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NEGOCIATION TERMS AND CONDITIONS OF  
TECHNOLOGY TRANSFER ARRANGEMENTS

*Lecture by Mr. Heinz Bardehle*

There are a number of important clauses which are used in contracts for transfer of know-how particularly if the mutual contractual obligations are included in a patent license contract. Those clauses are sometimes criticized as unjustified restrictions, however one has to bare in mind that such a contract combines the interests of the two parties, the licensor and the licensee so that under normal circumstances the parties exactly know what kind of obligations they have to accept. A different matter is a clause which has for one party or the other unfortunate consequences which could not be foreseen at the time of signing the contract. This is the reason why it is highly advisable to consult an experienced consultant, patent attorney or lawyer or consulting enterprise in order to be sure that both parties will be happy with the contract for the full time of its existence. When I am involved in this kind of business I usually insist at the beginning of the negotiations that both parties, not only the party which I represent, must have the feeling at the end of the negotiations that a reasonable and satisfying contract has agreed upon. Nevertheless there may be situations in which after some time one party has the feeling that the conditions of the contract are no more reasonable because of changing commercial conditions. In such a case it is necessary that the two parties sit together in order to negotiate a reasonable adaptation of the contract for which purpose license agreements often include an article about a settlement of a dispute about the conditions of the contract.

In order to give you a feeling about clauses which often are used in such kind of agreements and which regulate the flow of technology I would like to mention some specific stipulations.

#### 1. Inclusion of Know-how

The object is to capture all relevant technical information within the agreement and, in some cases, business information which will be necessary in, or of benefit to, the licensee's effort to achieve the commercial or market objective of the agreement. The preferred approach is to define the licensed know-how or technology as including all the technical information or knowledge possessed by the licensor which is utilized by the licensor to manufacture, use, practice and sell the product(s), process or the like which represents the commercial embodiment of the object of the agreement. In the case of a product or produce line, for example, the definition should specifically identify the particular product or type of products of the licensor which the licensee intends to produce pursuant to the agreement. Reference to a specific object or commercial product (e.g., the trade name or commercial designation of a product which exists on the market) should, in most cases, provide practical and clear instructions and guidance to technical personnel responsible for the technology transfer.

A time limit or frame should be applied to the definition of the know-how as we are at this point dealing with the basic technology to be licensed. A simple and preferred approach is to set a period during which the initial technology transfer must take place. For example, a contractual provision requiring that the initial transfer takes place within a defined period of months after the agreement is executed or approved, validated or registered by the appropriate governmental authorities.

The licensee or technology recipient is entitled to all the know-how or technical information possessed by the licensor which is utilized in the commercial exploitation of the subject of the agreement at the time of the initial transfer.

A further important element to this preferred approach is the stipulation that the initial technology transfer takes place at the licensor's facility where the technology is utilized. This has many benefits. The complete extent of the documents and files of the licensor relating to the technology will be readily available for use in instructing the licensee's personnel and for their scrutiny; the engineering staff of the licensor will be accessible for discussion and explanation of the technology and its application; the production process, machinery, equipment, tooling, procedure and techniques will be at hand to aid in disclosure of the technology and; perhaps most importantly, the licensee's personnel will have the opportunity to witness first hand and to participate in the actual practice of the technology in the preferred, commercial mode employed by the licensor. Provision should, of course, also be made in the contract for the physical transfer to the licensee of drawings, specifications, and detailed descriptive material of the technology and its application. Ideally, there should also be structured seminars in which the technology and techniques for its use are pursued and the documentation to be transferred explained in detail. However, there is no substitute for the practical experience obtained by hands-on exposure to application of the technology.

Finally, after the initial visitation and training of the licensee's technical personnel at the licensor's facility, technical representatives of the licensor should spend time at the licensee's plant to assist in the technology's application. This visitation is generally most beneficial and productive at the time of production start-up by the licensee. The duration of the assistance should, at a minimum, continue until the production process has been started.

There are a variety of reasons why the parties may mutually wish to limit the initial or ultimate scope of the technology transfer. The licensee may not then be in a position to absorb or exploit the full range of technology available from the licensor. This may be due to the size, experience or current level of technical expertise of the licensee's engineering staff or to the licensee's existing plant capacity. The licensee's present and projected commercial activity and interest may be limited to particular industrial fields or product areas. The financial resources of the licensee may preclude payment of the amount required by the licensor as consideration for a broad-based license or technology transfer.

Local laws or regulations directed to control of technology transfer agreements also frequently dictate limitations on the extent of the technology transfer, particularly from the perspective of the licensor. In those countries which regulate the term or period during which payments may be made based on practice of the licensed technology, the licensor may appropriately wish to limit the available technology or know-how to that which the licensee is in a position to exploit during substantially the full period fixed by local regulation. That is, for example, where local regulation limits continuing royalty payments or fees based on manufacture of a licensed product to a fixed period, extending from execution or approval of the agreement, rather than a period dating from the first commercial sale of a given licensed product, the licensor will most often require that the license and/or technology transfer be limited to those of the licensor's products or processes which the licensee is in a position to exploit within a reasonable period after consummation of the agreement.

The foregoing will more frequently apply in the context of a know-how agreement than in the case of a patent license. The laws or regulations of most countries permit payment for practice of patented inventions during the full term of the licensed patent. On the other hand, the majority of developing countries regulate or limit the period during which fees may accrue and be payable based or calculated on the commercial exploitation of know-how or technical information.

## 2. Field of Use Restriction

One contractual mechanism by which a technology transfer or a patent license, and its commercial exploitation, may be limited is referred to as a field of use restriction. A field of use restriction confines the licensee's activity to a particular field or to a part of the total number of industrial fields or areas to which the patented invention applies or in which the know-how may beneficially be employed. The field may be defined by identification of a particular product or type of product, or a particular machine or process.

Alternatively, the field may be identified as a specific technical discipline, a branch of industry or stage of manufacture, or a class of customers.

A field of use restriction is frequently employed where it is the desire of the licensor to grant license rights to a plurality of individual enterprises or companies having experience and a presence in discrete market segments or fields. The objective is to maximize the licensor's return on the industrial property rights or on the transferred technology by granting limited licenses to each licensee or technology recipient restricted to those fields, products or the like in which the particular licensee specializes or has the greatest capacity and ability to successfully manufacture and market the licensed product. Where the markets, to which the patent or technology relates, include a number of diverse fields populated by different companies, field of use licenses may be the most practical and logical means to fully exploit the technology.

Field of use restrictions are also a means by which competition may be restrained. Where a license program contains a group of licenses which are calculated to divide markets among the various licensees, the applicable law must be evaluated to determine whether the manner in which the markets are divided, or competition between the licensee's restraint, constitutes a violation of the applicable law.

A license program involving a number of licenses containing field of use restrictions provides a measure of flexibility in structuring the license in each field. It may be appropriate, for example, to provide for different royalty or fee levels for the different fields, particularly if the value which the technology adds differs among the fields. This approach may also provide the vehicle for a prospective licensee without the financial resources or current ability to absorb and exploit the full extent of the technology to structure a phased contract which will accommodate the licensee's short term constraints, yet provide for the long term expansion of its licensed activity.

A phased contract is one in which the technology is made available or the field of use restrictions are eliminated in stages. The simplest example is perhaps the situation, where the

licensee desires to make and sell a number of the licensor's products in the long term but does not possess the financial resources to purchase, or the capacity to absorb and/or exploit all of the technology or products in the short term. To solve the dilemma, the parties may enter an initial agreement, pursuant to which the licensee is granted immediate rights with respect to one or more products and an option to obtain rights, under a supplementary or future agreement, with respect to additional products at a time, when the licensee is in a position to absorb and exploit the additional technology or products. This approach may also serve to mitigate the licensor's concerns *vis-a-vis* local regulations limiting the period during which continuing royalty or fees may be remitted. That is, if the option is exercisable by the licensee only at a time when the licensee is in a position to absorb and exploit the technology by manufacture of the additional product(s), this should provide adequate assurance to the licensor that he will be entitled to royalty or remuneration for a reasonably prolonged period.

### 3. Improvements

In many cases the parties are interested to be informed about future improvements of the licensed technology. This interest is not concentrated on the licensee because of his possible expectation that the licensor may further on technically develop the respective technology. If a licensor continues his production of the licensed technology he may also be interested in obtaining information about improvements developed by the licensee.

Improvements and technical advances may be defined in many ways. They may be limited to those inventions or developments which fall within the technology transferred or within the valid scope of the patents licensed. They may include all those improvements, inventions and innovations which one of the parties incorporates in a product or process which is the commercial objective. More broadly, all inventions, improvements and other developments related to or within a particular technical discipline, field or product area may be swept within the definition. The specific approach adopted will naturally depend upon the market and commercial situation as well as technical objectives of the respective parties.

#### 3.1. The Licensor's Improvements

A primary objective of the licensor will normally be a return on his investment in the technology and any improvements thereto. In the case of agreements under which payments are to be made based on the licensee's sales or other commercial exploitation, this goal can most often only be achieved by ensuring that the licensee is in a viable competitive position. The level of sales will normally be influenced by the status of the licensee's product or process *vis-a-vis* the competition. Improvements and other technical advances should, therefore, be made available to the licensee to maintain his competitive edge and thereby ensure a continued contribution to the licensor's return.

There are, however, circumstances where a licensor may be reluctant to license or transfer improvements in the fear that the licensee will thereby become a significant competitor in the licensor's own markets. The licensor may want to defer the license or transfer to allow himself the opportunity to first reap the benefit of the improvement in his own existing and potential markets. These scenarios are, however, usually bridges which the

licenser has already crossed in coming to the initial decision to grant rights to the basic technology.

The licensor's motivation will not be as direct or market-driven with respect to agreements which provide for **lump sum** or fixed fee payments. The level of the lump sum or fixed fee will presumably have been determined by the actual or perceived value of the basic technology. Any other determination would be purely speculative - committing a licensee to a fee for improvements which are never made, or to transfer a substantial technological advance for a fee set at a time, before its market importance could be recognized. The grant or extension of rights to improvements is therefore often left to future decisions and negotiations of the parties.

Local laws and regulations which limit the term of patent and know-how transfer agreements or, more specifically, the period over which continuing royalty or similar payments may be made to the licensor can have a profound impact on the licensor's attitude and approach on the subject of improvements. A regulation which limits the period of the agreement and payment to a fixed term from the date the agreement is executed, will also directly limit the return licensor may obtain for improvements or advances to the basic technology which are made available to the licensee during the fixed term of the agreement. Such regulations necessarily result in a continually diminishing pay back period for royalties and fees calculated on the licensee's market place activity during the agreement's fixed life. At the extreme, improvements made available in the last year of the fixed term will yield little, if any, increase in the financial return to the licensor.

A problem or issue will exist, in some form and extent, in most, if not all, know-how transfer agreements. Local regulations will often stipulate or require some limitation on the period for payment of continuing royalties or fees for use of both the basic technology and the improvement technology. The problem is compounded, and the agreement's structure necessarily more complex, where local regulation precludes or unreasonably limits extension of the fixed initial term to provide for a reasonable period of additional income flow to the licensor in response to the addition or incorporation of improvement technology in the products or processes of the licensee. This may result in a reluctance on the side of the licensor to inform the know-how recipient about any improvements.

Normally a licensor will be prepared to accept automatic inclusion of its improvements or advances made during a finite period following the execution of the basic agreement. The period selected will be influenced by the agreement's fixed initial term, which allows that degree of commercial activity necessary for a reasonable return on the technology investment. A part of the available pay back period will obviously be absorbed by the period required for the transfer, assimilation and implementation of the improvement by the licensee. Where the applicable local regulation or law allows a period of payment measured from the first commercial sale, use or the like, of a product or process embodying the basic technology, the licensor will generally be prepared to consider a longer period for automatic flow of improvement technology.

Where a licensee desires to obtain a binding contractual right to improvements and advances of the licensor made during a longer period, supplementary agreements provide a viable approach, particularly where local regulations do not allow an extension of the initial

term of the basic agreement with respect to improvements of the licensor. Under this approach, the basic agreement provides that the licensee or technology recipient shall be entitled to a right to improvements and advances made by the licensor during a period established in the agreement. Later improvements, however, may be subject to a separate, supplementary agreement between the parties. The term of the supplementary agreement may extend from the date of its execution thereby providing the licensor with the prospect of continuing royalty or fees after the term of the basic agreement which will increase the potential for a reasonable return on his investment. This approach should, in principle, lengthen the period during which a licensor is willing to commit his improvements to the basic contract.

A licensee may sometimes merely desire a freedom from suit under future patents of the licensor in the field of the basic technology, i.e., the freedom to adopt for his own technical devices those improvements disclosed in future patents of the licensor. This may be simply accomplished by defining the licensed patents to include those future patents of the licensor which relate to the subject of the agreement.

More frequently, a licensee will have interest in all those improvements and advances of the licensor which have the potential to enhance his competitive position; be they patented, patentable or not. There is no need, in this case, to include complex definitions which attempt to distinguish that which is patentable from that which is not. All that is required is a statement, coupled with the foregoing definition of licensed patents, licensed know-how or technology as including all those improvements or advances which are made or developed by the licensor during a negotiated period of time. The definition should identify those product areas or fields to which the improvements must relate. A distinction may be drawn between those improvements which merely represent an addition to an existing licensed product and those, which are considered to constitute a new technology which will provide the licensee with a completely new product which addresses an additional market or market segment. However, this distinction is unnecessary, if the parties have negotiated a royalty or compensation schedule or scheme which properly weighs and distinguishes the compensation to be paid, based on the improvement's effect on the licensee's commercial success.

A new technology which offers the licensee a new type of product or new market opportunity is perhaps best dealt with by a separate agreement.

The licensee's utilization of improvements or technical advances will commonly trigger an increase in the term or amount of royalty payable to the licensor. The licensee should, in such cases, be provided the option to accept or reject the transfer of the improvements and their inclusion within the subject matter of the agreement. This may be accomplished by providing that any technology transfer following the initial transfer at the licensor's facility must be preceded by the written request of the licensee. The licensee will thereby be afforded the opportunity to evaluate the effect or value of the licensee's advances as evidenced by their success in the market place or the licensor's articulation of their advantages prior to his election to accept the additional grant.

A further issue, which the parties may wish to address in this area, is the stage of the licensor's research and development at which the licensee be entitled to access to improvements - at the time of conception or when reduced to practice and proven in the

marketplace by commercial use. The more logical point is the stage at which a commercial value has been identified and proven. This will avoid the potential for unnecessary expense in evaluating and transferring unusable or ineffective information.

The parties may also want to provide a right to the licensee to file corresponding patent applications in his territory if the licensor elects not to do so.

### 3.1. The Licensee's Improvements

Licenses or rights granted to a licensor by a licensee with respect to improvements of the licensee are generally referred to as "grant-back" rights or licenses. The extent, or scope of grant-back rights, will normally be governed by the principle of reciprocity. That is, the grant-back will usually be limited to the same extent as are the licensee's rights to improvements of the licensor. An exception may be required in the case of exclusive licenses.

An arrangement by which the licensor and licensee agree to exchange exclusive licenses on future improvements has the potential to restrain competition; at a minimum to effect a division of markets between the licensor and licensee. A number of countries have adopted regulations which prohibit an exclusive grant-back or an assignment to the licensor. Still other countries will judge the propriety or legality of such an agreement based on the actual or potential restraint of competition which does or can result.

The question of the compensation to be paid by the licensor for the licensee's improvements is a difficult one. To the extent the licensor makes his improvements available to the licensee, with no increase in the level or term of compensation, the licensor has arguably granted a royalty-free right with respect to his improvements. Does not reciprocity therefore require the grant-back of royalty-free rights to the licensor to the same extent? Having placed the licensee in a position to make the improvements, should the licensor be required to compensate the licensee for an improvement, which could not have been made but for the licensor's investment in the disclosure of the basic technology?

It is normally unacceptable for a licensee to take a license under a patent for less than the full term of the patent. The risk that the license may not be extended, is simply too much of a risk to accept; particularly if a substantial investment by the licensee will be required to initiate manufacture, use or marketing of the licensed product or process.

## 4. Warranty of Industrial Property Rights

Patent applications may not always issue as patents. Patents may be declared invalid or judged unenforceable. Technical information and know-how relating to substantially equivalent products or processes may be available from a number of sources, at different prices; some of which may be inadequate to achieve the commercial objective.

It is up to the licensee to investigate the intellectual property rights available for license. Their relative merit must be judged in comparison to that available from other sources. Patents and their file histories should be studied. Validity and infringement analysis is advisable. The posture and success of the licensor and his products should be investigated.



There are circumstances in which supply contracts may be of distinct advantage to the licensor. In such cases and where the supply contract is entered at the expressed request of the licensee, the supply contract should be acceptable and free from suspicion and impropriety.

6. Antitrust Law

Finally, I would like to draw your attention to the German Antitrust Law which, in its § 20, defines permissible and non-permissible limitations of a patent license agreement.

Part 1 stipulates that "Agreements shall be ineffective insofar as" they impose upon the acquirer or licensee any restrictions on his business conduct **which go beyond the scope of the protected right**. Additionally, it is defined what particular restrictions shall be deemed not to go beyond its scope, namely restrictions pertaining

to the type,  
extent,  
quantity,  
territory or  
period of exercise of such right.

Additionally, § 20 stipulates in its Part 2 five exceptions in which the general prohibition of Part 1 is not applicable, with other words in which the mentioned limitations are permissible.

The wording of § 20 with the two lists of permissible limitations is given in the Annex to this paper.

The German Antitrust Law is only an example for a liberal approach. Other countries may have a more restricted law. Particularly, the Commission of the European Union has issued the so-called "Group Exemption" by which a particular stipulation (Art. 85/3) of the Treaty of Rome is not applicable on certain categories of patent licensing agreements. This "Group Exemption" is rather complicated and less liberal than the German Antitrust Law, so that members of the European Union have in any case to take into consideration the "Group Exemption". Many countries, and particularly developing countries, have their own regulations about license agreements so that an expert in licensing in the particular country has to be consulted in order to avoid later problems with the license agreement, particularly if it relates to any transfer of technology. **However, I would like to state that the basic goal should never be forgotten that a transfer of technology should be made possible.** If particular stipulations finally prevent the conclusion of a contract about transfer of technology because of any suspicion against specific clauses in the contract, then such kind of national stipulations may be seen as stumble stones on the way of transferring technology. In my view, the most liberal national law favors transfer of technology because it gives the necessary freedom to the parties who **normally exactly know what they want and what they should do.**

[Annex follows]

ANNEX

Sample 3

**Initial Agreement on secret technical information (Know-how)**

Corporation ..., having its headquarters at ..., represented by the chairman of its board of directors – hereinafter referred to as Licensors –

and ... Company having its headquarters at ..., represented by its managing director – hereinafter referred to as Licensee –

Agree as follows:

Preamble

Whereas the licensor is willing to grant licensee a license under its patent DE PS ... and additionally for secret technical information;

Whereas licensee is interested in obtaining information from confidential documents, data, research results and other information, in order to determine the possibility of commercialization of the invention;

The parties agree as follows in order to achieve this goal.

§ 1 Confidentiality obligation<sup>1</sup>

(1) Licensee promises to keep confidential all disclosed confidential information and to provide the necessary means to prevent unauthorized disclosure of the materials.

(2) Licensee will allow an inspection of the materials only for those employees who are obligated to secrecy under labor law and the names of which are contained in a list to be provided to licensor within 14 days after the effective date of his agreement.

(3) Licensor further promises to subject each employee on said list to an obligation to keep the information received confidential for an additional five years after leaving the employment with the licensee.

§ 2 Scope of the secrecy obligation<sup>2</sup>

(1) Subject to the secrecy obligation are all materials, drawings, data, articles, etc., which licensor has provided to licensee and which have been marked as confidential. Verbal explanations regarding the production of an article

*Initial Agreement on Secret Technical Information (Know-how)*

according to claim 1 of the patent also fall under this obligation.

(2) In the case of a violation of the obligations of this agreement licensee has the burden of proof that specific information has been known to him on the agreement date or that such information has been disclosed later with no fault on his part.

(3) Only those pieces of information and results of research, in addition to generally accessible publications, shall be deemed as already known by licensee, which licensee has provided to licensor in a separate listing (Annex 1) at the date of this agreement.

§ 3 Use limitation<sup>3</sup>

Licensee promises, except in the case of a license agreement, not to use the information and knowledge received for his own or third parties' purposes and not to file for intellectual property right protection for these.

§ 4 Documents and materials<sup>4</sup>

(1) All documents and materials will be submitted to licensee in duplicate. Licensee is not authorized to make or have made further copies thereof.

(2) If the parties do not enter into a license agreement, then licensee is obligated to return all documents and materials not later than on ... to licensor.

§ 5 No-challenge agreement<sup>5</sup>

Licensee promises not to attack the contract protection right or to aid third parties in an attack for the duration of the license contract.

§ 6 Applicable law and place of venue<sup>6</sup>

(1) The place of performance of the contract is Munich. The parties agree for all controversies under this contract that the District Court Munich I should have jurisdiction.

(2) This agreement shall be construed in accordance with the laws of the Federal Republic of Germany.

*Initial Agreement on Secret Technical Information (Know-how)*

§ 7 Salvatorian clause

Should any provision of this agreement be or become null, void or illegal or should the contract contain an omission, the enforceability of the remaining provision should not be affected thereby. Instead of the provision which is null, void or illegal a valid provision is deemed as agreed upon, which comes closest to what the parties intended; the same applies with respect to an omission.

§ 8 Form requirements<sup>7</sup>

(1) This agreement has been made in English in four copies.

(2) This agreement contains the entire agreement between the parties. Any changes or modifications of this agreement have to be made in writing.

Place, Date

Signatures

Comments

1. Secrecy obligation

The primary goal of the licensor in the phase prior to the signing of the license agreement is to limit the number of people who may gain access to the secret information. This requires an obligation to confidentiality without exception, which should preferably also provide for the contractual relationship between the potential licensee and his employees. One prevents thereby that the licensee in the case of a disclosure of secret information may not be liable under the contract or under the statute, because he did not disclose the information himself, and ensures at the same time that claims, e. g. against former employees, can be enforced. In addition, clear definitions in such a contract facilitate the enforcement of statutory claims under §§ 17, 18 UWG (tort and criminal liability for unauthorized disclosure or use of trade secrets). 4

2. Scope of confidentiality

Also with respect of the scope of the materials submitted and subject to the secrecy obligation a clear contractual obligation is recommendable in order to avoid later controversies. This, for one, relates to the unequivocal identification of secret materials; see note 162 to sample contract 1; but particularly to the line of demarcation between the knowledge of the potential licensee, which he had at the date he entered into the secrecy 5

*Nonexclusive License*

## Sample Contract 4

### Nonexclusive License

(With technical assistance, supply of technical materials and know-how)

Corporation . . . , having its headquarters at . . . represented by the chairman of its board of directors – hereinafter referred to as Licensor –

and . . . Company having its headquarters at . . . represented by its managing director – hereinafter referred to as Licensee –

Agree as follows:

#### Preamble

(1) Licensor is owner of several patents relating to a specialty cable, which is described in detail in Annex I. Licensor is the only one selling this cable heretofore in the territory and licensor is willing to grant licensee a nonexclusive, technically limited license for the production and sale of this cable under the patents listed in Annex II and to assist licensee during the start of the production of the invention as necessary.

(2) Licensor has the right to grant the license.

Based on these premises the parties agree as follows.

#### § 1 Definitions<sup>1</sup>

The terms used in the contract shall have the following meanings:

(1) »Licensed Article«<sup>2</sup> is the cable described in Annex I, consisting of the cable core, the tape cable, the protection and slide film, the shield and the cover of the cable.

(2) »Technical Data«<sup>3</sup> are drawings, plans, descriptions, flow charts for the production, process descriptions and all other handwritten, printed or drawn materials which are the property of licensor and which relate to the production of the licensed article. These materials have been listed in the Annex III.

(3) »Know-How«<sup>4</sup> is the entire knowledge of licensor relating to the production of the licensed article, as far as it does not already fall under the definitions (1) and (2) above.

*Nonexclusive License*

(4) »Improvements of the Licensed Article«<sup>5</sup> are such improvements which fall within the scope of the licensed patents, independent of their patentability.

(5) »Developments of the Licensed Article«<sup>5</sup> are inventions for which the licensor has obtained independent patent protection, regardless of whether these developments are within the scope of the licensed patent or not.

§ 2 License type<sup>6</sup>

(1) Licensor herewith grants licensee a nonexclusive license for the production and sale of the licensed article.

(2) The license is granted for the Federal Republic of Germany with the exception of Bavaria.<sup>7</sup>

(3) Licensor has the right to produce the licensed article in the contract territory, to sell it and to grant licenses to third parties. Licensor does not have the right to grant third parties an exclusive license, with the exception of the provision of § 3.<sup>8</sup>

§ 3 Technical scope of the license<sup>9</sup>

The license relates to the entire technical field encompassed by the patents, with the exception of the use of the licensed article in the area of digital data processing.

§ 4 Assignment of the license and sublicenses<sup>10</sup>

The assignment of the license and granting sublicenses is only permissible with a written approval of the licensor.

§ 5 Subcontractors<sup>11</sup>

(1) Licensee shall have the right to have the licensed article produced by third parties. For this purpose, the licensee shall have the right to provide that information to the subcontractor, which is needed to produce the licensed article.

(2) Licensee is obligated to have all subcontractors who receive technical information under this contract sign confidentiality obligations in accordance with Annex IV.

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§ 6 Obligation to purchase<sup>12</sup>

- (1) Licensee promises for the production of the licensed article to buy the parts listed in Annex V from the therein listed suppliers of licensor.
- (2) Licensor shall supply those parts which are produced by licensor, in accordance with the valid price lists and conditions to licensee.

§ 7 Technical assistance<sup>4, 13</sup>

- (1) Licensor shall assist licensee technically and provide technical data and know-how to the extent that this is necessary for the production of the licensed article and as far as personnel of licensor is available.
- (2) With respect to the details, particularly the number of the personnel, the fees for the technical assistance and the circumstances of providing personnel of the licensee, the parties shall agree in detail.
- (3) All expenses of the technical assistance shall be borne by the licensee.

§ 8 Transmittal of technical data<sup>5</sup>

- (1) The transmittal of technical data shall be deemed complete, when all of the documents listed in Annex III have been provided to licensee.
- (2) Licensor shall update the technical data for as long as he produces the licensed article. The supply of technical data to licensee is at no extra cost to licensee.
- (3) All technical data shall be in German and in metric units.

§ 9 Reproduction of technical data<sup>14</sup>

- (1) Licensee has the right to copy the technical data in the scope and number necessary. These copies may only be used for the production of the licensed article and are to be marked »Confidential« by licensee.
- (2) The technical data and the information concerned therein are to be treated confidential by licensee and may only be passed on to third parties in the scope of § 5.

*Nonexclusive License*

§ 10 Improvements of the licensed article by licensor<sup>5, 15</sup>

(1) Licensor promises to grant licensee, in addition to the license granted, licenses on improvements of the licensed articles, as far as the respective technical knowledge is also used by the licensor for the production of the licensed article. Licensee promises to use the improvements of the licensed article, if licensor requires this. The royalties are not increased thereby.

(2) Licensor promises to grant licensee licenses for further developments of the licensed article. The parties shall agree upon the conditions of such new licenses.

§ 11 Improvements by licensee<sup>5, 15</sup>

Licensee promises to inform licensor about improvements, further developments and technical information relating to the licensed article, and to grant him licenses thereunder if licensor so desires.

§ 12 Royalties<sup>16</sup>

(1) For the license under this contract, licensee shall pay licensor a lump sum of DM 50 000. This fee is due within 30 days from the date of the agreement.

(2) In addition, a running royalty of 5 percent of the factory sales price of the licensed article is to be paid.

(3) All value added taxes, sales taxes and indirect taxes that have to be paid for the royalties shall be borne by the licensee. If necessary these taxes, when being collected from the licensor, shall be paid by the licensee in the name of licensor.

§ 13 Accounting<sup>17</sup>

(1) Licensee shall within 30 days submit to licensor copies of all invoices relating to the sale of licensed article. Licensor shall send quarterly bills to licensee for the royalties due. Payment of the billed royalties shall be made within 30 days from receipt of the bill.

(2) Licensee shall have the right to make preliminary payments for the royalties prior to final billing.



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§ 14 Records<sup>17</sup>

- (1) Licensor shall have the right to inspect the books of licensee as far as they relate to the computation of the royalties.
- (2) The inspection of the books can be done semi-annually in the months January and July.
- (3) The right to inspect the books shall be excluded, if licensee provides the report of a sworn accountant obligated to secrecy.

§ 15 Most favorite terms<sup>18</sup>

- (1) Licensor shall offer licensee any more favorable royalty clauses which he has granted to third parties in a license contract.
- (2) Enterprises affiliated with licensor are not considered third parties under item (1).
- (3) Damage payments from infringers or royalty payments from compulsor licenses do not fall under this regulation.

§ 16 Quality control<sup>19</sup>

- (1) Licensee is obligated to produce the licensed article in the same quality as the licensor. Licensor shall have the right to control the agreed-upon quality and to stop the sale of products which are below standard. Licensor can exercise this right to control by personal inspection of the production.
- (2) If licensee does not comply with a demand of licensor to avoid defects within a period of four weeks then licensor has the right to immediately terminate this agreement.
- (3) Licensee indemnifies licensor under any claims of third parties from product liability. The same applies with respect to advertising statements by the licensee with respect to licensed article.

§ 17 Warranties<sup>20</sup>

- (1) The know-how and technical data which are provided under this contract are those which licensor himself uses in the production of the licensed article. Nevertheless, the licensor does not make any guaranteed promises that the know-how and technical information is correct and without defects, that the use of the information makes possible the adequate production of the licensed article or that the technical information is complete.

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- (2) There is no warranty that the use of the license does not infringe third parties' rights or does not cause damages for third parties.
- (3) All warranty claims are excluded as far as these are based on the technical data or the know-how transferred. No warranty is made for the reliability, the quality, the economic utilization, the usefulness of the licensed article for the intended purpose or for any other purpose.
- (4) Licensor guarantees the existence of all licensed patents on the date of the agreement. Any liability for later invalidation or lapse of the patents is excluded.

§ 18 Marking<sup>21</sup>

- (1) Licensee shall have the right to refer to the license with mention of the licensor in the marketing of the licensed article. Licensee promises to promptly submit to licensor copies of all printed publications, in which the name of licensor in conjunction with this license is utilized.
- (2) Licensee shall attach the licensor's trademark on the licensed article at a spacing of 25 cm, as shown in Annex VI. In addition a reference to the licensee as the producer may be affixed in half-size letters.
- (3) After the termination of this agreement licensee shall not have the right to refer to the former license.

§ 19 Setting of sales price<sup>22</sup>

Licensee promises not to sell the licensed articles below the list price of licensor.

§ 20 No-challenge clause<sup>23</sup>

Licensee promises not to challenge the patent rights during the duration of the license agreement, and not to support third parties in a challenge of the validity of these patents.

§ 21 Lapse and invalidity of patents<sup>24</sup>

- (1) The expiration or invalidation of individual patents of this contract leaves the validity of the contract unchanged. A reduction of royalties shall only be made if patent no. 1 or 2 of Annex II are invalidated.

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(2) Royalties which are due prior to the final declaration of invalidity, but which have not yet been paid, have to be paid in full by licensee.

§ 22 Defense and enforcement of the patents<sup>25</sup>

(1) Licensor is obligated to defend the patents against challenge by third parties (opposition, nullity suit) at licensor's cost.

(2) The parties shall inform each other about all infringements of patents under this contract in the contract territory.

(3) Licensor is not obligated to proceed against infringers, but licensor shall support licensee in the enforcement of the patents, and in particular shall provide him with the necessary procedural powers.

(4) Any damage payments shall belong to licensee if licensee conducted the litigation, but shall belong to licensor if licensor conducted the litigation.

§ 23 Duration<sup>26</sup>

This contract shall have a duration of 8 years, beginning with the date of the agreement, and then is extended year by year, unless one of the parties terminates the agreement with at least a three months' notice.

§ 24 Termination<sup>27</sup>

(1) In the case of breach of contract both parties shall have the right to terminate the contract for cause. This termination right has to be exercised within four weeks after one party has unsuccessfully requested of the other party, with a reasonable term, that the breach be terminated and remedied.

(2) With respect to licensor valid reasons for termination are, e.g. the noncompliance by licensee with the territorial limits of the license, a late reporting or payment, and bankruptcy of licensee. For licensee, significant reasons for termination are the invalidation of the patents 1 and 2 in Annex II and the economic impossibility to sell the licensed article.

§ 25 Assignment of patents<sup>28</sup>

Licensor has the right to use the patents as collateral. An assignment of the patents to third parties has to be previously announced to the licensee. The licensee shall have insofar a right of first option, which he has to exercise with the licensor and in writing within four weeks after receiving the information about the planned assignment.

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§ 26 Jurisdiction<sup>29</sup>

Place of performance is Munich. For all controversies under this agreement the jurisdiction of the District Court Munich (Landgericht München I) is agreed upon.

Place, Date

Signatures

Comments

1. Definitions

Here the terms are explained that are used in the contract, which are not self-evident or are to be interpreted in a specific sense. Particularly the definition of the licensed article, the technical data, etc., serve as a positive limitation of the scope of the license. Therefore a careful agreement between the parties in that respect is mandatory. 9

2. Licensed subject matter

The technical description of the licensed article, due to the volume of data, is contained in an annex to the contract. In many instances, technical drawings are useful in which the licensed article is represented. 10

3. Technical data

The technical data can be specified and listed. To achieve a positive delineation it is useful to enumerate individually the printed, written or drawn materials to be submitted, so that also in this respect the scope of obligations is defined. 11

The provision of § 8 (1) of sample contract 4 is strongly recommended in order to avoid unjustified warranty claims. Similar to the obligation for instruction, the success of the transfer of technical knowledge is crucially dependent upon the experience of the licensee. The licensor thus has an interest in defining the scope of his obligations from the outset, since otherwise the licensee might refuse the payment of royalty by arguing that the licensor has not fulfilled his obligation. 12

[End of Annex and of document]