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905 – International Licensing of IP

William Eipert
Senior Managing Counsel
Xerox Corporation

Gary Margolis
Deputy General Counsel
DRI Capital Inc

Julie Mar-Spinola
VP, Legal
Alta Devices, Inc.

William McGreevey
Senior Counsel
Eastman Chemical Company

Faculty Biographies

William Eipert

William Eipert is a senior managing counsel in Xerox Corporation's office of general counsel. His responsibilities include managing the global development group and the enterprise business group counseling group; counseling business teams respecting hardware and software development, sourcing and integration transactions and drafting and negotiating related agreements; and providing subject matter expertise respecting patent and software licensing matters.

Before joining Xerox, Mr. Eipert worked for the U.S. Department of the Navy drafting and prosecuting patent applications and supporting government contracting. Mr. Eipert has been a member of the IPO Open Source Committee and is currently a member of the ACC IP Committee.

Mr. Eipert received a BS from Northwestern University and is a graduate of DePaul University College of Law.

Gary Margolis

Gary S. Margolis is deputy general counsel and chief compliance officer at DRI Capital Inc., an investment manager of private equity funds that purchase royalties from pharmaceutical and biotechnology companies, research institutions, universities, and inventors. DRI Capital Inc. is a leader in royalty monetization with over $2 billion in assets under management. Mr. Margolis focuses primarily on the evaluation, acquisition and financing of pharmaceutical royalty assets. He conducts extensive due diligence on these assets by reviewing their underlying license agreements and patent estates. Mr. Margolis also has primary responsibility for overseeing DRI Capital Inc.'s policies, procedures and compliance infrastructure, and is a member of DRI Capital Inc.'s Risk Management and Steering Committees.

Prior to joining DRI Capital Inc., Mr. Margolis completed his articles at Osler, Hoskin & Harcourt LLP in Toronto, Ontario, and then worked as an associate at Simpson Thacher & Bartlett LLP in New York, NY and at Dewey Ballantine LLP in London, UK. His practice focused on mergers and acquisitions and securities law.

Mr. Margolis attended the University of Toronto, where he received a BSc in human biology and a JD, with honors.

Julie Mar-Spinola

Julie Mar-Spinola is vice president, legal of Alta Devices, Inc. in Silicon Valley, CA, and is responsible for all of the company's legal affairs. She specializes in strategic intellectual property, litigation, and IP and technology licensing, as well as corporate governance and risk management.

Ms. Mar-Spinola has significant litigation and trial experience before state and federal courts and other tribunals, including the Court of Appeals for the Federal Circuit, the International Trade Commission (ITC), the U.S. Court of Customs and Patent Appeals, the International Centre for Dispute Resolution, International Arbitration Tribunal; and the Court of First Instance, Antwerp, Brussels. She was also an adjunct professor of patent law at Santa Clara University, School of Law, and is a faculty member with the Practicing Law Institute (PLI), San Francisco. Most recently, Ms. Mar-Spinola serves as a mediator on IP-related disputes for the U.S. District Court, for the Northern District of California.

She is a founder and a member of the board of directors of ChIPs, an organization of professional women in chief IP counsel roles at major companies, committed to initiatives that develop the careers of other women in patent-related fields through mentoring, best practice sharing, and other forms of support.

She speaks on panels for several professional organizations, including Association of Business Trial Lawyers (ABTL); Association of Corporate Counsel Association (ACC); IP Law & Business; Women in Licensing, Bay Area; ACC's San Francisco Bay Area Chapter, and IP Counsel Café.

William McGreevey

William McGreevey is a senior counsel in the intellectual property group at Eastman Chemical Company. He has served as lead or sole intellectual property counsel to a variety of businesses that have included both established and developing businesses. A significant portion of his practice includes negotiation and drafting of agreements associated with licensing of core Eastman manufacturing technology to licensees worldwide. These have included licenses related to joint ventures or entities that would provide product to Eastman as well as stand-alone licenses.

Prior to joining Eastman, Mr. McGreevey practiced in the intellectual property group in the Atlanta office of Kilpatrick Stockton (now Kilpatrick Townsend) after nine years of practicing litigation and environmental law.

Mr. McGreevey received a BS from Wake Forest University and a JD from the National Law Center of George Washington University.

International Licensing of IP

Presented by:

William Eipert, Sr. Managing Counsel (Xerox)

Gary Margolis, Dep. GC & CCO (DRI Capital Inc.)

Julie Mar-Spinola, VP Legal (Alta Devices, Inc.)

William McGreevey, Sr. Counsel (Eastman Chemical Co.)

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  - Scope of License
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  - Enforceability Issues
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Scope of License in International Licenses

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- What Rights to Grant
- Ownership of New Innovations – Division of Jointly Developed IP
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  - DE: Yes, unique and specific regulations under EIA
  - FR: Yes
  - JP: Yes, may seek modifications
  - UK: Maybe, filed post-2005, exceptional circumstances
  - US: No
  - Europe: not harmonized under EPC, determined in accordance with the law of the State of employment.

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Compliance Issues

- Export Control and Related Regulations
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- What is compensation and how is it monitored?
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Q & A

Thank you

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Scope of License in International Licenses

<u>Slide #11:</u> <u>What Rights to Grant?</u>

❖ <u>Exclusive Rights vs. Non-Exclusive Rights</u>

Structuring the license as either exclusive or non-exclusive requires careful consideration. Except in the case of an exclusive licensee, the licensor is essentially creating an authorized competitor, albeit with the benefit of creating a new revenue stream. Non-exclusive licensing portfolios afford the most flexible licensing structured programs, but they also require significantly more infrastructure and resources to properly manage the program. (See "Maximizing Value in International Licenses", Monitoring through royalty reports.)

While an exclusive license may benefit the licensor who may be disinterested or unable to exploit its patent(s), it typically relinquishes all rights to, and control over, the underlying IP in exchange for a premium in the form of a license fee, royalty payments, or a combination of both. Drafted correctly, an exclusive licensee has rights consistent with an owner, *i.e.*, standing to sue without the owner, the right to all past, present and future damages, as well as the right to sublicense. Depending on the license terms, the licensor can retain certain rights in a patent despite the grant of an exclusive license by virtue of well-drafted anti-assignment and termination clauses.

With respect to anti-competitive issues, note the difference between exclusive licensing and exclusive dealings. The former restricts the right of the licensor to license others and to make licensed technology itself. As such, exclusive licenses are generally not considered anti-competitive unless the licensing parties are in a horizontal (*i.e.*, competitive) relationship, in which case the license terms will be scrutinized to determine whether there is an allocation of the market – a *per* se antitrust violation – by virtue of the exclusive license. The latter occurs when the license terms prevent other licensees from licensing, selling, distributing, or using competing technologies. Hence, the focus of exclusive dealings is the restriction on the licensee. See, for example, "*Department of Justice and the Federal Trade Commission jointly issued Antitrust Guidelines for the Licensing of Intellectual Property" ("IP Guidelines"),* § 4.1.2.

❖ <u>Territory (see also "Maximizing Value in International Licenses" materials herein)</u>

Where technical know-how is to be conveyed to a licensee, another consideration is whether the conveyance is regulated or prohibited by U.S. Export Control laws. These laws and their implementing regulations seek to prevent information that may be sensitive for military or anti-terrorism reasons from getting into the wrong hands.

- Sample Clauses re Exclusive or Non-Exclusive

  - Sample Exclusive Clause:

    "Licensor hereby grants and Licensee accepts, during the term and subject to the terms and conditions of this Agreement, and further subject to Licensor's right to do so without incurring liability to third parties,

    (a) an exclusive license to use the Know-How in the Territory and within the Fields of Use; and

    (b) an exclusive license of Licensor's Patent Rights in the Territory to make, use, sell, offer to sell, and import any Licensed Products in the Fields of Use and to practice any Licensed Processes in the Fields of Use.

    This Agreement confers no license or rights by implication, estoppel, or otherwise under any patent applications or patents of Licensor other than licensed Patent Rights regardless of whether such patents are dominant or subordinate to licensed Patent Rights.

    This Agreement shall be subject to the mandatory public laws in any country where this Agreement will produce an effect."

  - Sample Non-Exclusive Clause:

    "X.1 Subject to Licensor's rights in the Licensed Patents and to the terms and conditions of this Agreement, including the terms as set forth in Exhibit X, "Fields of Use and Financial Considerations", which is attached to this Agreement and hereby incorporated by reference, Licensor hereby grants to Licensee the non-exclusive right and license, subject to certain Government rights set forth below in Section X.2. and subject to the conditions set forth in Section ___, to make, have made, use, import or sell, the Licensed Products worldwide, subject to the patent coverage of the Licensed Patents.

    X.2 The right and license granted in Section X.1 is subject to the following Government rights: (a) the Government has a paid-up, royalty-free, worldwide, nontransferable, irrevocable license to practice or have practiced by or on behalf of the Government the inventions covered by the Licensed Patents, and (b) the DOE's march-in rights as required by the Prime Contract and 35 U.S.C. § 203.

    X.3 Licensee agrees that any Licensed Products for use or sale in the United States shall be substantially manufactured in the United States. (Note: this is particular to government-funded contracts.)

    X.4 Licensee shall mark all Licensed Products made or sold in the U.S. in accordance with 35 U.S.C. §287(a) and will mark all Licensed Products made or sold in other countries in accordance with laws and regulations then applicable in each such country. Licensee acknowledges that it will be liable to Licensor for infringement damages lost due to improper or defective patent marking."

Slide #12: Co-Owned IP Issues

- Why this issue matters.

Innovations are often the result of joint efforts. Regardless of who that joint development is with: a commercial or manufacturing partner, a key supplier, a university, a contractor under a government project, etc., there are a multitude of issues to consider.

- Ensuring collaboration in protecting valuable IP.

Co-owning IP requires consistent and collaborative care by both parties. Generally, co-owning IP as opposed to one party owning and granting a license to the other, allows both parties maximum autonomy to use the patent as they see fit. Just as joint owners must cooperate when asserting their patent against third parties, the co-inventing parties must cooperate at the start of the development. They will need to record the conception and reduction of practice of the invention; determine the scope of their invention; review and approve the draft application with patent counsel; execute formal papers; assist in preparing the response to patent office actions; scope improvements; determine where to file foreign equivalents; and, of course, to pay the costs associated with securing patent protection (i.*e.*, search fees, filing fees, maintenance fees, annuities, and patent counsel and associate fees). Ideally, all of these tasks should be spelled out in an agreement among or between the co-owners, as the case may be, so each co-owner has a clear understanding of each party's respective responsibilities for co-owning such valuable assets.

- Economies.

Sharing the high cost of securing patents on jointly developed inventions, especially if the innovation warrants global patent protection, can clearly save each co-owning party a significant amount of money, and afford both parties the benefits of a presumably more robust patent portfolio. Jointly owned patents can be divided in as many ways as one can imagine: 50/50 or other ratios that reflect each party's contributions to the patented invention, by country or region, etc. The key is to determine what division best affords each co-owner the most autonomy without the otherwise large expense of filing patent applications.

➢ Establishing terms that would trigger automatic transfer of co-owner's share to the other party if co-owner fails to cooperate.

To avoid misunderstandings among or between co-owners, or the possibility of losing valuable patent rights, the co-owners should require the other party to be responsible for carrying out certain activities in order to promptly and efficiently protect the value of the jointly-developed IP. Including terms in the license where title to a jointly owned patent may be automatically assigned to one party if the other party defaults on its owner responsibilities, can be an effective way to protect the IP for everyone concerned. Additional terms that provide a cure period and/or automatically grant the assigning (or "defaulting") party a license to the IP may make this automatic assignment more palatable. The focus is to preserve valuable patent rights.

Slide #13: Ownership of New Innovations – Division of Jointly Developed IP

❖ Who owns improvements and new inventions resulting from joint development?

➢ Field of Use.

As previously mentioned, though jointly developed IP are often jointly owned by the inventive parties, jointly developed IP can be owned in a variety of different ways. For example, instead of 50/50 ownership, the parties can divide the rights such that the party who conceived the idea solely owns the IP and grants the other party a license. Alternatively, the innovations can be divided in accordance with the parties' designated fields of use. Problems can arise, however, when both parties' claim the same field of use.

Slide #13: Grant backs

Generally, grant backs that grant the licensor rights on an exclusive or non-exclusive basis to make use of improvements the licensee has made in the licensed technology are considered to have pro-competitive benefits. For example, such an arrangement promotes the exchange of technology for exploitation by the licensor as well as the licensee. Note, however, that exclusive grant backs may be subject to greater scrutiny if the grant only permits the licensor to use the improvements. See, "*Department of Justice and the Federal Trade Commission jointly issued Antitrust Guidelines for the Licensing of Intellectual Property" ("IP Guidelines"),* § 5.6.

Slide # 14: Transferability

❖ Managing IP and Related Confidential Information.

Review your agreements conveying title to IP, such as for example, assignments, third party licenses, and employment agreements and determine what rights have been conveyed and what are the implications for such conveyances.

➢ Assignments.

While licensors will want to reserve the right to assign its patents to whomever it sees fit, licensees generally have a different objective and want the right to assign licensed IP to a successor through merger or acquisition, or even in the event of an internal restructuring as the latter may be inherently prohibited under certain anti-assignment terms. A good practice is to require consent or at least the option to terminate the license if the prospective successor is not compatible with your business interests.

If an assignment is contemplated, be aware of the following issues:

- Consider requiring the disclosure of certain information about the pending merger so you can decide if you need to terminate the license for whatever reason.
- Consider requiring the disclosure of certain information about the pending merger if the other party has possession of some of your company's confidential/proprietary information, as you may decide that you do not want the successor to gain access to your company's proprietary information.

➢ Licenses.

In some countries, *e.g.*, Germany, ownership of inventions by employees goes to the employee(s) and not the employer. (See also, "Intra-corporate Considerations", below). Germany has a specific process by which employers may secure rights to such IP. In particular, the employee must promptly report the invention to his/her employer; the employer must respond to the inventor's report within four (4) months by, for example, filing an application for patent on the invention; and the employer must compensate the inventor(s) a reasonable amount for the right to exploit the invention.

Consequently, if German patents are to be licensed to a third party, the employer will have to determine if additional remunerations need to be paid to the employee(s) for the revenues received from the third party. A good practice is to negotiate these issues in advance with the employee.

➢ Sub-licenses.

In the US, unless otherwise agreed to, jointly-owned patents may be licensed (sublicensed) on non-exclusive terms without the consent of the other owner. Accordingly, to avoid inadvertent licensing to a co-owner's competitor(s), a co-owner should be prohibited from sub-licensing to a third party without first obtaining the other co-owner's written approval. Without such restrictions, an alleged infringer might succeed in obtaining a license from a co-owner, thereby vitiating the enforcer-owner's right to recover infringement damages. A good practice is to set forth clear sublicensing restrictions.

In Europe, the default is that a joint owner may not license to a third party without obtaining the co-owner's permission. The parties can agree otherwise.

Slide #15: Intra-corporate Considerations

❖ Employee/Inventor Rights: Rewards and Remunerations.

For summaries of employee/inventors rights to compensation for inventions, please also see via Internet search:

1. Re Europe: *"Employee's rights to compensation for inventions – a European perspective",* Morag Peberdy and Alain Strowel, Covington & Burling LLP, Life Sciences 2009/10.
2. Re China and Japan: *"Dodging Service Invention Disputes – Rewarding and remunerating inventor employees"*, Cecilia Lou and Steven Yao, Dec. 2, 2011.
3. Re China: *"How to Interpret Service Invention in China"*, ChinaBulletin, Cecilia Lou and Vincent Yu, June 2011.
4. Re China, Japan, Korea and Germany: "*Employers Beware: Employee-inventor Compensation Requirements in China, Japan, Korea and Germany"*, Naomi Ave Voegtli and John T. Johnson, ACC Special Supplement to ACC Docket, Nov. 2010.

Scope of License in International Licenses: Checklist

A. What Rights to Grant	
	Comments
1) Determine whether an exclusive license is right for your business strategy.	No plans to exploit the invention or no ability to commercialize the technology?
2) If granting an exclusive license, be clear as the rights granted, *i.e.,* the right to sue, the right to all past, present, and future damages.	
(a) Retain or restrict licensee's right to assign the exclusive license	
(b) Retain the right to terminate exclusive license	
3) Use of geographically limited exclusive licenses may preserve licensor's right to lost profits.	
4) Is the exclusive license susceptible to anti-competitive scrutiny?	Exclusive licenses generally considered pro-competitive unless licensor & licensee are in a horizontal relationship.
5) Does the license restrict the licensee's dealings?	Exclusive dealings are generally considered anti-competitive.
6) Determine whether a non-exclusive license is right for your business strategy.	This offers maximum flexibility, but requires more infrastructure and resources to manage the reporting and revenue stream.

B. Co-Owned IP Issues	
	Comments
1) Are innovations contemplated?	
2) Determine each co-owner's portion of ownership.	50/50, a percentage based on level of contribution (in form of $$, claims, or based on confidential information)
3) Define each co-owner's rights and responsibilities.	Cooperate in filing & prosecuting applications for patents; share cost of obtaining patent; prompt & efficient use, development, & exploitation of invention.
4) Restrict co-owner's right to sublicense third parties?	Prevent unfettered licensing; prevent possibility of alleged infringer obtaining patent from co-owner.
5) Include trigger for automatic transfer of co-owner's ownership rights in the event it fails to cooperate or defaults in its obligations under the license.	Automatic transfer of ownership with license back to "defaulting" owner.
C. Ownership of New Innovations – Division of Jointly Developed IP	
	Comments
1) Divide IP rights by Field of Use	Problems can arise when both parties' fields overlap.
D. Grant backs	
1) Will the grant back provision pass anti-competitive muster?	See, "*Department of Justice and the Federal Trade Commission jointly issued Antitrust Guidelines for the Licensing of Intellectual Property",* §5.6.

E. Transferability	
	Comments
1) Assignments: reserve right to consent to assignment.	Reserving right allows you to decide whether to terminate the license because of successor. Also allows you to manage the proper dissemination of company confidential information.
2) License: what jurisdiction and what laws govern?	German law gives ownership of inventions to employees, which is transferable to employer subject to satisfaction of certain procedures.
a) If local law gives employees ownership rights and the right to remuneration, additional remuneration may be required if patent is licensed to third parties.	
F. Intra-corporate Considerations	
1) Different countries have different laws regarding whether employee inventors must be compensated for their inventions.	See list of references in Supplemental materials, discussing different country requirements.

International Licensing: Compliance Issues

I) Export controls and Similar Regulations

Export Administration Regulations have the national security purpose of preventing proliferation of chemical and biological weapons, missile technology, and nuclear weapons. The Office of Foreign Assets Control Regulations have the foreign policy purpose of the prevention of doing business with persons, entities, and countries deemed to be at odds with US foreign policy.

Broadly speaking, these rules regulate conduct in two ways. One way is the prohibition on dealing with certain parties. The other is the control and, in some cases, prohibition of the exportation of technology.

Denied Parties is the term used for a collection of lists of entities with whom dealing is prohibited or limited for one of the above reasons. These regulations include several lists of persons, entities, and governments of concern. Companies should review these lists when identifying new customers or potential licensees. Software is often used to conduct an automated screening of customers, vendors and other potential parties to transactions. This should be done for licensees as well. Essential lists include:

- Entity List (Department of Commerce, Bureau of Industry and Security (BIS), 15 C.F.R. Part 744 Supplement 4)
- Specialty Designated Nationals and Blocked Persons List (Department of Treasury, http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx)
- Unverified List - not necessarily a prohibition, but considered a "red flag" requiring further inquiry (BIS, http://www.bis.doc.gov/enforcement/unverifiedlist/unverified_parties.html)
- Denied Persons List (BIS, http://www.bis.doc.gov/dpl/default.shtm)

Where applicable, similar international lists and lists applicable to other countries should be considered. Many other countries have similar lists, though many entities on such lists also appear on the US lists above.

As a first step in an interaction, licensors should screen all potential licensees against relevant lists to determine applicability. Consideration should also be given to screening Licensee affiliates, consultants, engineering firms and possibly individuals.

Export Control of Technology. Where technical know-how is to be conveyed to a licensee, another consideration is whether the conveyance is regulated or prohibited by U.S. Export Control laws. These laws and their implementing regulations seek to prevent information that may be sensitive for military or anti-terrorism reasons from getting into the wrong hands. Relevant regulations include the Department of State's ITAR (International Traffic in Arms Regulations), 22 C.F.R. §§ 120-30 and the BIS' EAR

(Export Administration Regulations). ITAR regulates defense articles and services, while the EAR regulates dual-use items that have commercial applications, but that could also be used for nuclear proliferation, missile development, chemical and biological weapons production, related terrorist applications, and the like. Because of its scope, EAR issues are more common in commercial licensing scenarios and will be the focus of this discussion.

Under the EAR, sending any item of U.S. origin to a foreign destination is considered an export. Sending can be through shipment, transmission or carrying. Covered items include commodities, software and technology (including technical information). Transmission of technology can occur not only by shipping physical equipment, but also by phone calls, access to servers, email communications, oral disclosures, and even by carrying the technical information into the country. Transmissions to foreign nationals located in the U.S. also qualify, even if they are employees of the U.S. company. These are referred to as "deemed exports."

The EAR provides a list of products, equipment, software and technology subject to regulation. Most commercial items are subject to the EAR, but relatively few exports require a license. Whether a license is required for a specific export depends on which Export Control Classification Number(s) (ECCN) applies to the item(s) in question, the country of destination, the identity of the end-use, and the specifics regarding the end-use. For further information, see 15 C.F.R. § 744.

Care should be taken to acquire an early understanding of the Export Control status of technical information that may be conveyed in a proposed license transaction. This is true not only because of the need for planning to consider the time to obtain an Export License (a minimum of eight weeks), but also to set the boundaries of what may and may not be disclosed to the prospective licensee. Partial disclosures in connection with the licensee's assessment and diligence should be screened to assure that it does not trigger export prohibition or license requirements. Similarly, since the simple act of carrying information across national borders can implicate Export Control requirements, care should be taken to assure that personnel travelling out of the US do not carry information that would trigger such requirements. Even allowing personnel to access information through a company network while located outside the US should be considered, although it is less clear how the enforcing agencies would view this scenario.

Even if a license is not required for a particular transfer, there is also a risk that a licensee may transfer information ("re-export") to a different country or entity for whom a license would be required. Although licensors are not strictly responsible for the behaviors of their licensees, becoming aware or complicit in activities that constitute Export Control violations can create liability and affect the ability of the licensor to provide further support to the transaction. Furthermore, it is good practice to take steps to remind a licensee that Export Control obligations apply and that no license for re-export is granted.

Where an Export License is required, it is possible to apply for and to obtain the license before completing any IP license agreement with the licensee. Doing so will remove some of the uncertainty about whether the Export License will issue and what it will require. Export Licenses can contain obligations applicable to the licensee, typically intended to prevent or to control further dissemination of the technology. In some cases, these can be quite burdensome. Obtaining the Export License prior to signing the license agreement can also allow these conditions to be taken into account in determining whether to proceed.

The need for diligence does not end with the issuance of an Export License. Export Licenses only authorize disclosure to specific entities. If the licensee needs to share technical information with affiliates, vendors, engineering firms or other entities that were not listed on the original license, a Re-Export License may very well be required, even if these entities are located in the same country as the licensee. From a licensor's perspective, it is important to exercise diligence in informing the licensee of these obligations, and wise to create a record of having done so.

Many other countries have export control requirements similar to that in the United States. If a licensor plans to provide a foreign licensee with technology that is located in a third country outside the US, consideration of local export control laws in that country should be considered.

Technology Import Control – In addition to Export Control law, licensors should also consider technology import control requirements in the licensee's jurisdiction. China, for example, also has technology export and import regulatory programs. This program includes lists of "Prohibited" and "Restricted" technologies. "Prohibited" technologies may not be imported. To import technologies that are in the "Restricted" class, an application for an import license must be obtained from China's Ministry of Foreign Trade and Economic Cooperation ("MOFTEC"). Technology that does not fall within either class may be imported without approval.

Some Agreement Clauses Relevant to Export Control

Export License Required and Issued

X.1 Licensor hereby informs Licensee that the [*Licensee Country*] as well as any other United States Sourced Technical Data provided by Licensor or a Licensor Affiliate under this Agreement is subject to the United States Export Administration Regulations. Licensor has provided Licensee with a true and complete copy of Export License No. ______________ (the "Export License,") which is attached hereto as Appendix ____. If the license is revoked or if the renewal or extension of such license is denied, rejected or in some way revised or limited by the U.S. government, Licensee will not hold Licensor responsible for such changes so long as such changes are not due to the negligence or willful misconduct of Licensor, and both Parties will work together in good faith to find an equitable means of accomplishing the goals and objectives for which this Agreement was concluded. Any such action by the U.S. government shall not be held against Licensor and shall not constitute non-performance by Licensor under this Agreement nor shall it give rise to any Indemnified Losses benefiting Licensee, unless such action by the U.S. government arises from the negligence or willful misconduct of Licensor. Licensee agrees promptly to provide such information as Licensor may reasonably request in connection with the maintenance and renewal or extension of such license. Licensee acknowledges that it has been informed by Licensor of the conditions set forth in the Export License including _____________________________ Each Party acknowledges that it must comply with the provisions of the Export License applicable to it. Each Party also acknowledges that it must comply with the provisions of the Export Administration Regulations applicable to it. Licensee further acknowledges that it has read the Export License and intends to comply fully with its terms and conditions and all relevant terms and conditions in the Export Administration Regulations. Licensee agrees to Indemnify Licensor for any Indemnified Losses for Claims arising from Licensee's failure to comply with its obligations under this Article X.1.

<u>Export License Required; Application Pending</u>

X.1 Notwithstanding any other provisions of this Agreement, both Parties' obligations hereunder are conditioned on Licensor's obtaining an export license from the relevant U.S. authorities that allows Licensor to transfer the [*Technical Deliverable*] to Licensee. Licensor hereby informs Licensee that the Licensor Technology provided under this Agreement is subject to the United States Export Administration Regulations. Licensor has submitted Export License Application No. ________. Upon issuance of such license, Licensor shall provide to Licensee a true and complete copy of such export license, which may include certain terms and conditions for such transfer. If the license is denied the Parties will have no obligation hereunder except as set forth in [Confidentiality]. If, after issuance, such license is revoked or if the renewal or extension of such license is denied, rejected or in some way revised or limited by the U.S. government, Licensee will not hold Licensor responsible for such changes. Any such action by the U.S. government shall not be held against

Licensor and shall not constitute non-performance by Licensor under this Agreement nor shall it give rise to any Indemnified Losses benefiting Licensee. Licensee agrees promptly to provide such information as Licensor may reasonably request in connection with the maintenance and renewal or extension of such license. Licensee agrees to comply fully with the terms and conditions of such license and all relevant terms and conditions of such license in the Export Administration Regulations. Licensee agrees to Indemnify Licensor for any Indemnified Losses arising from Licensee's failure to comply with its obligations under this Article X.1.

No Export License Required

X.3 United States Sourced Technical Data provided by Licensor to Licensee under this Agreement and direct products of such data may be controlled by the United States Export Control Regulations. No license, implied license, or other approval for export or re-export, directly or indirectly, of such data or products is hereunder provided. It is the sole responsibility of Licensee to comply with whatever requirement the United States government may make for such export or re-export at the time thereof.

Other Provisions Related to Export Control

X.1 Notwithstanding any provisions of *[the confidentiality section]*, Licensee shall make no disclosure that is inconsistent with the requirements of Export Control Laws. Each Party is obligated to review its own potential disclosures of Confidential Information for compliance with the export control obligations of the US Government, including the Departments of Defense, State, Treasury and Commerce.

X.2 Nothing in *[an improvement exchange provision]* will have the effect of requiring Licensor to disclose any information in violation or breach of any law (including but not limited to U.S. Export Control law) or any other legal or contractual confidentiality or other obligation.

II) Registry and Recording obligations.

Overview

Many countries require foreign licensors or licensees to record or to register licenses granted to domestic licensees with a government entity or bank. Failure to comply with such requirements can result in unenforceability of the license and, in some cases, can even prevent the licensor from receiving payments due under the license. Where recordation or registry is required, one significant issue is what information regarding the license is made public as a part of the process. An even more problematic issue in some countries is the obligation that the license be "approved" as part of the registry process. In some countries, a government agency conducts a substantive review of license agreement terms, and may actually refuse to allow recordation of the license without substantive change to the agreement.

It is important to gain an early understanding of the existence and nature of applicable registration or recording obligations so that these may be taken into account in negotiations, agreements and planning. Where the license will go to an entity to be incorporated in the future (for example, a JV) the scheduling can be complicated. In countries that involve substantive review (for example, Brazil) a typical review time can be 2-3 months or longer.

Some examples:

Brazil - License agreements must be registered with the Brazilian Patent and Trademark Office ("BPTO"), (known in Brazil as the National Institute of Industrial Property or INPI). Registration is a prerequisite to payment of royalties to a foreign licensor and to enforceability. This registration process involves a substantive review, which can and often does include rejections by the BPTO and statements that the agreement needs to be revised. This can often lead to an iterative negotiation and revision process that is somewhat similar to the examination of a patent or trademark application. Some examples of topics that can be the subject of a rejection by the BPTO include: royalty amounts; royalty terms; terms of obligation; dispute resolution; warranties related to the efficacy of the technology and patent indemnity. Detailed obligations related to execution of the documents exist as well.

Licensing know-how can be especially problematic. The BPTO acknowledges five types of Technology Transfer Agreements for review: (1) Patent License Agreements; (2) Trademark License Agreements; (3) Technical Services Agreements; (4) Franchise Agreements; and (5) Technology Supply Agreements;. Agreement types 1-4 are familiar types of agreements for US lawyers. "Technology Supply" Agreements relate to transfer of know-how and represent the aspect of Brazilian substantive review that are the most contrary to the US view on know-how licensing. Brazilian law rejects the concept of "licensing" know-how. Know-how is viewed as being purchased rather than licensed and is thus conveyed by a "Supply" agreement rather than a license. The BPTO is even hostile to use of the term "license" in this context. One aspect of this approach is that the BPTO will routinely reject royalty obligations or restrictions on the "purchaser" of the know-how if they last longer than five years. This applies to use restrictions and even to confidentiality obligations, irrespective of whether the know-how includes trade secrets. The 5-year term can be renewed for an additional five-year term if it can be shown that there has been significant additional development of the technology that can be conveyed in exchange for renewal of the contract for a second five-year period. However, it cannot be renewed a second time. This program poses significant problems for prospective licensors that are accustomed to know-how agreements having confidential obligations and use restrictions lasting several decades or in perpetuity.

Licensors in Brazil commonly deal with this issue by requiring licensees to enter “side agreements” that may contain additional obligations or longer durations than the agreement filed with BPTO. Side agreements cannot be vehicles by which royalties are paid since government authorization is a prerequisite to payment. They are generally regarded as enforceable, though there is little track record for them.

China - Registration of patent license agreements with the Chinese Patent Office (SIPO) must occur within three (3) months of the effective date of the license. The licensee is not entitled to authorize any party to exploit the patented invention except as explicitly mentioned in the registered license agreement. SIPO may require amendments to the agreement, but these generally relate to matters of form rather than a substantive review of deal terms. The possibility of minor changes thus should be accounted for in planning, especially if the agreement needs to be approved by other governmental entities (i.e. Ministry of Commerce in the JV context). Some Chinese practitioners have suggested that registration in China may not be strictly required and that the downside of not registering may be limited. This issue should be considered carefully in each specific transaction.

India – India historically has required government approval for any technology license prior to payment of royalties thereunder. This process also required substantive review to assure compliance with certain standard terms and conditions. However, this requirement has been liberalized recently.

Russia - Patent licenses are required to be registered with the Russian Patent Office (Federal Service for Intellectual Property or ROSPATENT). Registration is a prerequisite to enforceability. Know-how licenses are not required to be filed with ROSPATENT. However, any type of agreement requiring payments outside of Russia (license or otherwise) may need to be filed with a bank in Russia for creation of a “Passport of Transaction” to allow currency transactions to proceed. Neither of these require substantive review.

Japan - An ordinary license under Article 78 of the Japanese Patent Law (a non-exclusive license or an exclusive license in which the patent owner retains the right to practice the invention) may be registered with the JPO, but registration is not required. However, upon recordation an ordinary license becomes effective against subsequent owners of the patent as well as subsequently recorded licenses. Without recordation, licensee rights will be lost if the patent is assigned. An exclusive license under Article 77 of the Japanese Patent Law (in which the patent owner does not retain the right to practice the invention) is legally effective only upon registration with the JPO. Registration requires filing the original license agreement or notarized copy and a request for recordation. As this registration is an obligation under the law, a patent owner cannot refuse to register the agreement. There is no deadline in which the license must be filed and no penalty for failure to file. However, as the license is not legally effective until registered, there are consequences for failing to file: (1) the licensee cannot initiate litigation or take action to enforce the patent until the license is registered and (2) the licensee will lose all its rights under the license if the patent owner assigns the patent right. If the license is not registered, the licensee will, for as long as the licensor holds the patent, be able to enjoy the benefits of the license as a conventional exclusive license under Article 78 (the licensee does lose the ability to enforce the patent).

Practice tips.

Be aware of registration and recordation requirements early in the process so that they may be consider in project planning.

If substantive review is required as part of the approval process, be watchful for the Licensee using this as an opportunity to continue the negotiation process. If the substantive review is expected to limit the licensor's rights and protections, consider using side agreements where possible to enhance protection beyond what is approved.

The agreement should include language that contemplates all approval processes. Some examples appear below

Sample clauses that account for government approvals (some of these also account for Export Control approval).

Timing of Technical Deliverables

X. Licensor will provide Licensee with the *[Technical Deliverable]* within ____ months of the latest to occur of the following dates: (a) the date of the timely submission of the payment(s) set forth in Article(s) ____ herein; (b) the Effective Date; (c) the date of receipt by Licensor of an executed copy of the Letter of Credit required by Article___________; (d) **date of issue of the Export Control License; and (e) the date that all approvals *[registries/recordations*] required from the Government of _____ and the _____ Bank that are necessary to allow Licensee to make all of its payments required under Article __ have been issued and written copies of such approvals *[registries/*recordals] have been received by Licensor.**

Timing of Licensee Payments

X.1 As consideration for the rights and licenses granted in Article ___ above [or for the preparation and delivery of the *[Technical Deliverable]* to the Licensee], Licensee will pay to Licensor a License Fee of ____________________ U.S. dollars (US$_______________), net of all Taxes. The License Fee will be payable by Licensee to Licensor as follows:

(a) ____________ U.S. dollars (US$_____________) will be paid by Licensee within thirty (30) days from the date upon which all legal approvals *[registries/recordations]* required from the Government of *[Licensee Country]* and its political subdivisions necessary to allow Licensee to make all of its payments required under this Article (including, but not limited to, the _______Bank of *[Licensee Country]* and/or an authorized dealer bank of Licensee (approved by the _____ Bank of *[Licensee Country])* and designated as the authorized dealer of Licensee for making the payments under this Agreement)have been issued and written copies thereof have been received by the Parties; and

III) Competition Law Considerations.

Many license agreements involve a licensor and licensee who are competitors or who will soon become competitors. Competition law is thus always a consideration in licensing, especially since many licenses include legal restrictions on the licensee's commercial activities. However, the US and other governments generally view licensing as pro-competitive since its typical overall effect is to enable new competition and other commercial activities. Greater latitude is therefore given to restrictions applied in the licensing context. Nevertheless, there are many examples of competition law enforcement and other actions aimed at licensors both inside and outside the United States. A full discussion of competition law considerations in licensing is well beyond the scope of this course. The text below simply summarizes a few of the competition law issues that should be considered in every licensing transaction. The broad term "competition law" is used intentionally to connote all areas of the law that impose limits on license terms, including antitrust law, unfair competition law and law related to patent misuse.

In considering these issues with a US national licensing technology abroad, competition law analysis should consider both US law and the law of the licensee's country. Consideration of laws in other countries that may be affected by the license and its underlying competition law activities may also be appropriate.

As a practical matter, it may be important to consider how developed the competition law and enforcement authorities may be in the licensee country, and the likelihood that a prospective licensee may use local influence on competition law enforcement agencies to its advantage. It may not be safe to assume that conduct that is legally permissible under US competition law will be viewed as such everywhere, even if it is widely accepted as such in other jurisdictions such as Canada and European countries.

Some licensing arrangements that can create competition law issues include:

- Tying arrangements – conditioning the grant of a license on acquisition of another license or the purchase of goods not covered by the license, where the licensee either did not want the goods or could have purchased them elsewhere.

- “Tie-out” arrangements – prohibiting conduct that is not covered by the IP licensed. Some examples include prohibitions on use of competing products or technology or limits on the use or sale of products made using the licensed technology where those limits extend to products made using other technologies. Field definitions and restrictions on use, for example, must be drafted with an eye toward these concerns. Non-compete clauses can implicate this issue.

- Grantback provisions – Overreaching improvement exchange or grantback provisions can create competition law issues. This issue is discussed in greater detail elsewhere in this course.

- Royalty obligations that exceed the patent term or scope – This will be discussed in another section of the course.

- Package licensing – insisting that a group of patents must be licensed together, and refusing to grant licenses to portions of the group.

- Standard setting – relates to a technology holder’s interactions intended to influence an industrial standard setting organization toward requiring use of a technology that owned or controlled by the holder. While this is not strictly a licensing issue, it has been a very active area of enforcement and litigation in the interface between competition law and intellectual property, and at least deserves mention.

Competition laws should be considered early in the negotiation process (e.g. term sheet) so that there can be a clear understanding throughout the negotiation that the proposed transaction will not implicate competition law problems.

IV) <u>Foreign Corrupt Practices Act</u>

The Foreign Corrupt Practices Act of 1977 (FCPA) (15 U.S.C. § 78dd-1, et seq.) should be considered in any international dealings, including technology licensing. Although the FCPA's purpose is often given the shorthand description of preventing bribery of foreign officials, the breadth of payments covered and of the definition of "foreign officials" has led to unexpected problems for many US entities. Many cases arise from conduct by the foreign subsidiaries or joint ventures of U.S. companies. A detailed discussion of the FCPA is beyond the scope of this course. However, licensing transactions that involve interacting with any person or entity having any relationship a foreign government can potentially implicate FCPA issues. Such entities include, for example, state-owned companies, companies owned by government officials, and consultants or employees of private entities that are also government officials or employees. FCPA issues should be carefully examined in connection with interactions with licensees, consultants, contractors, advisors and of course the actual government entity itself.

A licensor should take steps to assure that both its own conduct and that of its licensee complies with the FCPA. Sample language memorializing the parties' intent to comply with the FCPA appears below.

> X.1 In the performance of this Agreement, the Parties all agree that they will not, for themselves or for the benefit of another Party, make or promise to make payment, loans or gifts of money or anything of value, directly or indirectly, (i) to or for the use or benefit of any official or employee of any government or an agency or instrumentality of any such government; (ii) to any political party or official or candidate thereof; (iii) to any other Person if the Party knows or has reason to know that any part of such payment, loan or gift will be directly or indirectly given or paid to any such governmental official or employee or political or candidate or official thereof; or (iv) to any other Person; the payment of which is for the purpose of obtaining or maintaining business and would violate applicable laws of the United States of America or [*Licensee Country*] or their political subdivisions. Each Party agrees that it will take all reasonable steps to assure that any and all of its officers, employees, shareholders, agents or representatives shall comply with all laws, government regulations, and orders which apply to activities and obligations under this Agreement, including, but not limited to, those laws dealing with improper payments as described above.

V) Tax and Accounting/Reporting Considerations

Some examples of tax and are discussed below.

Tax law in the licensee's jurisdiction(s). An understanding of the relevant tax should inform a prospective licensor's strategy for compensation under the agreement. Some example considerations are:

Effect on royalty rates. Taxation and deductibility of expenses associated with licenses can alter a transaction. Brazil, for example, imposes a ceiling on a licensee's ability to deduct royalty payments on taxes. These are expressed as percentages of sales. Not surprisingly, prospective licensees will want to maintain royalty obligations at or beneath these limits, and in some cases, the BPTO may reject royalty obligations that exceed the deductibility ceiling during license review.

Withholding. It is important to understand and account for local tax withholding requirements will be assessed on licensee's payments of license fees and royalties, as well as payments for technical services and deliverables. This issue will be discussed in greater detail in another section.

Revenue recognition**.** Once payments are received, proper accrual accounting principles may be applied for SEC reporting purposes. Whether receipt of funds from a licensee may be recognized as revenue is not a simple issue, and often requires consideration of whether any of the contingencies applicable to the payment remain. For example, contingent liabilities may remain for startup of a licensed process or While this issue is not limited to international licensing, it can be important in any license, especially when payments are large enough to affect reported earnings. The possibility of contingencies and their effect on the timing of recognition should be considered when drafting the provisions relating to payment.

Indemnities. Information regarding certain types of assumed indemnities is required to be included in certain SEC reports. It is fairly common for an IP licensor to undertake (for example) patent infringement indemnities, and each indemnity should be scrutinized to determine whether reporting is required. For more information, see FASB Interpretation No. (FIN) 45.

VI) Licensee Compliance, Safety and Liability

As with any license, it is important for international licenses to include proper language to require licensee compliance with law and to protect the licensor (as much as possible) from liability for licensee's noncompliance with law or other conduct. It is also useful to clarify licensee's obligations with respect to government approval of a transaction as well as transfer of funds. Where licensor personnel will be required to spend time at a foreign licensee's site, it may be desirable to include language allowing licensor to insist upon adequate security and safety protections as a condition for providing services. Some example clauses for each of these purposes appear below purpose are below.

Licensee HSE compliance

X.1 Licensee covenants, warrants and represents that the construction and operation of the Facility shall be in accordance with [*Technical Deliverable*] and in compliance with all applicable decrees, statutes, laws, rules and regulations of [*Licensee Country*] and its political subdivisions, including but not limited to those related to health, safety and the environment. Licensee further covenants, warrants and represents that any use, storage, treatment, or transportation of Products, any by-products, co-products or Hazardous Materials occurring in or on its premises or wastes in connection with the construction or operation of the Facility, will be in compliance with all applicable decrees, statutes, laws, rules and regulations of [*Licensee Country*] and all political subdivisions thereof. Licensee additionally warrants and represents the Facility's equipment, processes, and waste management systems will be constructed and operated such that no release, leak, discharge, spill, disposal, or emission of Products, and by-products, co-products or Hazardous Materials occur in, on, or under its premises.

X.2 Licensor will furnish Licensee with health, safety and environmental information regarding the Facility as set forth in the [*Technical Deliverable*]. This information is furnished without a warranty of any kind except as expressly set forth herein and Licensor shall not be responsible for its use, or the use of any raw material, product, method, or equipment mentioned therein. Licensee must make its own determination of the suitability and completeness of this information for the protection of the environment, for the health and safety of its employees, contractors, visitors and other third parties, and for compliance with applicable decrees, statutes, laws, rules and regulations. Licensee represents that it will take such measures as are necessary or desirable in order to effect the safe use of the Facility. Licensee specifically agrees that it will have full and proper regard and shall comply with all relevant laws, regulations and codes of conduct relating to the subject matter of this Agreement, and Licensee shall be solely responsible for any liability arising in connection with the failure by Licensee or its contractors, subcontractors or other agents to do so and will Indemnify Licensor for any failure to do so.

X.3 Site selection for the Facility is the sole responsibility of Licensee. To the extent health, safety or environmental information provided by Licensor is used for site selection, Licensee must make its own determination of the suitability and completeness of this information for Licensee's use.

X.4 Site security shall be the sole responsibility of Licensee. Licensee hereby represents that it shall take such measures as are necessary or desirable in order to effect a secure environment in which to operate the Facility.

X5 Throughout the operating life of the Facility, Licensee shall provide Licensor with information (including details and conclusions of any investigation) of any dangerous incident in the Facility that relates to or caused or could cause a safety, health or environmental incident in the Facility.

X.6 Operation of the Facility as set forth in Article X.1 is the sole responsibility of Licensee. All times, Licensor shall have the right to choose, in its sole discretion to inspect or to engage a third party of Licensor's choosing to conduct an assessment of Licensee's procedures and practices to verify that such procedures and practices are in accordance with those specified in [*Technical Deliverable*]. Such assessments shall be conducted at reasonable times as mutually agreed to with Licensee. Licensee will reasonably cooperate at all times during such assessments and provide access to relevant records, premised and Licensee employees or contractors who are knowledgeable of such matters. Any reports prepared related to the assessment conducted pursuant to this Article X.6 shall be shared with Licensee. The information provided in such reports is subject to the terms provided in Article X.2.

<u>Indemnity for licensee noncompliance or liability</u>

X.1 EXCEPT AS SET FORTH IN ARTICLE _____, *[ANY APPLICABLE LICENSOR PATENT INDEMNITY]* LICENSEE, FOR ITSELF, ITS AFFILIATES, ITS SUCCESSORS AND ITS ASSIGNS, HEREBY RELEASES LICENSOR AND ITS AFFILIATES, SUCCESSORS, AND ASSIGNS, FROM ANY CLAIM BY LICENSEE, AND AGREES TO INDEMNIFY LICENSOR, ITS AFFILIATES, SUCCESSORS, AND ASSIGNS, FOR ANY AND ALL CLAIMS RELATED IN ANY MANNER TO THE FACILITY (FOR EXAMPLE, THE DESIGN, CONSTRUCTION, MAINTENANCE OR OPERATION THEREOF), LICENSEE'S USE OF THE FACILITY, THE MARKETING, SALE AND USE OF ALL PRODUCTS PRODUCED BY THE FACILITY, AND ALL LICENSEE BUSINESS ACTIVITIES RELATING TO THE FOREGOING. SUCH INDEMNIFIED SUBJECT MATTER INCLUDES, BUT IS NOT LIMITED TO: (I) INTELLECTUAL PROPERTY MATTERS; (II) INJURY TO PERSONS AND PROPERTY, AND (III) THE RELEASE, THREAT OF RELEASE, OR SUSPECTED RELEASE OF ANY HAZARDOUS MATERIALS TO THE AIR, SOIL, GROUNDWATER OR SURFACE WATER AT, ON, ABOUT, UNDER OR WITHIN ANY SITE; OR (IV) BUSINESS ACTIVITIES OF LICENSEE RELATED TO PRODUCTS OR TO THE

FACILITY. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THE INDEMNIFICATION PROVIDED BY LICENSEE TO LICENSOR UNDER THIS ARTICLE X.1 SHALL SPECIFICALLY COVER THIRD PARTY CLAIMS, FINES, COSTS (INCLUDING CAPITAL, OPERATING, AND MAINTENANCE COSTS), AND PENALTIES, INCLUDING BUT NOT LIMITED TO THOSE INCURRED IN CONNECTION WITH ANY HEALTH, SAFETY OR ENVIRONMENTAL MATTER (E.G. INVESTIGATION OR MONITORING OF SITE CONDITIONS, ANY CLEANUP, CONTAINMENT, REMEDIATION, REMOVAL, OR RESTORATION WORK REQUIRED OR PERFORMED BY ANY GOVERNMENTAL AGENCY OR POLITICAL SUBDIVISION OR PERFORMED BY ANY NON-GOVERNMENTAL ENTITY OR PERSON PURSUANT TO APPLICABLE DECREES, STATUTES, LAWS, RULES, OR ORDINANCES OF [*Licensee Country*] AND ITS POLITICAL SUBDIVISIONS). FOR THE PURPOSES OF THIS ARTICLE X.1, "SITE" MEANS ANY FACILITY, LAND, WELL, SURFACE WATER, GROUNDWATER, ATMOSPHERE, OR OTHER MEDIUM WHERE PRODUCTS, BY-PRODUCTS OR CO-PRODUCTS USED OR MADE BY LICENSEE, ARE HANDLED BY OR ON BEHALF OF LICENSEE OR WHERE WASTES FROM SUCH HANDLING ARE MANAGED, REGARDLESS OF THE LOCATION, OWNERSHIP, OR CONTROL THEREOF.

X.2 SUBJECT TO ARTICLE X.1, LICENSEE WILL DEFEND, INDEMNIFY, AND HOLD LICENSOR HARMLESS AGAINST ALL DAMAGE, CLAIM, JUDGMENT, EXPENSE, FINES, AND ASSESSMENTS ARISING OUT OF ANY ACT OR OMISSION BY LICENSEE WITH RESPECT TO THE TECHNOLOGY DESCRIBED IN THE LICENSED PATENTS OR THE LICENSOR TECHNOLOGY, INCLUDING WITHOUT LIMITATION:

(a) ALL DAMAGE, CLAIM, JUDGMENT, EXPENSE, FINES, AND ASSESSMENTS, ARISING OUT OF INJURY, DISEASE, OR DEATH OF LICENSEE'S EMPLOYEES OR CONTRACTORS, OR DAMAGE TO OR LOSS OF THE PROPERTY OF LICENSEE OR ITS EMPLOYEES OR CONTRACTORS, OR ANY PRODUCT LIABILITY CLAIMS, OR INFRINGEMENT OF THIRD PARTY PATENTS, RESULTING FROM LICENSEE'S MANUFACTURE, USE, IMPORTATION, OFFERS FOR SALE, SALES, TRANSFERS, OR OTHER DISPOSITIONS OF LICENSED PRODUCTS;

(b) ALL EXPENSES AND COSTS RESULTING FROM LEGAL OR AGENCY ACTIONS INITIATED BY LICENSEE OR COUNTERCLAIMS FILED BY LICENSEE INVOLVING, ARISING UNDER, OR ENFORCING LICENSED TECHNOLOGY, LICENSOR PATENTS OR SHARED PATENTS IN WHICH

LICENSOR IS EITHER ISSUED A SUMMONS OR SUBPOENA AS A THIRD PARTY OR NAMED AS A NECESSARY OR INDISPENSABLE PARTY OR IN WHICH LICENSEE SEEKS LICENSOR'S COOPERATION TO WHICH LICENSOR HAS, IN ITS SOLE DISCRETION, AGREED TO COOPERATE; AND

(c) ANY ACTION OR ATTACK, SUCCESSFUL OR NOT, AGAINST THE LICENSOR PATENTS, LICENSEE PATENTS OR SHARED PATENTS BASED ON AN ALLEGATION BY A THIRD PARTY THAT SUCH LICENSOR PATENTS OR SHARED PATENTS ARE INVALID AND/OR UNENFORCEABLE.

X.3 For purposes of Articles X.1 and X.2, "Licensor" includes employees, officers, directors and representatives of Licensor at any time and Affiliates of Licensor and their officers, employees, directors and representatives at any time

Safety and Security Regarding Technical Services

X. Notwithstanding any provision of this Agreement, Licensor shall in its sole discretion determine whether it is safe for its personnel to perform services (or any portion thereof) at any location, including at the Facility or in [*Licensee Country*]. Licensor and/or its personnel shall be allowed to refuse to travel to any location, including the Facility, to [*Licensee Country*], or any other country or to suspend or to terminate a visit at any time if such country is on Licensor's corporate travel advisory list or if Licensor or the individual considers their personal safety to be at risk either within a country or at one or more particular locations. In the event Licensor or its personnel refuse or terminate or suspend travel or any stay at any location, Licensor shall use commercially reasonable efforts to provide such services via teleconference, video conference or other appropriate alternative means. Licensee shall pay for all security that Licensor's corporate security organization determines is necessary to protect its employees and representatives in [*Licensee Country*].

Foreign Governmental Approvals

X.1 Licensee shall be responsible for obtaining all approvals in [*Licensee Country*] and political subdivisions thereof necessary for it to perform any acts related to the Facility or for either Party to perform its obligations under this Agreement, including but not limited to the necessary approvals from the Government of [*Licensee Country*] and political subdivisions thereof or the _______ Bank of [*Licensee Country*].

US Governmental Approvals for Transfer of Funds

X.3 Licensee will be solely responsible for arranging any permissions or certifications necessary to allow the remittance of funds to Licensor as contemplated by this Agreement, including all costs thereof, and Licensee will provide full cooperation to Licensor and its financial agents, as reasonably requested by Licensor, in complying with the reporting requirements of United States law, including, but not limited to, the USA Patriot Act.

International Licensing: Compliance Issues Checklist

A. Before negotiations	
	Comments
1) Has the prospective licensee (and any involved affiliates, consultants and firms) been screened against denied parties lists?	If no, screen them.
2) If yes, have there been any "hits" on the lists?	If yes, investigate further; may not be able to proceed.
3) Will conveying the technology require US Export License?	If yes, train personnel who will be interacting with the licensor been counseled on which information cannot be shared prior to a license, and include export licensing in project plan.
4) Is any of the technology to be licensed sourced in a country other than the US?	If so, investigate whether the source country has regulations analogous to Export Control and consider question 3 for that country.
5) Does the licensee's country have technology import control regulations?	If so, investigate whether approval required.
6) Does a license registration or recordation obligation exist in the licensee country?	If yes, investigate specifics, especially as relates to possible substantive review.
7) Has the licensor's proposed deal been reviewed for competition law issues in the US, licensee country, and any other affected countries?	
8) Have imputed royalty issues under US tax law been considered, especially if the license is to be given in exchange for something other than cash?	
9) Do the commercial and financial terms account for the tax law in the licensee jurisdiction, and its likely effect on negotiating positions?	
10) Does the license or resulting project involve interaction with any person or entity affiliated with any government?	If so, assess FCPA implications.
B. Agreement drafting and negotiation	
	Comments
1) Does the license agreement contain provisions relevant to export control obligations and any applicable import control regulations?	
2) If the license must be registered or recorded, do the agreement and the project schedule account for this, including any substantive review?	

3) If licensor personnel will be expected to travel to the licensee site, does the agreement contain clauses related to security and safety?	
4) Does the agreement contain clauses to require compliance with laws and indemnity for noncompliance?	
C. Post-execution	
	Comments
If licensor technical personnel will continue to interact with the licensee (or with its consultants, affiliates, etc.) after signing, have those personnel been trained regarding continued Export Control compliance?	

Enforceability Issues in International Licenses

APPLICABLE LAW

Choice of Law

Availability of US or "Neutral" Country

The choice of law governing the license agreement is important. The choice of law provision should clearly state that it refers to the substantive law of a jurisdiction and not to its conflict of law rules. It is not always possible to obtain agreement that US law will govern. Parties often seek to find a "neutral" jurisdiction that is acceptable to both. A party should have a prioritized list of several alternative jurisdictions that it is comfortable using. Even when using one of these alternatives, it is advisable to have local counsel review the final draft of the agreement. The review will ensure that the agreement contains no "holes" or "surprise" terms implied by the governing law.

If possible, the choice of law should match the venue for disputes to avoid the issue of having to educate (or in the case of a disagreement prove to) a tribunal the proper interpretation and application of the law. Additionally, when using a neutral choice of law and venue, understand if and how a suit is commenced and how notice is served when one or both parties are not residents of the country. Another option that is employed requires that the party initiating the action must bring the suit in the jurisdiction of the other party. There are more options available and leeway in this regard when using arbitration.

When drafting a choice of law provision, consider whether to disclaim the UN Convention on the International Sale of Goods (UNCISG). The lack of uniformity with respect to some foreign tribunal decisions justifies some caution regarding the use of the UNCISG. Some parties may argue, after a dispute arises, that the transfer of "know how" documents and other intangible "rights" should be governed by the UNCISG to attempt to use the UNCISG's subjective-intent and no-parole-evidence rules to get around provisions they don't like.

Considerations in Choice of Law and Venue

Consider both aspects of the procedural laws as well as the substantive law when considering alternative jurisdictions (whether that of the other party or a neutral jurisdiction). In addition, consideration should be given to the legal norms and local culture. Factors to consider:

- Communications permitted with opposing counsel, tribunal, arbitrator(s)
- Scope of nature of discovery
- Confidentiality
- Interim remedies
- Contract interpretation

- Elements of and prerequisites to a claim
- Presumptions and burdens of proof
- Remedies available
- Privilege

Application of Local Law
In addition to understanding the substantive law governing the agreement, it is important to understand the local laws and how the will impact the agreement. Notwithstanding the choice of law provision governing he agreement, many issues that arise under the agreement will be governed by local laws that cannot be overridden by the choice of law governing the agreement. It is important to work with local counsel to understand what laws may override the choice of law provisions and how they may impact or change the terms of the deal. Examples of areas that are impacted include:

- Intellectual Property provisions. Many of the issues that impact intellectual property will be determined by local laws. For example, inventorship, infringement, validity, registration requirements are determined by the jurisdiction in which the IP and acts reside. Of particular note are the “rights” associated with the IP. The scope of have made rights, the ability to a licensee to further sublicense, assign or transfer a license, or bring (or participate in) an enforcement action vary by jurisdiction. It is not always clear whether such rights will be subject to the choice of law provision or the law of the jurisdiction in which the IP rights reside.

  When drafting agreements clearly set out the rights and limitations respecting the licensee’s ability to sub-license, transfer or assign the license, and enforce the IP rights. Alco consider whether to limit have made rights with an anti-foundry provision.

  Sample Anti-foundry provisions:

  Have-Made Rights. The licenses granted to ABC Co in SECTION X to have Licensed Components and equipment for the manufacture of Licensed Components made by third party manufacturers:

  i. Shall only apply to Licensed Components and such equipment which is made for ABC Co for the duration of the License Term; and
  ii. Shall only apply to those portions of such Licensed Components and equipment for which the specifications were created by ABC Co; and
  iii. Shall only be under claims of the Licensed Patents, the infringement of which would be necessitated by compliance with such specifications or portion thereof created by ABC Co; and

iv. Shall not apply to any equipment in the form manufactured or marketed by the third party manufacturer prior to ABC Co's furnishing of said specifications; and

v. Shall only apply to those Licensed Components and units of such equipment purchased by ABC Co from the third party manufacturer and shall not apply to any Licensed Components or units of equipment that are subsequently directly or indirectly transferred by ABC Co to such third party manufacturer, its subsidiaries or affiliates.

Rights to Have Licensed Products Made by Third Parties. The license to have LICENSED PRODUCTS made by another manufacturer granted to COMPANY in Section ##:

(a) Shall only apply to products made for the COMPANY or its SUBSIDIARIES after the EFFECTIVE DATE;

(b) Shall only apply to those portions of such products for which the specifications were at created by or at the direction of the Company (either solely or jointly with one or more third parties) or for the Company;

(c) Shall only be under claims of LICENSED PATENTS the infringement of which is due to compliance with such specifications or portion thereof created by the Company (either solely or jointly with one or more third parties) or for the Company; and

(d) Shall only apply where the Company shall purchase all units of such products manufactured or assembled by said other manufacturer and shall not directly or indirectly transfer any portion of such units so manufactured or assembled to said other manufacturer, its subsidiaries or affiliates except for the purpose of providing such Company technical and related support (including without limitation evaluation, testing and quality control services).

- Territorial Limitations. The EU places restrictions on the ability of a licensor to prohibit or limit a licensee from selling a licensed product within the EU.

- Royalty provisions. The royalty rate that can be charged for certain types of IP is limited in some countries.

- Competition law and bankruptcy considerations are governed by the law of the jurisdiction in which the activities arise. As discussed above, grant backs and limitations on the ability to create and exploit improvements are subject to local competition law.

DISPUTE RESOLUTION

Mediation

Mediation can refer to any process which uses an independent, third party, the mediator, to facilitate the resolution and settlement of a dispute. Mediation may be a suitable option in situations where the parties want to preserve a commercial relationship. Although mediation is broadly understood and accepted as a method of dispute resolution, cultural differences can affect the parties' view of the process. An agreement to mediate should clearly set out the guidelines and rules pertaining to the process. Several international organizations (e.g., JAMS, LCIA; UNCITRAL) have published rules that can be used to assist the parties in this regard.

When including a clause to mediate, the parties should consider

- Mandatory or optional mediation - Including a requirement to mediate before commencing litigation/arbitration adds time and expense to the process.
- Subject matter limitations
- Location and Language
- Timeline
- Qualification and appointment of the neutral
- Confidentiality
- Allocation of fees and costs

SAMPLE MEDIATION CLAUSES

The parties shall attempt to resolve disputes arising between the parties relating to the making or performance of this Agreement by good faith negotiations between authorized representatives of the parties who have authority to fully and finally resolve the dispute prior to the commencement of any litigation. Any such dispute which cannot be resolved within sixty (60) days of the commencement of negotiations as provided above shall be subject to confidential non-binding mediation in accordance with the terms of this Agreement and the UNCITRAL body of procedural rules then currently in force; provided that in the event of any conflict between the terms of this Agreement and such rules, the former shall control. The mediation shall take place in LOCATION or other such location as the parties may agree to and shall be conducted in the English language

A neutral and impartial mediator shall be selected by agreement of the parties. Either party may reject or challenge a mediator candidate if it knows of any circumstances giving rise to reasonable doubt regarding the candidate's impartiality. Before appointment, the mediator will assure the parties of his/her availability to conduct the proceeding expeditiously and enter into a mediation process and retention agreement ("Mediation Agreement") with the parties. The mediator will be disqualified as a witness, consultant or expert in any pending or future investigation, action or proceeding relating to the subject matter of the mediation.

The mediation shall be non-binding. Either party may withdraw at any time after attending the first session with the mediator upon written notice to the mediator and other party, unless and except as further provided in the executed Mediation Agreement. There will be no discovery or stenographic record of any meeting. The mediator will conduct separate and joint meetings with the parties in accordance with the terms of the Mediation Agreement. Each party will be represented in such meetings by a business executive or other person authorized to negotiate a resolution of the dispute. Each party will be represented by counsel to advise it in the mediation, whether or not such counsel is present at each meeting.

Efforts to reach a settlement will continue until (a) a written settlement agreement is reached, (b) the mediator concludes and informs the parties that further efforts would not be useful, or (c) one of the parties withdraws from the mediation process.

The negotiations and mediation process provided for herein are confidential and constitute a compromise negotiation subject to the Federal Rule of Evidence 408 and all state counterparts, together with any applicable statute protecting the confidentiality of mediation. All offers, promises, conduct and statements, whether oral or written, made in the course of the proceeding by any of the parties, their agents, employees, experts and attorneys, and by the mediator, are confidential. Such offers, promises, conduct and statements shall be subject to any applicable mediation privilege and are inadmissible and not discoverable for any purpose, including impeachment, in litigation or any other proceeding involving the parties. However, evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable solely as a result of its presentation or use during the mediation.

Any dispute or claim in law or equity arising out of this agreement or any resulting transaction, including disputes or claims involving the parties to this agreement, their officers, agents, or employees, shall be submitted to neutral, non-binding mediation prior to the commencement of arbitration, litigation, or any other proceeding before a trier of fact. The parties to the dispute or claim agree to act in good faith to participate in mediation, and to identify a mutually acceptable mediator. If a mediator cannot be agreed upon by the parties, each party shall designate a mediator and those mediators shall select a third mediator who shall act as the neutral mediator, assisting the parties in attempting to reach a resolution. All parties to the mediation shall share equally in its cost. If the dispute or claim is resolved successfully through the mediation, the resolution will be documented by a written agreement executed by all parties. If the mediation does not successfully resolve the dispute or claim, the mediator shall provide written notice to the parties reflecting the same, and the parties may then proceed to seek an alternative form of resolution of the dispute or claim, in accordance with the remaining terms of this agreement and other rights and remedies afforded to them by law.

Arbitration

Enforceability of Arbitral Awards. - There is no broadly accepted or widespread treaty for the cross-border recognition and enforcement of court judgments. Thus a party receiving a judgment in one country may not be able to enforce the judgment in another country. However, there are several treaties that address the recognition and enforcement of arbitration awards. The Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) is the most comprehensive of these treaties with over 140 countries as signatories. The existence of treaties may lead some parties to opt to have disputes resolved through arbitration. In addition to the treaties, some parties may opt for Arbitration on the belief or perception that it is more efficient and may provide a more fair and equitable outcome than litigation. However, there are limits to the enforceability of arbitral awards and the perceived benefits of costs, efficiency and equitable results do not exist for all situations. The decision to submit to binding arbitration should not be automatic and should be carefully considered.

Considerations

Recognition and Enforcement. The recognition and enforcement of arbitral awards under treaties is not absolute. Prior to selecting arbitration check with local counsel regarding the enforcement of arbitration awards in the specific jurisdiction(s) in question. Under the New York Convention, contracting states are given some freedom to implement their own rules and procedures for enforcement within the guidelines of the Convention. In addition, the Convention identifies certain exceptions or defenses to the enforcement:

- The parties to the agreement were, under the law applicable to them, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected it or, failing any indication thereon, under the law of the country where the award was made; or
- The party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case; or
- The award deals with a difference not contemplated by or not falling within the terms of the submission to arbitration, or it contains decisions on matters beyond the scope of the submission to arbitration, provided that, if the decisions on matters submitted to arbitration can be separated from those not so submitted, that part of the award which contains decisions on matters submitted to arbitration may be recognized and enforced; or
- The composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties, or, failing such agreement, was not in accordance with the law of the country where the arbitration took place; or
- The award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the law of which, that award was made.
- The subject matter of the difference is not capable of settlement by arbitration under the law of the country where enforcement is sought; or
- The recognition or enforcement of the award would be contrary to the public policy of the country where enforcement is sought.

Costs. International arbitration, like domestic arbitration, can be as or more expensive than litigation. Arbitration costs and expenses to consider include:

- Local counsel, discovery, travel, witnesses, translators, transcripts
- Equipment for depositions, hearings
- Unlike the courtroom, facilities (hearing room, breakout rooms etc.) are not free
- Unlike the court, the arbitrators are paid – and paid well
- Time, travel, per diem, termination fees

Efficiency/expediency. In Like litigation, arbitration can drag on and be abused. The Relative ease of access and low cost/effort threshold to initiate makes it easier to commence arbitration than litigation. This can create the potential for increased number of disputes. Like litigation, commencing or threatening arbitration may be used as a tool to get attention and/or provoke negotiations.

Process and Awards. By agreeing to binding arbitration, parties voluntarily submit their disputes to a process selected and designed at the time of contracting that may not be optimal for all types of disputes. A process may be designed for speed, efficiency and/or expertise. However, not all disputes should be decided speedily on less than full discovery. In addition, the nature of the dispute and/or the parties may differ on what expertise or knowledge the Arbitrator should possess. An arbitrator makes decisions on everything from jurisdiction (scope of issues to review) to procedure to legal interpretation to liability, all under the umbrella of wide discretionary powers.

Models, Rules & Costs

Types - There are two primary types of arbitration, administered and ad hoc.

- In administered arbitration, an arbitral institution controls or oversees the operation and administration of the arbitration proceeding. However, the degree of control that an institution retains over the process as well as the degree of autonomy over aspects of the administration permitted by an institution varies.
- In ad hoc, the parties have the freedom and responsibility to determine the rules and procedures governing the arbitration proceedings. The parties also have the overhead of administering the proceedings.

Considerations - Administered arbitration relieves the parties of the overhead required to administer the proceedings in exchange for a fee. However, the parties lose some control and the ability to adapt the proceeding the dispute. Ad hoc arbitration saves the fees associated with administered arbitrations, and the parties preserve some freedom and flexibility with managing the proceeding. However, the overhead required to administer the arbitration can be significant and can be the source of additional conflict between the parties, particularly if the underlying dispute is contentious in nature.

Rules. Having selected an ad hoc or administered arbitration model, the parties need to identify the arbitration rules that will set out the administrative and procedural structure for the proceeding. There are considerable substantive and procedural differences between arbitration rules. It is important to carefully review and understand the implications of the substantive and procedural differences prior to selecting a set. There is no substitute for a thorough review of the rules.

- With ad hoc arbitration, the parties can detail and draft their own rules for the arbitration or use rules developed for ad hoc arbitration. One such set of rules are the arbitration rules developed by the United Nations Commission on International Trade Law (UNCITRAL). If selecting the UNCITRAL rules the parties should also identify the jurisdiction as the adoption and implementation of the UNICTRAL rules can vary between jurisdictions.
- With administered arbitration, the choice of arbitration rules will be directed by the arbitral institution. For those institutions that offer more than one set of rules and/or which allow for modification of customization of the rules by the parties, the parties should clearly identify the set of rules and any changes.

    Example of some of the differences / distinctions in applying ICC or AAA International Arbitration Rules or UNCITRAL.

    - With ICC and AAA, the institution administers the arbitration (sends out notices, collects fees, acts as a central filing location, etc). With UNCITRAL the parties must manage this.
    - Institution appoints arbitrators when parties cannot decide and it decides challenges to arbitrators. Pursuant to UNCITRAL, parties designate who decides these issues.
    - Int'l Ct of Arbitration ("ICA") must confirm appointment of arbitrators in ICC.
    - Under ICC Rules, sole arbitrator or the panel chairman must be of a nationality different from either of the parties. However, in suitable circumstances and provided that none of the parties objects, the sole arbitrator or the president of the panel may be chosen from a country of which any of the parties is a national.
    - Under ICC and AAA Rules, the "applicable law" rule does not contain a clause stating that the parties' designation of the law of a State shall be construed as referring to the substantive law and not to its conflict of law rules.
    - ICC requires arbitrators to state reasons for award (AAA and UNCITRAL parties can agree that reasons are not needed); ICA must review award and is allowed to make form changes and point out substance issues to arbitrators; ICA must approve form of award.

Links to selected arbitration institution and rules

- International Chamber of Commerce (ICC) http://www.iccwbo.org. ICC Rules http://www.iccwbo.org/uploadedFiles/Court/Arbitration/other/rules_arb_english.pdf
- The London Court of International Arbitration: http://www.lcia.org. LCIA Rules: http://www.lcia.org/Dispute_Resolution_Services/LCIA_Arbitration_Rules.aspx
- Singapore International Arbitration Centre (SIAC): http://www.siac.org.sg. Rules: http://www.siac.org.sg/index.php?option=com_content&view=article&id=72&Itemid=85
- Swiss Rules: https://www.swissarbitration.org/sa/download/SRIA_english.pdf

Preservation of interim relief. – When drafting arbitration agreement, parties should consider preserving interim relief. There are two aspects of interim relief that should be addressed. The parties should reserve the right to go to court to get an injunction and to litigate the dispute if the other side is not cooperating in the arbitration proceeding. In addition, a party should determine if there are issues that it wishes to preserve the ability to seek interim relief. For example, a licensor may wish to retain the option to seek injunctive relief directly from the courts in case of infringement of their intellectual property rights or the potential exposure of trade secrets or other confidential information. In such cases, the parties should clearly set out the intent of the parties to make and the circumstances when such interim relief is available.

Arbitration Agreements.

The arbitration agreement should clearly express the intent and agreement of the parties to submit to arbitration and detail the rules and procedures for the arbitration. Some jurisdictions may refuse to enforce the arbitration agreement or enforce an award if the agreement leaves unanswered or unaddressed significant questions concerning the rules and/or procedure.

- Rules, Language
- Location - In selecting location consider:
  - Location of parties and attorneys;
  - Location of witness and documents;
  - Location of records;
  - Consideration of relative difficulty in traveling and cost to the parties;
  - Place of performance of contract;

  - Applicable law;
- Scope of arbitration
  - If issues are to be excluded, the scope should clearly set out and emphasize the parties' the intent and agreement to exclude certain issues from the scope. However, even if carefully crafted the parties may not be able to beware of avoid arguments over whether a given dispute is subject to arbitration. For example, the parties can agree to exclude IP infringement, validity or ownership issues from arbitration, but there is a fine line between breach of the contract and exceeding the license grant or infringement. Given that the arbitrator(s) determine jurisdiction, this can give rise to scope creep.
- Form of discovery and submissions
- Procedural format (e.g. in-person, phone or video depositions, hearing)
- Timeline
- Number, Qualification and appointment of arbitrators
- Interim relief (if any)
- Confidentiality
- Form of Award (e.g. written reasons for award required or dispensed with)
- Responsibility for arbitrator fees and proceeding costs

Sample Arbitration Clauses

The parties shall attempt to resolve disputes arising out of or in connection with this Agreement by good faith negotiation between authorized representatives of the parties who have authority to fully and finally resolve the dispute. Any and all disputes not resolved as provided above shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce (the "Rules") by one or more arbitrators appointed in accordance with said Rules; provided that in the event of any conflict between the terms of this Agreement and the Rules, the former shall control. A single neutral and impartial arbitrator shall be selected by agreement of the parties. Before appointment, the arbitrator will assure the parties of his/her availability to conduct the proceeding expeditiously and enter into an arbitration process and retention agreement with the parties. The arbitrator will be disqualified as a witness, consultant or expert in any pending or future investigation, action or proceeding relating to the subject matter of the arbitration. The arbitration shall take place in LOCATION and shall be conducted in the English language, which shall be controlling. The entire arbitration process is confidential and constitutes a compromise negotiation subject to the Federal Rule of Evidence 408 and all local and foreign counterparts, together with any applicable statute protecting the confidentiality of arbitration. All offers, promises, conduct and statements, whether oral or written, made in the course of the proceeding by any of the parties, their agents, employees, experts and attorneys, and by the arbitrator, are confidential. Such offers, promises, conduct and statements shall be subject to any applicable arbitration privilege and are inadmissible and not discoverable for any purpose, including impeachment, in litigation or any other proceeding involving the parties. However, evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable solely as a result of its presentation or use during the arbitration.

If the Parties are unable to resolve the dispute by negotiations as set forth above, such dispute shall be settled by arbitration, conducted on a confidential basis, under the then current Commercial Arbitration Rules of the American Arbitration Association ("the Association") strictly in accordance with the terms of this Agreement and the substantive law of the State of California. The arbitration shall be held in the San Francisco, California, USA, if the respondent is Licensor, or in London, England if the respondent is Licensee, and shall be conducted by one arbitrator chosen from a list of attorneys who are members of the Association's commercial arbitration panel and are knowledgeable about the data processing and business equipment industries. If the Parties cannot promptly, within 30 days, agree on the selection of the arbitrator, the arbitrator will be chosen pursuant to Rule 13 of the Commercial Arbitration Rules of the Association. The costs of the arbitration, including the fees to be paid to the arbitrator, shall be shared equally by the Parties to the dispute. The Parties to the dispute shall be limited to taking no more than three (3) depositions each. The length of each deposition shall be limited to one (1) day. No interrogatories shall be permitted. The arbitration shall be completed within six (6) months from the date of the selection of the arbitrator. The scope of document production shall be governed by the commercial Arbitration Rules of the Association and the decision of the arbitrator with respect thereto. The Judgment upon the award rendered by the arbitrator may be entered and enforced in any court of competent jurisdiction. Neither Party shall be precluded hereby from seeking provisional remedies in the courts of any jurisdiction including, but no limited to, temporary restraining orders and preliminary injunctions, to protect its rights and interests, but such shall not be sought as a means to avoid or stay arbitration. To the extent that this Agreement contains a limitation and/or disclaimer of liability clause, the terms of such clause will be applied by the arbitrator. Such award shall not include any consequential, incidental, punitive or exemplary damages. The Parties agree that they have voluntarily agreed to arbitrate their disputes in accordance with the foregoing.

CONFIDENTIALITY CLAUSES

The agreement should include terms governing the identification, disclosure and use of confidential information exchanged by the parties. The agreement should also identify when the obligations of confidentiality expire as well as any exceptions to confidentiality. When exchanging information, consider using different expiration terms for different types of information.

Some jurisdictions limit the length of confidentiality obligations, and Know How may not be subject to indefinite confidentiality period. Clearly separate that information which qualifies as Trade Secrets from other Know how and confidential information.

BANKRUPTCY CONSIDERATIONS

In the US, Section 365(n) of the bankruptcy code addresses the rights of an intellectual property licensee to use the licensed property and provides that such rights cannot be unilaterally cut off as a result of the rejection of the license pursuant to Section 365 in the event of the licensor's bankruptcy. Under 365(n) "Intellectual property" is defined to include mask works, copyrights, and patents arising under specific sections of US law as well as patent applications and trade secrets. Trademarks are not included in the definition and courts have generally interpreted this mean that trademark licenses are expressly excluded from such protection. (but see Sunbeam Products Inc., v. Chicago American Manufacturing LLC (7th Cir. July 9, 2012) - permitting continued use the licensed marks notwithstanding a debtor-licensor’s rejection of the agreement - 365(n) is irrelevant to the treatment of trademark licenses in bankruptcy and nothing in Section 365(g) deprives a nondebtor contracting party of rights not in the nature of specific performance).

The protection of a licensee’s rights set out in 365(n) is not provided for in other jurisdictions and the treatment of licenses in bankruptcy vary. It is unclear how a bankruptcy proceeding in one jurisdiction will impact the rights and licenses in another jurisdiction. Treaties attempt to provide some measure of comity. Even with such treaties, it is unclear how licenses will be treated (See In re QIMONDA AG, 462 BR 165 - Bankr. Court, ED Virginia 2011 - To the extent that foreign law allows cancellation a US patent license, US courts should not defer to or apply the foreign law to a licensed US patent as it would be manifestly contrary to U.S. public policy).

ALTERNATIVE ARRANGEMENTS TO ENSURE COMPLIANCE

Letter of Credit. Licensors should also look for other means to assure licensee's performance of its obligations, and this is especially true in the international arena where enforcing license agreements can be more difficult. One means of assuring payment of funds is to require licensees to obtain a letter of credit from which licensor may draw funds as due. This is a common practice in international commercial transactions and is a helpful way to assure receipt of lump sum payments under a license (for example, payments due upon receipt of technical deliverables). However, it may be less helpful where running royalties are involved, since letters of credit must be renewed periodically and a recalcitrant licensee may simply choose not to renew it. Sample Letter of Credit language appears below.

[This clause is usually accompanied by a clause allowing termination of the agreement if the LC is not obtained in the time below]

X Within thirty (30) days after the Effective Date of this Agreement, Licensee shall deliver to Licensor an effective letter of credit in the amount and schedule set forth below of US ______________________________ U.S. dollars (US$_______________) (and substantially in the form attached hereto as Appendix __, issued or confirmed by a U.S. bank reasonably acceptable to Licensor (the "Letter of Credit"). Payments of all amounts specified in Article _______________ may be called by Licensor under the Letter of Credit only when and as due under the terms and conditions of this Agreement. The expenses associated with the issuance of the Letter of Credit will be borne exclusively by Licensee.

Related Agreements. Licensors may also seek protection through ancillary agreements. For example, if the transaction also includes an agreement pursuant to which the licensor will lease or supply catalyst or key replacement parts used with the licensed technology, that agreement can provide that it terminates if the main license is terminated. Termination of a license alone will not necessarily provide relief if a licensee in a jurisdiction where enforcement is difficult chooses to continue operating the licensed technology in defiance of the termination. However, when the license termination is accompanied by termination of a licensor's obligation to supply replacement parts or materials to be used with the licensed technology, the licensee may soon find itself unable to operate the (formerly) licensed technology."

MONITORING COMPLIANCE

Obtaining the ability to review and inspect records, processes, procedures, or facilities provides a valuable tool to monitor compliance of important obligations under the agreement. The use of audits to ensure/validate royalty payments is common. These concepts can be applied other aspects of the agreement. The agreement should clearly identify the obligations and the types of documents, records and/or materials that must be maintained with respect to the obligations. In addition, the agreement should give the licensor (or its agent) the right to inspect or request copies of these documents and records and identify remedies available to the licensor.

- Copyright or content licenses - audit of documents and records that validate that the licensee is including the appropriate terms and conditions in end user agreements, distributor agreements.
- Royalty - audit of documents, records top verify accuracy of royalty payments. Include audit of the method and systems for identify and tracking royalty bearing events as well as use of the licensed technology.
- Manufacturing – audit of documents, records and inspection of facility and processes to ensure proper handling and disposal of material, waste, scrap, overruns.
- Manufacturing, development, services - audit of documents, records that validate that the licensee is managing confidential information (e.g., list of users with access, location of documents). Audit of documents, records and inspection of facility and processes related to physical security.

Sample Audit Clauses:

Compliance with license and distribution terms:

X.1 Licensee may distribute the Licensed Product directly or indirectly through agents, resellers or other distributors (collectively "Distributors"). Licensee may distribute the Licensed Products indirectly using Distributors only under the following conditions:

(a) Distributors receive no right to make copies of the Licensed Product and shall obtain Licensed Product only from you (i.e., no multiple tier distribution);

(b) Each Distributor must be subject to a legally binding written agreement between Licensee and Distributor that grants the rights to distribute the Licensed Product to End Users and contains or incorporates provisions which are at least as protective of Licensor and Licensor's Software as the terms of this Agreement;

(c) the EULA for the Licensed Product must come from Licensee; and

(d) Licensee indemnifies Licensor for any breach of Licensee's agreement with Distributor that relates to Licensor Software.

X.2 Licensee shall retain copies of executed agreements with Distributors for a period of two (2) years after expiration or termination of such agreement. Licensee shall make such copies available for Licensor to inspect upon request. If a Distributor fails to fulfill any material obligations with respect to Licensor Software under a distributor agreement, Licensor may, in addition to any other remedies it may have, notify Licensee of such breach and require Licensee to terminate such distributor agreement with respect to Licensor Software if such breach is not cured within thirty (30) days.

Compliance with physical and data security requirement :

X(a). Know How shall be segregated from any other confidential information maintained by Licensee and shall be maintained in secure facilities to assure that no Know How leave these facilities without knowledge and appropriate authorization by Licensor. Licensee shall require all employees to use coded key-card identification badges or other suitable alternative electronic access to gain entry to such facilities. Licensee shall require any visitor to Licensee's facilities to register with a guard or receptionist and be escorted by an employee of Licensee. Licensee employees and visitors will be required to wear and display their identification badges at all times while in these facilities. A security system shall monitor and record all entries and departures. Such facilities shall also be equipped with industry standard fire alarm and suppression systems, close circuit video recording at all doors, monitoring of environmental controls and uninterrupted power sources. Licensee's security personnel shall maintain appropriate industry certifications such as Certified Information Security Manager (CISM), Certified Information Systems Security Professional (CISSP) or Certified Information Security Auditor (CISA). Access to Licensee's information systems shall also be controlled by a security system that controls and tracks user access by requiring user identification information and passwords prior to gaining access to the information systems. Without limiting the generality of the foregoing, Licensor shall have the right to approve visitors and obtain logs of all visitors to any facilities maintaining Know How.

X(b) Upon request of Licensor, Licensee will participate in a security audit conducted by Licensor or a third party auditor selected by Licensor to access the adequacy of Licensee's security measures. Licensee agrees to provide Licensor with reasonable documentation and information required to complete the audit, including, but not limited to, security vulnerability scans and compliance checklists, network connections, network diagrams, data flows, data elements, and protocols used by Licensor systems and facilities. Licensee agrees to allow Licensor to enter and inspect the physical facility during normal business hours without advanced notice to Licensee and to perform physical facility audits upon reasonable advanced Notice to Licensee. Licensee agrees to provide documentation regarding any relevant third party audits performed on

Licensee's facilities or systems including an annual SAS 70 Type 2 (or equivalent) audit conducted at the request of Licensor. Licensee agrees to correct any security deficiencies affecting Know How revealed by these audits, at its own expense, within a timeframe reasonably requested by Licensor.

Royalty Audit

You agree that you will keep accurate books and records in connection with the activities under this Agreement. Upon not less than 45 days written notice and not more than once in a 12-month period, Licensor may, at its expense, audit your use and distribution of the Licensed Products and your activities under this Agreement. You may choose whether Licensor or an independent third party performs the audit. If you request Licensor to select a third party to perform the audit, you agree to pay all costs of performing the audit. Any such audit shall be conducted during regular business hours and shall not unreasonably interfere with your normal business operations. You agree to cooperate with Licensor's audit and provide reasonable assistance and access to information, including but not limited to relevant books, records, agreements, servers, technical personnel, and reporting systems. The results of the audit shall be considered confidential and subject to the nondisclosure obligations in this Agreement, provided that nothing shall prevent Licensor from disclosing the audit results in any legal proceeding arising from or in connection with this Agreement. In performing the audit, Licensor agrees to comply with your reasonable rules, policies (including physical and information security policies), and procedures ("Procedures") regarding standards of business conduct, provided that such Procedures do not violate any state, local, or federal laws; that such Procedures are applicable to Licensor's performance of the audit; that you make available such Procedures to all Licensor in advance of such audit; that such Procedures do not require any Licensor personnel to violate Licensor's Code of Ethics and Business Conduct; that such Procedures do not modify or amend the terms and conditions of the Agreement. Upon Licensor's request, you will also provide to Licensor a complete list of the Licensed Products distributed to end users under this Agreement for the time period specified by Licensor along with any reasonably requested supporting documentation for the purposes of validating completeness and accuracy of your reporting obligations under this Agreement. Such list of Licensed Products shall include the model number, serial number and delivery date of each Licensed Product. You agree to pay within 30 days of written notification any fees applicable to your distribution of the Licensed Products excess of your license rights and underpaid fees.

Enforceability Issues Checklist

Choice of Law, Applicable Law	
	Comments
Is the choice of law governing the agreement your local law?	
1) If not, is the choice of law one of your back-up jurisdictions?	If yes, begin planning for local counsel to review final draft. If not, engage local counsel to identify special considerations or potential pitfalls up front.
2) Does venue for litigation or dispute resolution match choice of law:?	If not, may be acceptable for arbitration. However, for litigation, consult local counsel regarding use of foreign law
Address assignability of license separate from assignability of the agreement.	
1) Is license assignable? a. If not, clearly prohibit the licensee's ability to assign b. If so, can the license be assigned to your competitors? c. If so, list conditions under which it is assignable	If yes, investigate specifics as to when mergers, acquisitions, etc. create new entities requiring assignment
2) If license can be assigned, identify the limitations and conditions of assignment. • Does the assigned license only extend to current products • Does the license include follow-on products or products • Does the license extend to assignee products, if so which products?	
Address the ability licensee to enforce rights	
If licensee can enforce rights, what are the conditions: • Is consent of licensor needed?	Carefully review conditions to avoid circumstances where no one can enforce rights
Address the ability licensee to sublicense.	
If licensee can sublicense, what are the conditions?	

Address the scope of have made rights, if any.	
B. Mediation	
	Comments
Does the license agreement include a mediation provision?	
1) When is mediation mandatory?	
2) Identify subject matter to be included/excluded from mediation	
3) Rules, procedures, venue	
4) Timeline	
5) Qualification and selection of mediator	
6) Confidentiality	
C. Arbitration	
	Comments
Does the license agreement include an arbitration provision?	
1) Rules and procedures – ad hoc or administered	Carefully review and compare available rules
2) Language and location of arbitration	
3) Scope of arbitration. Subject matter included/excluded	Clear description of the subject matter included/excluded and parties' intent to exclude such subject matter. Beware of "scope creep"
4) Interim Relief available?	
5) Number, Qualification and appointment of arbitrators	
6) Scope of discovery	
7) Confidentiality	
8) Procedural format (e.g. in-person, phone or video depositions, hearing	
9) Timeline	
10) Form of Award	
11) Responsibility for arbitrator fees and proceeding costs	

Maximizing Value in International Licenses

1. **Scope of License (definition) considerations**
   a) **Territory definition**
      - Avoid imprecise terms such as “Europe”, “North America," or "Asia" and terms which, by their nature, may change during the term of the patent license agreement, such as "European Union“
        - An example provision that contains a definition of EU for specificity: “Territory” shall mean EU, European countries outside EU, CIS and Turkey
          - “EU” shall mean the member states from time to time of the European Union.
      - If the defined territory includes the US, should consider including all US territories and possessions, including all the several US states, the District of Columbia, Puerto Rico etc.

   b) **Inclusion of Supplementary Protection Certificates (SPCs) in scope of license:**
      - Example provision with no reference to SPCs, with the result that there is some uncertainty as to whether SPCs are included in Patent Rights:
        - “Patent Rights shall mean rights and claims in and to the inventions described in, and rights covered by, United States patents and patent applications listed in Schedule I attached to this Agreement and made a part hereof, as well as all continuations, continuations-in-part, divisions by reference and renewals thereof, and foreign counterparts thereof, which will automatically be deemed incorporated in and added to this Agreement and shall periodically be added to Schedule I.”
        - Although SPCs may be deemed to fall within this definition, SPCs are not patent rights, per se, and so there is ambiguity as to whether the parties meant to include up to five additional years into the definition of Patent Rights.
      - Explicit SPC reference and defined term (removes ambiguity and uncertainty):
        - "Licensor Patent Rights shall mean any and all rights in and to patents and patent applications which are owned or otherwise controlled by Licensee either as of the Effective Date or thereafter, and which generically , or specifically claim (i) Licensor Compounds (ii) any method for identification of Products, (iii) any process for manufacturing Products, (iv) any intermediate used in such process, (v) any method to formulate or deliver Products, or (vi) any use of Products, including without limitation any continuations, continuations-in-part, divisions, patents of addition, reissues , reexaminations,

renewals or extensions thereof **and any and all SPC(S).** The patent applications and patents known as of the Effective Date to be encompassed within the Licensor Patent Rights are set forth in Exhibit C attached hereto. Exhibit C shall be updated by Licensor and Licensee annually."

- "SPC(s) shall mean a right which is not a patent but which is based upon a patent to exclude others from making, using or selling Products, such as a Supplementary Protection certificate."

- Another example: "Patent" or "Patents" shall mean patents, letters patent, applications for patents, provision applications for patents, and any patents issuing therefrom (including any divisions, continuations, continued prosecution applications and continuations-in-part thereof), reexamination certificates, reissue patents, patent extensions, patent term restorations, **supplementary protection certificates**, and any equivalents, substitutions, confirmations, registrations, revalidations, additions, continuations in part of divisions thereof."

2. Royalty Rate Related Issues

a) Country specific royalty rates

- Most license agreements have a constant royalty rate for the entire territory; however, depending on the circumstances of the particular license agreement, parties may want to consider varying the royalty rate by jurisdiction

b) Tiered royalty rates

- It is not uncommon for license agreements to contain provisions whereby the licensee agrees to pay the licensor a variable royalty rate depending on the amount of sales of the licensed product.
- However, where tiered royalty rates are used, it is important that the calculation of the tiers be clearly set out such that there is no ambiguity as to whether the tiering will be applied on a worldwide basis or some other geographic breakout.
- The following is an example of a well drafted royalty that is tiered worldwide:
  - "In partial consideration for the License, Licensee shall pay to Licensor a royalty on **annual worldwide** Net Sales of Products, as follows:

Annual **Worldwide** Product Net Sales	Royalty Rate
For the first $100 million	2%
For the next $300 million	3%
For the next $600 million	4%
For all sales over $1 billion	5%

- The following is an example of a well drafted royalty that is tiered by jurisdiction:
  - "The Licensee shall pay to Licensor and the Licensor shall be entitled to receive the following royalty on Net Sales of Products:

1. **U.S.** Net Sales

Annual Net Sales in the **United States**	Royalty per annual **US** Net Sales
On the portion of annual Net Sales less than $[*]	[*]% of Net Sales
On the portion of annual Net Sales equal to or greater than $[*] but not greater than $[*]	[*]% of Net Sales
On the portion of annual Net Sales greater than $[*]	[*]% of Net Sales

2. **EU** Net Sales

Annual Net Sales in the **EU**	Royalty per annual **EU** Net Sales
On the portion of annual Net Sales less than $[*]	[*]% of Net Sales
On the portion of annual Net Sales equal to or greater than $[*] but not greater than $[*]	[*]% of Net Sales
On the portion of annual Net Sales greater than $[*]	[*]% of Net Sales

- Licensors need to make sure that tiering provisions are clear and express the intention of the parties and then need to make sure that they are being paid based on the language in the agreement.
- There are situations where licensees have paid licensors based on jurisdictional tiering as opposed to worldwide tiering, notwithstanding the language in the agreement, with the result that licensors have not gotten the benefit of the higher royalty rate in higher sales tiers because the sales never reach this level in the jurisdiction in which the licensee is measuring it. This can lead to a significant underpayment of royalties to the licensor.

c) Foreign exchange conversion provision

- Foreign exchange conversion provisions are common and should be a feature of all international license agreements. However, it is important to provide for conversion at an objective and unambiguous exchange rate.
- Given how long many license agreements are in effect, it is also important to ensure that the foreign exchange conversion provision accounts for possible changes in the name or existence of the entity or source that is looked to for the reference rate. This can prevent disagreements due to the license agreement becoming outdated.
- This can be as simple as the provision including successor language or providing for an alternative mechanism for determining the reference rate, such as mutual agreement by the parties, if the entity or source no longer exists.
- An example provision is: "If any currency conversion shall be required in connection with the payment of any royalties hereunder, such conversion shall be made by using the exchange rate for the purchase of U.S. dollars reported by the Chase Manhattan Bank (<u>**or any successor thereto by merger, consolidation or otherwise**</u>) on the last business day of the calendar quarter to which such royalty payments relate."
- Another example provision: "Conversion of sales recorded in local currencies to U.S. dollars will be done for such currencies using the average rate of exchange for the applicable quarter based upon the daily rates for such currencies at the time published in *The Wall Street Journal* (<u>**or any substitute source mutually agreed to by the Parties**</u>).

d) Euro considerations

- Where a license agreement would normally contemplate payments in Euros, consider putting in contingency language in the event that a country withdraws from the Euro and returns to its local currency.
- In the event a country withdraws from the Euro, there may be issues with currency being blocked in the country to prevent extreme outflows of currency from country. Even if currency can be removed from country, the exchange rate may not be advantageous. As such, consider whether alternative provisions should be put inserted in the event that a relevant country withdraws from the Euro. One such provision would be that payments are required to be made in the currency that is the greater of US dollars or Euros.

e) Interest rate provision

- Interest rate provisions are common in license agreements to protect licensors from delays in payment by licensees.
- However, care must be taken that the interest rate called for in the license agreement will not be found to be excessive and therefore contrary to law and unenforceable.
- Jurisdiction-specific advice should be taken if there is a particularly important jurisdiction that is covered by the default interest provision.
- A common interest rate provision used in license agreements is the following:
  - "Any payments or portions thereof due hereunder which are not paid on the date such payments are due under this Agreement shall bear interest at a rate equal to the lesser of prime rate as reported by the Chase Manhattan Bank, New York, plus two percent (2%), **or the maximum rate permitted by law**, calculated on the number of days such payment is delinquent, compounded monthly."
  - Or alternatively: "The amount of royalty payment due to Licensor shall be paid by Licensee concurrently with the remittance of each royalty report. Interest shall accrue on any payments due under this Agreement (including royalties) not paid when due through and including the date upon which Licensor has collected the funds in accordance herewith at a rate equal to **the lesser of** (i) the sum of [*] percent ([*]%) plus the prime rate of interest quoted in the Money Rates (or equivalent) section of *The Wall Street Journal* (or any substitute source mutually agreed to by the Parties), calculated daily on the basis of a three hundred sixty (360) day year, or (ii) **the maximum interest rate allowed by applicable law**."

f) Detailed Royalty report provision

- Detailed royalty reports are key in order to properly monitor a royalty stream. This is as true for licensors while they own the royalty stream as for royalty monetization firms once the royalty stream is acquired. It is therefore important to negotiate access to detailed royalty reports that provide the licensor (or subsequent royalty acquirer) with access to sufficient information.
- Another reason that detailed royalty reports are beneficial for royalty monetization transactions is that they provide significant historical information to royalty monetization firms, which could reduce the time it

takes these firms to diligence the royalty asset and consummate a transaction.

- The following are examples of report provisions providing the licensor with a good amount of detail about the sales and royalties calculation:
    - "Licensee shall submit to Licensor quarterly reports identifying the **amount of the Products sold** by Licensee, its affiliates and sublicensees in each country, the **sales volume and Net Sales**, and the amount of royalty due to Licensor together with payment of such royalty amount. Such report shall be certified as correct by an officer of Licensee and **shall include a detailed listing of all deductions from Net Sales, sublicensee income from royalties as specified herein together with sufficient information to enable Licensor to confirm justification for reduction of any royalties as specified in Section X above, if any**. If no royalties are due to Licensor for any reporting period, the written report shall so state."
- Another example provision:
    - Within thirty (30) days after January 1, April 1, July 1 and October 1 each year, the Licensee shall deliver to the Licensor a statement of all Products sold by Licensee, its Affiliates and its sublicensees during the three (3) month period since the last such statement and shall, within thirty (30) days after providing such statement, request bank transfer of payment of all royalties due. **The above statement shall show sales and transfers of all Products on a country-by-country basis and shall state the Net Sales attributed to Products subject to royalty under Section X, the calculation of royalties with respect to such Products, and shall separately show the calculation of all adjustments, if any, to royalties otherwise due**.

3. Royalty offset and deduction considerations:

a) **Royalty stacking**

- Royalty stacking clauses whereby the licensee is entitled to deduct from royalties payable to the licensor all or a portion of the license fees it pays to third parties are common in international licenses.
- Key features of these provisions from a licensor's perspective are (i) the limitations placed on a licensees ability to take third party licenses that are creditable, (ii) the type of payments under the third party license agreement that are creditable and (iii) the amount by which the licensor's

royalties may be reduced in any quarter and/or a floor on the royalty percentage that must be paid to the licensor.

- To protect the licensor from a licensee taking excessive deductions, the licensor can attempt to insert language such as the following into the royalty stacking provision: the licensee may deduct those licenses that are "required to be taken", "are necessary to fully exercise the rights granted hereunder" or that the licensee "reasonably believes are unavoidable".
- Here is an example of a provision that does not permit any royalty stacking (i.e. no offset permitted), but there is still the requirement that the license is "required to practice":
    - "Licensee shall be responsible for the payment of any royalties, license fees, and milestone and other payments due to third parties under the license agreements for intellectual property"
    - The following is an example of a royalty stacking clause that contains a capped offset as well as a limitation on the type of third party payments that may be taken by the licensee:
        - "**In no event will the Royalty paid by Licensee to Licensor under this Agreement be less than [50%] of the amount due pursuant to Section X**. This section applies only to any prospective royalties payable to third parties on the same basis as required by Section X, and no deduction of any Royalty is allowed for payments to any third party of lump sum license fees, milestone payments, minimum annual royalties in excess of accrued royalties, any amounts paid for past infringement of any third party's rights or any amount not paid for rights required to permit Licensee to make, use, offer to sell, sell and import the Licensed Products as provided in this Agreement."
    - [Alternative provision]: "In the event the Licensee **cannot** make, use or sell the Licensed Product in a particular country without obtaining a license under third party intellectual property rights, the Licensee may deduct from royalties owed the Licensor for Net Sales of such Licensed Product in such country **one-half of the accumulated aggregate payments** made to such third party under such license. The accumulated aggregate payments may be claimed as a credit against royalties otherwise due to the Licensor for sale or transfer of such Licensed Product in such country, **but only up to fifty percent (50%) of the royalties otherwise due to the Licensor** with respect to sale or transfer of such Licensed Product in such country during each royalty computation period, which first begins on or after the date of

any such payment to such third party until all such amounts have been credited against such royalties due."

- An example of a royalty stacking provision that provides the licensee with the unlimited ability to take deductions for third party payments is the following:
  - "If Licensee or its Affiliates pay an upfront payment, milestone, royalty or other payment to a Third Party in consideration for immunity from or license to such Third Party's intellectual property rights with respect to the Product, then such payment shall be credited to Licensee against the subsequent royalty payment that comes due to Licensor under Section X."

b) Patent prosecution offsets

- Similar to royalty stacking clauses, patent prosecution, maintenance and defense expenses are commonly creditable (with certain limitations) against the royalties payable to the licensor.
- An example with a cap:
  - "Licensee shall have the primary responsibility to defend against infringement actions and to seek resolution by settlement or to litigate infringement actions in such country. Licensee shall accumulate and periodically report to Licensor the nature and amounts of all costs and payments incurred by Licensee in defending against any infringement action and/or in seeking resolution and/or other settlement of any claim of claimed infringement in any country within the Territory. The amounts of all costs and payments accumulated and reported to Licensor shall include such direct out-of-pocket costs, attorneys fees, lump sum settlement payments, court awarded past and future damages, and ongoing royalties as-the same are incurred and paid on a country-by-country basis in the Territory. The aggregate amount of these costs and payments may be claimed by Licensee as a credit against royalties otherwise due to Licensor for each royalty computation period during the same period and/or after the period when such costs and payments have been incurred, until all such costs and payments have been credited against such royalties due on a country-by-country basis, **<u>but only (i) up to the amount of fifty percent (50%) of the royalties due on Licensed Products in such country.</u>**"

- Example provision without a cap on these deductions:
  - "Licensee shall reimburse Licensor for all reasonable expenses Licensor incurs during the Term for the preparation, filing, prosecution and maintenance of Patents. Licensee may deduct such cost from its royalty payments due to Licensor."

c) Withholding tax considerations

- In international license agreements, taxation is a critical consideration.
- With respect to withholding tax, most countries have tax treaties with each other, many of which reduce the withholding tax applicable to payments of pharmaceutical royalties either to 0% or to some other percentage that is below the country's regular withholding rate.
- Country specific tax advice should be obtained but there are tax providers such as the Stichting Internationaal Belasting Documentatie Bureau (IBFD – see http://www.ibfd.org/) that provide useful country specific tax treaty information, including the withholding tax rate for royalty payments.
- Some examples of countries with 0% withholding tax rates for pharmaceutical royalties based on those country's tax treaty with the US are: United Kingdom, Ireland, France, Switzerland, Japan, Russia and South Africa.
- Like royalty stacking clauses and patent prosecution and defense offsets, an important consideration of a licensor is whether there will be withholding tax applied to its royalty payments based on the location of the licensee (payer) and if so whether this will be borne by the licensor or the licensee.
- The following is an example provision that ensures that only tax that is **required** to be withheld is withheld (i.e. no discretion on the part of the licensee):
  - "If Licensee **is required by Law** to withhold taxes in connection with any sums payable to Licensor under this Agreement, Licensee may deduct the amount of the withholding from the payment it otherwise would have made to Licensor under this Agreement and shall include in the Royalty Statement required pursuant to Section [X] the gross amount due, the amount of the sum deducted under this Section [Y] and the actual amount paid."
- If a licensor agrees to bear the risk of withholding tax, it should ensure that the withholding tax provision contains language requiring the licensee to cooperate with the licensor to obtain relief or credit for the deduction so that the licensor has a better chance of recouping this tax if it is appropriate to do so:
  - "Any income or other tax that Licensee or its Affiliates is required to withhold and pay on behalf of Licensor with respect to the royalties

payable to Licensor under this Agreement shall be deducted from said royalties prior to remittance to Licensor; **provided, however, that in regard to any tax so deducted, Licensee shall give or cause to be given to Licensor, such assistance as may reasonably be necessary to enable Licensor to claim exemption therefrom or credit therefore, and in each case shall furnish Licensor proper evidence of the taxes paid on its behalf."**

- If a licensor is in a good bargaining position relative to the licensor, it may be able to negotiate a tax withholding gross-up provision such as the following:
    - Royalties and other sums payable under this Agreement are exclusive of taxes including Value Added Tax (or similar tax) and shall be paid free and clear of all deductions and withholdings whatsoever, unless the deduction or withholding is required by law. **If any deduction or withholding is required by law, Licensee shall pay to Licensor such sum as will, after the deduction or withholding has been made, leave Licensor with the same amount as it would have been entitled to receive in the absence of any such requirement to make a deduction or withholding.** If Licensee is required by law to make a deduction or withholding, Licensee shall, within [X] Business Days of making the deduction or withholding, provide a statement in writing showing the gross amount of the payment, the amount of the sum deducted and the actual amount paid.

4. Royalty Term and Termination Provision Considerations

a) Patent misuse – the EU "block exemption" and *Brulotte*

- The term for which royalties are payable under many licensing arrangements, especially licensing of platform technologies, are often expressed as "the **longer** of the date on which the last patents expire or X years from first commercial sale".
- This formulation of the royalty term does not appear to be problematic in Europe. Although this formulation of the royalty term appears to fall within Article 81(1) of the Treaty Establishing the European Community's (EC Treaty) prohibition on agreements "which have as their object or effect the prevention, restriction, or distortion of competition within the common market" and Article 101(2) (previously 81(2)) provides that any agreement prohibited pursuant to Article 101(1) (previously 81(1)) "shall be automatically void", there is a so-called "block exemption" in respect of IP license agreements that has the effect of giving a blanket exemption from a competition law perspective to these types of provisions. See Technology Transfer Block Exemption ("TTBE") Regulation EC No. 772/2004 and paragraph 159 of the

current Commission Guidelines to the TTBE (2004/C 101/02 of 27 April 2004).

- The situation is less clear in the United States. Despite the very common phraseology of royalty terms in license agreements as the longer of X years or patent term, this formulation can lead to questions about the enforceability of the royalty payments for the period following the expiration of the licensed patents. This is the result of the doctrine of patent misuse outlined in the 1964 Supreme Court case Brulotte v. Thys Co. (379 U.S. 29 (1964)). Under Brulotte, a patentee's enforcement of a non-discounted royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*, even in the case where non-patent rights, such as know how are also licensed.
- However, many license agreements today can arguably be distinguished from Brulotte on their facts and there are mechanisms by which many practitioners attempt to remove their license agreements from the broad reach of Brulotte.
    - Payments for prior use: For example, the Supreme Court has indicated that post-expiration royalties may avoid the problems associated with Brulotte if the post-expiration royalties are for prior use, during the patent term, rather than for current use, after the patent has expired (Zenith Radio Corp. v. Hazeltine Research Inc., 395 U.S. 100 (1969)).
        - This reasoning was applied In the context of a platform technology license in a recent district court case that found that post-patent expiration payment of royalties on products derived from a patented platform technology in which the technology is used to make the product during the term of the patent rights is enforceable (see Bayer v. Housey Pharmaceuticals (228 F. Supp.2d 467 (D. Del. 2002)).
        - Licensing parties would do well to make explicit reference to the fact that post-patent expiration royalties are being offered as express compensation for technology used during the patent period.
    - Step-down royalties: Another common way to reduce the risk that Brulotte will be applied to a license agreement with a term that extends beyond patent expiry is to provide for a reduced royalty rate for the period following patent expiry. Here is an example of such a "step-down" royalty provision:
        - "In consideration of the license granted to Licensee hereunder, Licensee shall pay Licensor a royalty of 2% of Net Sales; **provided that such royalty shall be reduced** to 1% of Net Sales **after the expiration of the last Valid Claim** in an issued patent within the Patent Rights."

b) First Commercial Sale considerations:

- The date that a product achieves first commercial sale is typically the commencement of the royalty paying term. For those agreements where the length of the royalty term is based on a period of time following first commercial sale, such as when the royalty term is "for a period of 10 years from first commercial sale", it is imperative that it is clear when the royalty term starts and when it ends.
- The term first commercial sale can either be used to mean first commercial sale on a worldwide basis or on a country-by-country basis, and the difference between these can result in a significant difference in the length and value of the royalty term.
- The following is a provision that makes it clear that the term commences on the first commercial sale worldwide and so the royalty term starts running on that sale even if the product is not yet on sale in other countries:
  - "First Commercial Sale means the date of the first sale invoiced for the Product **in any country in the Territory** by the Licensee and/or its Affiliate or Sublicensees from distributors, wholesalers or other customers. Notwithstanding the foregoing, registration samples, inter-company transfers to Affiliates of the Licensee and the like, and clinical trial purposes will not constitute a First Commercial Sale.
- An example of a provision whereby the royalty period, in this case 10 years, is measured on a country-by-country basis from first commercial sale in that country is the following:
  - "The royalties due pursuant to this Section shall be **payable on a country-by-country** and Product-by-Product basis until the date which is the later of: (i) the expiration of the last to expire Valid Claim of the patents within the Patent Rights covering the Product, or (ii) until ten (10) years **following first commercial sale of a Product in such country**.
- This is a key distinction that licensors should pay careful attention to, especially given the lengthy delays that can occur between the first commercial sale of the product in some jurisdictions, such as the United States, and the first commercial sale in other jurisdictions, such as Japan. In some cases a worldwide first commercial sale provision could lead to a royalty stream ending several years earlier than a country-by-country provision, which could drastically reduce the value of a royalty stream.

c) Country-by-Country Termination Considerations

- Country-by-country termination rights in license agreements are not uncommon and there is nothing wrong with them as long as other provisions in the licensing arrangement are consistent with this termination ability.
- For example, licensors should be cautious of country-by-country termination rights, especially if a licensor is entitled to worldwide royalties but doesn't plan on having patents registered in many/all of the countries which may be suitable markets for the licensed product(s)
    - An example of where this can be a problem for a licensor is where a licensee has the right to terminate the license agreement on a country-by-country basis (instead of having to terminate agreement as a whole) and the licensee exercises this termination right in countries where there are sales of the product but no patent protection so that they don't have to pay royalties in these countries.
    - Requiring a licensee to terminate the whole agreement if they want to terminate the agreement in any countries can be a good disincentive to licensees since the savings they will get from terminating the agreement in some non-patented countries typically doesn't outweigh the loss of their ability to use the licensed technology in patented countries.
- Particular care must be taken with respect to country-by-country termination provisions where licensing arrangements result from patent settlements.
    - Here is an illustrative example. Company A, which has EU patents, settles a US patent interference with Company B by acknowledging Company B's US priority and licensing Company B its worldwide patent rights in exchange for worldwide royalties on net sales; the license agreement is terminable by Company B on a country-by-country basis upon 60 days notice.
    - In this case, although Company A has EU patents, it has relinquished its right to a US patent. The result of the licensee's country-by-country termination right coupled with the relinquishment of the licensor's US patent is that once the licensed product begins generating significant sales, Company B has the right to terminate the license in respect of the US and stop paying royalties to Company A on US sales, a significant loss to Company A.
    - If instead the termination provision was all or nothing termination, then Company B would be much less likely to terminate the whole license agreement since they would lose access to Company A's EU IP and would therefore lose the ability to sell the product in the EU, a significant economic loss to Company B.

5. **Assignment provision considerations**

- Where possible, licensor should endeavor to negotiate the ability to assign the agreement and the rights and obligations thereunder without restriction. Alternatively, licensor can endeavor to at least have the ability to assign rights under the agreement or more particularly rights to payments under the agreement and associated rights such as the right to receive royalty reports and notices and the right to audit the licensee.
- For agreements governed by US law, the assignment of royalties can usually be done, notwithstanding explicit "no assignment" clauses because these assignments fall under the definition of "accounts" under the Uniform Commercial Code, which can be freely assigned notwithstanding provisions to the contrary.
- The same is not necessarily the case in other jurisdictions, such as the United Kingdom, where "no assignment" clauses must be respected.
- In jurisdictions outside the US, in the face of non-assignment clauses consent may need to be obtained from the licensee for a monetization transaction. However, obtaining the consent of the licensees in some situations may be problematic or cause delays in a tranasction, so licensors should do their best to negotiate the assignability of their interests at the time they are entering into the license arrangement when the parties have incentives to cooperate and the licensor still has significant leverage.
- Here is an example of a good assignment clause for monetization purposes:
    - "This Agreement may be assigned by the Licensor without consent in the context of a Monetization."
        - "Monetization" means a monetization of all or a portion of the Licensor's rights to receive royalties and other related payments hereunder, including, without limitation, by means of a direct sale (through an auction process or otherwise) or a financing (through a borrowing of loans, an offering of securities or otherwise).
- Here is an example of an assignment clause that was drafted explicitly to contemplate a monetization/financing transaction, but because it was not drafted broadly enough, it created problems for the licensor:
        - "Neither party may sell, assign, pledge or transfer this Agreement or any rights or obligations under this Agreement without the prior written consent of the other party; provided that (i) Licensor or Licensee may make such an assignment to an Affiliate without the other party's consent **so long as such Affiliate agrees in writing to be bound by the terms and conditions of this Agreement**, and (ii) **Licensor may sell, assign, pledge or transfer to a Third Party without the Licensee's consent any right to the royalty**

payments that may inure to the Licensor's benefit pursuant to the terms of this Agreement."

- Some potential problems with the provision are that in a royalty sale context, the licensor is only entitled to transfer the "right to the royalty payments", not some of the ancillary rights related to the royalties, such as the right to audit and the right to receive royalty reports. Some monetization parties will require these rights to be assigned to them as well as the right to payment, with the result that notwithstanding the monetization carve-out in the license agreement, consent may still be required from the licensee.
- Also, in the context of a royalty debt financing transaction, there may be issues with this provision in that it may not allow licensor to accomplish its downstream financing plans since it may not have a sufficient carve-out for financing transactions to permit structuring of transactions with licensor's affiliates (i.e. if affiliate is a financing SPV it may not be possible for it to be bound by agreement) and may not allow pledging of security interests to third parties. As a result, again, consent from the licensee may be required to complete the transaction as desired by the parties.

Maximizing Value in International Licenses: Licensor Checklist

1. Territory			
	Yes	**No**	**Comments**
a) Does the definition of Territory contain any specified regions?	☐	☐	
If yes, is it clear what countries/areas these regions contain?	☐	☐	**If no, clarify.**
2. Scope of Patent (SPCs)			
	Yes	**No**	**Comments**
a) Does the scope of the definition of Patents contain expansive language?	☐	☐	
If so, does definition explicitly include renewal, extensions, and supplementary protection certificates?	☐	☐	
3. Royalty Rate			
	Yes	**No**	**Comments**
a) Should the royalty rate vary by country?	☐	☐	
b) Is there a tiered royalty rate?	☐	☐	
If so, is it clear whether it is tiered on a worldwide or regional basis?	☐	☐	
4. Foreign Exchange Provision			
	Yes	**No**	**Comments**
a) Is there an unambiguous rate for exchange of currency?	☐	☐	
b) Is there a fall-back mechanism that makes it clear what reference rate to use if specified rate no longer exists?	☐	☐	
5. Interest Rate Provision			
	Yes	**No**	**Comments**
a) Is there an interest rate provision?	☐	☐	
If so, is local legal advice required?	☐	☐	
If not, has a broad "applicable law" reduction been included?	☐	☐	

6. Euro Considerations			
	Yes	**No**	**Comments**
a) Euro definition included	☐	☐	
b) Alternative currency/blocked currency considered	☐	☐	
7. Detailed Royalty Reports			
	Yes	**No**	**Comments**
a) Does royalty report provision provide sufficient detail for monitoring of the royalty stream?	☐	☐	
8. Possible Offsets from Royalty Streams			
	Yes	**No**	**Comments**
a) Royalty Stacking			
a. Requirement limitations imposed on licensor	☐	☐	
b. Restriction on type of third party payments that may be deducted	☐	☐	
c. Cap on royalties that may be deducted in a quarter	☐	☐	
d. Floor below which royalty won't fall	☐	☐	
b) Patent prosecution, defense			
a. Cap on royalties that may be deducted in a quarter	☐	☐	
b. Floor below which royalty won't fall	☐	☐	
c) Tax Withholding	☐	☐	
a. Is there a 0% tax withholding treaty between licensor jurisdiction and licensee jurisdiction?			
If not, is there a gross-up for tax withholding?	☐	☐	
i. If not, is there a licensee cooperation provision?	☐	☐	

9. Royalty Term			
	Yes	No	Comments
a) Patent Misuse a. Does the term extend beyond patent expiry?	☐	☐	
If so, is the agreement governed by US law?	☐	☐	
i. If so, is there a step-down royalty after patent expiry?	☐	☐	
1. If not, is the payment for prior use of technology during patent period?	☐	☐	
b) First commercial sale a. Is the length of royalty term tied to first commercial sale?	☐	☐	
If so, is it clear whether it is based on first worldwide commercial sale or first commercial sale on a country-by-country basis?	☐	☐	
c) Country-by-Country Termination a. Does the licensee have the right to terminate agreement on country-by-country basis?	☐	☐	
i. If so, does licensee require licensor's patents in all significant countries of sale?	☐	☐	If not, consider whether country-by-country termination right is appropriate

10. Assignment			
	Yes	No	Comments
a) Is the agreement assignable by licensor without consent?	☐	☐	
If not, are the <u>rights</u> assignable by licensor without consent?	☐	☐	
If not, is the agreement governed by US law?	☐	☐	