develop the first application for you and with you; but in that case we will want to right away negotiate for a total assignment of the technology platform. We feel we can offer you the best value based upon our position and expertise in the market and on our broad client-base.

Please do not wait until the secrecy agreement is sent, to prepare the communication about the technical details of the invention and please also let us know which value you put on this technology. We would like to know for which sum or consideration your company wants to transfer property in the technology and in the know-how related to it. We can help you prosecute the patents and would want to have full insight into the application process so that we can commercialize on the basis of correct and full information.

I have discussed this matter with our management and I have the pleasure of inviting yourself, Mrs. Eureka and possibly one other person to our offices in Florida so that the whole process of negotiation can be done in the most direct personal manner. I am thinking of a meeting in the course of January or February. Please let me know whether a trip for this face-to-face negotiation and for the closing of the contract can find your approval. We look forward to a good cooperation and remain,

Yours truly,

Charles Barnum.

Previous written exchanges: Letter n° 4

Africa Corporation Pty Ltd.

Office of Technology Development
S. Xanadu - Department Head
New Standards Building nr. 4
Lions Head, Cape Town
Rep. of South Africa

Urgent and confidential

Re: Glazing spray
Our reference: SX/Sec/991212

To : Mr. Charles Barnum,
Product Development Manager
Chemical Formulations
North Shore Drive 3600
Sarasota, Florida 01234
United States of America
Per fax: 00.1.913.00 11 00

12 December 1999,

Dear Mr. Barnum,

We have received your request for a meeting to negotiate the assignment of our new technology in the field of coating of chemical compounds. I also thank you for your kind telephone call, which was useful in clarifying the wishes of your company with regard to this technology. The confidentiality agreement has not been received. This will withhold me briefly from sending you more technical details. I hope to be speaking with you soon.

I hereby try to give you some elements that may be helpful when you consider the question of transfer of the technology and of payments in compensation. I am hopeful that we should be able to discuss modalities about your use of our technology within the weeks to come.

I understand that you would like to have the sole disposition of the technology invented by Ms. Sandra Eureka regarding the process of chemically neutral glazing in a hot spray. I can understand that your company would want to use the technology for one or more of its own compounds and possibly to license it out to third parties. Our company has had bad experiences with assignment of patents, where the commercialization proved not to be ensured or not diligently enough pursued. We also feel that in a stage where the full potential of the invention is not yet apparent, its evaluation would tend to be to our disadvantage.

1. Our own first choice would be to work towards an agreement with CHEMICAL, in which CHEMICAL itself has exclusive rights to the use of the invention regarding a named compound or a narrowly defined group of compounds. This could eventually be broadened to contain a second named area of application, under a right of first refusal that we could grant for an agreed period of time.

Our concern is the maximum beneficial development and use of the inventions. In case you would, in a later stage, find an application that was not previously considered, then we would certainly treat you as a preferential partner; and we could add wording in a contract, to the extent that your future requests should be treated preferentially.

Our expectations of payment are probably no other than are current in your business. We negotiate in function of the innovative (eventually revolutionary) character of the invention and of the

commercial gains it may bring and in function of its stage of patent protection and of development and its promise of protection and applicability.

We believe this coating technology has a great potential for the treatment of several pharmaceutical and chemical compounds and also in the field of environmental protection and in agricultural spraying of chemicals and of fertilizers. We believe it is so promising that we at present do not want to assign it or license it broadly.

But at this early stage of its development and because we are eager build a co-operation with your company, we think we must be forthcoming to you. For the application with the blood-pressure-reducing compound we ask a lump sum of 1 million U.S. dollar. This up-front payment will assure us of the strength of your interest and your resolve to push forward towards a marketable product. Thereafter we ask royalties of 2% to 3% based on world sales turnover. I indicate this margin to allow flexibility on the point of an eventual compensation of the lump sum from those royalties due or to allow an increase over a short period of time.

If you would want a broader area of application, for example with your own proprietary compounds, then we would need to structure a right of first refusal for such different compounds. For that purpose I would propose that CHEMICAL, upon paying a further 100.000 U.S. dollar per specific application, would be allowed to call and obtain that right to apply the technology.

2. In case you would nevertheless want to develop the invention by seeking third parties for sublicenses and by helping such third parties invest in research and development regarding its application, then please clarify for us your goals and try and give us assurances that you would indeed commercialize effectively. For such an approach, we would need your agreement with a higher lump-sum to be paid by CHEMICAL and detailing on the one side your own royalties and on the other side our share of the income that CHEMICAL would make from its sub-licensees. We expect 25% to 30% of all such lump sums, royalties or compensation that CHEMICAL would receive from its sub-licensees for the invention, depending on the size and the risks of investments that would be made on the side of CHEMICAL. We would also need clauses assuring us of effective merchandising and market introductions or alternatively leading to a return of the license to the Africo.

I think it is too early for us to take well-informed decisions for this second hypothesis.

In whichever way we proceed, I would however always want my own company to remain free to find and develop new applications of the technology alone or with third parties that we choose. We will retain our own right of initiative and will want to regain for ourselves exclusivity for a specific application that we develop (alone or with others) under condition that we would first inform you that we have a realistic plan to develop that specific application. If we allow you rights to develop the technology in a broader field, then any agreed upon application by yourself or your sub-licensees would in our view need to be on a non-exclusive basis.

Those are, Ms. Barnum, some of the principles to which we are committed and I hope they may help you in our upcoming exchanges. I trust you will indeed be willing to develop this technology and that you will want to make your own proposals known to me.

I look forward to hearing from you.

With kind regards,

S. Xanadu
Technology Manager

4. Memorandum for the Team Africo: Memorandum on a telephone negotiation as noted down by Mr. Xanadu

(NOTE: This Internal Memorandum of AFRICO and the following one of CHEMICAL are made accessible to the partner in this drafting exercise, in order to help assess some of the signs and expectations that one otherwise seeks through more extensive exchanges, possibly through face-to-face meetings)

Memorandum

Written by: S. Xanadu

Date: 24 January 2000

Negotiations with CHEMICAL - 24 January 2000

A conference call was initiated by Charles Barnum and the Commercial Director of CHEMICAL and myself. I brought Sandra Eureka on the line.

I opened the negotiation on valuation with a request for 1 million US \$. The Director gave us the oral acceptance of a lump-sum payment of 500.000 U.S. dollars. This went seemingly easy. We have a bite. It gives us good value for the research investments made and gets us started without delay and hesitations.

There is also agreement that the largest part of the up-front payment should be given normally within three months after signing, in three installments that should depend on the successful production of three different types of batches of the Product. The "Product" in this sense is the application of the invention to the pharmaceutical compound of CHEMICAL's customer. The three batches are: a trial batch made by Africo, an industrial size batch made in the production facility of CHEMICAL in South Florida under tropical conditions and then a batch suitable for clinical trials. The remainder of the lump sum payment has been promised for the day that CHEMICAL enters into an agreement with the pharmaceutical partner to start clinical trials.

We know it has been impossible to produce their customer's medicine "LowBloodMed" locally in tropical countries.

We also have been able to find out that the patent protection on their medicine is running out for the active component of this medicine. We also have Sandra looking for the identification of the patent, so that we can look into their cards better.

Furthermore, information available publicly (annual reports) makes me presume that CHEMICAL makes 100 million dollars in annual sales of this class of commodities. CHEMICAL could be eager to acquire a new period of patent protection on a new production technique with controlled-release characteristics that would be markedly superior to the present delivery by capsules. Most probably time will be important for them.

They make a strong point about getting broad rights. I referred them to my past letters and have said we cannot do this. I

remained constructive and have said I will give our lawyer the task of working out an option for CHEMICAL to eventually receive more other particular applications.

Then Barnum also insisted that we quickly come to the conclusion of a Letter of Intent whereby we agree to negotiate only with them towards first improving the invention and applying it together with us to LowBloodMed and then to assign or broadly license the invention. I immediately responded that our management would probably make the signing of a Letter of intent conditional upon this Letter containing the future royalty rate for the main agreement. I also stated that it should already be agreed that the projected up-front payments would indeed follow within three months after the signing of the agreement.

5. Memorandum for the Team CHEMICAL: Note on a telephone negotiation - by Charles Barnum (CHEMICAL)

(NOTE: This Internal Memorandum of CHEMICAL and the previous one from Africo are made accessible to the partner in this drafting exercise, in order to help assess some of the signs and expectations that one otherwise seeks through more extensive exchanges, possibly through face-to-face meetings)

Note

By: C. Barnum
24 January 2000

Telephone conversation with AFRICO

During the telephone conversation of 24 January I got an agreement in principle to start the co-operation with Africo.

Some first hesitations were taken away when Ms. Eureka came on the line. She evidently has a stake in the process application and exerts authority over there.

I had to (reluctantly) explain that CHEMICAL has a successful medicine on the North American market (FDA approved) for the treatment of high blood pressure (I have branded this active compound the "LowBloodMed"). The compound was not identified. I did explain that to administer this medicine it needs to be put in a capsule and that it is very sensible to humidity. The present commercial form of the medicine also presents higher costs when the company wishes to vary the doses in industrially produced packaging.

I painted the picture that our common economic incentive is, that a good part of the existing production may be rapidly switched to this treatment and I said a huge turnover can be expected.

The boss told me to lay down a precise agreement for the refining of the production technique of this invention and for testing the application of the invention as it applies to LowBloodMed.

We clearly explained we cannot pay 1 million dollars, but are willing to advance the costs of development to an amount of 1/2 million \$. This money is earmarked for the development of the application of our customer's medicine and should come in the form of the lump sum payment they had asked for in their letter of 12 December. I laid down the offer for three partial payments of 100.000 \$ that could follow reasonably quickly after the conclusion of the main agreement. But preparing clinical trials will take more than 3 months.

We hope to acquire a new period of patent protection if this new production technique with controlled-release characteristics would work. The time to do this is very short, so fast negotiations will be essential.

The commercial presentation of a product with this "glazing" would be markedly superior to the present delivery by capsules. So we will even without patent protection be in good shape and I advise to press towards early commencement of human trials for the application.

I requested a "Letter of intent": I said I want an early Letter of intent, with insistence on a broader application of the technology for CHEMICAL, because this technology can take off thanks to *our* early support and *our* investment and know-how. We must have the rights of exclusive or at least of sole use of this whole technology platform in the world.

Our lawyer Foresite has emphasized that ideally we must obtain the personal right for CHEMICAL to apply for application-patents for the new applications and improved formulations that we (or Africo) may find in the future.

The boss pressed on them that we count on an advantageous royalty rate on sales of products using this technology and that we should have the same good rate for this first application as well as for other (later) applications.

6 (a) The drafting exercise (Phase # 1)

Of the 80 participants there are four teams (of ten persons) that represent Africa Corporation (Africo) and four teams (of ten persons) that represent Chemical Formulations (CHEMICAL). All participants must have already read the summary of the case together with the exchange of correspondence and internal memoranda.

PHASE # 1 - LETTER OF INTENT

The first objective of this negotiation is to come to an agreement over the future negotiations to license this new coating technology or to agree on an assignment.

This exercise is short (20 minutes); it is something of a warming up exercise. The first task for the teams is to debate the conclusion of a Letter of intent between CHEMICAL and Africo.

Each team should please select a Team Reporter for this exercise. After 20 minutes we will reconvene in plenary session. Team Reporters will give a short report of the work in their group.

Please discuss the contents of a possible Letter of intent between the interested parties. But you need not come to the actual drafting exercise. (You have drafts of a short Letter of Intent and of an Agreement to negotiate and a standstill agreement in your documents relating to the lecture N° 6. You also have drafts of Discretion Agreements.)

Please study the drafts and **decide for this first exercise** of Africo and respectively of CHEMICAL **which points you think should be covered** in this Letter of intent for your client/company. The Team Reporter must please take note of the points to cover.

QUESTIONS: Should you cover as far as the content of the Letter of intent is concerned, one or more of the following aspects?

- the full (long version) of the party identification;
- the description of the intellectual property right;
- the description of the unpatented know-how;
- the secrecy obligations;
- the way the future agreement will be concluded either by a free meeting of the will or by calling an option;
- the type of rights that are to be given in or that are negotiable for the main agreement;
- the field or the different types of applications;
- the geographical area;
- the question whether negotiations with other parties are allowed;
- perhaps particulars about the financial compensation;
- do you put a time-limit on the negotiations;
- do you decide the binding nature of the pre-agreement;
- do you give detail about the applicable law and the dispute resolution;
- do you give particulars about the form in which this Letter of intent is concluded?

6 (b) The drafting exercise (Phase # 2)

PHASE # 2: NEGOTIATING AND DRAFTING THE CONTRACT

This part of the exercise runs over 60 minutes of preparation in drafting and group discussion.

A short negotiation with a counterpart Team may be added on to this time.

Again each Team will report to the plenary session, through a (different) Reporter.

Each Team (Africo teams on the one hand and CHEMICAL teams on the other) **will receive a draft prepared by the co-contracting partner ("the other side")**. This draft will be limited (for the sake of the focus of the exercise) to several aspects of **the intellectual property rights or the license offered from Africo to CHEMICAL and the payment in compensation thereof offered by CHEMICAL to Africo**.

Teams Africo and Teams CHEMICAL must prepare to amend the received opponent's draft agreement and for that purpose should discuss and prepare clauses regarding:

- "definitions" in as far as you think they are necessary for a good understanding;
- the intellectual property to be transferred/received or the license given/received (depending on whether your client is the Licensor or the Licensee);
- warranties and representations;
- the field of application (geographical, material and in duration of time);
- the offering of a right of option to some applications and its details/ or the request for an option and a right of first refusal regarding the exploitation;
- the clauses regarding improvements and patenting of future improvements;
- payment clauses and controls of financial obligations.

Teams Africo and Teams CHEMICAL will each separately receive Negotiating Instructions from their respective Company Executive Officer.

It will be possible for the Teams to call on the facilitators with questions they may have. **The facilitators have with them additional clauses that were suggested by the outside lawyers** of the firm, based on models. Added to the models in the documents of the lecture N° 7 this should offer the Team sufficient inspiration.

The readiness of the Team to accept compromise-offers on the particular aspects should also be debated. There must be a standpoint chosen for the lowest-level of what your side will accept; something like a walking-out point.

The Teams have an occasion to negotiate with an opposing Team if they think this suitable: a Team may want to ask additional informative questions or may wish to test the reactions of the contracting partner for a next phase of drafting. For this purpose the facilitators should be called and they will link the Team to another Team.

The **Reporter of each Team** shall explain to all the participants **in the plenary session** the observations of the Team and the choices it presents in the clauses. Team members may also reflect on the strategies for convincing the other contract partner of the necessity or the acceptability of the proposed amendments.

6 (c) The drafting exercise (Phase # 3)

PHASE # 3: NEGOTIATING AND DRAFTING THE CONTRACT (continued)

This exercise is the same negotiation and drafting exercise as in the previous phase but on further clauses.

Teams Africo and Teams CHEMICAL will receive materials on:

- the clause for finding, signaling and prosecuting infringements by third parties;
- the clauses regarding the costs for defense of the patent;
- the obligation for diligent commercialization;
- the liability clauses;
- the jurisdiction or arbitration clause and the choice of applicable law;
- other standard clauses.
