Post-Termination Clauses and Considerations

LES Benelux Licensing Course

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Overview

• Meaning of “termination”—is it really the end?
• Termination as a multi-pronged concept
• Rights and obligations that can extend past “termination”
• Review of potential clauses to address post-termination rights and obligations
• Sub-licenses and early termination
“Termination”

Is it really the end?

Typical clause:

• “This Agreement will run to the end of the life of the last to expire of the Licensed Patents and will thereupon terminate.”
Termination as a multi-pronged concept

*US v RCA* (D.Del. 1954)

- “This agreement and all licenses herein granted, shall continue in force until the termination date”
- “The termination date shall be December 31, 1954.”
- Another provision expressly continued licenses beyond the Dec 1954 date for certain pre-termination inventions.
- **Question:** when does RCA’s (very) valuable right to sublicense terminate?
Termination as a multi-pronged concept

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**Question:** when does RCA’s (very) valuable right to sublicense terminate?

- US and GE argued Dec 31, 1954
- Court found otherwise—termination date operated as a cutoff for inventions, but sublicense right ran with longer license provision
Termination as a multi-pronged concept

Lesson: Take care to ensure that each prong is the intended length (e.g., the same length)
Rights and obligations that can extend past “termination”

*Termination may be just the beginning of the end.*

**What about:**
- Reporting
- Audits
- Accrued royalty payments
- Record keeping
- Treatment of confidential information
- Licenses and releases applicable to licensee’s customers
- Potential causes of action accrued during license term
- Sublicenses
- Inventory
Post-termination clauses enumerating surviving rights and obligations

The words “termination” [and other similar terms] … are to be read as omitting from their effect the following rights and obligations, all of which survive any termination to the degree necessary to permit their complete fulfillment or discharge:

• Licensee’s obligation to supply a terminal report
• Licensor’s right to receive or recover and Licensee’s obligation to pay royalties (including minimum royalties) accrued or accruable for payment at the time of any termination
• Licensee’s obligation to maintain records
• Licensor’s right to conduct a final audit
• Licensee’s obligation to hold in confidence all Confidential Information disclosed to Licensee by Licensor

Good?
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Good? How? What does not continue?
Post-termination clauses enumerating surviving rights and obligations

What about rights not intended to extend past termination?

Previously: Licensee’s obligation to hold in confidence all Confidential Information disclosed to Licensee by Licensor extends post-termination

But can Licensee continue to use the held Confidential Information past termination?

Agreement does not specify. Courts may resolve this ambiguity in a way not contemplated by the parties.
Post-termination clauses enumerating surviving rights and obligations

**A better approach:**

Termination of this Agreement will have the following effect:

- Licensee, within 30 days after the date of termination, will return to Licensor all drawings, specifications, instructions, and other documents pertaining to the manufacture of widgets that it has received from Licensor, and

- will destroy and certify in writing the destruction of electronic data including or containing any Confidential Information

*Practical consideration: when the cat is let out of the bag, it’s hard to put it back*
Post-termination clauses enumerating surviving rights and obligations

Other post termination rights to consider addressing:

Termination of this Agreement will have the following effect:

• Licensee may sell or dispose of all Licensed Products on hand as of the termination date ... provided Licensee completes such sale or disposition within 90 days after termination and provided Licensee pays royalties on such sales
• Licensee will discontinue manufacture of all Licensed Products ....
Post-termination clauses enumerating surviving rights and obligations

Opportunity to clarify expectations for post-termination obligations:

• Within **60 days** of termination, Licensee will render a final report ....

• Licensor will retain the right to conduct a post-termination audit ....

• Licensee will retain books and records until such audit and any subsequent dispute arising from such audit
Sub-licenses

Unless the agreement with the licensee provides otherwise, an authorized sublicense will continue despite early termination of the license agreement.

• Options if this is not the intent:
  • Upon termination of this Agreement, each authorized sublicense will terminate unless within 60 days after termination, the sublicensee delivers in writing to Licensor ....
  • On date of termination, Licensee hereby assigns to Licensor each authorized sublicense agreement that is in effect on the date of termination....
  • Each sublicense will terminate upon termination of this Agreement ....
### Special topic—post patent expiration royalty payments (inadvertently commandeered from Dirk-Jan)

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Belgium</th>
<th>Netherlands</th>
<th>Switzerland</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Party AB License</strong>: Party A agrees to a license for Party B’s ‘123 patent, which is set to expire in three years. Party A agrees to pay Party B a running royalty for all sales (of covered products) occurring during the five-year term of the license.</td>
<td></td>
<td></td>
<td></td>
<td>The license’s requirement for royalties on sales occurring after the patent’s expiration is unlawful.</td>
</tr>
<tr>
<td>The Party AB License also covers and includes a transfer from Party B to Party A of manufacturing know-how and certain trade secrets associated with manufacturing and commercialization of products covered by the ‘123 patent.</td>
<td></td>
<td></td>
<td></td>
<td>Requiring royalties after the patent expiration is ok, but should be at a discounted rate.</td>
</tr>
<tr>
<td>In addition to the ‘123 patent, the Party AB License also licenses Party B’s ‘124 patent, which does not expire during the five-year term of the license.</td>
<td></td>
<td></td>
<td></td>
<td>All royalties are ok.</td>
</tr>
<tr>
<td>Under the Party AB License, no royalties are due during life of the ‘123 patent. Rather, all royalties due for sales occurring during life of the ‘123 patent are due in equal installments during years 4 and 5 of the Party AB License.</td>
<td></td>
<td></td>
<td></td>
<td>Deferred royalty payments are ok, as long as they are not for sales occurring after the expiration of the ‘123 patent.</td>
</tr>
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</table>
Relying on extensive experience in both patent procurement and patent litigation, Darren Jiron focuses on building strategically developed patent portfolios. With a special interest in helping high-tech and fast-growing companies craft patent plans to block competitors and build corporate value, Darren works closely with clients to ensure their patents align with and support their business goals.

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