Commercialization Agreements: Practical Guidelines in Dealing with Options

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ABSTRACT

An option to acquire rights in university intellectual property (IP) may be encountered in several guises: as a standalone agreement, as a clause within an agreement (for example, a sponsored research agreement or a material transfer agreement), or as a "pipeline," or IP framework, agreement for a university spinout company. Although the grant of an option may often form quite a small part of a larger agreement, the grant can raise important issues in terms of an organization's IP commercialization strategy. This is especially true of pipeline agreements that are, effectively, a specialized form of option agreement. The purpose of this chapter is threefold:

1. to provide an introduction to options, and their uses, and including legal, practical, and negotiating issues
2. to provide suggested templates along with guidelines concerning completion of the templates
3. to consider and discuss some of issues that are problematic or of particular concern to universities.

The chapter attempts to provide information that is useful for both the beginner and the experienced research-contracts or technology transfer professional. The breadth of material covered may give the mistaken impression that university contracts are wrought with legal and commercial difficulties. Usually, this is not the case. But sometimes differences of expectation, practice, or legal culture can arise between parties negotiating an agreement, particularly in international transactions.

FOREWORD

This chapter is based on one of a series of *UNICO Practical Guides*. Over recent years, the knowledge commercialization profession has grown and matured, creating a huge wealth of knowledge, experience, and best practice relating to university commercialization contracts. The *UNICO Practical Guides* have been produced specifically to share this knowledge, experience, and best practice within the profession. They are practical guidebooks on university contracts designed primarily for use by people both new and experienced in the profession that tap into the collective learning of colleagues and peers. The guides have been produced as a resource for knowledge commercialization professionals, primarily in the United Kingdom. The guides are not designed to replace or compete with existing manuals or other guides, but to provide a new and, we at UNICO believe, vitally important set of support materials to those who deal with university commercialization contracts on a daily basis. We hope that you find this document useful. (Kevin Cullen, University of Glasgow; Chair, UNICO).

1. INTRODUCTION

1.1 *What is an option?*

An option may be either an agreement or a clause within an agreement. Typically, an option gives one party to the agreement the right:

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- to acquire a particular right (for example, a patent license) or asset (for example, a patent)
- to require another party to enter into an agreement (in a specified form) or to negotiate the terms of a further agreement
- to evaluate materials, products, or assets to determine whether to enter into further agreements (such as further research or licensing arrangements)

Usually, options are granted on an exclusive basis. Thus, where a university grants an option to acquire rights to a package of intellectual property, the option terms may require the university not to license that intellectual property to anyone else during the option period. This may be implicit in the grant of an *exclusive option*, but sometimes the parties prefer to add a clause to the option that states explicitly that the university will not license anyone else while the option continues. Sometimes, wording may go further and prohibit the university from talking to anyone else about a possible license during the option term. This type of explicit wording (when it is used) is most often requested by the grantee of the option.

The main types of agreement that an individual working in technology transfer will come across, and about which an understanding of options is useful, include the following:

- a stand-alone option agreement in which the main subject matter of the agreement is the granting of an option, such as an option to take a license to a specific patent application, and which is not part of a larger contract (See Box 1, at the end of this chapter, for a sample option agreement.)
- an option and evaluation agreement, often referred to just as an evaluation agreement, and commonplace in regard to computer software (For example, under such an agreement one party provides an item of software for a second party to evaluate, over a defined period of time, to enable the second party to ascertain whether it wants to take a license to the software. The evaluation period gives the second party an option to acquire such a license if it so wishes. See Box 2, at the end of this chapter, for a sample software evaluation agreement.)
- a research collaboration/sponsorship agreement, in which the collaborator/sponsor is sometimes given an option of acquiring rights in the intellectual property generated by the university under the research program
- a license agreement, where in addition to the licensee obtaining a license to a university's particular patents and know-how, there may be a provision for the licensee to acquire rights in *improvements* to the licensed technology (Such a provision is usually made by granting an option to such improvements and by including an appropriate definition of improvements in the agreement.)
- pipeline agreements and rights of first refusal, which are similar to options, outlined separately, and in slightly more detail, below, along with a brief explanation of how they differ from basic option agreements and clauses (See Box 3, at the end of this chapter, for a sample pipeline agreement.)

1.2 *What is a right of first refusal?*

People sometimes use the terms *option* and *right of first refusal* loosely, and interchangeably, to refer to any kind of opportunity right. (See Box 4, at the end of this chapter, for examples of options, rights of first refusal, and similar provisions.)

The authors of this guide are not aware of any official definition of these terms. However, a right of first refusal is often understood as having the following, more precise meaning, and it is considered best practice to adopt this meaning.

The key distinction between an option and a right of first refusal, involves who initiates the grant of rights. Typically, with an option, the party benefiting from the option (the grantee) is given a period of time in which to claim the prize—to notify the party granting the option (grantor) that it wishes to obtain the grant of rights (such as a license or an assignment).

By contrast, if the grantee is given a right of first refusal, it cannot initiate the grant of rights. The grantor is in control of the process. If the

grantor wishes to grant the rights, it must notify the grantee and give the grantee an opportunity to accept, or refuse, those rights.

Typically, right of first refusal clauses operate at one or both of the following stages:

1. When the grantor first decides it is ready to grant the rights (or is about to start offering the rights to third parties), it must offer the rights to the grantee.
2. When the grantor is about to sign an agreement with a third party, the grantor must give the grantee an opportunity to match the terms agreed upon with the third party. If the grantee accepts this opportunity, the grantor must grant the rights to the grantee on those terms, instead of granting them to the third party.

Rights of first refusal are often encountered where the other party to an underlying agreement (for example, a research agreement) is either sponsoring the research (financially or in kind) or providing materials. Indeed, many university research agreements and material transfer agreements (MTAs) that originate from large pharmaceutical companies often incorporate a right of first refusal.

A right of first refusal can therefore cover the following situations:

- If party A negotiates with party B over certain terms (for example, a license agreement), then party A will give party C an opportunity to match those terms.
- If party A creates intellectual property from a research program or produces something (such as a prototype), then before party A offers to license it or assign it (either generally or to a specific party, B) party C will be given a first opportunity to acquire the right or product.

Depending on how rights of first refusal over intellectual property are drafted, they can present practical difficulties, particularly in the situation described in the second bulleted item, above. Negotiations over the grant of IP rights can take months to complete, and usually require a degree of confidence building with regard to the potential value of the technology and IP rights and to how the parties will work together under the agreement. A practical issue arises when one party in a negotiation must decide when to tell the other party that a third party has a right of first refusal over the same rights. If the second party is told at the outset, will it be willing to spend time and resources in negotiating terms? If the second party is told only when the third party exercises the right of first refusal, the second party may feel that it has been misled.

Universities may therefore wish to resist granting rights of first refusal that operate immediately prior to signing an agreement with a third party. Where it is commercially necessary to grant a right of first refusal, one solution the authors have found is to draft the right of first refusal so that it operates immediately before signing a nonbinding term sheet with the third party. The third party may be less likely to complain if it is trumped at this stage.

Another variation on options and rights of first refusal is termed *right of first opportunity*. This expression is used less frequently than right of first refusal and probably its meaning is more in flux. Where the authors have encountered right of first opportunity, it has tended to mean a right of the grantee to make a proposal to the grantor at some defined point in time (for example, when the grantor decides to grant rights) but with the provision that the grantor has no obligation to accept the grantee's proposal or negotiate exclusively with the grantee. Sometimes this level of right is described as having a (nonexclusive) seat at the negotiating table. As with other types of options, the precise meaning and extent of any right of first opportunity, and the procedure to be followed when exercising it, should be clearly set out in an agreement.

Sometimes one encounters heavyweight clauses that are a composite of both an option and a right of first refusal. For example, there may be an option to negotiate a further agreement, and if the parties cannot agree on terms, then the university can grant the rights elsewhere but must come back to the other party before entering into an agreement with terms that are no better for the university than those that the other party offered.

Any such clauses need to be carefully scrutinized to ensure that they are workable and do not prejudice discussions with the third party.

1.3 *What is a pipeline agreement?*

A pipeline agreement is normally encountered only in contracts involving the formation of a university spinout company. Under these circumstances, the university (or its technology transfer office) would have assigned or licensed certain intellectual property to the spinout. The intellectual property in question usually has its origins in the laboratory/department of the academics who created it. These academics usually end up being the founders of the new spinout company.

A pipeline agreement is basically a sophisticated form of option agreement, the purpose of which is to set out the rights the spinout has to future intellectual property generated in the founders department. Under such an agreement, the recipient of the option (the spinout company) is obtaining a "pipeline" to enable it to obtain rights in the intellectual property from the originating university department.

A typical pipeline agreement is therefore normally entered into by three parties:

1. The technology transfer company/office (TTO) of the academic organization
2. The spinout company
3. The original inventors/academics (often defined as the founders in company-formation agreements) involved in the creation of the invention or technology that has been assigned or licensed to the spinout company

A scenario that normally generates a pipeline agreement might include the following parts:

- The founders or their laboratory identifies or creates further intellectual property related to an original invention or technology, or, possibly, not related to the original invention or technology.
- The further intellectual property is created within a limited time span (for example, one or three years from the date of the pipeline agreement).
- The spinout company gets an option to obtain an assignment or license of the further intellectual property.

Furthermore, pipeline agreements generally include:

- a requirement for the founders to report regularly on their work and to identify any intellectual property that will be covered under the option
- a clause allowing the company to identify intellectual property suitable to be covered under the option
- clauses dealing with intellectual property created during the term of the agreement that may involve third-party rights or third-party funding, that incorporates third-party intellectual property (or technology), or that has been developed subject to third-party restrictions (for example, on assignment or licensing), or is subject to third-party licensing, assignment, or option requirements
- provisions giving the university a license back to (or reservation of rights over) any IP or technology licensed to the company under the pipeline agreement (for example, for research and/or teaching or for "noncommercial" use [setting out the parties' understanding of noncommercial] or for use outside a defined field)
- provisions imposing, on the company, an obligation to develop and commercially exploit the intellectual property and technology assigned, or licensed, to it under the pipeline agreement
- provisions stating which party is responsible for obtaining IP protection and bearing the costs of IP protection and when the protection should be sought and the costs borne

The negotiation and drafting of a good option agreement, right of first refusal agreement, and especially pipeline agreement are substantial tasks, during which consideration must be given to many issues—legal issues as well as commercial ones.

Options and similar agreements should never be taken lightly and should be clearly and comprehensively negotiated and drafted, in order to reflect fully the intentions and expectations of the parties.

2. SUMMARY OF BEST PRACTICE IN DEALING WITH OPTIONS

The practices described in this section are put forward for consideration as possible best practice (some of the practices, readers may feel, are ideal practice) with respect to the preparation of options.

Policy. Have in place an institutional policy for the different types of options, covering such matters as:

- whether to enter into them at all, and if so, which type is appropriate—that is, a basic option, a right of first refusal, or a pipeline
- what "due diligence" should be carried out to ensure that obligations under an option do not conflict with obligations under other existing agreements and to ensure that the terms of each option do not conflict with, or prejudice, an IP commercialization strategy
- use of questionnaires to be completed by the relevant researcher/department, to provide information relevant to the option and/or surrounding intellectual property
- who has authority to sign the option for the institution

Templates. Have in place templates for each type of option agreement ready for use in individual transactions.

Negotiation. Decide who has responsibility for negotiating the terms of options. Does that person have the required level of training and skill? Set out a procedure for referring difficult issues to a more specialist advisor (for example, an in-house lawyer).

Terms. Have in place clear "bottom lines" regarding terms that must, or cannot, be accepted in each type of option agreement. Possible key issues might include:

- law and jurisdiction (is it covered by relevant insurance policies?)
- duration of option
- exactly how the option is exercised
- clarification of what happens when the option is exercised (that is, there may be a need to enter into a further agreement)
- whether warranties or indemnities can be accepted in the different types of options

Monitoring. Implement procedures to monitor obligations under option agreements, including maintaining a database of options (and other agreements).

3. COMPLETING A TEMPLATE AGREEMENT

The following section provides a quick step-by-step list of points to be noted when drafting/completing a standard option agreement, or option clause comprising part of a larger agreement. The assumption, for purposes of this text, is that the basic starting point is an agreement similar to, or the same as, the templates set out in Box 1, although the comments below are generic enough to be of universal value. The issues referred to here have already been dealt with in the main text, but it seems appropriate to state them briefly again, so that one may have a one-shot view of the drafting of suitable option wording.

Signature Date. This is the date of the agreement and is usually (unless otherwise agreed) the date on which the last person/party signs. It is not advisable to backdate the agreement by merely inserting an earlier date at the beginning of the agreement; if one wishes the agreement to cover periods prior to the date of the agreement, one should insert, in the definitions section, a separate definition of a commencement date, effective date, that is, a date after which the rights and obligations under the agreement are effective.

Parties. For a university: parties must be authorized signatories. It is sometimes the case that senior members of an academic department may think they have authority to enter into legally binding agreements on behalf of the university, when they, in fact, do not.

For U.K. companies: The full address of the company should appear (this may be a registered address or business address; it must

be stated which address is being provided). Consideration should be given to providing the company number.[3]

For individuals: The home address should be provided (people move from one employer to another, which can prove problematic if they need to be found to sign further documents or in the event of a dispute).

The "Recitals," or "Whereas" section. The section generally appears on the first page of the agreement, after the "Parties" section, but before the main body of the agreement (the part that usually commences with "It is agreed as follows" or similar language). Recitals are intended to give some background to the agreement, but, strictly speaking, they are not necessary.

Definitions. This may or may not be a separate clause in the agreement. Quite often definitions are found throughout the document; the standard way of providing definitions is to follow a definition with its term, with initial caps and inside parenthesis. Thereafter, throughout the agreement, the phrase Effective Date would be used in place of the actual date. If a separate clause is used for definitions, the convention generally is to place the defined term in between quotation marks. For example:

1.4 "Contract Period" shall mean the period beginning on the Effective Date and ending on the [third] anniversary of the Effective Date, subject to any earlier or later termination in accordance with Clause 8;

From a drafting, as well as a contractual interpretation point of view, both versions are very efficient approaches.

Obligations: The option agreement needs to set out clearly:

- the intellectual property covered by the agreement, or if it is future intellectual property in a pipeline agreement, it needs to be properly ring-fenced by, for example, defining it as intellectual property in a particular field, generated by a specific research group, during a limited period
- the duration period of the option
- how the option can be exercised
- what happens if it is not exercised
- what happens to any materials/software transferred under the option agreement once agreement is terminated

Jurisdiction: The law governing the agreement should as far as possible be English law, while jurisdiction should be the "Non-Exclusive Jurisdiction of the English Courts," as discussed earlier.

4. KEY NEGOTIATING ISSUES IN OPTIONS

4.1 *Key terms of a typical option agreement*

Although the detailed terms of option agreements vary, they often include provisions covering the following points:

- a description of the general subject matter of the option
- a detailed definition of "option intellectual property/pipeline intellectual property" (that may refer to existing intellectual property or future intellectual property based on some existing intellectual property)
- stating what the option is for, for example, to take an exclusive license or assignment
- in an evaluation agreement, obligations to use the intellectual property only for a defined purpose
- the option exercise period (for example, "for a period of three months from the date of the agreement"; or "within one month of the Company being informed of new intellectual property arising under a pipeline agreement")
- the method of how the option is actually exercised
- a statement of what happens after the exercise of the option, for example, obligations of the parties:
  - to execute a formal assignment of specific patents
  - to enter into a detailed license agreement on pre-agreed terms, for example, those terms set out in a schedule accompanying the option agreement
  - to negotiate the terms of further agreements, for example, a license agreement

or assignment, including any time limit for such negotiations and what would result if the parties are unable to reach agreement
- payments clause setting out the option fee, including the reimbursement of any historic patent costs
- general confidentiality obligations
- various IP-related provisions, including ownership of intellectual property, any warranties that may be given, or a provision that no warranties are given relating to any information/IP provided for evaluation (that is, the material, information or IP license is provided as is)
- in an evaluation agreement, or a research agreement containing option provisions, obligations to disclose the results of research or evaluation
- in a pipeline agreement, obligations to promptly inform the spinout company of arising intellectual property that may fall within the pipeline
- standard boilerplate provisions
- termination provisions

4.2 *What are the common areas of negotiation?*

The terms that are often negotiated in option agreements include the following:

- the extent of the intellectual property covered by the agreement, especially in pipeline situations, where the university needs to keep the pipeline narrow (defined by inventors and research groups, field, sources of funding of the research, and so on), often against the wishes of the spinout company (and their investors)
- the option fee
- the duration of the option
- the name of the party who has control over (and pays for) patenting during the option period
- the detailed terms of the "further agreement" (for example, license agreement) or, if these have not yet been agreed to at the time the option agreement is negotiated, the extent to which the parties are required to negotiate, in good faith, the terms of the further agreement, for example, the actual final license of the intellectual property and the consequences of failing to agree those terms (for example, whether the terms are settled by an expert and whether the grantee receives a right of first refusal

Sometimes, as a halfway point between items entering into a detailed license agreement and negotiating the terms of further agreements, certain key commercial terms of the future license or assignment are agreed to as part of the option agreement, for example, that there will be an exclusive license, with royalty payments. However, certain provisions, such as the actual percentage figure for royalties, may be left for agreement at a later stage (with provisions for referral to an expert where the parties cannot agree).

5. A CHECKLIST OF OPTION PROVISIONS

A checklist in Table 1 (see end of chapter) lists:

- preliminary points that may need consideration
- the main clauses usually found in an option together with the main issues that should be addressed regarding each provision

6. SPECIAL LEGAL ISSUES IN OPTIONS

Note: the following comments are based on English law, and different considerations may apply in other jurisdictions, e.g. as to the enforceability of obligations to negotiate in good faith.

The enforcement of option agreements depends on both (1) the terms of the agreement and (2) the effect of the underlying law relating to such matters as "agreements to agree" among others. The manner in which an option agreement is drafted might have a similar effect as when parties use and characterize documents as letters of intent or "heads of terms" in the course of negotiations—the document is not as much setting out all of the details of the overall transaction as it is anticipating future events (and perhaps further written agreements too) down the line.

Generally, where substantial and necessary terms of an option agreement are left open for future negotiations, a contract has not been created. Ideally (from the point of view of legal enforcement) all the terms of the further agreement (for example, license agreement) will be set out as a schedule to the option agreement, so that all the parties have to do when the option is exercised is sign the further agreement. However, the parties do not always wish to spend time negotiating detailed license terms at the time of negotiating the option agreement. An alternative is to specify that the parties will negotiate the detailed terms once the option is exercised. Unless carefully drafted (in particular, with a default mechanism stating what happens if the parties cannot reach agreement, for example, referring the terms for settlement by an independent expert), this may amount to an unenforceable agreement to agree.

Where a party intends to create a legally binding option agreement, it should refrain from merely agreeing to "agree in the future," even if future agreements will be necessary corollaries to the contract at issue. Instead, the parties should specifically describe the responsibilities and obligations of each party, clearly stating the consideration for each party's obligations. By avoiding the inclusion of uncertain terms requiring future negotiation, a party can help ensure that a binding contract has been formed.

If certain commercial terms cannot be determined at the time of the execution of the option agreement, the parties should provide a method for determining the matter. For example, in relation to any options fees or other payments to be paid at a later date, the parties can agree upon a formula that permits the calculation of fees/prices in the future, or such fees/prices will be determined by a specified independent person, that is referred to an expert. These matters should not be left for the court to decide.

7. DETAILED DISCUSSION OF COMMERCIAL ISSUES IN OPTIONS

Compared with other topics covered in the *UNICO Practical Guides*, there are relatively few detailed commercial issues to discuss, once the key drafting and negotiating issues have been resolved, that is, the scope and duration of the option and the procedure for exercising it.

7.1 *Option for license or option for assignment?*

As has already been noted, there are many different types of options and many different subject matters these options can address—for example, acquisition of shares, intellectual property, contractual rights, and income streams. In the context of technology transfer activities, and where the subject matter of the option is intellectual property, a key question is whether an option should give the grantee the ownership of the intellectual property (that is, by means of an assignment) or merely a license, with ownership remaining with the university.

From the university's perspective, the main advantage of retaining ownership (that is, licensing rather than assigning) is the degree of control (or at least influence) that ownership gives. The main areas of control may be:

- control over patenting (the licensee or assignee's interests may not always coincide with those of the university)
- control over development and commercial exploitation of the intellectual property
- recovery of rights if the company becomes insolvent

Diligence obligations can, of course, be included in an assignment agreement. However, if the grantee obtains outright ownership of the intellectual property, regaining control of the intellectual property may be more difficult (if the assignee is in breach of contract) than if only a license had been granted. A license can be terminated; an obligation to assign back intellectual property may be more difficult to enforce. If the grantee owns the intellectual property and then sells it (for example, through the grantee's liquidator, as part of a winding-up process), the new owner may be able to avoid complying with the obligations under the assignment agreement (and this is an even greater risk if the new owner were not aware of these obligations).

In the case of pipeline agreements with spinout companies, the company's investors may push hard for an assignment rather than a license of intellectual property (both in relation to the original package of intellectual property that is being acquired from the university and in relation to any further intellectual property that is acquired under a pipeline agreement). A few universities are becoming more resistant to such pressure and granting only a license, or, in some cases, granting only a license initially, but converting the license to an assignment once the company has generated a certain level of investment.

7.2 *Options as part of research agreements*

Take the example of an agreement under which a company sponsors a program of research at a university. Such an agreement will usually include provisions that determine which of the parties would own the results of the research, including any resulting intellectual property. Sometimes, the agreement will specify that the results are owned by the university and that the sponsor is granted an option to acquire a license to develop and commercialize the results. Some of the "Lambert" agreements (agreement number 2, Clause 4.6) include such option terms.[4]

This approach—the grant of an option to acquire a license to commercialize results—is just one of a number of possible ways of "carving up" any intellectual property generated from a sponsored research program. The Lambert agreements offer some alternative ways of dealing with this issue. Other possible approaches include:

- sponsor owns all the results (solely or jointly with the university)
- sponsor has an automatic license to the results (either for all purposes, including commercialization, or for research purposes only)
- sponsor gets no automatic rights to, or option over, the results

Other variations include granting rights in specific fields or territories.

7.3 *No automatic offer of license or assignment: the U.S. approach*

Although Lambert may assist U.K. universities in developing a more standardized approach to the question of intellectual property arising from research contracts, U.K. universities have not yet become as consistent in their approach as many U.S. universities are. Generally, in the United States, the policy of most universities is to only grant options to arising intellectual property that is generated under a research contract.

Although exceptions may be made in certain (rare) circumstances, U.S. universities generally retain ownership of any intellectual property that arises from the results of its own research. However, they are willing to negotiate the grant of commercial rights to a sponsor through an appropriate license, so that the sponsor may commercialize the intellectual property. This approach has evolved for two reasons—first, universities feel the need to have a certain degree of control of the discoveries made in-house (no matter who funded the research), and second, the Bayh-Dole Act prohibits universities from transferring ownership of intellectual property to a company if federal funding has helped support the work—instead, the law encourages the transfer of technologies to industry through licensing.

The Bayh-Dole Act was passed in 1980 in the United States, and the policy set down in the act encourages the utilization of inventions produced under U.S. federal funding. The policy promotes the participation of universities and small businesses in the development and commercialization process. The policy permits exclusive licensing with the transfer of an invention to the marketplace for the public good. The U.S. government enjoys royalty-free, nonexclusive licenses to use such inventions for government purposes (including for use by government contractors).

Some licenses granted by U.S. universities must be nonexclusive either because federal requirements demand it or because the research has had multiple sponsors. Under some circumstances, U.S. universities are willing to grant an exclusive license to a company. However, care is taken to ensure that, first, the field of use specified in the

license is limited to the application of commercial interest to the company (so that the university researchers can continue to conduct research on other applications and develop other licensing possibilities), and second, the university will wish to ensure that the company is diligent in pursuing commercialization opportunities (a diligence clause is normally inserted into license agreements to allow the university to terminate the license if the company does not take the promised steps to develop or market the product).

In addition, licenses granted by U.S. universities normally obligate the company to pay or to reimburse the university for historic expenses associated with obtaining patents, as well as paying to the university licensing fees and/or royalties on the sale of products. If the company and the university are unable to reach agreement, or the company does not wish to obtain a license, the university is then generally free to negotiate with other parties.

In cases in which research is sponsored by a private company, a U.S. university might consider granting the sponsor a free, nonexclusive, nontransferable, royalty-free license, for internal research purposes only, to intellectual property generated by academics under the agreement. In addition, the university could, in consideration for a fixed annual fee (or royalties), grant the company the option to a nonexclusive, nontransferable, royalty-free license without the right to sublicense for the company to make products using the intellectual property.

A good example of the U.S. model is Massachusetts Institute of Technology (M.I.T.). In the majority of cases where M.I.T. research agreements involve a single sponsor, the sponsors accept M.I.T.'s standard IP clause, which gives the sponsor a number of options (including an option to an exclusive license) with regard to the licensing of patents and copyrightable materials, including software. In situations in which a sponsor wants to negotiate particular "nonstandard" IP provisions, M.I.T. is willing to enter into further negotiations. If an M.I.T. research agreement involves a consortium, the standard licensing options are limited to nonexclusive licenses.[5]

In relation to software licensing, whether intellectual property arises from sponsored research or not, companies are often willing to accept nonexclusive licenses. Also, because of the large number of patents involved in a typical electronic consumer product and because accounting for the use of each patent in such a product is onerous, many companies do not like royalty-bearing licenses in such cases. Therefore, universities might consider offering royalty-free licenses but with an upfront fee—a good example of the use of such an approach is Stanford University's EPIC (Engineering Portfolio of Inventions for Commercialization) Program, a subscription-type system with standard fees.[6] Such an approach should increase a university's chances of licensing its software technologies.

7.4 *When is an option agreement a pipeline agreement?*

An agreement will generally be described as a pipeline agreement if the party wishing to obtain rights in the intellectual property is a university spinout company and the intellectual property that is the subject of the agreement is future intellectual property that may be generated by the university (normally developed in the spinout of the department of the founding academics, or founders). Most standard option agreements, on the other hand, quite often relate to a discrete, existing item of intellectual property that a party wishes to evaluate and, possibly, obtain a license to commercially exploit.

Given that a pipeline agreement involves different pieces of (as yet unidentified) intellectual property, and also serves to set out the future relationship of the spinout and the university (and/or the university's technology transfer office), the pipeline agreement is necessarily a more complex type of agreement than a straightforward option.

Pipeline agreements usually grant an option to obtain an assignment or license of intellectual property. A pipeline agreement will usually include a definition of "pipeline IP" that will serve to define and limit the intellectual property that is to flow through the pipeline. Usually, a university will wish to limit the pipeline flow to intellectual property generated by the founders, or their

laboratory, during a defined period. The university may wish to exclude from the definition any intellectual property that is subject to obligations to third parties, for example, obligations to sponsors, or to that in which any third party owns rights (for example, joint inventions made with academics employed by other universities). The method by which new intellectual property is correctly identified as pipeline IP needs to be set out in detail—that is, provisions should be set out for the submission of regular reports, by the university/founders about their relevant research, to the spinout company, in order that the company may then choose to exercise its options.

In addition, a pipeline agreement will address which of the parties is responsible for IP protection going forward, as well as certain diligence obligations on the company in relation to its commercial exploitation of the intellectual property.

7.5 *Should the university be entering into a pipeline agreement at all?*

In ascertaining whether it is really in the university's interest to grant a pipeline to a spinout company, various factors need to be taken into account. A fundamental point is whether the university spinout in question is really the best company to commercialize the intellectual property coming out of the pipeline. Often, the assumption is made that a spinout is the automatic licensee for further developments made by the university in the same field as the intellectual property on which the spinout is based (and bearing in mind that the academic inventors of the new intellectual property in question are also involved in the spinout and have a close relationship with the technology in question). However, this assumption may not always be correct. Another company may be better able to develop the new items of intellectual property, for example, because of its greater resources or because of its complementary product offerings.

Another scenario where a spinout may not be the "licensee of choice" is one in that the university may decide to grant nonexclusive licenses—for example, if several companies are possible infringers of the university intellectual property in question and may be interested in taking out a license.

7.6 *Scope, duration, and procedure for exercise*

The option agreement should be clear in relation to:

- the period of time during which the option can be exercised—the option agreement should clearly set out the relevant commencement and termination dates for exercise of the option. Options sometimes have provisions covering several different periods:
  - the period during which the grantee can decide to exercise the option, for example, during the period of a research program and for a defined period after the final report is produced
  - if the grantee exercises the option, the period during which the parties are required to negotiate the terms of a further agreement, for example, a license agreement (Sometimes, this period is vaguely specified, and there is merely an obligation on the parties to negotiate, with no clear cut-off point. From the university's point of view this approach is highly undesirable.)
  - if the option incorporates a right of first refusal, the period of that right of first refusal (For example, the clause might provide that if the parties fail to agree the terms of the further agreement within a defined period, the university is free to license to a third party, but must offer to the grantee the terms offered to the third party. Sometimes this right of first refusal will only operate for a specified period of time, for example, a year after the collapse of negotiations with the grantee.)
- what the option is exactly for, for example, whether it is a right to negotiate something or a right to acquire something, specifying exactly what the subject matter of the option is—a specific piece of technology or a specific patent, for example (Precise definitions on that subject are generally needed.)
- consequences of any failure to agree to the terms of any further agreement (The two main alternatives are: (1) the option lapses

or (2) referral to an expert who will decide the terms of the further agreement.)

7.7 *Payments*

Sometimes, options are granted without charge. This usually happens in cases in which the grantee of the option is perceived to be in a sufficiently strong bargaining position to demand a period of exclusivity prior to deciding whether to acquire rights to the asset in question.

In many situations, however, the university may take the view that the grant of an option has commercial value that should be recognized in an option fee. One possible argument for such a fee is that if an exclusive option is granted, the university is prevented from pursuing its licensing activities with other companies during the option term. The fee could be either or both of the following:

- a fee payable for the grant of the option (for example, payable on signature of an option agreement)
- a fee payable on exercise of the option

The amount that should be charged for the grant of an option is clearly a commercial, rather than a legal, issue. The authors have seen option fees of the order of tens of thousands of pounds, but much will depend on the technology, the market, the extent of rights granted, and so on. Usually, a university will wish to recover its incurred patent costs on exercise of the option, in addition to any option fee. Option fees should not be confused with initial payments under any further agreement (for example, a license agreement). Various standard techniques have been applied for the valuation (and therefore pricing) of technology generally.[7]

8. ADMINISTRATION OF OPTIONS

It is important to keep track of options—both during the review and negotiation period and once options agreements have been signed. This task is probably best administered centrally, for greater ease of checking existing options that may have already been signed with the same party, and any other agreements, for potential conflicts with the option under review. Once a party has decided to grant an option, then a number of administrative issues may need to be addressed.

8.1 *Standard operating procedure (SOP)*

It is extremely helpful to the person negotiating the option if his or her institution has an established written policy, or written standard operating procedure (SOP) for dealing with options, that includes guidelines regarding particular clauses and issues. It is particularly helpful if written guidance exists for nonnegotiable provisions as this enables the negotiator to take a more confident stance. The guidance should be updated regularly and honed in light of practical issues experienced by the negotiators on a daily basis.

In addition to aiding the negotiator, having an SOP is also in the institution's interest. By issuing clear guidelines (and emphasizing which clauses should be referred to more senior staff or legal advisers) the potential for errors or oversights is reduced. An SOP might usefully include:

- checklist of provisions that should (or should not) be included
- guidance on when to refer particular issues to more senior staff
- reminders to enter certain details of a finalized option on the relevant database and to send a copy to appropriate academics
- list of authorized signatories and the relevant procedures for holiday cover
- whether or not to have an option questionnaire for relevant academics to complete (Unlike Material Transfer Agreements, which may be quite complex and require a more structured approach in order to ensure that the university has not granted identical rights to rival sponsors or contaminated its own background, options tend to be more straightforward. In the author's view, the essential information can probably be captured in an e-mail, with a follow-up telephone conversation if necessary.)

8.2 *Getting all the essential information for a new option*

The researcher or scientist requesting or receiving the option holds the essential information

that enables the negotiator to understand the relevant issues and establish a position that will best protect the interests of the institution (and the academic). Even if the organization does not use a formal questionnaire and, instead, gathers information by e-mail/phone, having a note of the relevant questions on an SOP has the advantage that (1) the negotiator does not need to rely on memory for the appropriate questions to ask and (2) it saves time.

8.3 *Deciding which information should be disclosed*

Where a suite of confidential information is concerned, it may be safest to provide only some of the confidential information to the recipient and withhold the most valuable, sensitive, and confidential parts of the information. Or, it may be prudent to disclose the most sensitive information at a later date, for example, when a further agreement has been signed or when a patent application has been filed.

Other detailed issues and best practice suggestions in relation to confidential disclosures of information are discussed in the *UNICO Practical Guide: Confidentiality Agreements*.

8.4 *Appointing a coordinator*

It may be desirable to appoint someone, for example, a senior secretary or contracts officer, to make sure that an option has been signed prior to disclosure and to oversee the disclosure and receipt of information under the option. Other duties could include:

- monitoring any deadlines (for example, the expiry date of the option)
- where appropriate, keeping a log of which employees have received the confidential information of an external party
- noting any unusual provisions or deviation of an option from one's own standard option
- sending a copy of the signed option to the relevant academic together with a covering letter highlighting any particular obligations
- recording details of the option in a contracts database and filing the original in a safe (or designated area)

8.5 *Making employees and others aware of their obligations*

It is good practice to ensure that employees are aware of their obligations with respect to options. In order to achieve this, all third-party confidential information should be clearly identified, perhaps by labeling it clearly as confidential. Any employee who receives third-party information should be informed that the information must be kept confidential and not used except as permitted under the option with the third party. In some cases it may be appropriate to provide a copy of that option to the employee.

8.6 *Contracts databases*

Many universities enter into large numbers of IP contracts, including options, with many different organizations. It can be difficult to keep track of whether, if the university wants to talk to a third party, there is already a option in place between them, and if so, whether it is in force and whether it covers the type of discussions that are contemplated. Maintaining a general contracts database (or even better, having a discrete database just for options) that includes brief details of the terms of each option, and searchable fields, can be of invaluable assistance.

8.7 *When to involve the lawyers*

Liability and indemnity provisions are probably the main areas where more-specialized legal advice is sought. It is also important to ensure that the procedures for exercising the option are unambiguously worded and do not leave the option in limbo for a prolonged period of time. However, unfamiliar phrasing within any clause is often worth checking. Some institutions may have a set policy that requires a final legal review before signature before certain nonstandard options are passed. Whether or not this is the case, a legal review of a random selection of nonstandard options at regular intervals may be useful as part of a due diligence exercise. ■

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Many people and organizations contributed to the creation of the *UNICO Practical Guides* and we would like to thank all of them. In particular, we would like to recognize:

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- All of the universities and individuals, inside the profession, who have contributed to and helped to review the *UNICO Practical Guides*.

UNICO is based on, and thrives upon, the sharing of ideas within the profession. We believe that the *UNICO Practical Guides*, and this chapter, are the latest tangible example of this. We thank everyone who has contributed to them, and we thank you for taking the time to read and use them.

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1 This chapter includes an overview and discussion of certain legal issues from the authors' perspectives as lawyers who are qualified in England and Wales. This overview and discussion is not intended to be comprehensive and does not constitute and must not be relied upon as legal advice. Readers should consult their institution's own legal advisers on any specific legal issue that may arise. UNICO members based in Scotland and Northern Ireland should be aware that, whilst some areas of law are the same throughout the United Kingdom, other areas (such as Scots contract law) differ significantly from that in England and Wales. To the fullest extent permitted by law, neither Anderson & Company nor UNICO nor any of their employees or representatives shall have any liability, whether arising in contract, tort, negligence, breach of statutory duty or otherwise, for any loss or damage (whether direct, indirect or consequential) occasioned to any person acting or omitting to act or refraining from acting upon any advice, recommendations or suggestions contained in this chapter or from using any template or clause contained in this chapter.

2 See www.unico.org.uk or write to UNICO, St John's Innovation Centre (Unit 56), Cowley Road, Cambridge CB4 0WS, U.K. info@unico.org.uk.

3 In the U.K., consider inserting the company 'number' (a company can change its name, but the original number given to it by Companies House never changes).

4 The Lambert agreements were developed in the UK by a committee consisting of university and industry representatives, and chaired by Mr Richard Lambert (now the Director General of the Confederation of British Industry (CBI)). The agreements consist of 5 alternative template agreements with different IP terms; they were designed to reduce the time spent in negotiating IP issues in university research contracts www.innovation.gov.uk/lambertagreements.

5 See also www.mit.edu.

6 otl.stanford.edu/industry/resources.html.

7 See, for example, Anderson M. 2003. *Technology Transfer: Law, Practice, and Precedents* (Second edition), ch. 3. Tottel Publishing: U.K. In this book, techniques such as net present value, benchmarking, and going rate are discussed, and a table of published royalty rates is included.

Box 1: Sample Option Agreement

THIS AGREEMENT dated the ___ day of _____ 2007 is between:

University Technology Transfer Ltd a company incorporated in England and Wales whose registered office is at [ ] ("University Technology Transfer") and

[name of company] a [U.S. corporation incorporated in the State of] whose principal place of business is at [address] (the "Company").

WHEREAS

A. University Technology Transfer is responsible for the development and commercialization of certain technologies that have been developed at [University] ("University").
B. Either University Technology Transfer or University has filed patent application number(s) [state number(s)] in [the United Kingdom] in respect of an invention made by a University employee [name], relating to [specify invention].
C. The Company wishes to acquire an Option to obtain a license under the Patent Rights, [and is willing to fund work to establish a "proof of concept" for the said invention that, it is intended, will enable the specification and claims of the Patent Application to be improved,] and University Technology Transfer is willing to grant the Company such an Option in accordance with the provisions of this Agreement.

IT IS AGREED as follows:

1. Definitions

In this Agreement, the following words shall have the following meanings:

Commencement Date
[date]

Option
The Option described in Clause 2.1

Option Fee
The sum of [Currency]

Option Period
The period of [90] days from the Commencement Date, subject to any earlier termination of the Option under Clause 2.4

Patent Rights
The patent application(s) referred to in Recital B[, together with any continuations, continuations in part, extensions, reissues, divisions, and any patents, supplementary protection certificates and similar rights that [are based on or] derive priority from the foregoing].

2. Option

2.1 In consideration of the Option Fee, University Technology Transfer hereby grants to the Company an exclusive Option (the "Option"), during the Option Period and subject to the provisions of this Agreement, to negotiate an exclusive, worldwide license (with the

(Continued on Next Page)

Box 1 (continued)

right to sublicense) under the Patent Rights to develop, manufacture, have manufactured, market, use, and sell products [in the Field] (the "License Rights").

2.2 During the Option Period, University Technology Transfer and the Company shall negotiate in good faith the terms of a license agreement between them under which the Company would be granted the License Rights. [Any such license agreement would include, without limitation, terms based on the provisions of Schedule 2.] Upon agreement of the terms of the license agreement during the Option Period, the Parties shall forthwith execute a license agreement between them on such terms.

2.3 If the Parties are unable to agree the terms of a license agreement during the Option Period, despite negotiating in good faith, the Option will lapse.

2.4 During the Option Period, University Technology Transfer shall consult with the Company in relation to the filing and prosecution of patent applications in respect of the Patent Rights. The Company shall reimburse to University Technology Transfer all of University Technology Transfer's costs and expenses in relation to the filing and prosecution of Patent Applications, including without limitation patent agents' fees. If at any time during the continuation of this Agreement the Company notifies University Technology Transfer that it does not wish to reimburse University Technology Transfer's costs in respect of any family of patent applications, the Option shall terminate in respect of such patent applications on the date of University Technology Transfer's receipt of such notification, and the Company shall not have any responsibility for such patent costs arising after such date.

2.5 [If the Option lapses and University Technology Transfer licenses any of the Patent Rights to a third party, University Technology Transfer shall seek to recover any patenting costs paid to it by the Company in respect of such Patent Rights from the third party and reimburse such recovered costs to the Company.]

3. Payments

3.1 In consideration of the Option, the Company shall pay to University Technology Transfer the Option Fee (plus taxes, if applicable) within [30] days of the date of this Agreement.

3.2 During the continuation of the Option, the Company shall:

3.2.1 reimburse to University Technology Transfer all of University Technology Transfer's costs and expenses in relation to the drafting, filing and prosecution of the Patents, including without limitation patent agents' fees[; and]

3.2.2 [pay to University Technology Transfer the amounts described in the attached Schedule 1, on the dates stated in Schedule 1, by way of funding for the work described in that Schedule.]

3.3 For the avoidance of doubt, all intellectual property and other rights in the work referred to in Clause 3.2 above shall vest in University Technology Transfer, but if an agreement is reached pursuant to Clause 2.2, such intellectual property and rights shall be included in the license to the Company contemplated by Clause 2.2.

3.4 All amounts stated or referred to in this Agreement are exclusive of VAT, and VAT will be charged by University Technology Transfer to the Company, in addition to such amounts, if applicable and at the appropriate rate.

(Continued on Next Page)

Box 1 (continued)

4. General

4.1 This Agreement is made under English law and the parties submit to the exclusive jurisdiction of the English courts in respect of any dispute arising out of or relating to this Agreement.

4.2 Any notice to be given under this Agreement shall be in writing and shall be sent by first class mail, or by fax (confirmed by first class mail) to the address of the relevant Party set out at the head of this Agreement, or to the relevant fax number set out below, or such other address or fax number as that Party may from time to time notify to the other Party in accordance with this Clause 4.2, and marked for the attention of the representatives of the parties set out below:

4.2.1 University Technology Transfer's representative for notices—[insert name]

4.2.2 University Technology Transfer's fax number—[insert number]

4.2.3 Company's representative for notices—[insert name]

4.2.4 Company's fax number—[insert number]

4.3 Notices sent as above shall be deemed to have been received three working days after the day of posting (in the case of inland first-class mail), or on the next working day after transmission (in the case of fax messages, but only if a transmission report is generated by the sender's fax machine recording a message from the recipient's fax machine, confirming that the fax was sent to the number indicated above and confirming that all pages were successfully transmitted).

AGREED by the Parties through their authorized signatories:

For and on behalf of	For and on behalf of
University Technology Transfer Ltd	[...]
Signed _____	Signed _____
Print name _____	Print name _____
Title _____	Title _____
Date _____	Date _____

[Schedule 1]
[description of work to be done and amount and dates of payment]

[Schedule 2]
[Key points to be incorporated in license agreement]

Box 2: Sample Software Evaluation Agreement

THIS AGREEMENT is made on _____ 2007 by and between:

(1) [ ] a company incorporated in [England and Wales] under company number [ ] whose registered office is at [ ] (the "Licensor"); and

(2) [ ] a company incorporated in [England and Wales] under company number [ ] whose registered office is at [ ] (the "Licensee").

WHEREAS:

A. The Licensor has developed the Software (as defined below).

B. The Licensee is interested in evaluating the Software with a view to taking a Software License (as defined below) [on [advantageous][the] terms as annexed to this Agreement) and is willing to evaluate and test the Software at its own risk subject to the provisions of this Agreement.

NOW IT IS AGREED as follows:

1. Definitions

In this Agreement, the following words shall have the following meanings:

1.1 "Documentation" shall have the meaning as described in the Software License.

1.2 "Evaluation Fee" shall mean the fee to be paid by the Licensee to The Licensor as described in Schedule 1, Part B to this Agreement.

1.3 "Evaluation Period" shall mean the period of time, commencing on the date of this Agreement, during which the Licensee is permitted to use, evaluate [and test] the Software as described in Schedule 1, Part C to this Agreement.

1.4 "Site" shall mean [ ]."

1.5 "Software" shall mean the software to be licensed under this Agreement and potentially under the Software License as described in Schedule 1, Part A to this Agreement.

1.6 "Software License" shall mean the software license annexed as Schedule 2 to this Agreement.

2. Software license

2.1 In consideration of the Licensee paying the Evaluation Fee to the Licensor, the Licensor hereby grants the Licensee the nonexclusive right to use the Software for the purpose of internal evaluation only during the Evaluation Period at the Site and in accordance with the

(Continued on Next Page)

Box 2 (continued)

provisions of the Software License, except to the extent that such terms are varied by this Agreement.

2.2 [The Licensee agrees and undertakes to use the Software and to undertake its [testing and] evaluation for the Licensor [without charge to the Licensor] for the Evaluation Period.]

2.3 Within 30 days after the end of the Evaluation Period, unless the Licensee terminates this Agreement in accordance with Clause 2.4, the Licensee may enter into the Software License subject to the financial and other terms set out in the Software License.

2.4 The Licensee may at any time during the Evaluation Period, and must at the end of the Evaluation Period if the Licensee decides not to enter into the Software License, uninstall the Software from its computer system and return to the Licensor all copies of the Software, together with all documentation for the Software and all other material containing information concerning the Software that has either been supplied to it or of which it has become aware, whereupon the Licensee's obligations under this Agreement and under the Software License shall cease, other than those under Clause 4 of this Agreement and those in the Software License that are expressed to continue to subsist after its termination.

2.5 [For the avoidance of doubt, Documentation will not be provided by the Licensor to the Licensee under this Agreement.]

3. Licensee's Obligations

3.1 During the Evaluation Period the Licensee shall:

(a) install and keep the Software installed on its computer system in its offices and [permit the Licensor to] install upgrades to the Software as soon as they become available;
(b) provide for the Software to be used at the Site by at least [ ] of its employees, being employees who would normally use such a product;
(c) produce verbal [weekly] written reports on the Software's performance (addressing quality, content, and functionality of the Software as well as its marketability), which reports shall also identify any errors, bugs, or shortcomings in the Software as well as the Licensee's comments and observations as the Licensor may from time to time reasonably request;
(d) make those of its employees who are using the Software available for meetings and discussions with the Licensor from time to time;
(e) at the request of the Licensor from time to time provide, and will procure that its staff provide, free of charge, references and information as to their practical experience of using the Software to potential and actual licensees nominated by the Licensor;
(f) comply with the terms of the Software License (except in so far as varied by this Agreement) and with the terms as to confidentiality set out in Clause 4.

4. References to Licensee's Use

The Licensor may state in any publicity and other promotional materials that the Licensee is a user of the Software during the existence of this Agreement.

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Box 2 (continued)

5. Confidentiality

5.1 During and after the Evaluation Period the Licensee shall treat the Software and all information concerning it that is either supplied to it or of which it becomes aware as confidential and accordingly shall not:

(a) disclose any such information to any third party; or

(b) disclose any such information to any employee who has not acknowledged in writing the confidentiality of such information; or

(c) use any such information other than for the purpose of its own internal use, testing and evaluation of the Software except to the extent that such information is or becomes public knowledge other than through any fault of the Licensor; and shall at the request of the Licensor and at its own cost take such proceedings as may be necessary to preserve the confidentiality of such information.

6. Noncompetition (It is advisable to seek legal advice before including this clause)

6.1 During the period of [ ] [months][years] from the commencement of the Evaluation Period the Licensee undertakes not supply to, and/or develop on behalf of any third party or develop or supply to any third party, any product that competes whether directly or indirectly with the Software. Any such product shall include any software that operates as a stand-alone product, or whether as part of, or integrated into, another software product, whether can only operate in conjunction with another product, whether another product is owned, licensed to or used by the Licensee.

6.2 This obligation shall not restrict the Licensee from itself undertaking internal research and development work in respect of such competing product but the Licensee shall not undertake any marketing or promotional activities in respect of the same prior to expiry of such period.

6.3 For the avoidance of doubt, the provisions of this Clause 6 shall survive the expiration of this Agreement and/or the Software License.

7. Exclusion of Warranty

Notwithstanding any warranty to be given by the Licensor in the Software License, the Licensee acknowledges that during the Evaluation Period the Software will still be under development, will be for test and evaluation purposes only, is being provided at a fee less than that normally charged by The Licensor and accordingly is provided "AS IS" without any warranty of any kind and is being tested and evaluated by the Licensee at its own risk.

8. General

8.1 The Licensee may not assign its rights and/or obligations under this Agreement.

8.2 In the event that all or any part of the terms, conditions or provisions contained in this Agreement are determined by any competent authority to be invalid, unlawful, or unenforceable to any extent such term, condition or provision shall to that extent be severed from the remaining terms, conditions, and provisions that shall continue to be valid and enforceable to the fullest extent permitted.

(Continued on Next Page)

Box 2 (continued)

8.3 This Agreement shall be governed by and construed in accordance with the laws of England and Wales to the [nonexclusive] jurisdiction of the courts of which the parties hereby submit.

8.4 This agreement does not create any right enforceable by any person not a party to it.

AGREED by the parties through their authorized signatories:

For and on behalf of [.....]	For and on behalf of [.....]
Signed _____	Signed _____
Print name _____	Print name _____
Title _____	Title _____
Date _____	Date _____

Schedule 1

A. Description of the Software:
B. The Evaluation Fee:
C. The Evaluation Period:

Schedule 2
The Software License

Box 3: Sample Pipeline Agreement

THIS AGREEMENT is made the ___ day of _____2007 by, between and among:

1. ABC LIMITED whose registered office is at [] ("the Company"); and

2. THE INDIVIDUALS DEFINED BELOW AS THE FOUNDERS ("the Founders"); and

3. UNIVERSITY TECHNOLOGY TRANSFER COMPANY LTD whose registered office is at [ ] ("Technology Transfer")

WHEREAS:

A. Technology Transfer is responsible for the commercialization of Pipeline IPR (as defined below) generated within the University (as defined below).

B. The Research Group (as defined below) of the University carries out activities that include work in the Field (as defined below).

C. The Parties envisage that some of this work will be of commercial interest to the Company.

D. The Founders and Technology Transfer are prepared to grant the Company an opportunity to exploit Pipeline IPR generated in the course of the Research Group's work in the Field on the terms of this Agreement.

IT IS AGREED as follows:

1. Definitions

In this Agreement, the following terms shall have the following meanings:

1.1 "Affiliate" shall mean, in relation to a Party, any entity or person that controls, is controlled by, or is under common control with that Party. For the purposes of this definition, "control" shall mean direct or indirect beneficial ownership of 50% or more of the share capital, stock, or other participating interest carrying the right to vote or to distribution of profits of that entity or person, as the case may be;

1.2 This "Agreement" shall mean this pipeline agreement together with all of its schedules, annexes, and amendments;

1.3 "Candidate Technology" shall mean an invention, know-how or other IP rights that:
(a) are generated by the Research Group in the Research Work during the Option Exercise Period;
(b) are considered suitable and ready for commercialization and protection by the Company; and
(c) are identified by a Party in accordance with Clauses 2.1 to 2.3;

1.4 "Contract Period" shall mean the period beginning on the Effective Date and ending on the [third] anniversary of the Effective Date, subject to any earlier or later termination in accordance with Clause 8;

(Continued on Next Page)

Box 3 (continued)

1.5 "Department" shall mean the Department of [ ], that is within the Faculty of [ ] of the University;

1.6 "Effective Date" shall mean [XXXX] [the date of this Agreement];

1.7 "Encumbered," with respect to any Pipeline IPR, shall mean that Technology Transfer is not entitled to assign such Pipeline IPR to the Company free of all liens, encumbrances and Third-Party rights and obligations, and "Encumbrance" shall be interpreted accordingly. As examples, but without limitation, Pipeline IPR may be Encumbered if:
(a) it incorporates IP rights or materials that are owned wholly or partly by someone other than the University or Technology Transfer (for example, but without limitation, where a person who is not a University employee contributed to its development); or
(b) it was developed under an agreement with a Third Party on terms that restricted or prevented the University's use or disclosure of such Pipeline IPR or vested rights in such Pipeline IPR in the Third Party or any other person;
(c) it was developed in the course of a project that was funded wholly or partly by an external funding body on terms that restricted the University's ownership, use or disclosure of the results; or
(d) in cases falling outside (a) to (c) above, it is the subject of an option, license, agreement to assign, or other commercial arrangement with a Third Party; or negotiations for the grant of commercial rights to a Third Party are continuing;

1.8 "Exclusive Commercial License" shall mean an exclusive, worldwide license to research, develop and commercialize products and services, with the right to grant sublicenses, subject to any limitations or reservations on such license stated in this Agreement;

1.9 "Expert's Decision" shall mean the procedure set out in Schedule 2;

1.10 "Field" shall mean the field of low power circuits for use in chip designs for wireless communication applications;

1.11 "Founders" shall mean Professor [ ] and [ ];

1.12 "Inventive Contribution" shall mean a contribution to an item of Pipeline IPR that, in the absence of this Agreement, would entitle the maker of the contribution, or his or her employer, to be an owner or joint owner of the Pipeline IPR as a matter of applicable IP law. In particular, it is understood that being named as a joint author of an academic paper that describes the research in which the Pipeline IPR was generated shall not, of itself, be evidence of an Inventive Contribution;

1.13 "Major Territory" shall mean any of the following territories: [United States of America, Canada, United Kingdom, Germany, France, Italy or Japan];

1.14 "Net Sales Receipts" shall mean the amount of any payment (excluding Value Added Tax), and the value of any nonmonetary receipt, received by or due to Company or its Affiliate, in any transaction or series of linked transactions that involve the sale by the Company or its Affiliates of products that incorporate technology that is the subject of any Pipeline Patents or Pipeline Trade Secrets that are assigned or licensed to the Company pursuant to this Agreement ("Relevant Transaction"), and including any of the following:
(a) up-front, milestone (whether at the stage of development, marketing or otherwise), success, bonus, maintenance and periodic (including annual) payments, and minimum payments, received pursuant to any license or other transactions involving the Pipeline Patents or Pipeline Trade Secrets;

(Continued on Next Page)

Box 3 (continued)

(b) any receipt greater than actual incurred cost ("Incurred Costs") in respect of the funding of research or development activities ("R&D Funding") relating to the Pipeline Patents or Pipeline Trade Secrets; provided that Incurred Costs shall not include any costs that were incurred prior to the date of the agreement under which the R&D Funding was provided;
(c) any premium paid by the licensee (or its affiliate) for shares, options or other securities in the share capital of Company or its Affiliate over and above the fair market value of such shares, options or securities, pursuant to a Relevant Transaction (such fair market value to be determined on the assumption that Technology Transfer had not granted, nor agreed to grant, any rights to Company in respect of any Pipeline IPR);
(d) any loan, guarantee or other financial benefit made or given other than on normal market terms by the licensee (or its affiliate) pursuant to a Relevant Transaction; and any shares, options or other securities obtained from a third party pursuant to a Relevant Transaction;

1.15 "Net Licensing Receipts" shall mean the amount of any payment (excluding Value Added Tax), and the value of any nonmonetary receipt, received by or due to Company or its Affiliate, in any transaction or series of linked transactions that involve the grant or assignment of any rights (including the grant of any option over such rights) of any Pipeline Patents or Pipeline Trade Secrets that are assigned or licensed to the Company pursuant to this Agreement ("Relevant Transaction"), and including any of the following:
(a) up-front, milestone (whether at the stage of development, marketing or otherwise), success, bonus, maintenance, and periodic (including annual) payments, and minimum payments, received pursuant to any license or other transactions involving the Pipeline Patents or Pipeline Trade Secrets;
(b) any receipt greater than actual incurred cost ("Incurred Costs") in respect of the funding of research or development activities ("R&D Funding") relating to the Pipeline Patents or Pipeline Trade Secrets; provided that Incurred Costs shall not include any costs that were incurred prior to the date of the agreement under which the R&D Funding was provided;
(c) where any license or sublicense is to be granted under cross-licensing arrangements, the value of any third-party license obtained under such arrangements;
(d) any premium paid by the licensee (or its affiliate) for shares, options, or other securities in the share capital of Company or its Affiliate over and above the fair market value of such shares, options, or securities, pursuant to a Relevant Transaction (such fair market value to be determined on the assumption that Technology Transfer had not granted, nor agreed to grant, any rights to Company in respect of any Pipeline IPR);
(e) any loan, guarantee or other financial benefit made or given other than on normal market terms by the licensee (or its affiliate) pursuant to a Relevant Transaction; and
(f) any shares, options, or other securities obtained from a third party pursuant to a Relevant Transaction;

1.16 "Nondepartmental University Academic" shall mean a person who is employed by the University but is not part of the Research Group;

1.17 "Option Exercise Period" has the meaning given in Clause 3.1;

1.18 "Party" shall mean any of the Company, each Founder, and Technology Transfer, and "Parties" shall mean all of them;

1.19 "Patent Rights" shall mean patents and patent applications, petty patents, utility models and certificates, improvement patents and models, certificates of addition, and all foreign counterparts thereof, including any continuations, continuations in part, extensions,

(Continued on Next Page)

Box 3 (continued)

reissues, divisions, and including any patents, patent term extensions, supplementary protection certificates, and similar rights;

1.20 "Pipeline Know-How" shall mean technical information that is generated by the University in the course of the Research Work and protected under the law of confidence, and that is not Pipeline Patents or Pipeline Trade Secrets but that [relates directly to] Pipeline Patents or Pipeline Trade Secrets;

1.21 "Pipeline IPR" shall mean Pipeline Patents, Pipeline Trade Secrets, Pipeline Know-How, [and Pipeline Other Intellectual Property];

1.22 ["Pipeline Other Intellectual Property" shall mean all IP rights that are generated in the course of the Research Work by the University and are owned by the University or Technology Transfer, other than Pipeline Patents, Pipeline Trade Secrets, and Pipeline Know-how; such IP rights may include, without limitation, copyright, database right, design rights (registered and unregistered), property rights in respect of physical materials (including biological samples), and similar rights existing in any country of the world;]

1.23 "Pipeline Patents" shall mean all Patent Rights that are developed in the course of the Research Work and are owned by the University or Technology Transfer;

1.24 "Pipeline Trade Secrets" shall mean inventions and discoveries made in the course of the Research Work that the University's patent attorneys consider to be suitable to be the subject of patent applications and that, if such applications were made, would be Pipeline Patents, but that the Company elects to keep secret in accordance with the provisions of Clause 5;

1.25 "Research Group" shall mean the Founders and their postdoctoral research assistants and postgraduate students when working under any of the Founders' sole or joint, direct supervision in the Department in the Field;

1.26 "Research Work" shall mean all research carried out in the Field by the Research Group during the Contract Period; but shall exclude (unless otherwise agreed under such separate agreements) work done under:
(a) any separate agreement(s) between (1) the Company and (2) the University and/or Technology Transfer (including without limitation research or consultancy agreements); or
(b) any private consultancy agreement between (1) the Company and (2) any employee of the University;

1.27 "Selected Technology" shall have the meaning given in Clause 3.2;

1.28 "Software and Database Net Receipts" shall mean the amount of any payment (excluding Value Added Tax), and the value of any nonmonetary receipt, received by or due to Company or its Affiliate, in any transaction or series of linked transactions that involve the grant or assignment of any rights (including the grant of any option over such rights) of any of the Pipeline Other Intellectual Property that is assigned or licensed to the Company pursuant to this Agreement ("Relevant Transaction"), and including any of the following:
(a) up-front, milestone (whether at the stage of development, marketing or otherwise), success, bonus, maintenance and periodic (including annual) payments, and minimum payments, received pursuant to any license or other transactions involving the Pipeline Other Intellectual Property;

(Continued on Next Page)

Box 3 (continued)

(b) any receipt greater than actual incurred cost ("Incurred Costs") in respect of the funding of research or development activities ("R&D Funding") relating to the Pipeline Other Intellectual Property; provided that Incurred Costs shall not include any costs that were incurred prior to the date of the agreement under which the R&D Funding was provided;
(c) where any license or sublicense is to be granted under cross-licensing arrangements, the value of any third-party license obtained under such arrangements;
(d) any premium paid by the licensee (or its affiliate) for shares, options, or other securities in the share capital of Company or its Affiliate over and above the fair market value of such shares, options or securities, pursuant to a Relevant Transaction (such fair market value to be determined on the assumption that Technology Transfer had not granted, nor agreed to grant, any rights to Company in respect of any Pipeline IPR);
(e) any loan, guarantee, or other financial benefit made or given other than on normal market terms by the licensee (or its affiliate) pursuant to a Relevant Transaction; and
(f) any shares, options, or other securities obtained from a third party pursuant to a Relevant Transaction.

1.29 "Third Party" shall mean any party other than the Parties, the University, and their respective employees and agents;

1.30 "Transferred Technology" has the meaning given in Clause 3.5;

1.31 "Unencumbered" shall mean, with respect to any Pipeline IPR, that it is not Encumbered; and

1.32 "University" shall mean [ ]; and every reference to a particular Clause or Schedule shall be a reference to that Clause or Schedule in or to this Agreement.

2. Identification of Candidate Technologies

2.1 Identified by Founders. Whenever the Founders identify any Candidate Technology, they shall promptly notify Technology Transfer and the Company in writing.

2.2 Quarterly reviews. Without limiting the Founders obligations under Clause 2.1, every three months during the Contract Period, the Founders shall provide Technology Transfer and the Company with a written description of the current status of the Research Work in sufficient detail to enable any resulting inventions, know-how, or other IP rights to be identified. Using this written description, the Founders, in consultation with Technology Transfer and the Company, will identify any Candidate Technologies and will jointly prepare for the Company a report specifying these Candidate Technologies, and identifying whether they are Encumbered as described in Clause 2.4.

2.3 Identified by Company. If the Company (other than pursuant to Clause 2.1 or 2.2) identifies a Candidate Technology that it wishes to attempt to protect or commercialize, it shall promptly notify the Founders and Technology Transfer in writing, and the Founders shall notify all employees or students of the University who made an inventive contribution to the Candidate Technology ("Inventors") of the Company's interest.

2.4 Encumbered Technology. When a Candidate Technology is identified pursuant to Clauses 2.1, 2.2, or 2.3, Technology Transfer shall promptly inform the Company whether or not the Candidate Technology is Encumbered. If the Candidate Technology is Encumbered, the

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Box 3 (continued)

Company shall only be entitled to acquire rights in the Candidate Technology under this Agreement to the extent not in conflict with such Encumbrances.

2.5 Other research contracts. For the avoidance of doubt, nothing in this Agreement shall prevent Technology Transfer or the University from entering into sponsored research contracts in the Field under which the Pipeline IPR arising from such contracts is Encumbered.

2.6 [Record-keeping. The Founders shall ensure that all members of the Research Group shall maintain laboratory notebooks in a suitable form to provide evidence of inventions in accordance with patenting practice in the United States.]

3. Grant of Option

3.1 Option Exercise Period. Where a Candidate Technology is first identified to or by the Company, the Parties shall for a period of three months beginning on the date of such identification ("the Option Exercise Period") not discuss that Candidate Technology with any Third Parties (subject to Clause 5), nor grant any rights therein, unless and until either: (a) Technology Transfer notifies the Company that the Candidate Technology is Encumbered; or (b) the Company notifies Technology Transfer during the Option Exercise Period that it does not wish to exercise the Option.

3.2 Exercise of Option. The Company shall have the Option, exercisable at any time before the termination of the Option Exercise Period, to require Technology Transfer by notice in writing to deal with the Candidate Technology in accordance with Clauses 3.4 and 3.5 ("the Option").

3.3 Expiry of Option. If the Option Exercise Period in respect of a Candidate Technology expires without Technology Transfer receiving notification that the Company wishes to exercise the Option, the Option in respect of that Candidate Technology shall lapse, and Technology Transfer shall be free to dispose of that Candidate Technology as it wishes.

3.4 Assignment of Pipeline IPR to Technology Transfer. If the Company exercises the Option during the Option Exercise Period, the Candidate Technology shall be considered Selected Technology and the procedure described in Clauses 3.4.1 to 3.4.2 shall be followed.

3.4.1 Where the Pipeline IPR in the Selected Technology vests automatically in the University, Technology Transfer shall procure that the University shall assign such Pipeline IPR to Technology Transfer.

3.4.2 If the Selected Technology does not vest automatically in the University, the Founders and Technology Transfer shall use their reasonable endeavors to obtain an express assignment to Technology Transfer of the Selected Technology.

3.5 License of Pipeline IPR to the Company. Subject to Technology Transfer successfully acquiring all Pipeline IPR in the Selected Technology (pursuant to Clauses 3.4.1 and 3.4.2), Technology Transfer shall then deal with the Selected Technology in accordance with Clauses 3.5.1 to 3.5.2. Selected Technology that is licensed to the Company pursuant to Clauses 3.5.1 or 3.5.2 is referred to in this Agreement as "Transferred Technology."

3.5.1 Generated solely within the Department. If the Selected Technology was generated solely by members of the Research Group, the Pipeline IPR therein shall be licensed to the Company on the terms set out in Schedule 1.

(Continued on Next Page)

Box 3 (continued)

3.5.2 Generated jointly with Nondepartmental University Academics. If the Selected Technology was generated jointly by members of the Research Group and Nondepartmental University Academics, then:

(a) Noninventive. If Technology Transfer is advised that the contribution of the Nondepartmental University Academic(s) to the Selected Technology was not an Inventive Contribution, the Pipeline IPR therein shall be licensed to the Company on the terms set out in Schedule 1; but

(b) Inventive. If Technology Transfer is advised that the contribution of the Nondepartmental University Academic(s) to the Selected Technology was an Inventive Contribution then [Technology Transfer shall have no obligation to license such Selected Technology to the Company and the provisions of this Agreement shall lapse with respect to such Selected Technology][, subject always to the consent of those Nondepartmental University Academic(s), Technology Transfer shall negotiate in good faith with the Company during the Option Exercise Period for the grant to the Company of a license (at the discretion of Technology Transfer) of the Pipeline IPR in such Selected Technology on terms to be agreed, taking into account Technology Transfer's policy of compensating all University researchers when Pipeline IPR that they have generated is commercially exploited].

3.6 License back. The Company hereby grants to Technology Transfer and the University a perpetual nonexclusive royalty-free license to use all Transferred Technology and Project IPR therein on the following terms:

(a) Technology Transfer and the University shall be entitled to use Pipeline Patents for the purposes of teaching and research, including use as enabling technology in research and development projects that are funded by Third Parties; and

(b) Technology Transfer and the University shall be entitled to use Pipeline Trade Secrets, Pipeline Know-How [and Pipeline Other Intellectual Property] in the Field for the purposes of teaching and research, including use as enabling technology in research and development projects ("Funded Research") that are funded by Third Parties ("Funding Parties"), and Technology Transfer and the University shall have the right to license Pipeline Trade Secrets, Pipeline Know-How and Pipeline Other Intellectual Property to Funding Parties for use in connection with the development and commercial exploitation of the results of Funded Research. Nothing in this Agreement shall restrict the rights of Technology Transfer and the University to use, license, or otherwise exploit Pipeline Trade Secrets, Pipeline Know-How, and Pipeline Other Intellectual Property outside the Field.

4. Payments

4.1 Options and Equity. In consideration for the grant of Option rights under this Agreement, the Company shall: (a) allot and issue of [relevant shares equivalent to 10% of the Company's equity as on the [Effective Date]] shares in the Company to Technology Transfer; (b) register Technology Transfer as the holder of the [relevant] shares in the Company; and (c) prepare and deliver to Technology Transfer share certificates in respect of such shares.

4.2 Licenses. In consideration for the execution of any licenses that are executed pursuant to Clause 3.5, the Company shall:

(a) upon executing any such license, pay to Technology Transfer the amount of any patenting costs that Technology Transfer incurred, prior to the date of execution, in respect of any Pipeline Patents or Pipeline Trade Secrets that are the subject of such license; and

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Box 3 (continued)

(b) pay to Technology Transfer the amounts and rates described in Schedule 1.

4.3 Payment terms. All sums due under this Agreement:
(a) are exclusive of Value Added Tax that where applicable will be paid by the Company to Technology Transfer in addition;
(b) shall be paid directly into Technology Transfer' bank account number [ ], sort code [ ] with [ ] Bank, [address] or such other account as Technology Transfer may specify from time to time;
(c) shall be paid in pounds sterling and, in the case of Net Sales Receipts, Net Licensing Receipts [or Software and Database Net Receipts] received by the Company in a currency other than pounds sterling, the income shall be calculated in the other currency and then converted into equivalent pounds sterling at the rate charged by the Company's U.K. bankers for converting such other currency into sterling in the Company's bank account on the last business day of the quarterly period with respect to which the payment is made;
(d) shall be made without deduction of corporation tax or other taxes charges or duties that may be imposed, except insofar as the Company is required to deduct the same to comply with applicable laws. Any and all taxes levied by a proper taxing authority required to be withheld by the Company on account of royalties or other payments accruing to Technology Transfer under this Agreement may be deducted from such payment provided that (a) such amount is paid for and on behalf of Technology Transfer to the appropriate tax authorities within the applicable payment period and (b) the Company furnishes Technology Transfer with official tax receipts or other appropriate evidence of payment issued by the appropriate tax authorities. The Parties shall cooperate and take all steps reasonably and lawfully available to them to avoid deducting such taxes and to obtain double taxation relief.

4.4 Exchange controls, etc. If at any time during the continuation of this Agreement the Company is prohibited from making any of the payments required hereunder by a governmental authority in any country, then the Company will within the prescribed period for making the said payments in the appropriate manner use its reasonable endeavors to secure from the proper authority in the relevant country permission to make the said payments and will make them within 7 days of receiving such permission. If such permission is not received within 30 (thirty) days of the Company making a request for such permission then, at the Option of Technology Transfer, the Company shall deposit the payments due in the currency of the relevant country either into a bank account designated by Technology Transfer within such country, or such payments shall be made to an associated company of Technology Transfer designated by Technology Transfer and having offices in the relevant country designated by Technology Transfer.

4.5 Statements. The Company shall send to Technology Transfer at the same time as each payment is made in accordance with Clause 4.2 a statement, where relevant, showing how any amounts paid have been calculated.

4.6 Records. The Company shall keep at its normal place of business detailed and up-to-date records and accounts showing the amount of income received by it in respect of Net Sales Receipts, Net Licensing Receipts [and Software and Database Net Receipts], on a country-by-country basis, and being sufficient to ascertain the payments due under this Agreement. The Company shall make such records and accounts available, on reasonable notice, for inspection during business hours by an independent chartered accountant nominated by Technology Transfer for the purpose of verifying the accuracy of any statement or report given by the Company to Technology Transfer under Clause 4.5, such inspection to take

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Box 3 (continued)

place not more than once in any calendar year (other than re-inspection of accounts where errors have been found). The accountant shall be required to keep confidential all information learned during any such inspection, and to disclose to Technology Transfer only such details as may be necessary to report on the accuracy of the Company's statement or report. Technology Transfer shall be responsible for the accountant's charges unless there is an inaccuracy of more than 5% (five percent) in any royalty statement, in which case the Company shall pay his or her charges in respect of that particular inspection. The Company shall ensure that it has the same rights as those set out in this Clause 4.6 in respect of any Affiliate or licensee (including any agent or distributor appointed by the Company, its Affiliate or licensee) of the Company that is licensed any Pipeline IPR pursuant to this Agreement.

5. Confidentiality and Publications

5.1 General obligation. Subject to Clauses 5.3 to 5.5, each Party shall maintain in confidence any information or materials provided to it directly or indirectly by the other Party under, or in contemplation of, this Agreement and shall use the same only for the purpose of exercising rights under this Agreement.

5.2 Exceptions. The obligations set out in Clause 5.1 shall not apply to any information or materials that the Party receiving the same ("Receiving Party") can prove by written records:

(a) were already the Receiving Party's property or lawfully in its possession prior to receiving it from the other Party;
(b) were already in the public domain when they were provided by the other Party;
(c) subsequently enter the public domain through no fault of the Receiving Party;
(d) are received from a Third Party who has the right to provide them to the Receiving Party without imposing obligations of confidentiality;
(e) that it has been advised by its information officer that it is required to disclose under the Freedom of Information Act 2000; or
(f) are required to be disclosed by an order of any court of competent jurisdiction or governmental authority PROVIDED that reasonable efforts shall be used by the Receiving Party to secure a protective order or equivalent over such information and PROVIDED further that the other Party shall be informed as soon as possible and be given an opportunity, if time permits, to make appropriate representations to such court or authority to attempt to secure that the information is kept confidential.

5.3 Disclosure of Selected Technology during Option Period. The Founders, the University, and Technology Transfer shall use their reasonable endeavors to prevent the publication of any information relating to a Selected Technology during the Option Exercise Period for that Selected Technology.

5.4 Postexpiry of Option Period. If the Company has not exercised the Option before the expiry of the Option Exercise Period, the University and the Inventors shall be free to publish information forming part of the Selected Technology in accordance with normal academic practice.

5.5 Postexercise of Option. If the Company exercises the Option before the expiry of the Option Exercise Period then, following the exercise of the Option, the following provisions of this Clause 5.5 shall apply:

(Continued on Next Page)

Box 3 (continued)

5.5.1 The Company acknowledges that the University is an academic research organization supported by charitable funds and that timely publication of research results is essential to the University. The University acknowledges that the Company is a commercial organization and that patent protection of inventions with commercial value is essential to the Company.

5.5.2 To allow time for review of any proposed disclosure of information that may be patentable, the University shall provide to the Company:

(a) a copy of any manuscript that discloses any Transferred Technology at least 14 days prior to submission of the manuscript for publication; and

(b) a copy of any slides to be used in an oral presentation that would disclose any Transferred Technology at least 14 days prior to making such oral presentation.

5.6 The Company shall review all material provided to it under Clause 5.5.2 promptly. If in the Company's opinion the proposed disclosure does not include patentable subject matter, the Company shall notify the University and the University shall thereafter be free to make the disclosure. If in the Company's opinion the proposed disclosure does include patentable subject matter and the Company anticipates that it may wish a patent application to be made, it will so inform the University within the said 14 day period, in which event the University shall delay such intended public disclosure for up to [30 days][three months][six months] to allow patent application(s) to be made, provided that the Parties shall seek to minimize any such delay.

6. Diligence

6.1 The Company shall diligently proceed to develop and commercially exploit Transferred Technologies to the maximum extent worldwide, or as otherwise agreed between the Company and Technology Transfer.

6.2 Without prejudice to the generality of the Company's obligations under Clause 6.1, the Company shall provide at least annually, to Technology Transfer, an updated, written development plan, showing all past, current and projected activities taken or to be taken by the Company to commercialize the products based on Transferred Technologies worldwide. Technology Transfer's receipt or approval of any such plan shall not be taken to waive or qualify the Company's obligations under Clause 6.1. Technology Transfer shall hold all development plans submitted under this Clause 6.2 in confidence, and shall disclose the same only to its own employees and to employees of University on a need-to-know basis.

6.3 If Technology Transfer considers at any time during the period of this Agreement that the Company has without legitimate reason failed to proceed diligently to develop and commercially exploit specific Transferred Technologies (the "Specific Technologies"), Technology Transfer shall notify the Company and the Parties shall use their best endeavors to resolve the situation amicably. If such a resolution is not reached within three months of Technology Transfer first notifying the Company, Technology Transfer shall be entitled to refer to an independent expert the following questions:

(a) whether the Company has acted diligently in its attempts to develop and commercially exploit the Specific Technologies; and if not

(b) what specific action the Company should have taken ("Specific Action") in order to have acted diligently.

6.4 The independent expert shall be appointed in accordance with the provisions of Schedule 2 and his or her decision shall be final and binding on the Parties.

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Box 3 (continued)

6.5 If the expert determines that the Company has failed to comply with its obligations under this Clause 6, and if the Company fails to take the Specific Action within six months of the expert giving his or her decision in accordance with Schedule 2, the Company shall lose all rights in and to all such Specific Technologies.

7. Patents

7.1 [Following the identification of Candidate Technology in accordance with Clauses 2.1 to 2.3, Technology Transfer shall be responsible for making any initial patent applications, at its cost and discretion, in respect of such Candidate Technology.]

7.2 Upon the Company exercising an Option under Clause 3.2 with respect to any Pipeline Patents or Pipeline Trade Secrets in respect of item of Candidate Technology, responsibility for (including paying the costs of) pursuing any Pipeline Patents shall be the responsibility of Technology Transfer. [Subject to any terms to the contrary agreed in any license granted to the Company following the exercise of the Options contained in Clause 3, Technology Transfer shall have the right, at its discretion, to discontinue patent prosecution or maintenance of any invention licensed to the Company.] It shall be the responsibility of [Technology Transfer][the Company], in consultation with [the Company][Technology Transfer], to prepare, file, and prosecute (at the Company's sole expense) such patent applications. [The Company shall consult with Technology Transfer and keep Technology Transfer informed of all developments with respect to such patent applications, and on request shall promptly supply Technology Transfer with copies of any documents relating to the prosecution thereof.]

7.3 If any of the Results are capable of being the subject of a patent application, Technology Transfer may file a patent application at its own discretion and expense or shall do so at the request and expense of the Company.

7.4 Where Technology Transfer files or has filed a patent application at the request and expense of the Company, the Company shall give Technology Transfer at least three months' written notice of the Company's intention to cease payment of any costs and expenses incurred in connection with such filing. On receipt of the Company's notice, Technology Transfer may either abandon that patent application or continue to prosecute that patent application but at Technology Transfer expense.

8. Term and Termination

8.1 Term. This Agreement shall become effective upon the Effective Date and shall continue in force for the full duration of the Contract Period unless terminated earlier in accordance with the provisions of this Clause 8.

8.2 Founders leaving. In the event that any one of the Founders ceases to be employed by the University, this Agreement shall continue in force but the definition of "the Founders" shall be automatically amended by removal of that Founder's name.

8.3 Founders joining. Any member of the academic or permanent research staff of the University who is active in the Field may become a Party to this Agreement such that this Agreement shall continue in force with the definition of "the Founders" amended to include such person, subject to the written agreement of that person, the Founders, the Company,

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Box 3 (continued)

[,the University], and Technology Transfer.

8.4 All Founders leaving. In the event that all the Founders cease to be employed at the University, this Agreement shall automatically terminate.

8.5 Breach or insolvency. Without prejudice to any other right or remedy it may have, either Technology Transfer or the Company may terminate this Agreement at any time by notice in writing to the other of those two Parties ("Other Party"), such notice to take effect as specified in the notice:

(a) if the Other Party is in breach of this Agreement and, in the case of a breach capable of remedy within 30 days, the breach is not remedied within 30 days of the Other Party receiving notice specifying the breach and requiring its remedy; or

(b) if the Other Party becomes insolvent, or if an order is made or a resolution is passed for the winding up of the Other Party (other than voluntarily for the purpose of solvent amalgamation or reconstruction), or if an administrator, administrative receiver or receiver is appointed in respect of the whole or any part of the Other Party's assets or business, or if the Other Party makes any composition with its creditors or takes or suffers any similar or analogous action in consequence of debt.

8.6 Consequences of termination. Termination of this Agreement by any Party for any reason shall not affect the rights and obligations of the Parties accrued prior to the effective date of termination of this Agreement. Upon any termination, all Options that have not been exercised prior to termination shall automatically lapse. No termination of this Agreement, however effected, shall affect the Parties' rights and obligations under Clauses 3 to 7 with respect to Selected Technology in respect of which the Company has exercised an Option prior to termination.

9. General

9.1 Nothing in this Agreement and no action taken by the Parties pursuant to this Agreement shall constitute or be deemed to constitute a partnership association, joint venture, or other cooperative entity between the Parties, and none of the Parties shall have any authority to bind the others in any way except as provided in this Agreement.

9.2 It is acknowledged and agreed that this Agreement relates to results of experimental research the properties and safety of which may not have been established, and that, accordingly:

(a) any results, materials, information, Candidate Technology, Selected Technology, Transferred Technology, and Pipeline IPR provided under this Agreement ("Delivered Items") are provided "as is" and without any express or implied warranties, representations or undertakings other than those set out in this agreement; and

(b) the Company shall indemnify and hold harmless the University and Technology Transfer, their Affiliates, and their respective officers, employees, consultants, agents, and representatives ("the Indemnitees") against all Third-Party Claims that may be asserted against or suffered by any of the Indemnitees and that relate to the use of any Delivered Items, or the manufacture, distribution, sale, supply or use of any products or services that incorporate any Delivered Items, by or on behalf of the Company or its licensee or subsequently by any Third Party, including without limitation claims based on product liability laws.

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Box 3 (continued)

9.3 None of the Parties shall without the prior written agreement of the other Parties assign or otherwise transfer the benefit and/or burden of this Agreement.

9.4 Any agreement to change the terms of this Agreement in any way shall be valid only if the change is made in writing and approved by mutual agreement of authorized representatives of the Parties.

9.5 Any notice or other communication to be given pursuant to or made under or in connection with the matters contemplated by this Agreement shall be in writing in the English language and shall be delivered by courier or sent by post using the addresses of the Parties set out above.

9.6 This Agreement shall be governed by English Law and shall be subject to the exclusive jurisdiction of the English courts.

IN WITNESS of which this Agreement has been executed as a Deed and delivered the date and year first above written.

EXECUTED AS A DEED by [ABC] LIMITED acting by:

_____ _____

Director Director/Secretary

EXECUTED AS A DEED by [UNIVERSITY TECHNOLOGY TRANSFER] LIMITED acting by:

_____ _____

Director Director/Secretary

SIGNED AS A DEED by PROFESSOR [ ]

_____

in the presence of:

_____

Witness's signature

_____

Name

(Continued on Next Page)

Box 3 (continued)

Address

Schedule 1
Detailed Arrangements for Licensing of Selected Technologies

1. Pipeline Patents

Upon exercise of an Option in respect of a Pipeline Patent then, subject to the provisions of this Agreement, Technology Transfer hereby grants to the Company an Exclusive Commercial License under that Pipeline Patent in the Field.

Upon the first receipt by the Company of Net Sales Receipts in respect of a Transferred Patent, the Company shall pay to Technology Transfer a royalty on Net Sales Receipts. Such royalty will be agreed between the Company and Technology Transfer at the time of receipt of such first Net Sales Receipts on normal arm's-length commercial terms [and is anticipated to be between 4% to 8%].

Upon first receipt by the Company of Net Licensing Receipts from a license in respect of a Pipeline Patent pursuant to Clause 3.5 (the licensed Pipeline Patent being referred to below as a "Transferred Patent"), the Company shall pay to Technology Transfer a royalty on Net Licensing Receipts. Such royalty will be agreed at the time on normal arm's-length commercial terms.

2. Pipeline Trade Secrets

Upon exercise of an Option in respect of a Pipeline Trade Secret then, subject to the provisions of this Agreement, Technology Transfer hereby grants to the Company an Exclusive Commercial License under that Pipeline Trade Secret in the Field.

The Parties acknowledge that Pipeline Trade Secrets arise where the Company elects not to pursue a Pipeline Patent in respect of a Transferred Technology and instead elects to maintain the invention as a Pipeline Trade Secret. Accordingly, upon exercise of an Option in respect of a Pipeline Trade Secret, the Company shall pay to Technology Transfer the relevant amount that would have been due, under Section 1 of this Schedule, if a Pipeline Patent had been pursued.

3. Pipeline Know-How

Upon exercise of an Option in respect of Pipeline Know-How then, subject to the provisions of this Agreement, Technology Transfer hereby grants to the Company an Exclusive Commercial License under that Pipeline Know-How in the Field.

4. Pipeline Other Intellectual Property

Upon exercise of an Option in respect of an item of Pipeline Other Intellectual Property then, subject to the provisions of this Agreement:

(a) Technology Transfer hereby grants to the Company an Exclusive Commercial License under

(Continued on Next Page)

Box 3 (continued)

the Pipeline Other Intellectual Property in the Field; and

(b) The Company shall pay to Technology Transfer, with respect to each such item of Pipeline Other Intellectual Property, either (and at the Company's election made and notified to Technology Transfer on receipt of the first Software and Database Net Receipts):
   (i) A one-time fee of [currency]X on receipt of first Software & Database Net Receipts with respect to that Pipeline Other Intellectual Property; or
   (ii) A royalty of X% on all Software & Database Net Receipts received by the Company with respect to that Pipeline Other Intellectual Property.

Schedule 2
Expert's Decision

1. Any matter or dispute to be determined by an expert under this Agreement shall be referred to a person suitably qualified to determine that matter or dispute who shall be nominated jointly by the relevant Parties. Failing agreement between the Parties within 30 days of a written request by one Party to another seeking to initiate the expert's decision procedure, either of the relevant Parties may request the president for the time being of the relevant Professional Institution to nominate the expert.

2. In all cases the terms of appointment of the expert by whomsoever appointed shall include:

   2.1 a commitment by the Parties to share equally the expert's fee;

   2.2 a requirement on the expert to act fairly as between the Parties and according to the principles of natural justice;

   2.3 a requirement on the expert to hold professional indemnity insurance both then and for three years following the date of his or her determination; and

   2.4 a commitment by the Parties to supply to the expert all such assistance, documents, and information as he or she may require for the purpose of his or her determination.

3. The expert's decision shall be final and binding on the Parties (save in the case of negligence or manifest error).

4. The Parties expressly acknowledge and agree that they do not intend the reference to the expert to constitute an arbitration within the scope of any arbitration legislation. The Expert's Decision is not a quasi-judicial procedure, and the Parties shall have no right of

Box 4: Examples of Options, Rights of First Refusal (and Similar Provisions)

appeal against the Expert's Decision provided always that this shall not be construed as waiving any rights the Parties might have against the expert for breaching his or her terms of appointment or otherwise being negligent.

Note: the following examples of rights of first refusal ("ROFRs") have been included to illustrate the variety of ROFRs that are encountered. In general, universities should be cautious about giving any ROFR, and legal advice should generally be sought on the wording of the ROFR.

Example 1: Simple, Pro-University Option Clause.

(a) Subject to the provisions of this Clause [ ], the University grants to the Company an exclusive Option (the "Option") to acquire an exclusive, worldwide license (with the right to sublicense) under the Arising Intellectual Property to develop, manufacture, have manufactured, market, use, and sell products in [the Field] (the "License Rights").

(b) The Option shall be exercisable [at any time during the agreed period of the Research] [and] [up to three months following the University's submission of the final Report]. The Option shall be exercised by the Company giving notice in writing to the University ("Notice of Exercise of Option").

(c) On receipt of the Company's Notice of Exercise of Option, the Parties shall negotiate in good faith, for a period of up to 90 days from the date of such receipt, the terms of a license agreement between them under which the Company would be granted the License Rights. [Any such license agreement would include, without limitation, terms based on the provisions of the attached Schedule [x]]. Upon agreement of the terms of such license, the Parties shall forthwith execute a license agreement between them on such terms.

(d) [If the Parties fail to agree the terms of a license agreement within 90 days of the University's receipt of the Company's Notice of Exercise of Option, the Option will lapse.]

Example 2: ROFR to be tacked on to Option (fairly brief).

If LICENSEE and TTCO or UNIVERSITY, as the case may be, are unable to agree on the terms of a license agreement within 90 days of TTCO's or UNIVERSITY's (as applicable) receipt of LICENSEE's Notice of Exercise of Option, despite negotiating in good faith, the Option will lapse; provided, that TTCO or UNIVERSITY, as the case may be, may not thereafter, without first offering such terms and conditions to LICENSEE, enter into an agreement with a THIRD PARTY on terms and conditions equal to or more favorable to such THIRD PARTY than the terms and conditions negotiated between TTCO or UNIVERSITY, as the case may be, and LICENSEE.

Example 3: Strong option and ROFR to expand field; milder option to expand territory.

1.1 Expansion of Field

1.1.1 With respect to each Compound, Owner hereby grants to Licensee a first right to expand the then current Field for such Compound and all Licensed Products based on such Compound to include additional disease indications in humans and disease indications in animals. This right may be exercised by Licensee only in the event that

(Continued on Next Page)

Box 4 (continued)

Owner determines to pursue development and commercialization (whether directly or through an Affiliate or Sublicensee) of a Compound in the Territory in one or more additional disease indications in humans or in one or more disease indications in animals outside the then current Field.

1.1.2 Within a reasonable period after such determination by Owner, Owner shall provide written notice to Licensee of proposed terms for such expansion of the Field in the Territory and disclose to Licensee all information that is within Owner's control and reasonably related to such expansion of the Field. Within sixty (60) days of such written notice from Owner, Licensee shall provide written notice to Owner as to whether it is interested in such expansion of the Field. If Licensee is not interested in such expansion of the Field or if Licensee does not provide written notice within such sixty (60) day period, Owner shall be free to develop and commercialize (whether directly or through an Affiliate or Sublicensee) the Compound and all Licensed Products based on such Compound in such additional disease indications in the Territory.

1.1.3 If Licensee provides written notice indicating its interest in such expansion of the Field within such sixty (60) day period, the Parties shall negotiate in good faith to reach agreement within one hundred twenty (120) days of the written notice from Licensee.

1.1.4 If the Parties are unable to reach agreement within such one hundred twenty (120) day period (or any mutually agreed upon extension), then Owner shall be free to (i) submit the matter to arbitration for resolution pursuant to Section 14.8 or (ii) enter into an agreement with a third party during the subsequent twelve (12) month period (but not to develop or commercialize directly or through an Affiliate) to license rights to practice the Owner Patent Rights and use the Owner Know-How for such purpose in the Territory; provided, however, that Licensee is first given the right to enter into any proposed agreement reached by Owner with a third party on substantially the same financial terms and conditions as such proposed agreement reached by Owner (it being understood that Licensee shall have the right to substitute cash or Licensee equity for equity of the third party).

1.2 Expansion of Territory. With respect to each Compound, in the event that Owner is approached by a potential Sublicensee that desires to pursue development and commercialization of such Compound or Owner determines to pursue development and commercialization of such Compound through a Sublicensee, in each case, in one or more countries outside the then-current Territory for such Compound, Owner shall promptly inform Licensee. As available, Owner will advise Licensee of the structure of the proposed license (for example, the field and countries that are the subject of the potential license) and Licensee will thereupon have the nonexclusive right to negotiate for such a license from Owner.

Example 4: ROFR (very brief).

ABC agrees with XYZ that it will not sell or otherwise transfer all or any material part of its [•] business to any third party without first giving the XYZ the opportunity to purchase such business on terms identical to those offered to such third party.

(Continued on Next Page)

Box 4 (continued)

Example 5: ROFR to purchase shares.

Unless Seller otherwise agrees, Purchaser may not sell, assign, encumber, pledge, convey, grant, or otherwise transfer any of the Shares, or any interest therein (collectively and individually "Transfer"), except to an unaffiliated third-party bona fide purchaser of value, in which case Seller shall have a "Right of First Refusal" for any Shares, or any interest in any Shares, that Purchaser desires to Transfer to the third party. In the event Purchaser desires to Transfer some or all of the Shares, Purchaser shall provide a written notice ("Transfer Notice") to Seller describing fully the proposed Transfer, including the number of Shares proposed to be Transferred, the proposed price for the Transfer, the proposed method of payment for the Shares, the name and address of the proposed transferee, and proof satisfactory to Seller that the proposed Transfer will not violate any applicable federal or state securities laws. The Transfer Notice shall be signed by both the Purchaser and proposed transferee and must constitute a binding commitment of both parties to the Transfer of the Shares. Seller shall have the right to purchase some or all of the Shares on the terms of the proposal described in the Transfer Notice (subject, however, to any change in such terms permitted under Subsection 2(b) below) by delivery of a notice of exercise of the Right of First Refusal within thirty (30) calendar days after the date Seller received the Transfer Notice. The Right of First Refusal shall be freely assignable, in whole or in part, by Seller at its sole discretion.

Example 6: ROFR to acquire royalty stream.

Transfer of other interests: If the Educational Institution, at any time on or after the Start Date [until April [ ], 2012], wishes to Transfer any other rights to any royalty stream it may own derived from intellectual property (the "Remaining Royalty Interests"), then the Educational Institution will give notice to SPONSOR of (i) its wish to Transfer such royalty stream, and (ii) the proposed consideration, payable by a named bona fide third party, for such royalty stream, and SPONSOR shall have ninety (90) days to offer to purchase such royalty stream. In the event SPONSOR does not offer to purchase such royalty stream, for equal or higher consideration than the said bona fide third-party offer, within ninety (90) days of such notice, the Educational Institution shall be free to sell such royalty stream to a third party for a consideration equal to or higher than that specified in the aforesaid notice.

Table 1: Checklist of Preliminary Issues and Considerations Commonly Found in Option Agreements

Clauses	Considerations
PRELIMINARY	
Parties	Are the parties the correct ones? For example, in a pipeline, the parties should comprise the technology transfer office/department of the university, the spinout company, and the founder academics
	Have their correct legal names and addresses been included?
Authorized signatory	Does the option need to be signed by a central part of the organization, for example, a technology transfer office?
	Do you need to remind the other party about their authorized signatory?
Are materials or software are under evaluation	Have the materials/software and intended uses been correctly identified?
	Have the materials/software been adequately described?
THE OPTION AGREEMENT	
Recitals	Is it useful/appropriate to cross-refer to a parallel agreement (for example, a research collaboration agreement, in the case of a pipeline)?
	Check the terms of the other agreement to ensure no conflicts exist.
	Is there anything in the recitals that should really be in the body of the contract? (Recitals may not be legally binding.)
CONTRACT TERMS	
Date of the agreement	This is the date when the option is signed. The official/legal date will be the date when the last party signs, and this should be the date entered onto any contracts database.
	Do the parties want to have a particular date from which the agreement is effective? If so, agree and define an "Effective Date" or "Commencement Date" to be used as the starting point of any option period. It is bad practice to try and backdate an agreement by entering a prior date in the signature block.

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Table 1 (continued)

Term

- Does the agreement specify a time period?
- Should it?
- Are there any obligations (for example, return of materials/software) when the term ends?
- Is there any obligation to seek to renew the option (for example, three months) prior to expiry?
- Are there any confidentiality obligations that extend beyond the term?
- Should termination provisions be included?

Meaning of the rights that would be subject to the option:

- Would all the intellectual property arising from a particular research project be covered?
- Should only certain intellectual property be covered (for example, within a defined field—or that related to materials that have been provided for evaluation)?

What exactly is the option for?

- to negotiate a further agreement
- to evaluate materials/products
- to obtain a product, material or right
- to enter into an agreement on set terms

How will payment (option fee) be handled?

- Is the option fee separate to any other payments being made under the agreement by the person being granted the option?
- If it is a separate payment, when is it to be paid? Upon signing the agreement, or upon exercise of the option?
- What is the method of payment? By check or by direct transfer?

When is the option exercised?

- a set number of days from the date of the agreement?
- on the occurrence of a particular event or result ("trigger event"), such as
  - a patent is filed
  - an invention is made or new or improved technology or intellectual property is created resulting from, for example, research work
  - a proof of concept is shown
  - software development reaches beta stage
  - another specified event
- at any time during the existence of the option agreement (or the agreement in which the option is incorporated)

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Table 1 (continued)

What if a trigger event occurs?

- Is the party creating the trigger event under an obligation to notify the other party?
- Within what period must the other party be notified? (for example, within 30 days of the trigger event occurring)
- How must the other party be notified? (for example, by written notice)
- Must the written notice clearly specify certain matters? (for example, describe exactly what the trigger event is, providing details)

How is the option to be exercised?

- by written notice
- by such notice being given to a specified representative of the other party

When does the option period start?

- when sent by the party exercising it
- when received by the other party

What follows exercise of the option?

- parties are to negotiate
- parties are to negotiate in good faith or using their best or other specified endeavors
- parties are to negotiate for a fixed period, for example, a period of [X] days from receipt of notice by the other party
- parties are to negotiate to achieve some achievable outcome such as entering into a further agreement

What if a further agreement is to be negotiated?

- Is there a specified set of terms to be used during the negotiations?
- Are there minimum conditions (such as milestones and payments) that must be included in any agreement?

What happens if there is a failure to agree?

- the option lapses
- the provisions of the agreement are settled by a third party
- a right of first refusal arises

Questions regarding settlement by a third party:

- Is the third party to have the final decision on the terms?
- How is the third party to be chosen? By the parties themselves, or by another third party or by a specific organization (a professional body such as the Law Society of England and Wales)?
- Are the terms that are to be settled based on an agreed minimum set of terms (such as those attached to the option agreement)?

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Table 1 (continued)

Right of first refusal:

- If the option lapses, and there is a right of first refusal, what are the circumstances that will bring the right of first refusal into play?
- What must the optionee be offered? (for example, the right to match the terms offered to the third party)
- For how long can the parties negotiate once the right of first refusal has arisen?
- When must the third party be informed about the right of first refusal?

Confidentiality provisions:

- Are there any? Should there be?
- Is it more appropriate to have a separate confidentiality agreement, which could be cross-referenced?
- What is covered by the definition of confidential information
- Does confidential information include any information generated by a party evaluating materials/software provided to it?
- For how long do any confidentiality obligations extend?

Considerations involving materials or software:

- What exactly is to be supplied and when is it to be evaluated? Are these points clearly stated in the agreement?
- What endeavors/efforts would the supplier to use to supply them?
- Is the responsibility for shipping, packaging, and insurance allocated?
- Who is responsible for the costs if materials are to be returned when the term ends?
- Are there any regulations governing materials use (for example, the regulations governing the use of genetically modified organisms)? Which party is responsible for compliance?
- If software is being evaluated, have appropriate disclaimers been included?
- Generally, should any warranties or disclaimers be given by either party?
- Does the definition of materials/software include confidential information/documents? If so, check relevant intellectual property, publication, and confidentiality clauses.
- What exactly is the receiving party to do with the materials?
    - perform (specified) experiments with the materials
    - determine whether the materials can be used for creating new products
    - prepare business, marketing, and scientific reports
    - specify how the material can be (commercially) exploited at the end of the option/evaluation period
    - inform the supplier whether the receiving party wishes to enter into a further agreement, for example, a license agreement
- Do the stated nature and purpose of the evaluation reflect the parties' understanding of what is to be carried out in relation to the materials?
- Should the receiving party have a duty to disclose information generated during the course of the evaluation?

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Table 1 (continued)

Liability and indemnity

- Are any warranties being given in relation to the subject matter of the option? Should liability be limited?
- Are any indemnities being given? If so, are they (1) appropriate and (2) covered by your institution's insurance policies?
- In cases in which your institution is giving an indemnity, should you insist on having control of any proceedings brought by a third party (against the other [indemnified] party)?
- Should indemnities be restricted only to third-party claims?

Law and jurisdiction

- Has the law governing the option been stated?
- Has jurisdiction also been specified (that is, which party's courts would hear any dispute)?
- Is it appropriate to specify exclusive or nonexclusive jurisdiction?
- If confidentiality provisions are important, should a right to obtain an injunction in any jurisdiction be included?

Boilerplate provisions

- entire agreement
- force majeure
- notices (may be useful if option notices should go to technology transfer office rather than address of legal entity)

Schedules

- Is a schedule appropriate for a description of the materials/software to be evaluated?
- Have the contents been agreed/checked with the relevant academic/department?
- Is it attached?
- Has the intellectual property that is the subject of the option been described in sufficient detail?