

# KTI Practical Guide

## Term Sheets for Licence Agreements



## Foreword

The KTI Practical Guides have been produced as a resource for those approaching transactions between Irish research performing organisations (RPOs)<sup>1</sup> and commercial companies. Each Practical Guide explains common terms in the agreements and describes the considerations that might apply.

The KTI Model Agreements contained in each Practical Guide take account of the legal constraints upon RPOs when entering into contracts, as well as the unique nature of RPOs, whose primary purpose is not-for-profit rather than commercial. At the same time, the terms of the agreements seek to address the typical commercial priorities of companies, e.g. to have access to intellectual property rights. The Guides are based on European best practice.

The Practical Guides are offered as a starting point for drafting and discussion, as required. Neither companies nor RPOs are mandated to use the Model Agreements.

The KTI Practical Guides and Model Agreements are available on the KTI website to download and use direct. [www.knowledgetransferireland.com](http://www.knowledgetransferireland.com)

## Disclaimer

*Parties should take their own legal advice on the suitability of any model agreement for their individual circumstances and on associated legal and commercial issues. Neither Knowledge Transfer Ireland, Enterprise Ireland nor any of the individuals or organisations who have produced or commented on these documents assumes any legal responsibility or liability to any user of any of these model agreements or commentaries.*

The KTI Practical Guides and Model Agreements were prepared by Anderson Law LLP (Oxford, UK; [www.andlaw.eu](http://www.andlaw.eu)) with advice on certain Irish law issues from LK Shields Solicitors (Dublin, Ireland; [www.lkshields.ie](http://www.lkshields.ie)).

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<sup>1</sup> RPOs are considered to be Higher Education Institutes (Universities and Institutes of Technology) or State research organisations

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## Introduction to Term Sheets

### What is a term sheet?

Sometimes, parties in negotiations agree certain key terms of their proposed agreement before they engage in detailed negotiations over the wording of the final contract. These key terms are recorded in a document that is given a variety of names, including:

- Heads of agreement.
- Heads of terms.
- Term sheet.
- Memorandum of understanding.
- Letter of intent.

What the document is called is less important than whether it is intended to be legally binding (as to which, see the below commentary under the heading “Key points to watch out for in term sheets”). For convenience, these documents will be referred to below by the single name of ‘term sheets’. See also the separate Practical Guide entitled “[Practical Guide to Legal Issues in Contracts with Research Performing Organisations](#)”, where the legal issues surrounding term sheets and contracts generally are discussed.

In the authors’ experience, two distinct approaches to term sheets have emerged:

- The first, recommended, approach involves a short document, typically no more than two pages, that is signed by both parties. This type of term sheet focuses solely on key commercial issues, at a ‘headline’ level, without getting into too much detail. Subsequent, detailed negotiations are conducted with one eye on the term sheet, and if a party proposes terms that are inconsistent with the term sheet the other party may object strongly.
- The second approach typically involves a somewhat longer document that is used by the commercial negotiators as a record of their discussions, often held without legal advice. As more issues are discussed, they are added to the draft term sheet. Sometimes the parties are unable to agree points in their term sheet, and eventually decide to proceed to drafting of a full agreement. Often, the term sheet is never signed.

In the authors’ view, term sheets are most useful when they are short, simple summaries of the key terms of the deal, as in the first approach above. The term sheet should avoid detailed definitions or complex IP provisions, particularly if a party is negotiating the term sheet without detailed legal advice. The [Model Non-Binding Term Sheet for a Licence Agreement](#) that accompanies this Practical Guide follows this approach.

Where term sheets are negotiated by a different group of people to those responsible for negotiating the full agreement in the RPO (e.g. an RPO’s business development team rather than a research contracts or technology transfer team) they may not have the necessary training or mandate to negotiate complex, contractual language. If the company proposes detailed language in a term sheet this may create complexity and delay as the RPO manages internal procedures.

In many situations the parties may decide to move directly to negotiation of the full agreement without use of a term sheet.

### Important points to note

The reader faced with drafting a term sheet must always keep in mind that a template can only ever be a starting point. The specific circumstances of the particular arrangement must always be considered and the template tailored as appropriate. For example, a number of fact specific, complex issues may be raised when drafting a term sheet, which by their nature cannot be dealt with in a template. Examples of these issues include the following:

- The Model Term Sheet has not been drafted to take account of the individual requirements of Irish RPOs which might apply. Readers are advised to seek out and address, by additional provisions, any peculiarities or requirements of a relevant institution.

- The Model Term Sheet has not been drafted with regard to any tax law, treatment or policy. It may be advisable to get specific tax advice in relation to any tax issue or treatment which might arise as a result of performing or implementing the term sheet. Tax treatment will depend in part on the parties' circumstances at the time the agreement is made and thereafter.
- The Model Term Sheet has not been drafted to be used by or in relation to consumers. Contracts concluded with consumers are obliged to include an additional layer of legal protections, to be written in plain-spoken language, and to contain other features imposed by consumer-specific laws which are beyond the scope of this Practical Guide.
- In addition, readers should be aware that in some situations the law relating to "state aid" might need to be considered (e.g. if the industrial party does not pay market value for the benefits it receives). This is a complex area and there is no 'one-size-fits-all' way of dealing with it. Accordingly, the reader should seek specialist advice when required.

## Key points to watch out for in term sheets

### Is the term sheet legally binding?

As discussed in the Practical Guide to Legal Issues in Contracts with Research Performing Organisations, there is no automatic assumption under Irish law as to whether or not a term sheet is legally binding. This will depend on the intentions of the parties as expressed in the document. When the authors are asked to advise on term sheets, their first question is usually whether the term sheet is intended to be legally binding. In most cases, the answer will be that it is *not* intended to be binding.

To make this point explicit, wording such as the following may be included in the term sheet:

*"Legal status.* This term sheet is not intended to create, evidence or imply any contract or other legal relationship between the Parties. Each Party acknowledges and agrees that (a) either Party may withdraw from the negotiations at any time, prior to signature of a full agreement, without liability, and (b) the negotiations are being conducted on a non-exclusive basis, unless and to the extent otherwise stated in this term sheet. To the extent that any legal issue arises with respect to this term sheet, the Parties agree that this term sheet is made under the laws of the Republic of Ireland."

The second and third sentences of the above clause have been included because in some countries (particularly some countries in continental Europe), signature of a term sheet may impose an obligation of good faith on the parties such that they cannot withdraw from the negotiations without incurring a liability to the other party and also an obligation to negotiate on an exclusive basis. The second and third sentences are not guaranteed to work, but may help to avoid such other countries' laws from applying. Local legal advice should be sought in appropriate cases.

### Other types of preliminary document

Much of the above discussion applies equally to documents that are called memoranda of understanding (or MOUs), and which are intended to be pre-contractual documents that record the main terms of a proposed agreement. Sometimes, though, the name 'MOU' refers to a different type of document. Typically, when used in this other sense, an MOU records a strategic understanding between parties. This type of document is more like an international treaty than a contract. For example the authors have been involved in advising a university on such an MOU with other universities in other countries, covering strategic, international cooperation.

There is also an old-fashioned name, 'memorandum of agreement', which usually just means 'agreement' and should not be confused with an MOU.

Letters of intent, or comfort letters, are sometimes used to give comfort to a party's investors or others that it is in serious negotiations with another party. It is important to make clear that such documents are not legally binding.

### Hybrid term sheets

Sometimes, a term sheet will provide that some of its terms are legally binding and the remainder of the term sheet is not legally binding. Typically, the terms that are stated to be binding will include the following:

- Confidentiality provisions.
- Exclusivity provisions (e.g. an obligation on the RPO not to enter into an agreement with anyone else during a defined period).

### What happens if no 'full agreement' is reached?

Sometimes, parties agree a non-binding term sheet, and work begins, but no 'full agreement' is reached or signed. In such circumstances, if the matter came to court, the court might have to decide the terms of the contract. In the absence of any better terms, it might decide that some or all of the terms in the term sheet should apply. Or it might not. This uncertainty will usually be undesirable, so it may be unwise to start work on a project until the full agreement is signed.

### Issues to consider

The following is a list of some issues to consider when reviewing a term sheet:

- *Templates.* Use of the Model Non-Binding Term Sheet for a Licence Agreement will speed up negotiations and allow a term sheet to be concluded as swiftly as possible.
- *Terms.* Possible key issues might include:
  - *Whether or not the term sheet is intended to be legally binding;*
  - *Confidentiality; and*
  - *Exclusivity.*
- *Monitoring.* The RPO will implement procedures to monitor any obligations accepted under a term sheet, including maintaining a database of term sheets (and other documents).

## Checklist of preliminary issues and provisions commonly found in term sheets for licence agreements

The checklist provided below lists (i) some preliminary points that may need consideration, and (ii) the main provisions usually found in a term sheet for a licence agreement together with the main issues that should be addressed regarding each provision.

<b>Preliminary:</b>	
<i>Parties</i>	<ul style="list-style-type: none"> <li>• Have the correct legal names and addresses been included?</li> <li>• Does the term sheet refer to affiliates in the description of a party? Are the references appropriate? Does the signatory have authority to sign on behalf of affiliates?</li> </ul>
<i>Signature blocks</i>	<ul style="list-style-type: none"> <li>• Does the term sheet include signature blocks? If so:             <ul style="list-style-type: none"> <li>○ Is the wording above the signature blocks appropriate in view of whether or not the term sheet is intended to be legally binding?</li> <li>○ Does the term sheet need to be signed by a central part of the organisation, e.g. a Research Contracts or Technology Transfer Office?</li> <li>○ Do you need to remind the 'other side' regarding their authorised signatory?</li> <li>○ Should the academics sign – as parties or to state that they have “read and understood” the term sheet?</li> </ul> </li> </ul>
<i>Date of the Term Sheet</i>	<ul style="list-style-type: none"> <li>• This is the date when the term sheet is signed. If the parties sign on different dates, it should be the last date on which a party signed.</li> <li>• This is the date that should be entered into any database of term sheets.</li> </ul>
<b>Definitions:</b>	
<i>Meaning of Period</i>	<ul style="list-style-type: none"> <li>• The Period sets out the time frame within which the parties intend to negotiate and execute the full licence agreement.</li> <li>• Ensure that the Period is realistic, e.g. consider the RPOs procedures and the availability of relevant staff.</li> <li>• The defined term is also used in the (optional) exclusivity clause to set out the time frame during which the RPO should not negotiate, execute, etc. a similar licence agreement with a third party.</li> <li>• If an exclusivity period is agreed, ensure that the relevant academic is aware of this period and agrees to comply with it.</li> </ul>
<b>Main provisions:</b>	
<i>Purpose</i>	<ul style="list-style-type: none"> <li>• The reason why the parties are entering into the term sheet should be explained, so that its purpose is clear.</li> <li>• Some brief wording has also been included in this clause (2) to outline the timetable for the negotiation and execution of the full licence agreement.</li> </ul>

<p><i>Confidential Information</i></p>	<ul style="list-style-type: none"> <li>• Will any confidential information be exchanged during the negotiations?</li> <li>• Has a confidentiality agreement already been executed by the parties to cover the negotiations or do confidentiality obligations need to be included in the term sheet? If a confidentiality clause needs to be included in the term sheet, ensure that this clause is stated to be legally binding.</li> <li>• Two alternative confidentiality clauses have been included in the Model Non-Binding Term Sheet for a Licence Agreement. The first (alternative) clause sets out some very brief (mutual) confidentiality obligations. The second (alternative) clause refers to a confidentiality agreement that has already been signed by the parties. Delete whichever alternative clause is not appropriate for the particular arrangements.</li> </ul>
<p><i>Exclusivity</i></p>	<ul style="list-style-type: none"> <li>• Will the RPO accept an obligation not to negotiate or to enter into a similar licence agreement with a third party during the Period (i.e. whilst the negotiations with the other party to the term sheet are underway)?</li> <li>• Is there any “price” for the RPO agreeing to this period of exclusivity? For example, will the other party make a one-off payment, agree to pay any patent costs incurred before or during this period, etc.?</li> </ul>
<p><i>Legally binding</i></p>	<ul style="list-style-type: none"> <li>• Is the term sheet intended to be legally binding? Usually the answer will be “no” – but consider whether any individual clauses of the term sheet need to be legally binding (e.g. confidentiality clauses, etc.).</li> <li>• Ensure that whether or not the term sheet is intended to be legally binding is stated very clearly in the term sheet.</li> </ul>
<p><i>Costs</i></p>	<ul style="list-style-type: none"> <li>• Will each party bear its own legal and other costs incurred in connection with the negotiation and preparation of the term sheet and any subsequent agreement?</li> </ul>
<p><i>Law and jurisdiction</i></p>	<ul style="list-style-type: none"> <li>• Has the law governing the term sheet been stated?</li> <li>• Has jurisdiction also been specified (i.e. which party’s courts would hear any dispute)?</li> <li>• Is it appropriate to specify exclusive or non-exclusive jurisdiction?</li> <li>• Has the law and jurisdiction clause been checked against any relevant insurance policy?</li> </ul>

# Model Non-Binding Term Sheet for Licence Agreement

Dated \_\_\_\_\_ 20[●]

(1) [*Full legal name of the RPO*]

and

(2) [*Full legal name of the Company*]

## MODEL NON-BINDING TERM SHEET FOR LICENCE AGREEMENT

## NON-BINDING TERM SHEET FOR LICENCE AGREEMENT<sup>i ii</sup>

This Non-Binding Term Sheet dated \_\_\_\_\_ 20[●]<sup>iii</sup> is between:

- (1) [●] (the “**RPO**”), [an academic institution [incorporated or established] under [statute or charter in Ireland],] whose [principal address or registered office] is at [●]<sup>iv</sup>; and
- (2) [●] (the “**Company**”), [a company incorporated in [●] under registration number [●],] whose [principal place of business or registered office] is at [●]<sup>v</sup> <sup>vi</sup>.

The RPO and the Company together shall be referred to as the “**Parties**”, and individually shall be referred to as a “**Party**”.

### 1 Purpose

The Parties intend to discuss the possibility of entering into a licence agreement (the “**Licence Agreement**”). The purpose of this Term Sheet is to summarise the main commercial terms of the proposed Licence Agreement. The Parties intend to negotiate and execute the Licence Agreement within [●]<sup>vii</sup> days of signature of this Term Sheet (the “**Period**”).

### 2 Provisions envisaged for the Licence Agreement

The Parties intend that the Licence Agreement will contain terms based on the following principles<sup>viii</sup>:

<b>Licence grant:</b>	The RPO will grant the Company [an exclusive] OR [a non-exclusive] licence to use the IP to develop, manufacture, use, and sell or otherwise supply Licensed Products (to be defined in the Licence Agreement) only in the Field and in the Territory.
<b>IP:</b>	[Insert description of the IP to be licensed to the Company].
<b>Field:</b>	[Insert description of the Field].
<b>Territory:</b>	[Insert description of the Territory].
<b>Sub-licensing:</b>	The Company will have no right to grant sub-licences of its rights under the IP, except with the prior written consent of the RPO.
<b>Payments<sup>ix</sup>:</b>	<p>The Company will pay to the RPO: [insert description of the various payments to be made, which may include e.g. initial payments, milestone payments, royalties on Net Sales and Net Receipts, etc. For example:</p> <ul style="list-style-type: none"> <li>• An initial payment of €[●] within 30 days of signing the Licence Agreement;</li> <li>• A royalty of [●]% of Net Sales Value (to be defined in the Licence Agreement); and</li> <li>• A royalty of [●]% of Net Receipts (to be defined in the Licence Agreement).]<sup>x</sup></li> </ul>

<b>Other payment terms:</b>	<i>[Insert here a description of any other main payment terms, e.g. minimum royalties, reimbursement of patent costs, etc.]</i>
<b>Commercialisation<sup>xi</sup>:</b>	The Company will use Diligent and Reasonable Efforts (to be defined in the Licence Agreement) to develop and commercially exploit Licensed Products. In addition, the Company will submit annual statements to the RPO outlining (amongst other things) the activities taken and planned to bring Licensed Products to market.
<b>Other<sup>xii</sup>:</b>	<i>[Insert here any other main commercial terms for the proposed Licence Agreement].</i>

### 3 Areas still to be discussed

The Parties envisage that the Licence Agreement may also include other terms, which may include, without limitation, [●]<sup>xiii</sup>.

### 4 Confidentiality<sup>xiv</sup>

*EITHER:* [Each of the Parties acknowledges that during the negotiation of the Licence Agreement it may receive Confidential Information from the other Party. “**Confidential Information**” shall mean any information which, if in writing, is marked as confidential or which, if not in writing, is otherwise characterised as confidential at the time of disclosure. Each of the Parties agrees that it will:

- (a) use the Confidential Information only for the purpose of negotiating the Licence Agreement and not for any other purpose; and
- (b) keep the Confidential Information confidential and not directly or indirectly disclose it or make it available to any third party.

This obligation shall not apply to information which is or subsequently becomes publicly known through no act or omission of the Party that receives it.]

*OR:* [It is agreed that the confidentiality of the Parties’ confidential information that may be disclosed by one Party to the other during the negotiation of the Licence Agreement will be maintained in accordance with the Confidentiality Agreement signed by the Parties on *[insert date]*.]

### 5 Exclusivity<sup>xv</sup>

[During the Period, neither of the Parties may enter into any agreement, negotiations or discussions about *[mention here the subject of the proposed Licence Agreement]* with any third party.]

### 6 Law and status of this Term Sheet

[Except for the provisions of Clauses 4, 5, 6 and 7 which the Parties intend to be binding obligations<sup>xvi</sup>, this] *OR* [This] Term Sheet is not intended to create, evidence or imply any legal relationship or contract between the Parties. Each Party acknowledges and agrees that (a) either Party may withdraw from the

negotiation of the Licence Agreement at any time without liability, and (b) the negotiations are being conducted on a non-exclusive basis, unless and to the extent otherwise stated in this Term Sheet<sup>xvii</sup>. To the extent that any legal issue arises in connection with this Term Sheet, it will be governed and construed in accordance with the laws of the Republic of Ireland.

**7 Costs**

Each Party shall bear its own legal and other costs in connection with the negotiation and preparation of this Term Sheet and any subsequent agreement.

**The Parties record their understanding of the above by signing below:**

For and on behalf of

For and on behalf of

*[Full legal name of the RPO]*

*[Full legal name of the Company]*

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Signed

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## Drafting Notes

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<sup>i</sup> This term sheet is intended as a document in which the parties can record their initial, shared assumptions about the provisions of a licence agreement that is under negotiation. These terms will not be binding. The term sheet can also include binding terms about exclusivity and confidentiality that will apply during the period of the negotiations (and subsequently, in the case of the confidentiality provisions). This term sheet should be read in conjunction with the accompanying Practical Guide entitled "Introduction to Term Sheets".

<sup>ii</sup> Users of this term sheet should be aware that in some situations the law relating to "state aid" might need to be considered (e.g. if the industrial party does not pay market value for the benefits it receives). This is a complex area and there is no 'one-size-fits-all' way of dealing with it. Accordingly, the user should seek specialist advice when required.

<sup>iii</sup> This should be the date on which the last party signs the term sheet.

<sup>iv</sup> Insert the full name of the RPO, the statute or charter under which it was incorporated or established, and its registered/principal address. Individual RPOs will have their own legal formalities which will need to be completed to bind the RPO.

<sup>v</sup> Insert the full legal name of the company (or the other party), its registered number, and its registered/principal address. If the term sheet is entered into with an entity other than a company, its full legal name, legal status, country of incorporation, and registered/principal address should be stated here.

<sup>vi</sup> This term sheet has been designed for use between an RPO and a commercial entity. It has not been designed for use when the potential licensee is a consumer. Contracts concluded with consumers are obliged to include an additional layer of legal protections, to be written in plain-spoken language, and to contain other features imposed by consumer-specific laws. The user should seek specialist advice if required.

<sup>vii</sup> Specify the time frame within which the parties intend to negotiate and execute the full licence agreement. Note that this defined term is also used to define the (optional) exclusivity period.

<sup>viii</sup> Outline here the main provisions proposed for the licence agreement as negotiated so far. This clause is at the heart of the term sheet.

<sup>ix</sup> The wording stated here is offered by way of an example only and needs to be tailored for the particular circumstances of the deal. Template wording has been suggested for upfront, milestone and royalty based payments, but not all of these types of payment may be relevant for any one particular deal.

<sup>x</sup> Users of this term sheet are advised that it has not been prepared with regard to any tax law, treatment or policy, and that it may be advisable to get specific tax advice in relation to any tax issue or treatment which might arise as a result of performing or implementing this Term Sheet. Tax treatment will depend in part on the parties' circumstances at the time the term sheet is entered into and thereafter.

<sup>xi</sup> The user should be aware that, depending on the subject matter of the IP, it may fall to be considered under legislation which deals with compulsory licensing in certain unusual/uncommon circumstances (for example, compulsory licensing of patents for the production of pharmaceuticals required in a public health crisis). This term sheet is not drafted to address obligations which might apply to the structure of the licence under those circumstances, and specific legal advice should be sought where compulsory licensing needs to be considered.

<sup>xii</sup> Users of this term sheet should note that the authors have not drafted those documents to take account of the individual requirements of Irish RPOs which might apply. Users are advised to seek out and address, by additional provisions, any peculiarities or requirements of a relevant institution.

<sup>xiii</sup> Mention here other terms to be included in the licence agreement, such as warranties and indemnities, law and dispute resolution procedures, ownership of IP developed by the Company under the licence agreement, and confidentiality and termination provisions.

<sup>xiv</sup> Two alternative confidentiality clauses are suggested here. Delete whichever clause is not appropriate for the particular arrangements.

<sup>xv</sup> This is an optional exclusivity clause. It should be deleted if it is not relevant for the particular arrangements. Under Irish law, a provision to negotiate exclusively with one party is binding only if (i) expressed negatively (i.e. that the negotiating party will not negotiate with any other party) and (ii) for a fixed period.

<sup>xvi</sup> Other terms that the parties might wish to be binding might include obligations to reimburse another party's expenses, etc.

<sup>xvii</sup> Under the laws of some European countries, parties may have obligations of good faith to one another which may prevent a party from unilaterally withdrawing from negotiations without liability. In addition, under the laws of some European countries, it may also be implied that the negotiations will be held on an exclusive basis. The provisions of clause 6 attempt to address these points.

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