

DOST Memorandum Circular No. 002
Series of 2018

Subject: **DIRECT LICENSING AND SPIN-OFF TERMS UNDER THE CHEMICAL INDUSTRY THAT WOULD BE CONSIDERED AS "FAIR" TO THE GOVERNMENT FUNDING AGENCY (GFA) AND/OR RESEARCH AND DEVELOPMENT INSTITUTE (RDI) FOR FAST TRACKED ISSUANCE OF FAIRNESS OPINION REPORT (FOR) UNDER REPUBLIC ACT NO. 10055, OTHERWISE KNOWN AS THE "PHILIPPINE TECHNOLOGY TRANSFER ACT OF 2009"**

ARTICLE I RATIONALE AND OBJECTIVE

Section 1. This Guideline setting up the Standardized Direct Licensing and Spin-off Terms are formulated pursuant to Articles II, III and IV of Memorandum Circular No. 007 series of 2016 dated 26 April 2016 and Memorandum Circular No. 003 series of 2015 dated 15 September 2015, per the recommendation of the Industry-based FOB duly constituted for the Chemical Industry pursuant to DOST Special Order No. 171 s. 2016 dated 21 March 2016.

Section 2. The intention of this guideline is to fast track the release of a fairness opinion by the Department of Science and Technology (DOST) Secretary as regards the proposed transaction between the Government Funding Agency (GFA) or a Research and Development Institute (RDI) as the Licensor and the individual entity that has an interest to commercialize a technology as the Licensee.

ARTICLE II TERMS FOR DIRECT LICENSING

Section 1. Basic Requirements. The following requirements must be satisfied before the proposed transaction shall be assessed:

- 1.1 *Cost of technology* (Cost of developing the technology or valuated cost, whichever is lower): Not exceeding P2,000,000.00
- 1.2 *Types of IP:* Utility Models (UMs), Industrial Design (ID), Trade Secrets/Know-Hows
- 1.3 *Eligibility of Licensee:*
 - a. If Sole Proprietor or Partnership:
 - Registered at the DTI/SEC
 - Filipino citizen
 - Financial statement showing net worth of at least equivalent to the cost of the technology but not below P500,000.00
 - With existing facilities
 - At least three (3) years of existence
 - b. If a corporation:
 - Registered at the SEC
 - Domestic
 - Paid-Up Capital twice the cost of the technology but not below P1,000,000.00.

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- With existing facilities
- At least three (3) years of existence, with net worth not less than P1,000,000.00.

Section 2. Terms in the proposed transaction. The following terms shall be the basis in the determination whether the proposed transaction is "Fair" to the GFA or to the RDI:

- 2.1 *Financial terms:*
 - a. Royalty rates: At least 1% of the gross sales.
 - b. Upfront Licensing fee: At least 1% of the cost of technology but not less than P10,000.00.
- 2.2 *Exclusivity:*
 - a. License: Non-exclusive
 - b. Field of use: Non-exclusive
 - c. Geographic territory: Within the Philippines
- 2.3 *Sub-licensing:* With consent/upon the discretion of the Licensor
- 2.4 *Effectivity / Term:*
 - a. For UMs: At least three (3) years or the remaining life of the UM, whichever is longer
 - b. Industrial Design: At least two (2) years, renewable
 - c. Trade Secrets/Know-Hows: At least five (5) years, renewable

ARTICLE III TERMS FOR SPIN-OFFS

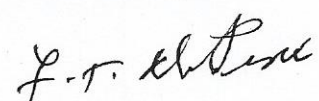
Section 1. Basic Requirements. The following requirements must be satisfied before the proposed transaction shall be assessed:

- 1.1 *Cost of technology* (Cost of developing the technology or valuated cost, whichever is lower): Not exceeding P2,000,000.00
- 1.2 *Types of IP:* UMs, ID, Trade Secret/Know-How
- 1.3 *Criteria:*
 - a. Who can spin-off: Any member of the research team as defined by the research agreement.
 - b. The RDI that developed the technology. Provided however, that the RDI has a corporate personality or it has fiscal autonomy.
 - c. Type of spin-off: Corporation, without government funding support
 - d. Capitalization equity: Spin-off corporation with RDI participation for both Private and Public RDI: submission of any of the following:
 - d1. Copy of certificate(s) of deposit to a trust fund of at least 25% of the required initial capitalization, according to an attached business plan, contributed by private investor(s).
 - d2. Sworn undertaking from private investor(s) to fund at least 25% of the required initial capitalization, according to an attached business plan.

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Provided that, should the FOB and/or the FOB Secretariat find in the business plan inconsistencies, miscalculations, misrepresentations, and the like, intended to adjust the



required capitalization for purposes of complying with this requirement, the entire matter shall be referred to a full-blown FOB.

For purposes of this paragraph, a private RDI contributing capitalization, other than the value of the IP/technology asset, shall be considered a private investor.

- e. FOR request should also contain secondment/leave form, and an indication from RDI that (researcher) its employee involved in the spin-off will be allowed to be on secondment or on leave. Said employee to present leave of absence¹ and waiver by RDI of conflict of interest.²

If the spinoff company is owned by the RDI, the researcher should not take a leave during the initial three (3) years of operation.

If the RDI employee is a mere stockholder of the spin-off entity without any management responsibilities, he or she shall submit a certificate of limited practice of profession in lieu of secondment/leave from the RDI issued by the DOST Secretary.

Section 2. Terms in the proposed transaction. The following terms shall be the basis in the determination whether the proposed transaction is "Fair" to the GFA or to the RDI:

2.1 *Financial terms:*

- a. Royalty rates: At least 1% of the gross sales.
- b. Upfront Licensing fee: At least 1% of the cost of technology but not less than P10,000.00.

2.2 *Exclusivity:*

- a. License: Non-exclusive
- b. Field of use: Non-exclusive
- c. Geographic territory: Within the Philippines

2.3 *Sub-licensing:* With consent/upon the discretion of the Licensor

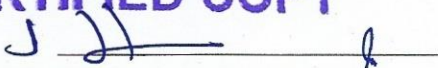
2.4 *Effectivity / Term:*

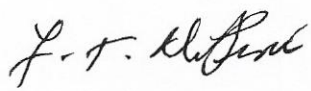
- a. For UMs: At least three (3) years or the remaining life of the UM, whichever is longer
- b. Industrial Design: At least two (2) years, renewable
- c. Trade Secrets/Know-Hows: At least five (5) years, renewable

In the event that the RDI opts to provide incentives to the researchers other than royalties from licensing transactions, the RDI may choose to waive licensing fees for the use of its technology from the spinoff company and the above terms under this section will not apply.

The above conditions for a fast-tracked fairness opinion as "Fair" shall be applicable to technologies that are categorized under International Patent Classification (IPC) Class C except chemicals with pharmaceutical applications, foodstuffs and beverages, equipment and mechanical devices, and fertilizers. Moreover, we shall consider technologies that are in the field of biotechnology if they have no specific applications.

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ARTICLE IV
EFFECTIVITY/SEPARABILITY/AMENDMENT/REPEALING

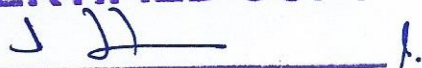
Section 1. Effectivity. This Circular shall take effect immediately after its complete publication in the Official Gazette or newspaper of general circulation and upon filing at the UP Law Center in accordance with law.

Section 2. Separability. If any part of provision of this Memorandum Circular is held invalid or unconstitutional, the other provisions not affected thereby shall remain in force and in effect.

Section 3. Amendment/Repealing. All existing orders and guidelines inconsistent herewith are deemed repealed and provisions not affected thereby shall remain in force and in effect.


FORTUNATO T. DE LA PEÑA
Secretary

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