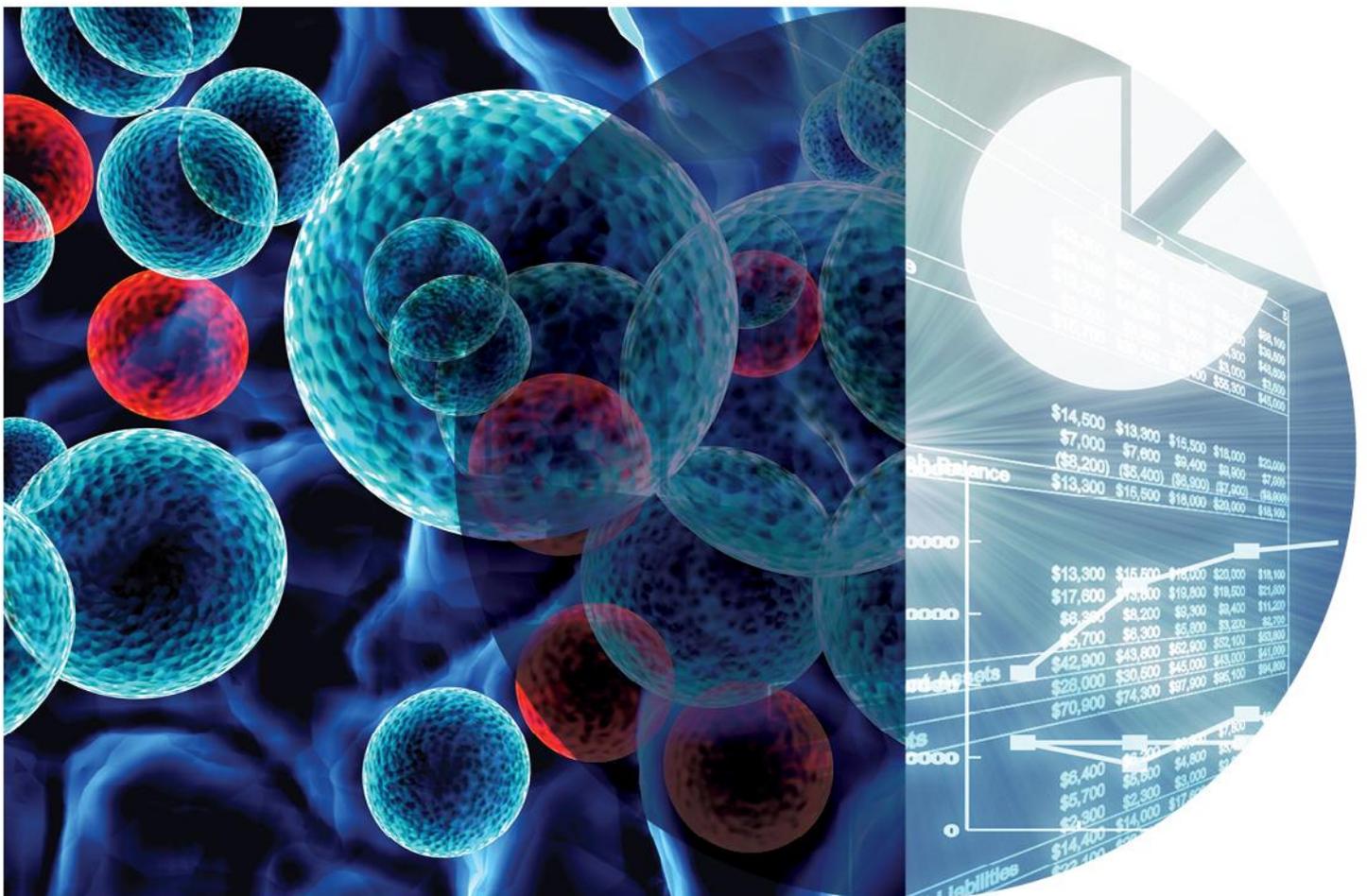


KTI Practical Guide

Legal Issues in Contracts with Research Performing Organisations



GUIDE TO LEGAL ISSUES IN CONTRACTS WITH RESEARCH PERFORMING ORGANISATIONS

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Introduction

This Guide provides a brief, practical overview of some legal issues that are commonly encountered when drafting and negotiating contracts with Irish higher education institutes or State research organisations (RPOs). Some of these issues concern the basic framework of contract law, which underpins RPO contracts and makes them legally effective (or not). For example, has ‘consideration’ passed from both parties to the contract? Has the right person signed the contract? Does the contract need to be in any particular format? Often, these are housekeeping points, which may need to be thought about prior to signature of the contract, but which don’t usually raise negotiating issues. Other legal issues are more ‘applied’, and often come up in negotiations. For example, should warranties and indemnities be given, should liability be limited, which country’s law should govern the contract, and what dispute resolution procedures should apply?

This chapter is divided into two main parts: first, a discussion of general legal issues that arise with many different types of contract; and second, a glossary of selected words that are encountered in commercial contracts or legal practice, and which have acquired a particular meaning (e.g. best endeavours, engross, execute, etc.).

Except where otherwise stated, this chapter discusses Irish law and the approach of the Irish courts. As will be discussed in the section on law and jurisdiction, below, contracts are interpreted and enforced very differently from one country to another.

A brief Guide such as this cannot deal with all the complexities of commercial law. The following commentary is inevitably over-simplified. It should be treated as an incomplete (but helpful, we hope) overview of some often-encountered legal issues. For further guidance you should consult your in-house legal department or external solicitors.

General legal issues

What is a contract?

A contract is an agreement between two or more parties that imposes legally-binding obligations on the parties. In other words, the court will provide a remedy for breach of the contract. The main legal remedies for breach of contract (not all of these are available in all cases) are:

- The right to *terminate* the contract.
- *Damages* for breach of contract.
- A court order (known as an *injunction*) to prevent a breach of contract (e.g. to prevent misuse of information disclosed in confidence under the contract).
- A court order (known as an order for *specific performance*) requiring the defaulting party to comply with its obligations under the contract.

In practice, the terms *contract* and *agreement* are often used interchangeably; written contracts often describe themselves as “this Agreement”.

Contracts can be distinguished from other legal instruments (documents) under which rights and obligations arise, including trust deeds, powers of attorney, conveyances of ‘real’ property (i.e. land and buildings) and assignments of intellectual property.

Pre-contractual documents

Contracts can also be distinguished from documents that are not intended to be legally binding. Prior to signing a contract, parties sometimes execute a preliminary document that records the main commercial terms of their proposed deal. These documents have different names, including:

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

Which name is used is a matter of personal preference: “MOU” perhaps sounds a little old-fashioned, and “term sheet” seems to be popular in the USA. For convenience, these documents will be referred to collectively below as term sheets. There is no prior assumption, under Irish law, as to whether such documents are, or are not, legally binding: it depends on the parties’ intentions (and the other criteria for a binding contract, referred to below). To avoid any doubt in the matter, it is strongly recommended that you state explicitly in the term sheet whether or not it is intended to be legally-binding.

If the parties state that a term sheet is not legally binding, but they proceed as if a contract had been made (e.g. by performing research work and by paying for that work), and in parallel they continue negotiations over a full agreement but the parties never reach agreement, there is a danger that the court will decide that the terms of the term sheet govern their contract. However, performing work under a term sheet before the full agreement has been signed is strongly discouraged in the Irish RPO community.

Under Irish law, contract negotiations do not, of themselves, impose any obligations to continue negotiating or to enter into any subsequent contract. Where parties wish to impose such obligations, they generally need to enter into some sort of binding, preliminary agreement. In some other countries, however, particularly in some civil law jurisdictions in continental Europe (such as France, Spain and Germany), signature of a term sheet may impose obligations on the parties to negotiate in good faith. If a party withdraws from negotiations after signature of such a document, it may incur liabilities towards the other contracting party. It is possible that such a liability may even arise at an earlier stage than signature of a term sheet: local legal advice should be obtained where appropriate.

For further information, the reader should refer to the separate Practical Guide entitled “Introduction to Term Sheets”.

What makes a contract legally-binding?

There are six basic requirements for an agreement to be a (legally-binding) contract under Irish law.

1. *Capacity*. Each party to the contract must be legally capable of entering into contracts. Some contracts with minors (under 18 years), inebriates and persons with mental incapacity are not legally enforceable. In theory, some contracts with organisations such as charitable trusts and governmental and public authorities may not be legally enforceable if they are outside the ‘objects’ and powers of the organisation (sometimes known by the Latin phrase *ultra vires*). In practice, however, it is extremely unusual for a research contract or IP transaction with an Irish RPO to fall foul of the rules on capacity – and even more unusual for an Irish company to fall

foul of these rules¹. Two examples of areas where readers may need to consider this issue are:

- contracts (including IP assignments) with students aged less than 18 years; and
- contracts with overseas organisations, particularly non-mainstream organisations such as universities and charitable trusts. It is understood, for example, that the laws of certain US States may prevent organs of the State, including the State's universities, from entering into certain types of obligation such as indemnities.

In certain unusual cases a formal opinion should be sought from an appropriately qualified professional regarding a party's status, financial standing and capacity.

2. *Intention to create legal relations.* Usually, there will be no doubt about meeting this requirement where a written agreement is signed. As has already been mentioned, some doubts may arise with preliminary documents such as term sheets. An example of where this requirement will usually not be met is an agreement to share domestic tasks, e.g. "you wash, I'll dry".
3. *Offer and acceptance.* For a contract (between two parties) to come into existence, one party must make an offer to enter into a contract on specified terms, and the other party must accept that offer. Where both parties sign a written agreement, there should not be any doubt about meeting this requirement (even though it is not always clear, when the parties sign simultaneously, who has made the offer and who has accepted it). Where a party signs a written contract that has previously been signed by the other party, but alters one or more of the written terms before signing, that party is in effect making a counter-offer which will only result in a contract if the first party accepts that counter-offer.
4. *Consideration.* Under Irish law (unlike some other countries' laws, e.g. Scots law), each party to the contract must provide some 'consideration', i.e. something of value (not necessarily money and not necessarily of comparable value to the consideration provided by the other party). For example, in a typical contract to perform consultancy services, one party provides consideration in the form of consultancy work, whilst the other party provides consideration in the form of a fee. Occasionally, where there is doubt about whether a party is providing consideration, some nominal consideration, such as €1, is referred to in the contract. There are other rules about consideration, e.g. "past consideration is no consideration" (agreeing to do something that you agreed to do prior to entering into the contract will not amount to consideration). The requirement for consideration does not apply to contracts that are executed as deeds (see below).
5. *Complete agreement.* All the terms, or at least all the significant terms, of the contract must be agreed in order for the contract to be legally-binding. Sometimes parties leave certain terms to be agreed at a later date, e.g. they agree that the fee for performing the contract work will be negotiated after the contract has been signed. In most situations these 'agreements to agree', as they are sometimes called, will not be legally-binding. Entering into 'agreements to agree' is strongly discouraged in the Irish RPO community, as it is important that the parties are clear about their respective rights and obligations at the outset of any arrangement.
6. *Certainty of terms.* If any of the terms of the contract is too vague or imprecise, the court might

¹ The reader should note that the Companies Act 2014 came into effect on 1 June 2015 and, amongst other changes, removed the concept of *ultra vires* for companies. As a result, a company would have the same capacity to enter into contracts as individuals.

decide that it is unenforceable. If the term is fundamental to the contract, the court might decide that the whole contract is void.

If the above requirements are met in relation to a commercial agreement, it will usually be a legally-binding contract. However, there might still be reasons why it is not legally-binding. By way of example, these might include the following:

- Anti-competitive terms (e.g. a breach of Article 101 of the Treaty on the Functioning of the European Union).
- Illegal subject-matter (e.g. an agreement to commit a criminal act).
- Other legal principles apply (e.g. frustration, mistake, application of insolvency laws).
- Failure to comply with formalities (see below).

Must it be in writing?

Some contracts and other documents must be in writing (e.g. a patent assignment) but in most cases an oral contract will be binding if it meets the above six requirements. In practice, entering into oral contracts of any complexity is strongly discouraged in the Irish RPO community, not least because it may be difficult to prove that an oral contract has been made, or its terms. Some countries' laws require a contract to be in writing or to take a particular form in order to be binding; Irish law, however, is more flexible than this. This flexibility may be thought attractive (few formalities) but it also has dangers, in that you may find that a binding contract has been made before you intended. For example, an offer made in correspondence may amount to a legally binding offer, even though you intended that it would only become binding once a formal, written agreement had been signed by the parties. Techniques such as heading correspondence "subject to contract / contract denied" can sometimes be effective to avoid this happening.

Different contract formats

In general, there are no requirements as to the format of Irish law contracts. The use of a conventional format (parties – recitals – operative provisions – signatures – schedules) is generally to be recommended for contracts of any complexity. In the case of shorter agreements, it is sometimes thought to be more 'friendly' to draft it in the form of a letter that takes effect as a contract when it is countersigned by the recipient of the letter and returned to the original sender. Another format that is sometimes seen is a 'form' agreement that has a one-page 'front-end' that is signed, followed by a set of terms and conditions.

Contracts 'under hand' and deeds

Most contracts are simply signed by, or on behalf of, each party to the contract. Such contracts are known in legal jargon as 'contracts under hand' to distinguish them from 'contracts under seal' (or, in modern usage, 'contracts executed as deeds').

A deed is a more formal type of document than a contract under hand. In a few cases, documents must be executed as deeds (e.g. transfer of legal interest in land), but in most cases (e.g. in the case of intellectual property assignments, or most contracts) it is optional to execute the document as a deed.

The main differences in legal effect between a contract under hand and a contract executed as a deed are:

- There is no need for 'consideration' in a contract made as a deed
- The limitation period (the time limit for commencing legal proceedings) is 6 years from the

breach of contract in the case of contracts under hand, and 12 years from the breach of contract in the case of deeds.

Who are (or should be) the parties to the contract?

The contract should make clear who the parties to the contract are. Full legal names and identifying details should be provided for each of the parties to the contract. Woolly references in the parties clause, e.g. to “Professor Smith, Department of Physics, University of St Kilda” should be avoided. In this example, the contracting party will usually be the University of St Kilda. The Department is unlikely to have a separate legal identity. If the contracting party is intended to be Professor Smith rather than the RPO, his home address should usually be given. If it is for some reason necessary to refer to his work address, a formula such as “Professor John Shirley Smith, whose address is c/o Department of Physics, University of St Kilda” should be used.

In the case of companies, the contract should state the full name, legal status, and principal/registered address of the company, e.g. “Global Exploitation, Inc., incorporated in the State of Delaware under registration number [insert], whose principal place of business is at [insert]”, or “Global Holdings plc, incorporated in the Republic of Ireland under registration number [insert], whose registered address is at [insert]”. You will notice in the two examples given in the previous sentence, the company registration number is also built into the description of the companies. It is usually desirable to state this, to avoid ambiguity: Irish companies can change their names, but the company number remains the same.

Sometimes the ‘parties’ clause names a party “and its Affiliates” as the contracting party. In the author’s view this should generally be avoided. If the other party presses for this reference to be retained, one might ask whether the named party has authority to enter into the contract on behalf of all of its Affiliates, whether those Affiliates are to be jointly and severally liable for performance of the named party’s obligations and what happens when an entity becomes an Affiliate, or ceases to be one, after the contract is formed. These points should be explicitly dealt with in the contract.

Problems where non-parties have rights or obligations in the contract

It is inadvisable to include, in a contract, obligations on or benefits for someone who is not a party to the contract. A non-party cannot generally be bound to comply with such obligations and cannot enforce such benefits. In Ireland, a third party cannot be bound by or benefit from a contract to which it is not a party. It is recommended that you seek legal advice on whether and how to do this in individual cases.

As a variation on the above, in some contracts, after the signatures of the contracting parties (e.g. a RPO and a sponsoring company), there appears a space for an individual (e.g. the principal investigator) to sign. Usually, the wording immediately above his signature makes clear that he is not signing as a party to the contract; rather, he is acknowledging that the parties have entered into the contract and that he has read and understood its terms. The purpose of such a signature is usually to impose a moral obligation (or perhaps even an obligation under the contract of employment) on the academic to comply with the provisions of the contract.

Who has authority to sign on behalf of the contracting parties?

It is easiest to refer first to the position for Irish companies, then to mention some variations. The Articles of Association of the company will almost always provide that the Board of Directors of the company is responsible for the management of the company. The Board will often delegate responsibility for signing contracts to the Chief Executive, who may delegate this responsibility further, to more junior managers.

Many companies have internal, written procedures that specify different levels of signing authority for different types or values of contract. However, external parties may not be aware of these procedures and therefore will not be bound by them. As far as the outside world is concerned, signature of a contract by a Board director will almost always bind the company to the contract. What may be more problematic is deciding whether someone much lower down the company hierarchy has authority to sign the contract.

Under the Irish law of agency, many company representatives will have what is known as ‘ostensible authority’ to sign contracts, particularly if the contract appears to be within the manager’s general area of responsibility. To take an easy example, someone with the job title of Laboratory Purchasing Manager will probably have apparent authority to sign a contract for the purchase of test tubes. Someone with the title of Executive Vice President of Licensing, will (in the author’s view) probably have apparent authority to sign a licensing agreement. In cases of doubt, it may be appropriate to make enquiries as to the signatory’s areas and level of responsibility.

In the case of very major contracts, the other contracting party may require sight of a certified copy of a Board resolution approving the signing of the contract, and authorising the Chief Executive (or other person) to sign it. This approach is often encountered in corporate transactions such as mergers and acquisitions.

In the case of HEIs, the equivalent to the Board of Directors and the Chief Executive may be the Council and the President. In an Irish State research organisation, this may be the Authority and the Director. However, the precise titles may vary from institution to institution. The signature of contracts relating to technology transfer and research contracts is often delegated below President or Director level. Sometimes, this delegation is mentioned specifically in the HEI’s or RPO’s constitutional documents.

It is understood that in some countries, the individuals who have authority to sign documents on behalf of a company may be named on a public register, i.e. the equivalent to the Irish Register of Companies (held at the Companies Registration Office). In some countries (e.g. Germany and Switzerland) it seems that two signatures are generally required on all contracts entered into by a company.

When does the contract come into effect: signature date, effective date, conditions precedent, completion date?

Unless agreed otherwise deeds come into effect upon *delivery*; ordinary contracts come into effect when signed by all parties (unless some other effective date is specified).

The date at the head of page one of the agreement should be the date on which the deed is delivered (often the same date as signature – see above) or the contract is signed (or, if signature takes place on different dates, the date on which the last party signed). Misdating an agreement can amount to a forgery and therefore can be a criminal offence, although this is unlikely to be the case where a simple mistake is made. It is not good practice to type in the anticipated date of signature in advance, as the actual date of signature may well be different. Conventional practice among Irish lawyers is to have the parties write in the date of signature once the parties have signed.

If the parties wish the agreement to come into effect on a date before or after the date of signature, this is permissible, but should not be implemented by misdating the agreement. Instead, include a definition of “Commencement Date” or “Effective Date” in the agreement. If it is considered essential to put this date in the first line of the agreement, use wording such as “this Agreement takes effect from

...” rather than “this Agreement is made on ...”.

Sometimes, parties wish their agreement (or certain clauses of the agreement) to take effect only when some specified event has occurred, e.g. the receipt of finance by the company. This can be achieved by including what is sometimes called a ‘condition precedent’ or ‘pre-condition’ in the agreement. The wording of such clauses requires care.

Some contracts have what is known as a date of ‘completion’, which may be some time after the contract is signed, when certain events are to occur, e.g. when the assets being sold are formally transferred to the purchaser and the price is paid. This procedure is often encountered in investment agreements and sale of business agreements.

Main commercial obligations on the RPO

Most readers of this Guide will be concerned with contracts under which an RPO undertakes to perform research or consultancy work, or agrees to license or assign intellectual property. A few generalisations can usefully be made as to the legal aspects of these obligations.

The obligations on the parties should be clearly identified. For example, if a research contract merely states that the parties will agree a research programme after signature of the contract, or that they will agree a price for the work after signature, this may amount to an “agreement to agree” and not be a legally binding contract.

In general, the Irish courts are very reluctant to imply terms into a contract unless this is absolutely necessary to make the contract ‘work’ and the court considers that the term is one that the parties would have agreed if they had put their mind to it when drafting the contract. A few terms are implied by statute (e.g. that services will be performed with reasonable care and skill) but there is no general code of implied terms for most contracts under Irish law. This approach may be contrasted with some continental European jurisdictions, where many terms are implied into contracts. Partly as a result of this difference of approach, Irish law contracts tend to be more detailed than those drafted in some other European countries.

Where a time limit is stated for performance of the obligations, and if a party fails to comply with the time limits, it may find itself liable for breach of contract. Where the a party wishes to avoid or reduce such liability, it may wish to make it clear that any times stated are estimates only or to state that no guarantee is given that the work will be completed by any stated date.

Where the agreement provides that “time is of the essence” this will usually give the other party a right to terminate the contract (which may be in addition to a right to claim damages) if a time limit is not met.

Sometimes, rather than have an absolute obligation to perform an activity or achieve an outcome, a contracting party is merely obliged to use its best (or reasonable) endeavours to do so. If it fails to perform the activity or achieve the outcome despite using the required level of endeavours, it will not be in breach of contract.

Under Irish law an obligation of best endeavours is a high level of obligation. By contrast, an obligation of reasonable endeavours is a much lower level of obligation.

Whilst “best endeavours” will often be thought too high by the obliged party, “reasonable endeavours” will often be thought too low and subjective by the other party. Compromise solutions such as “all

reasonable endeavours” or “commercially reasonable endeavours” have not received sufficient judicial comment to know whether they are genuinely in the middle of the range and if so what the level of obligation is. The author’s preference is to avoid such expressions altogether or to include a definition of “Diligent Efforts” (or other expression) that explains the level of obligation further.

Limiting liability

Parties often seek to include in their contracts clauses that limit or exclude certain types of liability. Negotiation of these clauses can be difficult or frustrating for the contract negotiator for a variety of reasons, including the following (not all of which will apply in all cases):

- the other party prefers liability to be unlimited or requires a higher limit than the RPO is willing to give;
- in some industries (e.g. the oil and gas industry, or the computer industry) a standard approach to the allocation of liability and indemnities has developed, which may not dovetail with the approach of the RPO;
- liability clauses tend to be complex and rather legalistic: it is easy to make a mistake in drafting or reviewing them, and/or the other party may insist on using their own form of words, which may look very different to those used by the RPO, even though they are covering similar ground;
- typically, exclusion clauses distinguish between ‘direct’ and ‘indirect’ losses, with very different provisions for each category; but the dividing line between these categories is not always clear;
- the Irish courts interpret such clauses very strictly;
- legislation reduces a party’s ability to exclude or limit liability but is not always clear as to what limits would be acceptable in an individual case;
- most Irish universities do not have experience of litigation over R&D and IP contracts, and many have not developed a ‘walk-away position’ on liability; and
- the RPO will often have insurance that covers some contractual liabilities, but the relevant insurance policy may be subject to exceptions that are not always clearly understood or known by the contract negotiator. As examples: the policy may exclude North American jurisdiction; may require any special risks to be notified to the insurer; and may not cover “contractually-assumed risks”.

Typically, in contracts involving the performance of work (e.g. a research contract) a RPO may wish to limit liability to either (a) the price paid under the contract, or (b) the amount of its insurance cover (e.g. the limit of its professional indemnity policy). The latter limit is probably easier to justify in court (if justification is needed, e.g. if the limit forms part of a standard term that must be shown to be reasonable). However, for small-scale contracts worth a few tens of thousands of Euro, it may be commercially unattractive to offer the insurance limit, which may be several million Euro. Sometimes, universities ‘take a view’ on the limit they are prepared to offer, even though a strict limit of liability may be of uncertain legal effect in some circumstances.

The question of limitation of liability comes up in other types of contracts encountered by RPOs. For example in spin-out corporate transactions, the personal liability of the founding academics for breach of warranty may be limited to a specific sum (typically several tens of thousands of Euro), whilst the liability of the RPO may be subject to a different (usually higher) limit.

Negotiation of these clauses benefits from close analysis of the words used, an understanding of the underlying law, experience of negotiating them, and the support of senior management within the RPO when sticking-points are reached. Most RPOs will have a policy on limitation of liability and other

'legal' clauses (particularly warranties and indemnities). Where they do not, it is recommended that they develop one. In view of the legal complexities of this subject, any such exercise will require detailed input from legal advisers.

At a more basic level, when reviewing another party's standard contract, don't forget to consider clauses that are missing, as well as clauses that are present but require revision. Sometimes, the complete absence of a limitation of liability clause is overlooked, simply because there is no clause to prompt the reviewer to propose different terms.

Indemnities

In short, an indemnity is an obligation accepted by one party to make good any losses or damages suffered by another party. The loss or damage that the indemnity covers, the circumstances in which the indemnity will arise, etc. are all subject to agreement between the parties. The ordinary burden of proof of loss and obligations to mitigate loss which apply on a simple breach of contract will generally not apply where an indemnity applies.

Indemnity clauses have a variety of purposes. Sometimes they are used to bolster a liability clause, e.g. an indemnity clause might provide that if a party is in breach of contract it will indemnify the other party against the consequences of that breach. In the absence of such an indemnity, the negligent party might still be liable for the breach under general contract law, but subject to certain qualifications and conditions imposed by law, e.g. the other party has an obligation to mitigate its loss, and only certain types of foreseeable losses are recoverable. Depending on the wording of the indemnity, it may remove some of these qualifications and thereby strengthen the non-breaching party's position. Another use of indemnities is to allocate risk between the parties. For example, an indemnity clause might provide that the RPO will bear the liability for all injuries occurring on the RPO's premises, whilst all injuries on the sponsor's premises occurring on the sponsor's premises will be dealt with by the sponsor, irrespective of whether the RPO or the sponsor was at fault.

In the author's view, indemnities are most useful for addressing the question of third party claims and liabilities. For example, in an IP licence agreement, an indemnity clause might provide that the licensee must indemnify the licensor against any claims from purchasers of the licensed product. In some cases, specifically limiting the indemnity to *third party* claims, etc., will be appropriate. Well-drafted indemnities usually include a set of conditions for the giving of the indemnity. For example, the party giving the indemnity will generally wish to have the conduct of any litigation or negotiations, and this should be specifically stated.

Sometimes, a contract will include both clauses limiting liability and indemnities, and it is not always clearly stated whether the limits on liability apply to the indemnities. It is recommended that this be explicitly stated. To the extent that the indemnity is intended to be a risk allocation measure, rather than a bolster for a liability clause (see commentary above), it will often be appropriate to state that the indemnity is not subject to the limitations of liability stated elsewhere in the contract.

Warranties and disclaimers

The term *warranty* has a variety of subtly-different legal meanings, of which the most common are:

- A promise contained in a contract that certain facts are true (e.g. a warranty that the RPO is the registered proprietor of the licensed intellectual property).
- A contractual obligation, breach of which entitles the other party to claim damages, but not to terminate the contract (unlike a *condition*, which is a more important contractual provision than a warranty – breach of a condition entitles the other party to terminate the contract); but this

traditional legal distinction between warranties and conditions is rarely encountered nowadays.

- A guarantee given by a manufacturer to a consumer.

For the purposes of this Guide, *warranty* is being used in the first sense indicated above. In this sense, warranties can be distinguished from *representations*, which are statements that may induce a party to enter into a contract. In general, a party may wish to exclude prior representations from the contract. The technical distinction between warranties and representations, and the extent to which one can exclude liability for representations in ‘entire agreement’ clauses, is a complex subject on which legal advice should be sought.

RPOs will usually be cautious about the warranties that they are prepared to give. In some cases, rather than given an absolute warranty that something is true, they may be prepared to give a knowledge-based warranty. There are two main types:

- A warranty “to the best of your knowledge, information and belief” – as well as covering the actual knowledge of the party giving the warranty, a *best of knowledge* warranty may imply that some reasonable checking has been done, e.g. that patent searches have been conducted. In view of the possible uncertainties as to what might be ‘reasonable’, a party may prefer to give a warranty;
- A warranty “as far as you are aware, but without conducting searches or investigations” – this is generally regarded as a lower level of warranty than the best of knowledge warranty referred to above.

Other techniques to limit risk in relation to warranties include limiting liability under the warranty (see above), imposing a time limit on the bringing of claims under the warranty, and limiting knowledge-based warranties to the knowledge of named individuals.

Instead of giving a warranty, a party might wish to include a disclaimer in the contract. For example, in a research contract an RPO might wish to state that no warranty is given that any particular outcome or results will be obtained from the research. The legal effectiveness of disclaimers depends on the same rules as apply to clauses that exclude or limit liability.

Insurance

When drafting, revising or reviewing liability clauses (including indemnities) it is important to consider whether the liability is covered by insurance. It is strongly recommended that RPO contracts and technology transfer offices have a good working knowledge of the RPO’s insurance policies and that they maintain good lines of communication with the brokers and insurers. Some liabilities may be specifically excluded (e.g. North American jurisdiction) and it is important to understand these exclusions when drafting or reviewing contract terms.

Sometimes the insurers may have an incomplete or distorted picture of the liabilities that the RPO is accepting, perhaps because someone in a different department prepared the annual proposal form, or because the form indicates that the RPO enters into contracts on certain standard contract templates whereas in fact these templates are rarely used. Sometimes, the insurers may be expecting to be told about all significant contracts that include liability terms which differ from the standard terms that were disclosed to them. In any event, under Irish law, parties to insurance contracts have an obligation of *utmost good faith* to the insurer, which requires them to provide full disclosure of all facts and circumstances that might affect the insurance.

Sometimes the contract will include specific insurance obligations on the parties. It goes without saying that such clauses should be referred to your insurers.

Setting up meetings and discussions with the insurers may seem a chore, but it may also provide benefits. For example if the insurers require you to limit liability to €X (a sum less than the limit of the insurance) in certain types of contract, this may provide a strong argument to use in negotiations with a party that seeks a higher limit (or no limit) of liability, as well as providing a potential justification for the limit in the event of litigation.

Law, jurisdiction and dispute resolution

An Irish RPO will generally wish to provide for the laws of the Republic of Ireland to apply to its contracts, and for the courts of that country to have jurisdiction in the event of litigation.

Sometimes, parties prefer to go to arbitration rather than use the courts. Arbitration can be thought of as a private court case where the parties choose the arbitrator (judge) and usually hire a room to serve as the arbitration room (court room).

Typical reasons why people choose arbitration over litigation include:

- Privacy – the case is not a matter of public record, unlike a court case.
- Ability to choose the arbitrator.
- Perceived cost saving and flexibility.
- Timing – in some countries it may take many years for a case to come to court.
- Where the other party is based in another country, in some countries it may be easier to enforce an arbitration award than an overseas court decision.

Typical reasons why people choose litigation over arbitration include:

- Arbitration can be more expensive (judges and courts are not charged to litigants at a full economic rate; arbitrators often charge top barristers' hourly rates).
- Arbitration can take longer, particularly in larger disputes (scheduling hearings with busy arbitrators can be difficult; the procedural rules applied in arbitration are not always as firm or firmly applied as in litigation, giving a party more opportunity to 'spin things out'; and the Irish courts provide relatively quick hearings compared with some countries' courts).
- For a decision on hard points of law (e.g. is this contract legally binding?), it may be better to use a professional judge rather than an arbitrator; arbitrators sometimes have a reputation for coming up with compromise solutions rather than 'black and white' decisions that favour one party or the other.
- Parties sometimes seek to appeal arbitrators' decisions to the courts, which may result in a re-run of the case in court and therefore a duplication of cost and effort.

In international contracts, it is not always possible to negotiate Irish law and jurisdiction. The other party will, understandably, prefer to have the law of their own country govern the contract. Sometimes, to avoid either party having a 'home territory advantage', the parties will agree a neutral law or venue as a compromise.

Occasionally, parties propose leaving the law and jurisdiction un-stated. This cannot be recommended from a legal perspective, although on very minor agreements such as confidentiality agreements it is sometimes regarded as commercially acceptable.

If another country's law and/or jurisdiction is to be agreed, you would be well-advised to obtain legal

advice from someone who is qualified to advise on that country's laws. In some cases, financial considerations may mean that your organisation is prepared to take the risk of not having proper legal advice. A non-exhaustive list of those risks might include the following:

- The contract may not be legally-binding.
- Terms may be implied into the contract that wouldn't be implied under Irish law.
- The terms of the contract may be interpreted in a different way (e.g. "best endeavours" or "warranty" might mean something different).
- The liability clauses may not work, or may be interpreted differently, or different liabilities may arise.
- By entering into the contract, your organisation may expose itself to other non-contractual liabilities (e.g. for breach of competition laws).
- The jurisdiction chosen may not provide high-quality, fair, timely decisions (e.g. because of inexperience, incompetence, corruption or insufficient resources).
- The costs and/or management time involved in enforcing the contract may be greater for your organisation than for the other party, or greater for both parties.
- Procedural rules in the other jurisdiction may place your organisation at a disadvantage.

Without knowing the circumstances, it is hard for the author to suggest which non-Irish laws and jurisdictions might be appropriate. However, at a very high level of generalisation, the author's personal preferences for non-Irish law and jurisdiction might be in the following order:

- English/Scots/Northern Ireland law.
- Particularly if there is a far Eastern element to the contract, consider Commonwealth or ex-Commonwealth jurisdictions, such as Australia, Singapore or Hong Kong.
- Within Europe, choose larger, industrialised countries with a 'North European' culture, e.g. Netherlands or Sweden. Sweden has a high international reputation for its arbitration system. Generally avoid European countries with a 'Mediterranean' culture, including France and Italy.
- If US jurisdiction is required, the author's first preference would be New York, unless the other party is based in New York in which case they may have too much of a 'home territory advantage'. Delaware is sometimes proposed, but this may be best for purely corporate disputes, e.g. disputes between shareholders, in view of its experience as the State of incorporation of many US companies. It is a relatively small jurisdiction to hear purely contractual disputes.
- If arbitration is to be used, agree a set of arbitration procedures. The author's first preference would be LCIA (London Court of International Arbitration) rules. ICC (International Chamber of Commerce) rules are often seen but an ICC arbitration may be far too heavyweight and expensive for a typical R&D or IP contract. Probably AAA (American Arbitration Association) rules would be better than ICC. Consider WIPO (World Intellectual Property Association) arbitration – they are promoting their services in relation to commercial disputes.

How will the contract be interpreted in court?

The Irish courts follow certain well-established principles when 'construing' (interpreting) commercial contracts. These principles have developed in the reported judgments of cases. The gradual development of the law through cases, known as *common law*, can be distinguished from the approach taken in *civil law* jurisdictions, including most of continental Europe, where the law is set out in a written code, or *code civile*.

Other common law jurisdictions, including the USA and many Commonwealth countries, in principle follow a similar approach to the Irish courts. But the law has developed in different ways in those

countries and the different approaches taken by the different countries may have a significant impact on how a contract term is interpreted.

Many other principles are followed by the Irish courts when interpreting contracts. To provide a flavour of the approach taken, a small selection of these principles follows.

- Words will have their ordinary dictionary meaning, unless they are technical words (in which case expert evidence may be required of their meaning at the time the contract was made).
- The courts are prepared to deviate from the strict meaning of the words used to some extent, recognising that business people do not always express themselves with the pedantic accuracy that might be expected, say, of a parliamentary draftsman. However, this is a limited safety valve. The courts are generally not prepared to re-write the parties' contract for them.
- Provisions will be interpreted in the way that an outsider, in possession of all relevant facts, would interpret them – not necessarily in the way that one or more parties intended them to be interpreted.
- If a general proposition is followed by a list of examples, the general proposition may be limited by the contents of the list (hence the frequent use of the phrase “including without limitation”).
- The court will interpret the document as a whole, and may get guidance on how one clause should be interpreted from looking at the wording of other clauses.
- Reasonable, lawful interpretations are preferred.
- Clauses that exclude liability are interpreted particularly strictly.
- The courts are not bound by the meaning given to a particular word or phrase in a previous case, as the context may be different.

Intellectual property: background

Various intellectual property (IP) issues arise in different types of RPO contracts. An important general issue is whether the RPO has the right to use any pre-existing IP that it uses in performing activities under a contract.

The following paragraphs will use the expression *background IP* to refer to IP generated outside the contract under consideration (usually before the contract commenced), and *foreground IP* to refer to IP generated under the contract.

It may be appropriate for the RPO to investigate the background IP ownership position before performing work under the contract (such investigations are sometimes known as *due diligence*) or licensing IP. In many situations, the RPO will not have the resources to conduct those investigations and will therefore be taking a risk (calculated or otherwise) of infringement of third party IP. In some cases it may be possible to take advantage of the exemptions for research that exist in some IP laws, but this should not be automatically assumed. Moreover, the extent of those exemptions has changed in recent years and are currently under review.

Where third party IP was used under licence (e.g. where open source software is used in software development), or where materials were obtained from a third party under a material transfer agreement (MTA), the terms of the licence or MTA as appropriate should be checked to ensure that it allows the activities that are to be performed under the contract. As examples, the licence or the MTA may contain conditions which should be reflected in the contract.

RPOs may wish to investigate whether insurance against infringement of third party IP should be obtained.

A second issue, in relation to background IP, is whether the RPO is to grant any rights in that IP to the other contracting party. Before doing so, the RPO will wish to check both the ownership position and whether it has already granted any rights (e.g. an exclusive licence) to another company, which might conflict with the grant of rights to the other contracting party.

Intellectual property: foreground

RPO contracts, including R&D contracts and IP agreements, often include provisions dealing with the ownership, and use that either party may make, of foreground IP. Depending on the type of contract, these provisions might include:

- An exclusive or non-exclusive licence in one or more fields or territories.
- An option to obtain a licence or assignment.
- An assignment of IP – in exceptional circumstances.

In addition, in accordance with the national IP Protocol for Ireland, these types of contracts will also always include a reservation of rights for the RPO to conduct research and teaching. The extent of any right to conduct research and teaching may require careful drafting and negotiation. In particular, does it allow the RPO to conduct sponsored research under a contract with a commercial company?

Conflicts of interest

The term “conflicts of interest” covers a range of issues in relation to RPO contracts, including:

- Whether it is appropriate to enter into the contract at all (e.g. should a company in which an academic has an interest be permitted to sponsor clinical trials in which the academic is an investigator?).
- Whether the academic should be required to declare any interests that it may have in a party that enters into a contract with the RPO.
- Whether the RPO is able to enter into the contract in light of its contractual and other commitments to third parties (e.g. if this would result in exclusive licences of the same IP in the same field and territory being granted to more than one organisation).

The first two of these points are matters of policy that don't (usually) directly affect the wording of contracts. The third point, above, is obviously one that needs to be considered as part of any due diligence exercise before granting IP rights or entering into exclusive R&D obligations to the other contracting party.

Publications, confidentiality and charitable status

Publications are usually an important, or vital, part of an academic's activities. Contractual provisions that prevent publications or make them subject to conditions should be reviewed with particular care. In the case of some research contracts, it may be essential to ensure that publications cannot be prevented by the other contracting party, as this might prejudice:

- The independence of the academic and the RPO.
- The charitable status of the RPO.
- The tax-exempt status of the RPO as a charity.

It is generally regarded as permissible to include a provision in the research contract that allows a delay in publishing to allow initial patent applications to be filed. In the author's experience, delays of typically up to six months are often seen in RPO research contracts. However, if any longer period of

delay is proposed, thought should be given as to whether this raises any charitable and/or tax issues for the RPO.

It is also generally regarded as permissible to include provisions that allow the other contracting party to review proposed publications and require the deletion of the contracting party's confidential information. In this context, care should be taken to ensure that the other contracting party's confidential information is not defined as including the results of the research programme.

Payment terms

The contract should include clear provisions as to the amount of any payments and how and when they will be paid. Consider whether it is desirable to state *who, what, why, where, when, and how* the obligations arise. Particular points to consider include:

- Stating that any VAT is payable in addition to the quoted price.
- Stating when payments are to be made (sometimes overlooked in brief licence agreements).
- Tax issues (including withholding taxes in licence agreements).
- Reports, record-keeping and auditing in IP agreements.

Termination and its consequences

Long term contracts, such as IP licences and R&D agreements, should include termination provisions and provisions stating which clauses survive termination. Clauses such as those dealing with IP, confidentiality, liability and payment terms (in respect of payments arising before termination) may need to survive.

If the contract fails to include an expiry date or a right to terminate (other than for breach or insolvency), the court might decide that it is terminable on reasonable notice. But it would be much better to address this issue specifically in the contract.

Boilerplate clauses

The term 'boilerplate' is sometimes used to refer to various clauses that are typically found at the end of the contract, and which are sometimes (inadvisably) slotted in without much thought being given as to their relevance to the particular contract. An analogy can be made to operating system software in a computer. Typical boilerplate clauses include those dealing with:

- Law and jurisdiction.
- Notices.
- Third party rights.
- Assignment and subcontracting.
- Waiver.
- Limitation of liability.
- Entire agreement.

When drafting a contract, it is clearly important to understand the reasons for including such clauses, and when they might be relevant. There is insufficient space to cover boilerplate clauses in detail in this Guide; readers are referred to standard textbooks on the subject.

Glossary of selected legal terms, and terms found in contracts

Assignment and novation

Assignment has two distinct meanings that readers will encounter: (1) transfer of title to intellectual property, and (2) transfer of rights (or, sometimes, rights and obligations) under a contract, e.g. to a purchaser of a party's business. Usually, assignment of rights and obligations is effected by means of a novation agreement between all three parties (assignor, assignee and the other contracting party).

Best and reasonable endeavours

See commentary earlier in this Guide

Common law

The branch of Irish law that has developed through court decisions, rather than through legislation or equity. See commentary earlier in this chapter.

Consult

An obligation to consult the other party usually implies that you will give the other party a reasonable opportunity to comment and that you will consider in good faith any comments that are made, but that having done this you have the ultimate power to decide the matter.

Due diligence

US-derived jargon meaning investigations that a party may do prior to entering into a transaction. This might include investigations about the legal and financial status of the other party, the state of the IP, the quality of the science, the terms of any existing contracts, etc.

Engrossment

Lawyers' jargon for the final version of an agreement that is prepared for signature. Sometimes (e.g. in the US) the equivalent is execution copies.

Equity and equitable remedies

A branch of Irish law that developed to overcome the unfairness that would otherwise arise if the common law was applied rigidly. 'Equitable principles' now govern certain types of legal remedy, e.g. injunctions for breach of confidence. One of those principles is that "he who comes to equity must come with clean hands", i.e. misconduct by the claimant may prejudice his claim for an injunction.

Escrow

After signature, and prior to delivery, a party's solicitors may hold a deed in escrow pending an agreed event, e.g. payment of the contract price. Once the event has occurred, the deed is 'released from escrow' and delivered, whereupon the deed comes into effect. The term is also used in relation to the arrangement where software source code is held by an independent third party and released to the licensee if certain conditions, set out in an escrow agreement, are met, e.g. if the licensor is made bankrupt.

Exclusive and sole

According to general understanding, an exclusive IP licence is one that prohibits the licensor from (a) itself exploiting the licensed IP in the field and territory that has been exclusively licensed, or (b) granting any other person (i.e. apart from the exclusive licensee) a licence to do so. By contrast, a sole licence covers only (b) above, i.e. the licensor may still exploit itself. Semi-exclusive, or co-exclusive, licences are sometimes encountered and their meaning should always be defined: usually the definition refers to the right of the licensor to appoint one other licensee for the licensed field and territory.

Executed

To execute a deed or agreement is to sign it (in respect of deeds, the term is sometimes used to mean to sign and deliver the deed).

Including without limitation

Where an obligation or principle is referred to in a contract, followed by a list of examples, it may be important to state that the examples do not limit the general obligation or principle (see commentary on interpretation of contracts, above). Typically this is done using words such as “including without limitation” before the list of examples.

Negligence

Negligence is a failure to exercise a reasonable or expected standard of care towards people to whom one owes a duty of care. One owes a duty of care towards a person if it might be reasonably foreseen that the negligent behaviour would cause that person to suffer injury, loss or damage. Simple mistakes (e.g. by an investment manager or a surgeon) are not necessarily negligent. Where services are provided under a contract, the same act of negligence might give rise to damages for breach of contract or damages in tort (see below). Some countries laws’ (e.g. in the USA but not in England and Wales or Ireland) have a well-established concept of *gross negligence* in addition to (ordinary) negligence. A possible analogy to the difference between negligence and gross negligence is the difference between careless driving and reckless driving.

Indemnity

An indemnity is an obligation accepted by one person to make good any losses suffered by another person. The scope of the indemnity depends on the detailed wording of the indemnity clause (see commentary above).

Injunction

An injunction is a court order requiring a party to do or, more usually, to refrain from doing something. Breach of the court order renders the breaching party liable for contempt of court. Sometimes an interim injunction is obtained quickly to prevent wrongdoing (e.g. disclosure of confidential information) and is followed by a final injunction when the case is won at trial, perhaps a year or two later.

Tort

Tort is a branch of law that is distinct from contract law. The word shares a common origin with the French word *tort*, meaning wrong. Examples of torts include negligence, trespass, and assault. The same wrongdoing, e.g. negligent performance of a contract, might give rise to separate liabilities under contract law and under the law of tort. The word often appears in limitation of liability clauses, because of case law in which the judge, interpreting a liability clause very narrowly, indicated that in the absence of a reference to tort, the clause only limited contractual liability

Without prejudice to the generality of the foregoing

This phrase is often used where a general obligation is followed by a specific example of the general obligation, that the parties wish to emphasise in the contract, e.g. “X shall not use the Confidential Information for any purpose. Without prejudice to the generality of the preceding sentence, X shall not use the Confidential Information to develop a competing product to the Licensed Product.” The purpose of such a phrase is to avoid an interpretation in which the example narrows the meaning of the general obligation.

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