

## Technology Licensing - “All Reasonable Endeavours”

### Is that the best you can do?



Amongst business people negotiating commercial contracts there is almost certainly a natural expectation that imposing “all reasonable endeavours” or “best endeavours” on your opposite number (to perform or achieve certain outcomes) represents a serious commitment successfully obtained to your advantage moving forward. Although such “best endeavours” clauses are commonly seen in technology transfer or licensing and royalty deals they are by no means confined to such transactions and are found across a wide variety of commercial contracts.

All the more surprising then to find that the (English) High Court in a recent judgement *Leofelis SA and Another v Lonsdale Sports Limited and Others* has indicated that such phrases may mean precisely nothing or, less bluntly, that, on their own, they are far too uncertain to receive contractual effect in terms of enforcement against the party concerned.

This decision, and earlier ones, should serve to remind us of the potential shortcomings inherent in the casual use or acceptance of “best endeavours” wording. If we take, for example, a typical technology licence imposing an obligation on the licensee along the lines “to use its best endeavours to promote worldwide licensing and use of the licensed technology” then some observations may be made:

- If the licence is structured to include a substantial up-front

payment or minimum annual royalty payment, then almost **any** effort by the licensee is likely to be construed as being sufficient to comply with a “best endeavours” obligation (the thinking being that the licensor has chosen a financial mechanism as the main method of protecting himself against the risk of the licensee doing nothing at all)

- We can be very clear that although “best endeavours” may mean more than, say, second best endeavours, it is by no means the equivalent of a guarantee or a requirement that the licensee should endeavour to exploit the technology in priority to other more pressing commercial issues which may be affecting his business at the time or regardless of any financial or commercial disadvantage to himself. The test is what is reasonable and prudent in the circumstances and setting within which the licensee operates. More might be expected of a large company with significant production and marketing resources at its disposal than, say, a small owner-managed business.
- Imposing best endeavours without also setting out the criteria against or by which to judge and measure the effectiveness of the licensee’s efforts (or lack of effort) increases your risk of falling into the trap of uncertainty and unenforceability.

The points set out above, although in the context of a technology licence, should be borne in mind by contract negotiators in the broader commercial arena. Next time you or your advisers are tempted to quickly agree “best endeavours” and move on to the next point do pause for thought. An extra 10 minutes spent on drafting a few bullet points setting out what your expectations are may not just be beneficial operationally (in affording milestones against which to measure performance and effort), it may also just make the difference between an obligation which is enforceable in the eyes of the courts (because guidance has been provided in a way which allows a court to assess performance and efforts in a specific and certain way) and one which is not.

For further information on any of the issues raised in this Brief Update or on any other aspect of intellectual property please contact Lester Cameron (LFCameron@paul-williamsons.co.uk)