

LICENSING GAME

LESI WORKSHOP – COLOMBIA 2008 September

BABINC AND TRADCO

Please read this fictional case study carefully. You will get very little benefit from the discussion if you have not studied the case in advance.

The attendees will be divided into Babinc and Tradco groups, who will then negotiate with one another to conclude agreements based on the proposal from Babinc. The various agreements will then be compared and discussed.

Please bear in mind that the purpose of this case study is to enable us to argue the commercial issues rather than the technical points of legal drafting.

To this end each group is asked to identify what they think are the five most important issues from their point of view, and then to negotiate and agree with their associated group in regard to those issues that the two groups have identified. The terms agreed by the various groups will then be compared and discussed.

Notes on the commercial background for the BABINC and TRADCO case study.

BABINC are a specialized U.S. manufacturer of burglar alarms with no previous experience of operating outside North America. They have decided that they will need help from local partners to penetrate overseas markets and are therefore seeking licensees in Colombia and elsewhere.

TRADCO are an old established family-owned company whose chairman is building up

profits with a view to a stock exchange listing. They estimate that they have nearly a 40% share of the Colombia market for burglar alarms and that their closest competitor has about 10%. The market in other South American countries is believed to be more fragmented. TRADCO have a joint venture with a Brazil company to market burglar alarms in Brazil. The chairman realises that although TRADCO are making good profits and the company is a cash cow, its products could well be made uncompetitive by new technology.

BABINC and TRADCO believe that profits before tax in the burglar alarm industry are about 20% of sales in the United States and 25% in Colombia. BABINC have consistently spent 10% of sales on R & D. Their burglar alarms have not yet received approval from insurance companies or the police outside North America.

The BABINC negotiators were unable to find a copy of the Colombia schedule of import duties in Boulder, Colorado. On their arrival in Colombia they telephoned the U.S. trade commissioner to find out the Colombia import duty on burglar alarms and sensors. They were informed that burglar alarms are zero rated and that sensors could be rated at 5% or 10%.

The license agreement accompanying this note is the document presented by BABINC to TRADCO at the commencement of negotiations.

SPECIFICATION FOR BABINC BURGLAR ALARM TYPE 291

1. Based on BABINC's novel lightweight audio, infra red and olefactory sensor.
2. Featuring BABINC's branded technology 'BABINC Inside' for which they have registered a trademark in the US.
3. Remote or local alarm.

4. Genuine/Spurious signal discriminator.
5. Simple setting on departure and switch-off on re-entry to building.
6. Competitively priced in U.S.A. at \$99 ex works, standard unit. Additional sensors \$75 ex works.
7. Optional extras include intruder size discrimination, light control, intruder marking system, etc.
8. Can also be used as a smoke and fire detector.

THIS AGREEMENT made the day of , two thousand and eight BETWEEN Bowler Alarms of Boulder Colorado Incorporated (hereinafter called "BABINC") of 1444 Main Street, Boulder, Colorado 47011, United States of America of the one part and Trade Alarm Devices Company Limited (hereinafter called "TRADCO") of carrera 970, Of 107 , Bogota, Colombia of the other part

WHEREAS

Recital

BABINC have offered to grant TRADCO a license to make and sell Burglar Alarms on the terms and conditions herein appearing

NOW THIS AGREEMENT WITNESSETH that:

Definitions

1 IN this Agreement the following expressions have the following meanings

"Territory" means Colombia

"The Licensed Patents" means the Colombia Patents and Patent Applications specified in the Schedule hereto in respect of which BABINC are the registered proprietors

"BABINC Sensor" means every sensor within the claims of Colombia Patent Application 06109681.0 for incorporation in BABINC Burglar Alarm Type 291

"Licensed Product" means any Burglar Alarm for the detection of intruders

"BABINC Knowhow" means all knowhow and information which BABINC is free to give relating to BABINC Burglar Alarm Type 291 excluding information relating to the BABINC Sensor

"The Selling Price" means the selling price of every licensed Product or part thereof sold by or on behalf of TRADCO

Licence

2(1) BABINC hereby agrees to grant and TRADCO hereby agrees to take a non-exclusive License:

- a) under the Licensed Patents, and
- b) under the BABINC Knowhow, to make and sell Licensed Products in the Territory for the lifetime of this Agreement.

2(2) BABINC shall ensure that not more than one other license for the manufacture and sale of Licensed Products in the Territory shall subsist during the period of this Agreement.

2(3) AT the written request of TRADCO, BABINC shall consider granting a License or Licenses to TRADCO on the same terms as herein for other countries. Such grant for other countries shall be subject to the financial conditions specified in sub-clause (6) of clause 6 of this Agreement.

Sub-license

3 TRADCO shall not assign, mortgage, charge or part with any of their rights, duties or obligations under this Agreement or grant sub-licenses without the previous consent of BABINC in writing which consent may be subject to conditions including financial conditions.

Supply of Knowhow

4 FORTHWITH upon the execution of these presents BABINC shall at the request of TRADCO disclose and TRADCO may use for the purpose of making and selling Licensed Products in the Territory all BABINC Knowhow.

Use of Knowhow

5 THE use made by TRADCO of BABINC Knowhow shall be subject to the following conditions

(a) TRADCO shall not without the previous consent in writing of BABINC disclose BABINC Knowhow to any third party (other than information required for the purpose of sale)

(b) BABINC Knowhow shall be accurate to the best of BABINC's knowledge and belief, but no warranty is given that such Knowhow will in fact be accurate

(c) BABINC make no representation that the use of BABINC Knowhow does not infringe third party rights

(d) No claim of any sort shall lie against BABINC arising from the use of BABINC Knowhow whether such Knowhow be accurate or not

(e) TRADCO shall use BABINC Knowhow and BABINC Sensors for the sole purpose of manufacturing Licensed Products for sale to third parties in accordance with the provisions of this Agreement

(f) After the termination of this Agreement TRADCO shall not use or disclose BABINC Knowhow for any purpose whatsoever.

Payments

6(1) WITHIN seven days of the execution of these presents TRADCO shall pay to BABINC the sum of thirty thousand US dollars (US\$30,000)

6(2) TRADCO shall during the life of this Agreement pay to BABINC Royalties at the following rates on the Selling Price of every Licensed Product or part thereof sold by or on behalf of TRADCO.

The said rates are:

(a) In respect of Licensed Products and parts thereof incorporating one or more BABINC Sensors - six per centum (6%)

(b) In respect of all other Licensed Products and parts thereof - twelve per centum (12%).

6(3) IF in any year from the date of this Agreement the total sums payable hereunder do not amount to twenty thousand US Dollars (US\$20,000) TRADCO shall pay to BABINC at the end of such year such a sum as will bring the payments up to such total.

6(4) TRADCO shall also pay to BABINC the cost to BABINC of preparing all copies of specifications, reports, drawings, designs or other documents containing information supplied to TRADCO by BABINC for the purpose of manufacturing Licensed Products in accordance with the provisions of this Agreement.

6(5) TRADCO shall also pay to BABINC the United States selling price for every BABINC Sensor purchased from BABINC for incorporation in a Licensed Product. TRADCO shall further pay the costs of packing freight and insurance for such Sensors.

6(6) In the event that BABINC agrees to grant TRADCO Licenses for other countries TRADCO shall pay to BABINC the sum of thirty thousand US Dollars (US\$30,000) in respect of every country for which the said License is granted.

Records and Royalty Returns

7(1) TRADCO shall keep true and particular records and books of accounts from which all Royalties payable under sub-clause (2) of clause 6 hereof may be calculated and shall within thirty days after the last day of December in each year during which this Agreement shall remain in force to deliver to BABINC a true account thereof (such account being certified by the TRADCO auditors) in respect of the preceding year (or any part thereof in the last year of this Agreement) up to the end of the last preceding December and shall at the same time pay to BABINC the amount of such Royalties as may be shown to be due together with any additional sum that may be due to BABINC under the provisions of sub-clause(3) of clause 6 hereof.

7(2) IN the event that TRADCO do not pay the said Royalties in the time specified in the previous sub-clause TRADCO shall pay to BABINC by way of an additional payment interest on said outstanding Royalties at the rate of one per centum (1%) per month or part of a month that said Royalties remain unpaid.

8 TRADCO shall permit at any time during normal office hours any duly authorized representative of BABINC to inspect and take copies and extracts from the records kept by TRADCO under clause 7 hereof and shall produce to such representative all receipts and vouchers relating thereto.

Termination

9(1) SUBJECT to the provisions for termination hereinafter contained, this Agreement shall continue in force for twenty five years or until BABINC shall give six months notice of termination in writing.

9(2) BABINC shall have the right to terminate this Agreement and the License hereunder forthwith by notice in writing to TRADCO upon the happening of any of the following events

(a) if any Royalty payable hereunder is in arrear and TRADCO fails to pay the same within fourteen days of a notice from BABINC calling upon TRADCO to pay the same

(b) if TRADCO fails to perform or observe any of the other terms hereof on its part to be performed and observed and fails to remedy such breach within thirty days of a notice from BABINC to remedy the same

(c) if TRADCO has a Receiver appointed of the whole or any substantial part of its assets or if an order is made or resolution is passed for the winding up of TRADCO

(d) if TRADCO shall come under the direct or indirect or de facto direction or control of any other individual firm or company operating in the field covered by this Agreement and competing with BABINC.

10 NEITHER BABINC nor TRADCO shall be under any obligation to institute or defend any legal proceedings whether for infringement or otherwise in respect of any of the Licensed Patents.

11 NOTHING in this Agreement shall be construed as a representation or warranty that the Licensed Patents are valid or that manufacture or sale hereunder is not an infringement of any valid and subsisting Letters Patent not held by BABINC.

Improvements

12 TRADCO shall during the period of this Agreement communicate to BABINC information relating to any unfettered improvement or development of Licensed Products or improved manufacturing techniques for Licensed Products at any time owned or controlled by TRADCO, to the extent that they are free to do so.

Where Letters Patent of the United States are granted to TRADCO in respect of any said improvement BABINC shall be entitled to a royalty free irrevocable license with the right to grant sub-licenses to make use exercise and sell said improvement in the United States and elsewhere.

Legal Costs

13 TRADCO shall pay the reasonable legal costs incurred by BABINC in respect of the preparation of all drafts and engrossments of and stamp duties on this Agreement.

Arbitration

14 ANY dispute under this Agreement or transactions contemplated hereby shall be submitted to arbitration before an arbitrator and under a procedure mutually agreed upon by the parties. If they cannot agree BABINC and TRADCO shall each choose an arbitrator who in turn shall choose a third arbitrator. In the event that the two arbitrators are unable to agree upon a third arbitrator the third arbitrator shall be chosen by the American Arbitration Association. Arbitration shall be in Denver, Colorado, United States in accordance with the rules of the American Arbitration Association then in effect. The decision of the Arbitrators shall be by majority vote.

15 THIS Agreement shall be considered as a contract made in the State of Colorado and shall be interpreted in accordance with the laws of the that State.

IN WITNESS whereof these presents have been entered into the day and year above written by or on behalf of the parties by the following

Names of persons signing
for BABINC

Positions held

Names of persons signing
for TRADCO

Positions held

SCHEDULE OF PATENTS

Colombia Patents relating to BABINC Burglar Alarm Type 291

<u>Patent Number</u>	<u>Date of Grant</u>	<u>Date of Expiry</u>	<u>Title</u>
CO1000642	12.6.92	10.12.2011	Improvements in or relating to Burglar Alarm Systems
CO1026060	11.5.99	5.6.2018	Improved genuine/spurious discriminator
CO1031703	24.9.2006	11.1.2025	Sensors for Burglar Alarms