



## Licensing Term Sheet

**Purpose of this licensing tool:** This term sheet is useful to facilitate negotiation and conclusion of licences. By using the tool, you will ensure that all important issues are considered fully and dealt with. Links to articles discussing relevant concepts will assist you along the way.

### Licensee's details

1. **Name of the licensee (the person acquiring the licence):**

2. **Is the licensee a:**

☐ **Person**

☐ **Company.** If so:

According to which country's laws is the licensee registered?

☐ **Trust.** If so:

According to which country's laws is the licensee registered?

☐ **Other.** If so:

Provide a description of the entity:

(e.g. "a statutory body established in terms of the Higher Education Act 101 of 1997")

3. **Physical address of the licensee** (*Note: not the postal address*)

### Licensor's details

4. **Name of the licensor (the person granting the licence):**

5. **Is the licensor a:**

☐ **Person**

☐ **Company.** If so:

According to which country's laws is the licensor registered?

☐ **Trust.** If so:

According to which country's laws is the licensor registered?

☐ **Other.** If so:

Provide a description of the entity:

6. **Physical address of the licensor**

### **Transfer pricing check**

If the licensor and licensee:

- (a) are in different countries;
  - (b) are "connected persons", i.e. have common shareholding; and
  - (c) the royalty rate is not market-related,
- you may have a transfer pricing problem.

For more information, see the following articles:

- [Transfer pricing](#)
- [Beware those transfer pricing contraventions](#)
- [Attribution of profits to a Swiss company](#)

### Exchange control check

If a South African licensee is required to pay royalties to a foreign licensor, Exchange Control approval is required.

If an Exchange Control application is required, who will assume the cost of submitting the application for Exchange Control approval?

☐ Licensor

☐ Licensee

For more information, see the following articles:

- [Incoming licences](#)
- [Extracts from Excon Regs and Manual](#)

### Commencement date

7. **From what date is the licence effective?**

☐ Date of last signature; or

☐ Specify date:

### Intellectual property (IP)

8. **What forms of IP is being licensed?**

a. **Patents**

Country	Number	Title	Type (provisional / complete)	Status (application, granted)

If there are more than three patents, insert their details below:

Tip: See our [Patent Toolkit](#)

b. **Designs**

Country	Number	Title	Status (application, granted)

If there are more than three designs, insert their details below:

Tip: See our [Design Toolkit](#)

c. **Copyright**

☐ Enter description:

OR

☐ Attach copyrighted work as a schedule

d. **Trademarks**

Country	Number	Mark	Status (application, granted)

If there are more than three trademarks, insert their details below:

e. **Know-how**

i. Identify – either:

☐ Enter description:

OR

☐ Attach as a schedule

ii. Does the know-how relate to:

☐ Formulae

☐ Technical information

☐ Information regarding manufacturing and storage techniques

☐ Information concerning materials, formulations, processes, compositions and formulae

☐ Information generally relating to marketing and sourcing

☐ Business information generally

9. **Will confidential information be disclosed to the licensee subject to obligations of confidentiality?**

☐ Yes

☐ No

Useful article:

- [Understanding IP](#)

### Type of licence

10. **Is the licence:**

- ☐ **Exclusive** (i.e. only the licensee may exercise the licensed rights)
- ☐ **Sole** (i.e. only the licensee and licensor may exercise the licensed rights)
- ☐ **Non-Exclusive** (i.e. the licensor may continue to exercise the licensed rights and to grant rights of use to other third parties in addition to the licensee)

11. **If patents are being licensed:**

a. **Do the patents relate to:**

- ☐ A **method**? If so, briefly describe the method:

- ☐ A **process**? If so, briefly describe the process:

- ☐ A **product**? If so, briefly describe the product:

b. **Is the licensee granted the right(s) to:**

- ☐ Dispose of the protected product (including products made using a protected process / method)
- ☐ Offer to dispose of the protected product (i.e. advertise)
- ☐ Use the protected product (or process)
- ☐ Make the protected product
- ☐ Import the protected product
- ☐ Exercise the protected method

12. **If designs are being licensed, is the licensee granted the right(s) to:**
- ☐ Dispose of the protected article
  - ☐ Offer to dispose of the protected article (i.e. advertise)
  - ☐ Use the protected article
  - ☐ Make a protected article
  - ☐ Import the protected article
13. **If copyright is being licensed, is the licensee granted the right(s) to:**
- ☐ Make reproductions of the copyrighted work (i.e. copies)
  - ☐ Make adaptations of the copyrighted work (e.g. converting a sculpture into a painting)
  - ☐ Dispose of the copyrighted work
  - ☐ Offer to dispose of the copyrighted work (i.e. advertise)
  - ☐ Use the copyrighted work
  - ☐ Import the copyrighted work
14. **If trademarks are being licensed, is the licensee granted the right(s) to:**
- ☐ Offer and provide services using the mark
  - ☐ Use, offer to dispose of and dispose of goods bearing the mark
  - ☐ Make goods bearing the mark
  - ☐ Import goods bearing the mark
15. **If know-how is being licensed, for what purpose(s) may the licensee use and disclose the know-how?**

**Licensed territory and specific exclusions**

16. **In which territory does the licence apply?**

17. **Are the licensee's rights limited to a specific field of use?**

☐ Yes. If so, describe the field of use: (e.g. "*the field of mineral exploration*")

☐ No

18. **Are specific restrictions imposed upon the licensee?** (e.g. "*licensee may not dispose of ABC products to XYZ*")

☐ Yes. If so, describe the restrictions:

☐ No

### **Sublicensing**

19. **May the licensee grant sub-licences throughout the territory? \_**

☐ Yes. If so:

a. Will the sub-licences automatically terminate on termination / cancellation of this main agreement?

☐ Yes

☐ No

b. What proportion (if any) of sub-licensing royalty payments may be retained by the licensee? (e.g. "7%")

☐ No

### **Royalties**

20. **In what currency are royalties payable?**

21. **Licensor's banking details:**

Useful articles:

- [Accrual of royalty payments](#)
- [Capital / Revenue nature of royalty payments](#)
- [MyPatent IP valuation tool](#)
- [South African DTAs \(Withholdings tax\)](#)

### **License fees (upfront royalty payments)**

22. **Are upfront royalties (licence fees) to be paid?**

☐ Yes. If so:

- a. What is the amount of the upfront payment (excluding VAT, GST or similar taxes)? And on which date(s) is/are payments to be made?

Amount	Date payable

- b. Is the upfront payment:

- ☐ A non-refundable upfront payment
- ☐ A non-refundable running royalty pre-payment
- ☐ A refundable royalty pre-payment

☐ No

Useful article:

- [Deductibility of upfront royalties](#)

### **Running royalties**

23. **Are running royalties to be paid?**

☐ Yes. If so:

- a. **How are royalties to be calculated?**

- ☐ As a percentage of turnover. If so, what percentage of net turnover is payable?

- ☐ As a fixed amount per product made or sold (whichever occurs first) / process applied / method exercised. If so, what amount is payable per product made or sold (whichever occurs first) / process applied / method exercised?

- ☐ As a fixed amount per “trigger” (defined below)

“Trigger” definition: (e.g. *“disposal by the licensee to XYZ of a bearing that falls within the scope of the Intellectual Property”*)

What amount is payable per trigger event?

- ☐ As a fixed amount per royalty period, which “amount” is:

Does this amount escalate annually?

- ☐ Yes. If so, by what percent?

- ☐ No

Useful articles:

- [Royalty rates](#)
- [Use of the 25% rule](#)
- [Royalty stacking](#)
- [Royalty benchmarking reports](#)
- [Importance of being earnest](#)

b. **Would you like to apportion the running royalty between the various items of intellectual property?**

☐ Yes. If so:

IP	Apportionment (%)
Patents	
Designs	
Trademarks	
Copyright	
Know-how	
<b>Total:</b>	<b>100%</b>

☐ No

c. **How frequently are royalties to be paid?**

☐ Monthly

☐ Quarterly

☐ Half yearly

☐ Annually

☐ No

### **Minimum royalties**

24. **Do you wish to impose minimum performance / royalty criteria?**

☐ Yes. If so:

Period	Cumulative minimum performance criteria / royalties

Insert more minimum performance criteria below, if required:

☐ No

25. **Should a minimum performance criterion not be met:**

- ☐ Does the licensee have an election to make up shortfalls in minimum royalty payments by making a lump sum payment and thereby remove the licensor's right to terminate the licence?
- ☐ Is the licensee automatically liable for payment of the shortfall without impact on termination provisions?
- ☐ Does the licensor automatically assume a right to terminate the agreement without the licensee having an opportunity to remedy the shortfall by payment of a lump sum?
- ☐ Does the licence automatically convert into a non-exclusive licence without impact on termination provisions? If so, by how much is the running royalty then discounted (e.g. "25%")?

**Audit**

26. **Does the cost of conducting a royalty audit transfer to the licensee where the discrepancy between amounts payable and amounts actually paid exceeds a threshold?**

- ☐ Yes. If so, what is the threshold? (e.g. "15% of royalties payable"):

- ☐ No

**Termination**

27. **How is the licence terminated?**

- ☐ On a specific date / event, unless the parties agree prior to that date to extend the term of the licence:

Date/ Event:

- ☐ On notice by either party. If so, how many business days' notice?

- ☐ On breach or mutual agreement only (i.e. perpetual licence)

- ☐ In the event that minimum royalties are not met (and not remedied, if possible)

Useful article:

- [Nature of perpetual licences](#)

28. **Will the licence terminate if the licensee challenges the validity of the IP licensed?**

☐ Yes

☐ No

29. **Will the licence terminate if only Know-How remains?**

☐ Yes

☐ No

30. **Should the licence terminate if a period of suspension due to force majeure (act of God) exceeds a threshold?**

☐ Yes. If so, how many consecutive calendar days of suspension are permitted?

☐ No

### **Surplus stock upon termination**

31. **Should the agreement deal with existing stock on termination / cancellation?**

☐ Yes. If so, upon termination or cancellation:

a. Is the licensee permitted to sell-off existing stock?

☐ Yes. If so:

i. Over how many months is the licensee permitted to sell-off existing stock?

ii. On expiry of such period, will the licensor purchase surplus stock from the licensee at cost?

☐ No. If so, what will happen to surplus stock?

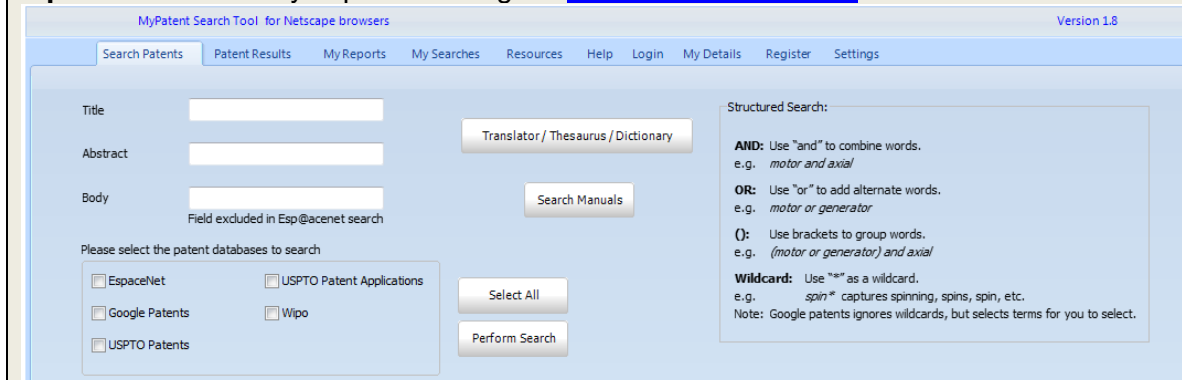
☐ No

## Warranties

### 32. The licensor warrants:

- ☐ That the licensor is the proprietor of the IP or rights therein
- ☐ That the licensor is free to grant the licence conferred by this agreement
- ☐ That the licensor has not granted any prior licence in respect of the IP to any other person in respect of the territory (and field of use)
- ☐ That to the best of his knowledge, the licensor is unaware of any conflicting rights of any third party in respect of the IP and/or the licensed goods/services/methods/processes/works as at the Commencement Date
- ☐ That exercise by the licensee of the rights in terms of the licence will not infringe the IP of third parties (*We suggest that you do not warrant this*)
- ☐ That to the best of his knowledge, the IP is valid and in force
- ☐ That the IP is valid and in force
- ☐ That the licensor has not disclosed the Know-How / confidential information to third parties on any basis other than a confidential basis.

**Tip:** Check the validity of patents using the [MyPatent Search Tool](#)



MyPatent Search Tool for Netscape browsers Version 1.8

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Structured Search:

**AND:** Use "and" to combine words.  
e.g. motor and axial

**OR:** Use "or" to add alternate words.  
e.g. motor or generator

**():** Use brackets to group words.  
e.g. (motor or generator) and axial

**Wildcard:** Use "\*" as a wildcard.  
e.g. spin\* captures spinning, spins, spin, etc.  
Note: Google patents ignores wildcards, but selects terms for you to select.

33. **Does the licensor exclude warranties / liability for:**

- ☐ Prior statements and fitness for use
- ☐ Consequential or punitive damages

#### **Improvements to the IP**

34. **Will the licensee have access to improvements to the IP developed or acquired by the licensor without payment of further consideration?**

- ☐ Yes
- ☐ No

35. **Will improvements to the IP developed by the licensee automatically be licensed to the licensor on a non-exclusive, royalty-free basis?**

- ☐ Yes. If so, may the licensor freely sub-license such improvements to third parties?
- ☐ Yes
- ☐ No
- ☐ No

Useful article:

- [R&D tax incentive guideline](#)

#### **Marketing obligations accepted by the licensee**

36. **Does the licensee accept obligations to create and satisfy the market for the licensed Products, Works, Methods or Processes?**

- ☐ Yes. If so, what kind of effort is required?
- ☐ Best efforts (*we caution against this*)
- ☐ Reasonable efforts (sometimes has same meaning as “reasonable commercial efforts”)
- ☐ “Reasonable Efforts” defined so as to exclude commercial considerations
- ☐ Reasonable commercial efforts (i.e. assume no obligations if the licensee does not generate a profit therefrom)
- ☐ No

### **Indemnities by the licensee**

37. **Does the licensee wish to indemnify the licensor against:**
- a. Damages resulting from the licensee's conduct, action or inaction?
- ☐ Yes
- ☐ No
- b. Product liability claims?
- ☐ Yes
- ☐ No

### **Insurance**

38. **Will the licensor take out insurance to cover his indemnities?**

☐ Yes. If so, how much?

☐ No

39. **Will the licensee take out insurance to cover his indemnities?**

☐ Yes. If so, how much?

☐ No

### **Technical assistance**

40. **Will the licensor be providing the licensee with technical assistance?**

☐ Yes. If so:

- a. Detail consideration payable for such assistance:

Description of service	Consideration payable (inclusive of VAT / GST)
<input type="text"/>	<input type="text"/>

b. Do you wish to escalate the amounts in the above table?

☐ Yes. If so, by what percentage per year?

☐ No

☐ No

Useful article:

- [Roll up licences](#)

### **Late payment**

41. What interest rate is to be levied upon late payments?

### **Quality control**

42. Does the licensor wish to exercise acts of quality control (consider this where trademarks are licensed)?

☐ Yes. If so, may the licensor:

☐ Dictate quality control standards that must be adhered to by the licensee?

OR

☐ Merely provide advice as to quality control?

☐ No

### **Infringement of licensed IP**

43. Where the licensed IP is infringed / challenged within the territory:

a. Who will control proceedings?

☐ Licensor

☐ Licensee

- b. Who will be responsible for expenditure incurred?
- ☐ Licensor
- ☐ Licensee
- c. Will the other party not in control provide all reasonable assistance at its own cost?
- ☐ Yes
- ☐ No
- d. If the party not in control over proceedings joins proceedings, may such party claim damages in line with its financial contribution?
- ☐ Yes
- ☐ No
- e. If the party in control over proceedings does not institute proceedings within 90 days, may the other party institute proceedings?
- ☐ Yes
- ☐ No

#### **Third party claims of infringement**

44. **Does the licensor intend to “defend” the licensee against related claims of infringement by third parties?**

- ☐ Yes. If so:
- a. Who will control proceedings?
- ☐ Licensor
- ☐ Licensee
- b. Who will be responsible for expenditure incurred?
- ☐ Licensor
- ☐ Licensee
- c. Will the licensor indemnify the licensee against any consequent order, costs and damages award?
- ☐ Yes

☐ No

☐ No

45. **Will the party not in control of proceedings provide all reasonable assistance at its own cost?**

☐ Yes

☐ No

46. **Where the licensee has been found by a competent authority to infringe the IP of a third party, is the licensor permitted to terminate this agreement?**

☐ Yes

☐ No

#### **Maintenance of intellectual property**

47. **Select one:**

☐ The licensor shall at his own expense maintain the IP in force (*this option is preferred*)

☐ The licensor shall in its sole discretion and expense maintain the IP in force

☐ The licensee shall throughout the term of the agreement at its own expense maintain the IP in force

#### **Acknowledgements**

48. **Does the licensee acknowledge that all Know-How required to exercise his rights under the licence has been provided by the licensor?**

☐ Yes

☐ No

49. **Does the licensee acknowledge licensor's title in the intellectual property?**

☐ Yes

☐ No

### **Confidentiality**

50. **Should the licensee's employees and contractors that gain access to confidential information sign similar confidentiality undertakings (if any)?**

☐ Yes

☐ No

51. **Should confidentiality provisions (if any) apply reciprocally, i.e. upon the licensor as well?**

☐ Yes

☐ No

### **Arbitration**

52. **Should disputes be referred to arbitration?**

☐ Yes. If so:

a. Where should the arbitration hearing be held?

b. Which rules should apply to the arbitration?

c. In the event that the parties cannot agree upon an arbitrator, who will appoint the arbitrator? (e.g. *"the President from time to time of the South African Institute of Intellectual Property Law"*)

☐ No

#### **Comment:**

We suggest arbitration where:

- the relationship is sensitive,
- a court case would disclose confidential information to the public, or
- the matter is so technical that the parties wish to be able to appoint an arbiter skilled in the art.

In other instances, arbitration is used to make legal proceedings cumbersome (i.e. select a country that is not common to either the licensor or licensee. Arbitration may be quicker than normal court proceedings, but is generally more expensive.

Useful article:

- [Deduction of IP litigation expenses](#)

### **Cession of rights**

53. **Select one:**

- ☐ Neither party may assign its rights and obligations in terms of the licence
- ☐ Neither party may assign its rights and obligations in terms of the licence
- ☐ Only the licensor is entitled to assign its rights and obligations in terms of the licence
- ☐ Only the licensee is entitled to assign its rights and obligations in terms of the licence
- ☐ Both Parties may assign their rights and obligations in terms of this agreement to: (e.g. *“persons in which the assigning party holds (either directly or indirectly) at least 50% shareholding”*)

Useful articles:

- [Ownership of IP](#)
- [Economic ownership](#)

### **Recordal of licence**

54. **Should the licence be recorded on the relevant IP registers, to convert the “personal” licensed rights into “real rights” that attach to the IP?**

Useful article:

- [Recordal of licences](#)

### Governing law

55. Which laws will govern this agreement?

Other useful articles:

- [Negotiating licences](#)
- [Licensing Loopholes](#)
- [International licensing structures](#)
- [Ownership of intellectual property](#)
- [Beneficial ownership of royalties](#)

### **Where to from here?**

Save this term sheet and email it to [anthony@zaiplaw.co.za](mailto:anthony@zaiplaw.co.za).

We will convert your term sheet into a watertight agreement at a **fixed price of R5,000 / US\$795 / €620** (exclusive of VAT, which is not payable by non-South African clients).

Should we identify potential risks, we will call you to discuss the issues at no additional charge.

[Anthony van Zantwijk](#) (BSc Eng, LLB, LLM (Tax)) is a patent attorney and an expert in licensing. He has more than 10 years experience in negotiating and drafting IP licences for multinational companies.

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