

UNIVERSITY OF APPLIED SCIENCES NORTHWESTERN
SWITZERLAND

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Corporate Law

Lesson XI: Intellectual Property Law

Part III

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I. Know-How and Trade Secrets



1. Introduction

Procedural knowledge or know-how is the **knowledge** of how to perform a task. For other valuable information, the expressions business secret or trade secret are sometimes used.

Know-how is in most cases not formalized. It can, but need not be written down in company handbooks, plans or other documents. In its most simple form know-how is the employees' knowledge about how to do things right, such as hands-on experience, practice at solving problems and the understanding of the limitations of a specific solution, etc.

In intellectual property law, the know-how is a parcel of closely-held information relating to industrial technology, sometimes also referred to as a **trade secret** which enables its user to derive commercial benefit from it.

2. Know-How and Trade Secrets in Swiss Law

There is no specific act to protect know-how and trade secrets in Swiss law. Both are only protected indirectly by different provisions of civil, criminal and unfair competition law. Therefore, in practice, the use of contractual agreements is standard.

3. Unfair Competition Law

The Federal Act against Unfair Competition (UCA) provides protection against certain forms of unfair competition that are considered to be a parasitic exploitation of third party's accomplishments (copying of goods). The purpose is to ensure fair and undistorted competition in the interest of all parties, i.e. producers and consumers.

In principle, industrial or intellectual achievements of third parties may be used and exploited without limitation, unless such use and exploitation infringes rights protected under copyright, patent, trademark or design law. However, the use of otherwise unprotected achievements may become unlawful if it shows certain parasitic (unfair) aspects.

A person is considered to have acted unfairly, if in particular he or she:

- (i) exploits, without authorization, a work product entrusted to him or her, such as bids, calculations and blueprints (Art. 5(a) UCA)

Example: Mr. Huber asks an architect to make a proposal for the new house he wants to build in order to negotiate a potential contract. The architect draws the plan with a cost of CHF 2'500. Mr. Huber says "Thank you very much" to the architect and brings the plan to another architect and gives him the contract to build the house.

- (ii) exploits the work product of a third party such as bids, calculations and blueprints, although he or she should have known that such work product was provided or made available to him or her without authorization (Art. 5(b) UCA);

Example: Mr. Meier quits his employment at Mueller AG and starts in the same position at Meier AG. As a little “gift” to Meier AG, he takes copies of the construction plans of Mueller AG’s pumps to Meier AG. Meier AG is happy to use these plans as they are significantly better than their own designs.

- (iii) appropriates and exploits, by the use of technical reproduction procedures, the work product of another which is ready to be marketed and who does so without putting in any effort him- or herself (Art. 5(c) UCA).

Example: Meier AG takes a special pump valve from Mueller AG, copies it *mechanically* and integrates it into its machines.

It is important to note that protection under Art. 5(c) UCA is restricted to *‘marketable’ products*. Mere ideas or methods are not protected. Furthermore, protection is granted only against ‘technical reproduction’. Any adaptation or variation of the third party’s achievement which requires intellectual or material efforts on the part of the adaptor is not covered by this provision.

Additional protection of know-how and trade secrets is obtained under the general clause of the UCA which reads as follows: *“Any conduct or business practice which is deceptive or in another manner violates the principle of good faith dealing, and which affects the relationship between competitors or between sellers and purchasers, is unfair and illegal.”*

Example: Meier AG bribes an employee of Mueller AG to make photos of the special Mueller AG pump valves so that it can construct similar valves.

Both, civil and criminal remedies, are available against acts that violate the UCA. Criminal sanctions include imprisonment of up to three years and fines of up to CHF 100’000.–. A criminal investigation will only be carried out upon request of a competitor, a consumer or a consumer organization (Art. 23 UCA).

4. Secrecy Obligation of Employees in Civil and Criminal Law

Employees have the obligation to keep secret all confidential information of their employers, e.g. financial information, customer lists, special know how and other important facts not known to the public. This obligation is stated both in civil law and criminal law:

a) Article 321a of the Swiss Code of Obligation states:

“1. The employees must carefully perform the work assigned to him and loyally safeguard the employer’s legitimate interests.

4. In the course of the employment, the employee shall not make use of or inform others of any facts to be kept secret, such as, in particular, manufacturing or business secrets that come to his knowledge while in the employer’s service. Also, after termination of the employment relationship, he shall continue to be bound to secrecy to the extent required to safeguard the employer’s legitimate interests.”

b) Article 162 of the Swiss Criminal Code reads as follows:

“Who by law or by contractual obligation has to keep an industrial or business secret and discloses it,

who makes use of such disclosure by another for his personal advantage,

shall be punished, upon request, with imprisonment up to three years or a money penalty.”

Therefore, an employee who discloses confidential information of his employer might face criminal charges, just as much as the other person or company that makes use of such illegally disclosed information.

Questions for Discussion:

- What does an employee have to keep secret? Is this sufficient for an employer to keep secret his specific know-how and other important information?
- What happens if the employee quits the company and starts working with a competitor? Can he take the customer and the price lists with him and write to all customers and makes them an offer 10% lower than the former employer's prices have been?
- What could be done to prevent the disclosure of information and / or the use by a new employer?

5. Contractual Arrangements for the Protection of Know How and Trade Secrets

Obviously, the protection given to a company for its know-how and for its trade secrets is not complete. Know-how resp. trade secrets are also very difficult to protect, as they are basically only information and non-tangible. Most of company's know-how is in the minds of its employees and in innumerable documents and databases (plans, notes on procedures, organizational papers, customer lists, price calculations, etc.) which all add a little piece to the know-how of a company and allows it to work as it does. It is thus almost impossible to make a positive description (list) of the know-how of a company.

In some cases, it is necessary to disclose confidential information to a third party (contractual partner, etc.). As the law does not provide full and effective protection of information disclosed - intentionally! Against further dissemination or use by the recipient in these cases, **Non Disclosure Agreements (NDA)** are of large practical importance. One person needs to convey certain confidential information to somebody else, but wants the other person to treat the information confidential. To make sure the other person effectively treats the information received

confidentially, the agreement provides for damages to be paid in certain or in an unlimited amount, if the information is divulged.

Annex 1: Non Disclosure Agreement

II. Intellectual Property Transactions

1. License Agreements

The owner of Intellectual Property rights (IP) has the legal monopoly to make use of his rights. With a license agreement, he allows another party to use these rights in specific ways.

There is no such thing as a standard license. There are, though, certain **features** that should be considered in the development of every license. The following aspects should be considered when drafting a license agreement:

- Territorial or geographical boundaries should be made clear, as should all payment obligations and the amounts that are to be paid and how they are calculated. All payment, dates should be clearly laid out, preferably in a schedule.
- Penalties, such as default payments, breach of contract conditions, rights to assign, the term of the contract and the right to renew the contract are also important considerations that are often overlooked or not fully understood.
- Is the license exclusive, i.e. granted to only one person, or non-exclusive?
- Can the licensee sub-license?
- Are there any limitations to the license; e.g., geographic or territorial, minimum sales, minimum production requirements, etc.?
- What is the amount, frequency and form of payment; e.g. either lump sum or by way of royalty, or both?
- Who pays for prosecution and maintenance of any Intellectual Property (patents, trademarks, designs)?
- How are any developments, modifications or improvements to be protected and who owns them?

- Are there specific clauses relating to the co-operation of the licensor in matters relating to the IP such as infringement?
- Is there a required commitment on the part of the licensee; e.g. to promote the brand in advertising or to fully exploit the invention? Does the license agreement contain a clause which allows for the license to be cancelled, if the IP is not being used?
- What is the term of the license?
- Is there a right to renew the license?
- What are the conditions of termination?
- When are royalty or other payments due?
- If sub-licensing is permitted what payment does the licensor receive?
- What happens if the IP – under which the license is granted – is refused, infringed, opposed, revoked or other?
- Does the licensee agree not to challenge the validity of the patent?
- Does the licensor agree to provide essential “know-how”?
- How will any disputes be resolved?

Annex II: (Exclusive) License Agreement

Questions:

1. What does each party receive under the licensing agreement? (See Annex II)
2. What are the advantages for the licensor (patent owner) to license his IP instead of entering the market himself? What are the risks?
3. What does it mean that the license is exclusive? How does this change the advantages and risks of the license agreement as discussed above?
4. What is the meaning of the Secrecy Obligation the parties added to the contract? Why is it necessary - after all the licensor has a patent on the “aluminium beam for concrete

casting forms” that describes the invention to the public and protects it from being copied?

2. Franchising

a) Why are franchises so attractive?

Almost everyone is familiar with the term franchising, or has at least had some contact with the products or services offered by franchises. What is franchising? How does it work? And why, over the last 10 to 20 years, has franchising become the fastest growing way of doing business in just about every country in the world?

Franchising is a system of business that has grown steadily in the last 50 years and is estimated to account for more than one-third of the world’s retail sales. There are few of us who are not touched by the results of franchising. Franchises range from the ubiquitous McDonalds®



or Starbucks®



to lawn mowing services such as Mr Green®



, valet services, medical and dental services, to book keeping services and even to services helping us to prepare our tax forms.

b) Definition of Franchising:

Franchising may be defined as a business arrangement that aims for the reputation, (goodwill) innovation, technical know-how and expertise of the innovator (franchisor) to be combined with

the energy, industry and investment of another party (franchisee) to conduct the business of providing and selling of goods and services. The franchisor has a ***proven business model*** and / or an ***established trademark*** he does not want to use himself, but prefers to let others use the model / trademark. In return he receives fees.

The reason why, as a method of doing business, franchise arrangements have grown so rapidly in the last 10 or 20 years is due simply to the fact that franchises are an effective way of combining the strengths, skills and needs of both the franchisor and the franchisee. To be truly successful, the input and the resources of both are needed.

c) Franchising – the basics – how does it work?

In a basic franchising arrangement, the franchisor has developed a system for conducting business. The system has been found to be successful. The franchisor wishing to emulate the success of that business system, establishes a blueprint of his system for others who also wish to use this system. The blueprint allows the franchisee to operate the same business using the same name and the same systems. Obviously, if this name and system enjoy a good reputation in the market, this can be a significant advantage.

d) Advantages of Owning a Franchise

The ***franchisee*** has the benefits of the proven business model and the reputation of the established trademark. This lowers his risk of failure as compared to setting up an own business enterprise.

Owning a franchise should also provide a ***semi-monopoly environment*** in which to conduct business in a particular area. Generally, there is also an informed ready-made customer base. There will of course be competitors but the franchisee will be granted the sole franchise for a given area and often will be given client listings or job sheets.

Most importantly though, being part of a franchise ensures that the franchisee is part of an instantly recognisable brand, more precisely the product or service expectations that the brand brings and the reputation gained by the brand over time.

A franchise also offers the franchisee the ability to capitalise on the know-how and systems that have been proven to be successful. The quality of the product or service provided is therefore in many ways guaranteed.

Summary

Some of the advantages a franchise offers are:

- proven product or service outcomes
- semi-monopoly; defined territory or geographical boundaries combined with a limited number of franchisees in the territory
- proven brand, trade mark, recognition
- shared marketing, advertising, business launch campaign costs
- industry know-how; the franchisee is being trained and taught how to run the business
- reduced risk of failure
- access to proprietary products or services;

Example: the standard packaging materials Mc Donald's use all over the world; or the single website and single phone number Fleurop use to accept orders all over Europe; Hotel Bookings Systems.

- bulk buying advantages,
- on-going research and development.



There are many fraudulent “Franchising” systems on the market! The business model offered may not work or is plainly illegal (snowball distribution systems) or the aid and services by the franchisor may be worthless. However the franchisees are still required to pay high “investments” and fees to enter the system.

e) What Makes a Good Franchise?

A good franchise is always sparked by a good idea which fills a market need. The good idea, for example the fast food system for selling hamburgers and French fries of Mc Donald's or the hotel management system and the brand Hilton happened along at the right time and at the right place. The good idea was reinforced by the establishing of **highly recognizable brands**.

In these two cases, a blueprint "system" for repeating success was established, developed, updated and monitored. The system used ensures that client expectations are met, anticipated and managed. As a result a unique, memorable and exclusive brand has been established.



f) Franchise Arrangement

The franchise arrangement is an arrangement whereby the franchisor permits / licenses the franchisee in exchange for a fee to exploit the system developed by the franchisor.

The franchised system is generally a **package including the intellectual property rights** – such as the rights to use the trademark, trade names, logos and “get-up” associated with the business.

Thereto belongs:

- any inventions, such as patents or designs,
- trade-secrets and know-how of the business,
- any relevant brochures,

- advertising or copyrighted works relating to the
 - manufacture,
 - sale of goods,
 - provision of services to customers.

The Intellectual Property is unique to the business and provides the business with its competitive advantage and market niche.

A typical franchise arrangement will generally include:

1. a license to use the system

In return for an agreed amount the franchisee is granted a license to conduct his or her business along the lines prescribed by the franchisor. This will usually include the use of all relevant Intellectual Property, marketing and advertising publications, store design and “get-up”, as well specialised equipment necessary to operate the systems and on-going or development and improvements to the system.

2. a shared development and improvement obligation

Most franchising arrangements have an on-going shared development and improvement obligation which is incumbent on both the franchisor and franchisee. This requires a mutual trust and respect and a sharing of the overall aims and goals of the franchise. The basic tenant for this approach is: *“What is good for one must be good for the other.”* Both must do their best to promote the business. The success for both depends on both cooperating together in the best way.

The franchisor is also obligated in the arrangement to nurture, encourage and provide assistance to the franchisee.

The franchisee for his part is required to maintain and promote the franchise and to conduct business prescribed in the system manuals and best practice guidelines.

The franchisee also has the continuing obligation to pay maintenance fees to the franchisor in accordance with the franchise arrangement. These fees usually include an ***marketing component***

as well as an on-going management service fee. In this case, the franchisor gains income from selling extra materials and services to the franchisee.

3. the franchisor's right to determine how the business operates

Most franchise arrangements contain a component which stipulates that the franchisee is to conduct the business along *prescribed guidelines* and in accordance with the franchise best operating practice. The franchisor for his part is required to maintain, distribute and update the manuals, operating procedures and quality requirements when changes are made and to provide on-going training.

The franchise arrangement will usually also require the franchisee to protect the Intellectual Property of the franchise system, and to operate in accordance with territorial or geographical obligations agreed. Both parties will be required to conform to the agreed accounting disclosure provisions.

The franchising arrangement is a legal document relying on contract law and inevitably on mutual trust between both parties.

Annex III: Franchise Agreement

3. Goodwill

Often, the most important benefit to the franchisee is that he can profit from the goodwill attached to a trademark. Goodwill has been defined as *"The benefit and advantage of the good name, reputation and correction of a business with its customers, suppliers and distributors."*

Goodwill as the subject of proprietary rights cannot exist by itself. It has no independent existence apart from the business to which it is attached.

The most obvious form of goodwill is seen as the name sign or trademarks under which a business trades and by which it is recognized in the market place. In this case, the goodwill

attached to a franchise is attached to the trademark or company name that is licensed to the franchisee.

In franchising, a franchiser – by building a successful brand through marketing, good practice and innovation – creates goodwill which is utilised by the franchisees.

The franchisee will undoubtedly pay for this attractive force and the immediate customer recognition that it brings to a “new” business in the franchise arrangement.

In most agreements new franchises will have limited reputation or goodwill and the payments will be minimal. As the business grows and market recognition increases, the goodwill coming to the business will also increase.

Goodwill therefore is an important component when valuing a business and should be evaluated and protected. It can be most easily be defined and protected by gaining registered trademarks for the trading name and logos of the franchise and in some cases even for the shapes and colours of its goods.

Goodwill may also be protected by asserting copyright relating to:

- manuals,
- advertising and marketing brochures,
- recipes,
- management and accounting software, and
- even the design (and layout) of
 - shop premises,
 - employees’ uniforms, and
 - TV advertisements.

4. What is the Difference between a Distribution, License and Franchise Agreement?

4.1. Distribution Agreement

The franchise is a quite large package: it typically contains the license of a trademark, the transfer of know-how, market research and central marketing for the goods and services.

A distribution agreement is a contract between a manufacturer and a seller or distributor. The majority of distributorships are non-exclusive. As a consequence a franchise may offer significant advantages in terms of market presence dominance.

4.2. License Agreement

A license arrangement is a business arrangement where a licensor via a monopoly right such as a patent, a trademark, a design or a copyright has the exclusive right which prevents others from commercially exploiting the idea, design, name or logo.

In addition, the license allows the licensee to use make and sell, the product or name for a fee. There is usually no training component, product development strategy and limited marketing support. As discussed above, the franchise agreement goes further than a mere licensing agreement.

Annexes:

- Annex I: Model Agreements for the Protection of Know How and Trade Secrets
 - a) as clauses in a work contract
 - b) as non-disclosure agreement (NDA)
- Annex II: (Exclusive License) Agreement
- Annex III: Franchise Agreement

a) Clauses in a Work Contract

8 Confidentiality

The Employee shall be bound by a duty of secrecy and confidentiality with respect to all business, technical, financial or other information, documents and other materials and trade secrets relating to S. Corp., any affiliated or associated firm, customer, client and supplier, which the Employee was entrusted with or which became known to the Employee during his activities for S. Corp. This also applies to cases where information has not been expressly denoted as confidential. The Employee shall not directly or indirectly disclose or reveal such information to any third party, or make use of it for any purpose other than the discharge of his duties to S. Corp.. The Employee is neither entitled to copy, duplicate, access or otherwise appropriate such information for his own nor for third parties' use or benefit.

In the event of any breach of the Employee's duties of secrecy and confidentiality, S. Corp. shall be entitled to terminate this Employment Agreement at any time without notice.

Upon termination of this Agreement or upon S. Corp.'s request at any time, the Employee shall immediately return to S. Corp. all and any documents, records, business papers, information and other items pertaining to S. Corp., as well as copies and duplicates thereof, regardless of the data carrier. In particular, this includes business and customer documents, office keys, credit and admission cards, mobile phone, SIM cards, any password in use at the date of return etc. The Employee shall have no right of retention with respect to such documents and items.

The provisions of this Section 8 shall continue to apply after termination of this Agreement.

9 Intellectual Property

With respect to all copyright works originated, conceived, written and/or made by the Employee alone or jointly with others while performing the employment activity, the Employee grants to S. Corp. for any purpose and for all kinds of use all economic rights (including the ownership of the original) on an exclusive, unrestricted, unlimited and

worldwide basis. S. Corp. has the right to use and exploit the rights granted for itself or via third parties, either in whole or in part. The Employee undertakes not to make use of his personal rights in accordance with the Swiss Copyright Act (“Bundesgesetz über das Urheberrecht und verwandte Schutzrechte”). The Employee acknowledges that S. Corp. will preserve and enforce said moral rights in the Employee’s works.

With respect to designs and inventions of any kind by the Employee, namely improvements, developments, discoveries and/or qualified proposals for technical improvements, Article 332 CO shall apply. According to Article 332 para 2 CO, S. Corp. herewith explicitly reserves the right to acquire any inventions that are invented by the Employee while performing his employment activity, but not during the performance of his contractual duties. The Employee must inform S. Corp. in writing regarding the same. Within six months, S. Corp. must inform the Employee in writing whether it wishes to acquire the rights to the inventions or whether it will release them to the Employee.

The Employee shall assign to S. Corp. all other intellectual property rights in the works.

The compensation and benefits set out in Sections 3 and 4 shall be deemed as sufficient remuneration for the assignment of all aforementioned rights.

10 Non-Competition and Non-Solicitation of Employees

The Employee hereby agrees that during his employment and for a period of 12 months following the termination of his employment, he shall refrain from engaging in any competitive activity in Europe and the United States of America. In particular, the Employee may

- neither establish a firm which, either fully or partially, follows or will follow the same goals as S. Corp., nor participate in such firm, nor accept employment in such a company;
- not perform any services for such a company;
- not alienate existing or potential customers of S. Corp.;
- neither solicit, entice away, or endeavor to entice away nor assist any third party to solicit, entice away or endeavor to entice away from S. Corp. any of its employees.

11 Infringement

Every infringement of the obligations of the Employee set forth herein shall result in a penalty sum in the amount of CHF 50,000.-. The payment of this penalty shall not release the Employee from the further adherence to the said obligations. Also, in case of payment of the aforesaid penalty, S. Corp. may further require the observation of the aforementioned duties, including the removal of the conditions contrary to the terms of this Agreement as well as reimbursement for further damages.

b) Non-Disclosure Agreement (NDA)

THIS AGREEMENT is dated 20[]

and made

BETWEEN

(1) [Name and address]..... (“Owner”) and

(2) [Name and address]..... (“Recipient”)

WHEREAS

(A) Owner possesses certain Proprietary Information which Owner is willing to disclose to Recipient on the terms set out below

(B) Recipient is willing to accept the Proprietary Information on those terms and to use the Proprietary Information only for the purpose of..... (“the Permitted Purpose”).

NOW IT IS AGREED AS FOLLOWS

1. “Confidential Information” means any and all information whether commercial or technical relating to the business of Owner, including without limitation, know-how, data, processes, designs,

photographs, drawings, specifications, software programs, and samples, which is marked with an indicator such as “Confidential” or “Proprietary”, but excluding information which:

1.1 is or comes into the public domain otherwise than by disclosure or default by the Recipient;

1.2 was or is lawfully obtained or available from a third party who was lawfully in possession of the same and free to disclose it; or

1.3 was already known to the Recipient as evidenced by written record pre-dating such disclosure.

2. In consideration of Owner disclosing Proprietary Information, the Recipient hereby undertakes for a period of [five] years from the date of this Agreement

2.1 to keep confidential all Proprietary Information that it may acquire in any manner;

2.2 to use such Proprietary Information exclusively for the Permitted Purpose and not to use the Proprietary Information for the Recipient’s own purposes or benefit;

2.3 not to disclose such Proprietary Information to anybody, except to authorised employees or other agents of the Recipient who need to have access to the Proprietary Information for the purpose of carrying out their duties in connection with the Permitted Purpose ;

2.4 to inform everybody to whom it discloses Proprietary Information that it is confidential and obtain their agreement to keep it confidential on the same terms as this Agreement;

2.5 to keep safe any drawings, documents, samples or materials provided on loan by Owner, not to reproduce, part with possession of, modify or otherwise interfere with such items, to return them immediately upon Owner’s request and in any event spontaneously when no longer required for the purposes of this Agreement;

2.6 to notify Owner immediately upon becoming aware of any breach of confidence by anybody to whom the Recipient has disclosed the Information and give all necessary assistance in connection with any steps which Owner may wish to take to prevent, stop or obtain compensation for such breach or threatened breach.

3. Nothing in this Agreement shall be deemed to grant to the Recipient a licence expressly or by implication under any patent, copyright or other intellectual property right. The Recipient hereby acknowledges and confirms that all existing and future intellectual property rights relating to the Proprietary Information are the exclusive property of Owner. The Recipient will not apply for or obtain any intellectual property protection in respect of the Proprietary Information. All intellectual property rights relating to any drawings, documents and work carried out by the Recipient (whether past, present or future) using the Proprietary Information will belong to and will vest in Owner. The Recipient will do all such things and execute all documents necessary to enable Owner to obtain, defend or enforce its rights in such drawings, documents and work.

4. This Agreement is governed by and will be construed in accordance with English law and is subject to the non-exclusive jurisdiction of the English Courts.

For and on behalf of Recipient:

For and on behalf of Owner:

Signed: _____

Signed: _____

Name: _____

Name: _____

Position: _____

Position: _____

Annex II : (Exclusive) License Agreement

Between A Corp.

legal place of business:

**represented by its board of directors – hereinafter licensor –
and B Inc.**

legal place of business:

represented by its managing directors – hereinafter licensee –

The following is agreed upon:

Preamble

1. Whereas licensor is the owner of the European Patent as characterized in the following covering Germany, the UK, France and Italy, and has the right to grant licenses thereunder:

Application date ... at the European Patent Office, laid open on ... issued on ... relating to an aluminum beam for concrete casting forms.

2. Whereas licensor has not yet granted a license under said patent.

3. Whereas licensor in addition owns trade secrets and know-how in the technical field for the manufacture and use of the beams, and the patents, trade secrets, and know-how have been commercially utilized by the licensor before, and the licensor has begun the commercial production of the beams and has practical experience for their use in wall and ceiling construction,

Now, therefore, for and in consideration of the premises and other good in-value re-considerations, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

§ 1 License type

(1) Licensor herewith grants licensee an exclusive license for the manufacture, the use and the sale of the Licensed Item.

(2) Licensor, however, maintains the right to produce, use and sell in the territory of the licensee.

§ 2 Territory

(1) The territory of this license is Germany. Sales to France are permissible until licensor has granted a license in France and has so informed the licensee by registered mail with confirmation of receipt. In this case, licensee may continue to supply customers in France for six months after receipt of this information in order to fill already existing contracts.

(2) Licensee does not have the right to sell Licensed Items produced under the patent to other countries. In each case of a violation of this clause, licensee is obliged to pay three times the license fee, as herein defined, to the licensor. With respect to the Common Market, this restriction on sales ends 5 years from the marketing of the licensed product.

§ 3 Field of the license

(1) The license covers the entire area of the application of the invention, as described in the preamble of the contract, including further technical developments, as far as they relate to the technical field of this contract.

(2) The term Licensed Item shall mean any item for which either the item itself or its manufacture falls under at least one claim of the patent above identified and/or utilizes confidential technical information conveyed to the licensee hereunder.

§ 4 Assignability

The foregoing grant of licenses has been made in recognition of and conditional upon a careful examination of the personal skills, reputation and ability of Licensee's current ownership and control. This Agreement and the rights and obligations hereunder shall not be assignable by licensee whether by merger, divestiture, acquisition, operation of law or otherwise except with the prior written consent of licensor, which consent shall not be unreasonably withheld.

§ 5 Sublicenses

Licensee has the right to grant sublicenses. In this case licensee is also liable to licensor for the royalties of the sub-licensee.

§ 6 Registration of the license

Each party hereunder has the right to request the registration of the license at the German Patent Office at its own costs. Licensor promises to issue licensee all necessary powers and to effect all necessary signatures for this purpose.

§ 7 Licensing of know-how

(1) Licensor shall make available to licensee trade secrets and know-how relating to the production of an aluminum beam for casting forms in a scope as defined in Annex 1 and the documents and drawings therein listed for the utilization thereof by licensee in the territory.

(2) These documents will be transmitted to licensee within a period of three weeks after payment of the amount mentioned in § 12 (2). If approvals are necessary for the validity of the contract, then this term begins after the issuance of all of these approvals.

(3) Licensee is obliged to keep the materials confidential and may pass these on to suppliers only after express written approval by licensor.

(4) Licensee promises to have employees and suppliers sign a confidentiality agreement as prescribed in Annex 2. Copies of the signed agreements shall be sent to licensor.

(5) After the expiration of the license contract all materials submitted hereunder shall be returned to licensor, and licensee promises to continue to keep the information contained therein confidential. Licensee shall subject its employees and suppliers to this promise. This obligation continues for as long as the technical information, trade secrets and know-how conveyed hereunder have not become accessible to the public.

(6) With respect to the scope of the secrecy obligation licensee bears the burden of proof that technical information, trade secrets and know-how received under this agreement have become accessible to the public.

§ 8 Technical assistance

(1) Licensor promises to provide licensee for a duration of four weeks with up to three experts, who shall assist in establishing the manufacturing facilities and supervise the start up.

(2) For this assistance licensee pays to licensor a fee of 300 Euro per man/day. In addition licensee shall pay to licensor travelling and living expenses up to the amounts recognized by the tax laws.

§ 9 Training of licensee's employees

(1) Licensor agrees to train employees of licensee in licensor's plant and to acquaint them with the utilization of the Licensed Item.

(2) Licensee shall pay all salaries, expenses, hotel fees, transportation costs, etc. for licensee's employees. In addition, licensee shall pay 100 Euro per day for each employee. The training is limited to ten employees and 14 days per employee of licensee.

§ 10 Guarantees

(1) Licensor guarantees that he is not aware of any legal deficiencies of the patent licensed hereunder. He particularly guarantees that he is aware neither of any third party's prior rights to use, nor of a dependency of the licensed patent on third party's patents, nor of technical deficiencies of the invention on which this patent is based. Licensor assumes no liability for the lack of deficiencies mentioned.

(2) Licensor guarantees that an alloy in accordance with the disclosures in Annex 1 can be produced and licensor guarantees the static properties of the beam as listed in Annex 1.

(3) Licensor guarantees neither the patentability and validity of the licensed patent nor the commercial exploitability and/or readiness for plant use of the invention, and shall not be liable accordingly.

§ 11 Obligation to use

Licensee is obliged to exploit the licensed rights. The minimum quantity of annual production by licensee is 10,000 beams of 6 m each.

§ 12 Royalties

(1) Licensee pays to licensor a royalty of 10 percent of the sales price charged to licensor's customers excluding VAT, freight and discounts. The royalties are due on the date of the licensee's invoice, non-payment by licensee's customer having no influence on the amount of the royalties due. The minimum royalty is

for the first year	Euro 200,000
for the second year	Euro 300,000
for the third and following years, per year	Euro 500,000

The minimum license is credited to the turnover royalty.

(2) Within three weeks after the date of agreement, licensee pays the licensor Euro 300,000 for the technical documents and the transmittal of the know-how.

(3) The amount paid in accordance with (2) shall be nonrefundable, even if this agreement should terminate for any reason before the contractual term.

(4) The provisions of §§ 8 and 9 remain applicable.

§ 13 Records

(1) Licensee shall keep separate records relating to the manufacture of the Licensed Item in such a way that the precise number of items produced by licensee under this agreement, the customer, the shipment dates and other significant information are apparent.

(2) Licensor shall have the right once a year to inspect and determine the correctness of the bookkeeping and its consistency with the licensee's general bookkeeping through an auditor bound by professional secrecy. The costs for such an audit shall be borne by the licensor, but in case of discovery of inaccuracies they shall be borne by the licensee.

§ 14 Reports and payment

(1) Licensee shall submit a report within one month after the expiration of each calendar quarter year. Within the same period licensee shall effect payment of the royalties due to the

licensor. The payment shall be made in currency of the home country of licensor, all costs of the payment being borne by licensee. The rate of exchange shall be the exchange rate on the last day of the report period.

(2) Licensee agrees to pay licensor interest on the royalties due from the date said payment is due through the date the payment is made, said interest being calculated at an annual rate of 8 percent above the applicable discount rate of the European Central Bank at the time, without need for a specific notice by the licensor. Higher interest can be charged if licensor substantiates such interest rates.

§ 15 Taxes and governmental charges

(1) All turnover taxes and indirect taxes payable for the royalty payments shall be borne by licensee. Those taxes applicable to the licensor shall be paid by licensee in the name of licensor.

(2) All direct taxes shall be borne by the licensor.

§ 16 Marking

(1) Licensee shall mark all Licensed Items as follows:

- a clearly visible reference »manufactured under a License of A Corp«
- a permanently legible serial number on each Licensed Item.

(2) Licensee has the right to attach the licensor's trade mark as well as licensee's company name and/or licensee's trademark to the Licensed Item.

§ 17 Quality control and product liability

(1) Licensee shall produce the Licensed Item in the same quality as licensor. The licensor has the right to inspect the Licensed Items for compliance with the agreed quality and to enjoin the sale of Licensed Items of insufficient quality. This right of inspection can be exercised by licensor through personal inspection of the production.

(2) Licensee indemnifies licensor with respect to all claims of third parties based on product liability. Licensee also holds licensor harmless for any claims of third parties based on statements by licensee with respect to the Licensed Item.

§ 18 Changes and improvements by Licensee

(1) Structural changes of the Licensed Item are only permissible after written approval by licensor.

(2) All improvements of the Licensed Item shall be reported by licensee to the licensor. Depending upon licensor's participation in the improvement, licensor has the right to be mentioned as a joint inventor, and to exploit and utilize the improvements by taking a license thereto. The conditions are to be negotiated by the parties in good faith.

§ 19 Improvements and changes to the Licensed Item by licensor

Licensor shall inform the licensee of all improvements to the Licensed Item without charge. This provision also applies to improvements for which a patent application is filed. The licensee has the right to obtain a license for such improvements in accordance with the conditions of this agreement.

§ 20 Purchase obligation

Licensee shall buy from licensor all mould supports and the corresponding locking elements for the use of the Licensed Item. For this sale the prices and conditions as shown in Annex 3 are applicable.

§ 21 Non-competition clause

Any manufacture, use or sale of the protected products is an exercise of the license unless licensee proves that he does not use the licensed patent. Licensee shall not use the technical information received under this agreement for the production, use or sale of competing items.

§ 22 Maintenance of the patent

Licensor shall maintain the patent which is the subject of this agreement for the duration of this agreement. Licensee shall pay the maintenance fees.

§ 23 Infringement and litigation

(1) The parties hereto shall inform each other promptly of any infringement of the patent rights in the territory which are subject to this agreement. Licensor shall defend the licensed patent against validity challenges by third parties. Licensee shall take the necessary actions against infringers of the licensed patent.

(2) The cost of the infringement suit shall be borne by licensee, the cost for an invalidity procedure shall be borne by licensor. Licensor may at its own cost join the licensee in an infringement litigation.

(3) If licensee pursues an infringement litigation by himself and receives damage payments for lost profits or a reasonable royalty, he shall pay 25 percent of these damage payments to licensor as the contractual royalty under § 12.

§ 24 Third parties' patents

If licensee is charged with patent infringement based on the exploitation of the licensed patent, he shall immediately inform licensor. Licensor has the right to join a corresponding lawsuit. Each party shall bear its own costs of the litigation.

§ 25 No contest clause

During the time of this license agreement, licensee shall not challenge the validity of the patent or support third parties in such a challenge.

§ 26 Partial or complete invalidation of the licensed patent

(1) This agreement and its validity shall not be influenced by the fact that the licensed patent should finally be declared invalid. Licensee shall, however, have the right to terminate this agreement within three months from such a final declaration of invalidity of the licensed patent or to request from licensor an adjustment of the royalties for the continued use of the licensed know-how.

(2) Royalties already paid shall be nonrefundable. Royalties which were due prior to the final declaration of invalidity but have not yet been paid shall be paid by licensee. The latter does not apply if licensee has informed licensor by registered mail of the fact that competitors infringe the licensed patent and have refused to sign a cease and desist declaration submitted to them with a warning letter. If licensee did not file an infringement action within a reasonable period, licensee shall remain obliged to make royalty payments hereunder.

(3) If the licensed patent is partially invalidated or the licensed patent is determined to be dependent upon an earlier patent, licensee has the right to request an adaptation of this contract to the changed circumstances. This does not apply to a case of dependency on an earlier patent if licensor holds licensee harmless, e. g. by royalty payments to the owner of the earlier patent.

§ 27 Term

(1) The contract comes into existence upon signing by both parties and following the issuance of all necessary permits and government approvals.

(2) This agreement and all its obligations, except the confidentiality obligations, end on ...

§ 28 Termination

(1) In the case of significant contract violations both parties shall have a right of termination for cause which shall be exercised within four weeks from the notice of the violation. Significant reasons for exercising the right of termination for cause by the licensor are: violations of the territorial limitation by the licensee, noncompliance with the reporting and payment periods for royalties, bankruptcy of the licensee or filing by licensee of an invalidity suit against the contract patent.

(2) Significant causes for licensee exercising the right of termination for cause include final invalidation of the licensed patent and the economic impossibility of the sale of the Licensed Item.

§ 29 Sale of remaining items Within six months after the declaration of termination of this agreement, licensee shall have the right to sell all Licensed Items remaining at that date under the conditions agreed upon or, as the case may be, to finish and fulfill all agreements which have been entered into prior to the declaration of termination.

§ 30 Applicable law and legal venue

(1) The parties agree that all disputes or claims shall be subject to the jurisdiction of the District Court Munich I (Landgericht München I).

(2) This agreement shall be construed according to German law.

§ 31 Severability

Should any provision of this agreement be invalid or unenforceable or should the contract contain an omission, the remaining provisions shall be valid. In the place of an invalid provision, a valid provision is presumed to be agreed upon by the parties which comes economically closest to the one actually agreed upon; the same shall apply in the case of an omission.

§ 32 Formal provisions

(1) This agreement has been made in the English language and four copies have been executed.

(2) This text contains the entire agreement between the parties; any changes of the agreement shall be made in writing.

§ 33 Address

Any notices or communications between the parties shall be sent to the addresses contained at the beginning of this agreement.

Place, Date

Signatures

Secrecy Obligation

The undersigned promises to keep all information, experience gained and technical knowledge (know-how) confidential, which has been made accessible to him or shall be made accessible to him by the ... company. He shall also require this obligation of his employees.

Annex III: Franchise Agreement

AGREEMENT

by and between

Swiss Engineering AG, Zurich, Switzerland

(herein referred «Franchisor» or *SEAG*)

and

Mr. Mike Smith, 834 Wellington Road, Miami, Florida, U.S.A.

(herein referred «Franchisee»)

PREAMBLE / INTENTION

- I. Whereas *SEAG* is a founder and not a producer of engines has developed an exclusive System for selling, renting, leasing and servicing of air condition sets for living, office, factory, hotel, restaurant and school rooms,
- II. Whereas *SEAG* is the owner of all know-how and trademarks concerning the «Swiss-Air-Con-System»,
- III. Whereas the complete know-how of the design, ideas and concepts come from *SEAG*,
- IV. Whereas *SEAG* is expanding its market in all countries,
- V. Whereas *Mr. Mike Smith* is an American seller of air condition sets,
- VI. Whereas *SEAG* and *Mr. Mike Smith* are desirous to co-operate on the basis of this agreement
- VII. Whereas it is the intention of both parties working together and getting a closer relationship between *SEAG* and *Mr. Mike Smith*, a separate company for commercial activities can be formed on a *50/50 (fifty/fifty)* basis, in accordance to the Anti Trust Legislation of the U.S.A.,
- VIII. Whereas Franchisee decides to be franchised by the Franchisor to use and operate the System as hereinafter provided within the Territory,

now therefore the parties agree as follows:

1. Definition of Terms

- I. «Trademarks» shall mean all tradenames, symbols, service marks, the name «*Swiss-Air-Con-System*» and combinations thereof independent of registered ownership and all other names owned or under application by *SEAG* now and in the future time, used or associated with the System.
- II. «Franchise» shall mean the right to place «*Swiss-Air-Con*» models by way of sale, rent or lease, provided, that not less than 50% of the sets/models/equipment should be on rent or lease and not more than 50% should be on sale.
- III. «Franchisor» shall mean *SEAG* and its wholesalers, agents, service stations, etc.
- IV. «Franchisee» shall mean *Mr. Mike Smith* or his company, including its shareholders, stockholders, officers, operational consultants, partners, joint venturers, employees, etc. in the event, *Mr. Mike Smith* will establish a corporation at the onset of this agreement or at any time thereafter.
- V. «Producer» shall mean the supplier of the sets/models/equipment and the appropriate spare parts.
- VI. «System» shall mean the «*Swiss-Air-Con-System*» of marketing, (sale, rent or lease), installation, creation, advising and after sale servicing of air condition sets/models/equipment for different rooms.
- VII. «Sets/Models/Equipment» shall mean specially air condition sets developed by *SEAG* for living, office, factory, hotel, restaurant and school rooms.
- VIII. «Territory» shall mean:
 1. U.S.A. and
 2. Canada.

2. Obligations of Franchisor

Franchisor agrees, subject to the terms therefore and to the conditions of this agreement thereafter:

- I. Training and Instruction: To provide an executive of Franchisee at the date to be designated by Franchisor with training and instruction how to plan and perform for approaching and achieving customers, there shall be such an initial training at the Franchisor's training facilities for a period of one month, and shall be without charge to Franchisee for travelling, lodging, food and instruction costs. After said initial training period, Franchisor shall provide one additional daily training and instruction per annum to Franchisee in the U.S.A. which shall be in the same way without charge to Franchisee. This instruction and training shall be conducted in the English language and shall be announced by written notice 1 month in advance.
- II. Continuing Assistance:
 1. Franchisor shall continue to follow up Franchisee's efforts and provide him with such recommendations as the development of the program requires in the judgement of Franchisor. This follow up is free of charge to Franchisee.
 2. Franchisor shall furnish one additional training course each year to Franchisee if required and upon request in respect of article 2.A. For this additional course, Franchisee will reimburse Franchisor only for actual travel, lodging and food costs. Any such additional

training course or any other consultancy must be negotiated and payed in the same way be Franchisee.

3. Additional techniques in marketing and managing, developed by Franchisor, will be made available to Franchisee through additional training courses, mail distributions or visits to Franchisee. The travelling and lodging expenses for such additional training will be met by Franchisee.

- III. Manual and Documentation: Franchisor shall provide Franchisee
 1. with Franchisor's Manual, Sales Brochures, other sales material and with Producers Manual, guiding the Franchisee how to recognize and inform the Producer or the service station in event of defective material, and
 2. with samples of printed matters and other sales aids, such as selling, renting and leasing contracts with customers.
- IV. Pricing: In no event shall Franchisee be obligated to comply with, maintain or impose any prices which may be suggested by SEAG. All pricing material provided to Franchisee is with the understanding that it is intended for purposes of guidance, only that Franchisee is under no obligation to act thereupon with respect to pricing.
- V. Trademarks: Franchisor hereby grants Franchisee the right to use the Trademarks only in the Territory. Franchisee engages to use the Trademarks in accordance with the instructions of Franchisor, in respect of article
- VI. Know-How: Franchisor shall disclose to Franchisee all aspects of the System necessary for the operation of the System and shall keep Franchisee advised of new developments and improvements in the System.
- VII. Non-Competition: Franchisor will neither grant another Franchise or similar right for the Territory during the term of this agreement nor become active himself in the Territory in competition with Franchisee.
- VIII. Supply/Delivery: Franchisor has developed the «*Swiss-Air-Con*» sets made available exclusively to Franchisee. Franchisor shall deliver any ordered sets within *30 days* after receipt of the order. The guarantee for the sets is for 3 years and after the guarantee time 1 year for the spare parts, all beginning from the day, delivered at the customer.

3: Obligations of Franchisee

- I. Franchise Fee: Franchisee agrees to pay Franchisor in consideration for the granting of the Franchise hereunder the sum of *US-\$ 100 000* which sum shall constitute the Franchise Fee. This sum shall be payable in two equal installments: *50%* at the date of the beginning of this agreement and the balance *12 months* thereafter and shall not be credited against the Franchise Commission.
- II. Franchise Commission: Franchisee shall account for and shall pay to Franchisor on a monthly basis a Franchise Commission as follows:
 1. a fixed commission of *US-\$ 100* for every delivered set for the first year and
 2. a removable annual commission of *US-\$* for every delivered set for the first year. Beginning with the second year, this annual removable commission shall decrease by *US-\$ 2* every year down to a minimum of *US-\$ 2*, reached nine years after the beginning of this agreement.

3. All commissions shall be annually adjusted in accordance with the U.S. cost of living index on the basis of *December 31,*
 4. All annual Franchise Commissions shall be due at the end of a calendar month, in which the set has been installed or delivered. 30% of the commission shall be due, if the minimum quota is reached for the supplied delivered sets, also at the end of a calendar month.
 5. Franchisee agrees to punctually pay all amounts due to Franchisor. In event of default, Franchisee agrees to pay an interest rate due from the date of payment delay of *1% per month*.
 6. In the event Franchisee will be incorporated or transfer this license to a corporation, Franchisee is liable in person and must provide in writing that its managers or shareholders will guarantee full and prompt and complete performance of all terms, covenants and separate further agreements and the payment of all due sums that may become due to Franchisor from Franchisee, resulting from this agreement.
 7. The title of the sets shall remain with *SEAG* until full payment of their price by Franchisee. *SEAG* has the right to reserve the title of the sets in the official registrar closest to the location of Franchisee.
- III. Quotas: Franchisee agrees to meet the annual minimum quotas set out below which are based on
1. the market potential of about *10 000 000* rooms in all categories (living, office, factory, hotel, restaurant and school rooms),
 2. *in five years 20%* of above market should be achieved in the following scale as minimum quota:
 - a) *first year 200 000 sets*
 - b) *second year 300 000 sets*
 - c) *third year 400 000 sets*
 - d) *fourth year 500 000 sets*
 - e) *fifth year 600 000 sets*
 3. Franchisee agrees to pay the Commission stated on the minimum quota above even if they are not met.
- IV. Information:
1. Franchisee shall keep true and accurate books of account which shall be open at all times to Franchisor's reasonable inspection and shall be subject to audit by Franchisor or persons appointed by him during normal business hours.
 2. Franchisee shall use his best efforts to obtain from any sources the number of installed sets by competitors in the Territory and shall inform Franchisor on a quarterly basis.
 3. Franchisee shall furnish to Franchisor on a monthly basis on updated progress report of sold, rented or leased sets.
 4. Franchisee shall provide Franchisor on a monthly basis with photocopies of all signed contracts for sale, rent or lease of sets, entered into during that month.
 5. All documents and reports are to be submitted and payments of Commissions due are to be made within 30 days from the end of each calendar month.
 6. Franchisee agrees that he shall solely and personally be responsible for all costs and expenses for the implementation of the System in his Territory and for taxes, levies, etc. of any and all kind in connection therewith and the income therefrom. Franchisor shall not be liable for any such taxes or levies or expenses or disbursements otherwise paid and incurred in connection with the establishment and maintenance of the System in the Territory.

7. Franchisee agrees personally to indemnify and same Franchisor harmless from any and all claims that may arise or be asserted against Franchisor by reason of the establishment and maintenance of the System in the Territory. It is understood and agreed that in granting this license, Franchisor does not open another place of business in the Territory.

4. Secrecy Clause

Franchisee agrees to keep confidential at all times even after ending of this agreement all know-how and information pertaining to the System including and without limitation the manuals on business practices, policies or operations of the System made available by Franchisor, neither to copy, publish or otherwise duplicate same, nor to permit others to do so and to use same only in the ordinary course of business in accordance with this agreement and to disclose it only to the extent necessary therefore to employees of Franchisee with the restrictions mentioned above imposed.

It is understood that Franchisor shall remain the owner of Trademarks, the copyright pertaining to the System and any and all industrial property rights now owned or acquired hereafter by Franchisor and including the System without limitation, manuals and all other material given to Franchisee from Franchisor.

Franchisee agrees that failure to adhere to the provisions of this article constitutes material default of this agreement. This agreement shall be confidential. In breach of this Secrecy Clause, Franchisor has the right to claim a lump sum/penalty sum/demurrage of *US-\$ 500 000*.

5. Non-Competition Clause

- I. Franchisee shall have during the term of this agreement and any renewal time thereof no interest, financial or otherwise, neither directly or indirectly, as owner, consultant, joint venturer, partner, shareholder or employee, in any business of a similar nature to the business carried on by Franchisor under this agreement without prior written permission of Franchisor.
- II. After termination or expiration of this agreement, for whatever reason, Franchisee agrees, within the Territory
 1. not to engage in any business of a similar nature to the one contemplated hereunder, nor directly neither indirectly as owner, agent, consultant, joint venturer, partner stockholder, shareholder or employee, competing with Franchisor or any other Franchisee engaged by Franchisor for a period of 5 years from and after the day when this agreement will end, and
 2. not to conduct any business of any type under the Trademark or any variation thereof and not to use Franchisors copyrights or any other industrial property right now owned or acquired hereafter by Franchisor, and
 3. to maintain all acquired know-how and information secret and not to exploit it.
- III. Franchisee engages not to compete with Franchisors outside of Territory. Franchisee will inform Franchisor of any form of competition in the Territory by quarterly reports.
- IV. All members of the managing staff of Franchisee will make no direct or indirect competition of Franchisor during the employment and 2 years after leaving this job. Franchisee agrees to bind these persons with appropriate agreements to Franchisor.
- V. Franchisee will refrain from contracting any wholesaler, agent, franchisee or employee of Franchisor, unless so be authorized by written notice from Franchisor.

- VI. Franchisee agrees not to buy air condition sets in the Territory from a third party manufacturer, except in event of supply shortage or quality deficiency, which has to be informed to Franchisor by prior written notice.

6. Use of Trademarks

- I. Franchisee is not to form any corporation or other business which uses in its firm name any reference to the Trademarks without Franchisor's prior specific consent in writing. Franchisee agrees to notify Franchisor immediately of any eventual litigations involving the Trademarks and then Franchisor shall take such steps as he deems reasonably necessary for the maintenance and the defence of the Trademarks.
- II. Franchisee will at all and any time recognize the validity of the Trademarks and Franchisor's copyrights pertaining to the System and any and all industrial property rights now owned or acquired hereafter by Franchisor. The same will be available for Franchisor's ownership of all these rights and know-how and the exclusive right of Franchisor to control the use of all these rights and engages Franchisee to observe and execute all the requirements and directions of Franchisor concerning use and maintenance of all these rights, if requested or necessary.

7. Ownership, Assignment, Transfer

Any transfer by Franchisee of his interest shall be subject to the following conditions: Franchisee shall nor directly neither indirectly, without Franchisor's prior written notice sell, assign, transfer, convey or encumber to any person or to any other company or corporation, unless the shares or a controlling interest therein is owned by himself in which event the assignor remains liably jointly with the assignee. Franchisor shall have the right to subfranchisee his interest in this agreement with the prior written consent of Franchisor. Franchisor may require the submission of that information regarding the proposed assignee or subfranchisee with Franchisor deems reasonably necessary to assist it in its appraisal of the proposed assignee or subfranchisee. In breach of this clause, Franchisor has the right to claim a lump sum/penalty sum/demurrage of *US-\$ 5,000,000*.

8. Effective Date, Term, Renewal, Termination

- I. This agreement shall become effective on *January 1,.....* provided that if government approval is required under the Anti Trust Legislation of the U.S.A. and in Canada. The effective date shall be the date, such approval has been obtained and further provided that the agreement shall at the option of Franchisor become null and void if such approval; if required, cannot be obtained within *3 months* from the date this agreement has been signed by both parties.
- II. Unless terminated by an event described in article 8.C. and 8.D. thereafter, this agreement shall continue in effect for *5 years* from the date thereof.
- III. Franchisor agrees to grant Franchisee, subject to article 8.E. an irrevocable option to renew and continue this agreement for renewal terms of 1 year each, without additional payment by Franchisee, if Franchisee has performed to Franchisor's satisfaction under this agreement. Such renewal must be requested by Franchisee by registered written notice or telex of desire to

renew, delivered to Franchisor not later than *6 months* prior to the expiration of the term of this agreement or of any renewal term then in effect.

- IV. This agreement and any renewal period thereof may be terminated forthwith in writing by Franchisor upon the occurrence of any of the following events:
1. upon the filing of any proceeding in bankruptcy, voluntary or involuntary, by Franchisee, if not dismissed within *30 days*, or upon the appointment of a receiver for Franchisee's business, and
 2. death or permanent incapacity of Franchisee if no satisfactory arrangements are made within *60 days* for the continued active management of the business, and
 3. if the prior government approval to use the Franchise is withdrawn and not reinstated for more than *6 months*, and
 4. the attempted assignment of this agreement by Franchisee without prior written consent of Franchisor, and
 5. material default of performance by Franchisee. As used in this agreement, material default shall include, but not be limited to, the following events:
 - a) Franchisee's failure to pay all amounts due under this agreement or any other amounts due to Franchisor for more than *90 days* after the due date, or
 - b) Franchisee's failure to file any of the documents or reports provided hereunder within *30 days* after receipt of a written reminder of Franchisor, or
 - c) Franchisee's failure to remedy any other breach of this agreement within *30 days* after receipt of a written reminder of Franchisor.
- V. This agreement may be terminated during its original term by Franchisee effective *120 days* after the delivery of written notice by Franchisee to Franchisor upon Franchisee's determination to discontinue the *SEAG* business and compliance with the provisions of article *8.F, 8.G. and 8.H.* below. Franchisee has also the right to buy himself the termination of this agreement with *90 days* advance notice in writing by offering and paying before the end of the initial period once and for all sums calculated as follows: *US-\$ 100* for every set, less Franchise Commissions, paid already for that set, this amount discounted at *8%*, indexed on the basis of Swiss bankers rate on *January 1,*
- VI. If this agreement is terminated at the end of its original term or any renewal period, Franchisee shall have an option to purchase the right to use the Trademarks in the Territory. Details of the conditions of such purchase and the consideration are to be determined in schedule or in a separate agreement annexed hereto, which forms part of this agreement.
- VII. Upon termination or expiration hereof for any reason, all rights of Franchisee hereunder shall be terminated.
- VIII. Franchisee shall on the effective date of termination or expiration:
1. pay to Franchisor all amounts due without set off or reductions, and
 2. immediately and permanently discontinue the use of the Trademarks and the know-how and all aspects of the System and the doing of business under any name or in any manner that might tend to give the general public or persons in the trade the impression that this agreement or any aspect thereof are still in force or that Franchisee is still associated in any way with Franchisor or that Franchisee has still any right to use or practice the System or Trademarks, and
 3. immediately transfer to Franchisor all valid contracts which should be paid at face value by Franchisor. Franchisee agrees to sell to Franchisor any contracts and sets which he holds in possession at their market value and to transfer the payment liabilities of sets not been payed, and
 4. deliver to Franchisor the copies of all mail of Franchisee that relates to the business of Franchisee contemplated hereunder, and

5. immediately transfer to Franchisor the copies of all business records including those pertaining of customers and employees of Franchisee, and
6. immediately return to Franchisor all material of whatsoever description bearing SEAG identification, including manuals.

9. Indemnification

Franchisee agrees to indemnify and hold Franchisor for any and all economic disadvantages harmless resulting from any breach of this agreement, with an option of Franchisor to claim a one year's Franchise Commission as minimum liquidated damages (lump sum/ penalty sum/ demurrage) for each such breach of the foregoing clauses or to ask for further damages, whichever might be higher.

10. Jurisdiction

- I. Each party shall designate an arbitrator within a further month. Within 1 month of their designation, the two arbitrators shall elect a third arbitrator as chairman of this arbitration court. If one party falls to designate its arbitrator or if the two designed arbitrators cannot agree upon the chairman within the specified period, the President of the Commercial Chamber of Zurich (Zürcher-Handelskammer) may be asked to make said designation.
- II. The arbitration court shall decide on the rates of procedures to be followed and on the amount of its remuneration. It shall have the right to assess the cost of arbitration to either party or to divide said cost between the parties.
- III. Swiss Law is applicable. Local Court is Zurich.
- IV. The provisions of the Law of Civil Procedure of Zurich (Zivilprozessordnung des Kantons Zürich) shall additionally be applicable whenever necessary.
- V. The decision of this arbitration court shall be final, in respect to the Swiss Law.
- VI. If required by the rules of Franchisee's Territory, this agreement should be officially registred. The responsibility and cost therefor shall be borne by Franchisee.

In witness whereof, each of the undersigned acknowledges having read this agreement, understands and consents to the bound by all of its terms and agrees it shall become effective and has been executed this day of *January 1, 2006*.

For the Franchisor:

For the Franchisee:

(Signature)

(Signature)