13

Other Licensing Terms: The "Boilerplate"

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In the late nineteenth century, publishing syndicates like the Western Newspaper Union began to distribute news stories, editorials and advertisements to local newspapers on prefabricated steel plates – a convenience that eliminated the papers' need to typeset this text manually. The plates were nicknamed "boilerplate" because they resembled the pressed steel plates that adorned boilers and pressure vessels. Gradually, the term boilerplate came to represent any text that is intended to be used without change. Today, it is used to refer to contractual terms, often appearing at the end of an agreement, that are viewed as standardized and routine.[1] Very few non-lawyers bother to read the boilerplate in an agreement, and its drafting and review are often delegated to junior lawyers or to nobody at all.[2]

[1] As explained by Professor Henry Smith, "By definition boilerplate is meant to be used in more than one contract, and boilerplate is more self-contained and less specific to a particular contract than might be expected from contract theory. Boilerplate is highly standardized, and when courts interpret boilerplate they treat it as intentionally standardized and not harboring unusual meanings. In other words, some portability of boilerplate is achieved at the price of tailoring such provisions to particular contexts." Henry E. Smith, *Modularity in Contracts: Boilerplate and Information Flow*, 104 Mich. L. Rev. 1175, 1176 (2006).

[2] See Cathy Hwang, *Unbundled Bargains: Multi-Agreement Dealmaking in Complex Mergers and Acquisitions*, 164 U. Penn. L. Rev. 1403, 1405 (2016) ("Because deal lawyers often consider confidentiality agreements straightforward and boilerplate, junior attorneys or in-house counsel usually draft them").

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Yet the "boilerplate" clauses in an agreement can become critical, and sometimes make the difference between breach and compliance with the more "interesting" provisions of the agreement. In this chapter we will explore some of the boilerplate clauses in a typical intellectual property (IP) licensing agreement and their variants and implications.

13.1 FRONT MATTER

Every agreement begins with a formulaic recitation of some key information. Below, we briefly review these seemingly routine but important features of agreements.

13.1.1 *Title*

Every agreement needs a title so that it can be referenced and understood in context. Agreement titles may be long or short, but it is best to choose one that is descriptive of the agreement's content and purpose. That is, avoid calling every agreement "Agreement."

13.1.2 *Parties*

Every party to the agreement should be named and identified by its full corporate name and jurisdiction of organization. A physical headquarters address is often included as well, but this can present issues if/when the parties relocate. Notification of location changes are typically dealt with in the notices clause (see Section 13.12).

Sometimes a party is tempted to try to include all of its corporate affiliates and subsidiaries as parties to an agreement (e.g., by referring to "Party X and all of its Affiliates" as "Party X"), but this is an unwise practice when it comes to enforcement and breach of the agreement, and even understanding who the other party should look to for performance. If it is desirable to extend rights throughout a corporate family, it is preferable to name only one party to the agreement (usually the parent company), and then permit it to grant sublicenses and subcontract some of its obligations to its affiliates. Of course, if multiple members of a corporate family will have discrete, defined roles in a transaction (e.g., a manufacturing affiliate and an IP-holding affiliate), then they can and should be named separately as parties (and referred to collectively as the "X Company Parties").

EXAMPLE: INTRODUCTION

This Software Licensing Agreement ("Agreement") is made this Fifth day of May, 2020 (the "Effective Date"), by and between [1] A-Team Corporation, a Delaware corporation having its principal place of business at 123 Evergreen Terrace, Springfield, Illinois, USA 65432 ("Licensor") and B-List, LLC, a Massachusetts limited liability company having its principal place of business at 60 State Street, Boston, Massachusetts, USA 02158 ("Licensee"), each individually a "Party" and collectively the "Parties."

DRAFTING NOTES

[1] *Between and among* – the drafting convention is to say that an agreement is *between* two parties, and *among* three or more parties.

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13.1.3 *Effective Date*

Every agreement comes into effect on a particular date (the "Effective Date"), whether it is the date that the agreement is fully executed, or some other date selected by the parties. Considerations regarding the choice of effective date are discussed in greater detail in Section 12.1.1. For drafting purposes, the main consideration is to specify the effective date clearly (e.g., December 1, 2020 (the "Effective Date")), and not to rely on vague descriptors such as "the date on which the last party executes this Agreement," especially if dates are not provided below signature lines at the end of the agreement.

13.1.4 *Recitals*

After the introductory paragraph listing the parties, their addresses and the effective date of the agreement, many agreements contain one or more paragraphs beginning with "Whereas, … " These "whereas clauses" are known as the recitals of an agreement. Recitals are nonoperative text – they do not (or should not) create contractual obligations. Rather, they set the stage for the agreement that is to come. As Cynthia Cannady explains, recitals "serve the purpose of helping a reader get oriented before plunging into the material terms of the agreement" and "provide background information that makes it easier to read and understand the material terms of the agreement."[3]

Because recitals are not intended to create binding contractual obligations, drafters should be careful to avoid the explicit or implicit inclusion of obligations, representations or warranties in the recitals. For example, statements like this should be avoided:

> WHEREAS, Licensor owns all right, title and interest in and to the cartoon character Dizzy Duck; and
> WHEREAS, Licensee wishes to obtain an exclusive license to reproduce and display Dizzy Duck on school supplies;

The above recital could cause problems for both the licensor and the licensee. Why? Because it could be interpreted as a *representation* by the licensor that it actually does own these rights (without the knowledge-based and other limitations contained in the actual representations and warranties later in the agreement), and because it could be interpreted as an *acknowledgment* by the licensee that the licensor actually does own these rights – a fact that the licensee may wish to challenge later. Below is a preferable set of recitals that frames the proposed transaction between the parties:

> WHEREAS, Licensor conducts an active licensing program for rights in the cartoon character Dizzy Duck; and
> WHEREAS, Licensee wishes to obtain an exclusive license to reproduce and display Dizzy Duck on school supplies; …

Or consider the equipment leasing agreement litigated in *Thomson Electric Welding Co. v. Peerless Wire Fence Co.*, 190 Mich. 496 (1916). The agreement related to the lease of electric welding machines for a term lasting "until the expiration of all the letters patent of the United States now or hereafter owned by the lessor, the inventions of which are or shall be embodied in said apparatus, or at any time involved in the use thereof." The recitals listed 111 of the

[3] Cynthia Cannady, Technology Licensing and Development Agreements 112 (Oxford Univ. Press, 2013).

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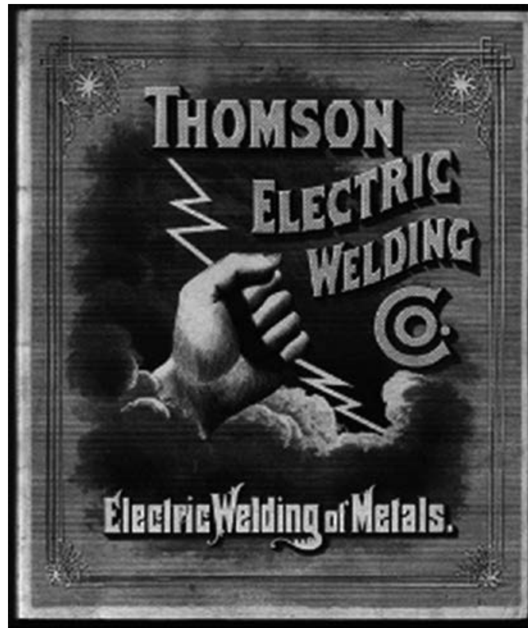

FIGURE 13.1 Elihu Thomson, founder of the Thomson Electric Welding Co., was one of the late nineteenth century's greatest inventors, with nearly 700 patents to his name. In addition to arc welding, he developed important advances in the fields of arc lighting. Another company founded by Thomson eventually merged with Edison Electric to become the General Electric Company.

lessor's patents covering the leased equipment. When the lessee returned the equipment after the expiration of the last of these 111 patents, the lessor claimed that it held additional patents covering the leased equipment, and that the lease was not yet expired. Accordingly, the lessor sued for remaining lease payments through the expiration of the last of these other, unlisted patents. The Michigan Supreme Court, reviewing the recital in question, considered the doctrine of "estoppel by recital" and held that "general and unlimited terms are restrained and limited by particular recitals when used in connection with them, and recitals, as well as operative clauses, should be considered as a part of the whole." As a result, the licensor was estopped from claiming that the lease ran beyond the expiration of the 111 patents listed in the recital.

13.1.5 *Acknowledgment of Consideration*

Traditionally, after the recitals there is a transitional paragraph that leads into the main body of the agreement. The putative purpose of this paragraph is to explicitly state that the agreement is made for valid consideration, fulfilling the formal contractual requirement that consideration be exchanged in order for a promise to be binding. This paragraph typically reads as follows.

EXAMPLE: ACKNOWLEDGMENT OF CONSIDERATION

NOW THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties hereby agree and covenant as follows:

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13.2 DEFINITIONS

Every agreement contains a number of defined terms, capitalized words that, when used throughout the agreement, have the meanings ascribed specifically to them, rather than definitions that might arise from common usage or dictionaries. The definitions are among the most important elements of any agreement. As we have seen in the preceding chapters, terms such as "Licensed Rights," "Net Sales" and "Field of Use" define the very nature of the legal and financial arrangement between the parties.

Definitions may be scattered throughout the text and defined "inline" or "in context," as they are in the example of the introductory clause above. Or they may be listed – usually alphabetically – in a separate section of the agreement that appears at the beginning or end of the operative text of the agreement.[4] The placement and style of the definitions is a matter of drafting preference, but wherever they are located, definitions should be as clear and unambiguous as possible.

DRAFTING TIPS FOR DEFINITIONS

- Use Initial Caps and never hard-to-read and distracting FULL CAPS.
- Place most definitions in one section in the beginning or end of the agreement.
- List definitions in alphabetical order.
- If there are multiple related agreements, define each term once and cross-reference it in the other agreements; be sure to avoid inconsistent definitions within the same set of agreements.
- If the term is better defined in context (e.g., defined by reference to adjacent text) or is used only in one section, then define it inline, set off in parentheses and quotation marks, and preferably boldface and/or italics ("***Definition***").
- If you define terms inline, then include an index table at the end of the other definitions referencing where these definitions can be found.
- Avoid "nested" definitions (i.e., definitions that contain other defined terms that, in turn, are defined by reference to other defined terms that … ").
- There is no need to define everything: some terms are commonly understood in the relevant industry (e.g., FDA or SEC); don't waste time and paper defining other commonly used terms (e.g., Calendar Year) unless an unconventional meaning is intended (e.g., some companies adapt a fiscal year in which quarters end on Fridays).
- Never include affirmative obligations, covenants, representations, warranties or disclaimers in definitions.

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13.3 ASSIGNMENT

At the end of each agreement is often a section labeled "General Terms" or "Miscellaneous." These are the true "boilerplate" terms that cause eyes to glaze over. Or are they? Some provisions in this Miscellaneous section often get significant attention. One of the most prominent of these is the assignment clause.

[4] Professor Henry Smith makes an interesting argument for collecting definitions in a single section of an agreement:

> [I]f definitions are not segregated and done once and for all, contracts are open to an interpretive strategy where a use of the term in one part of the contract can more easily be used in interpreting the term in another part of the contract. This type of interpretation involves far more potential interaction – and hence more complexity – than in the case of a contract with a section on definitions. (Smith, supra note 1, at 1190)

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13.3.1 *The Right to Assign, Generally*

Parties generally have the right to assign their rights and duties under an agreement, as described in the *Restatement (Second) of Contracts*:

RESTATEMENT (SECOND) OF CONTRACTS

§ **317(2)** A contractual right can be assigned unless

(a) the substitution of a right of the assignee for the right of the assignor would materially change the duty of the obligor, or materially increase the burden or risk imposed on him by his contract, or materially impair his chance of obtaining return performance, or materially reduce its value to him, or (b) the assignment is forbidden by statute or is otherwise inoperative on grounds of public policy, or (c) assignment is validly precluded by contract.

§ **318(1)** An obligor can properly delegate the performance of his duty to another unless the delegation is contrary to public policy or the terms of his promise.

Thus, parties that wish to prevent their counterparties from assigning rights and duties under the agreement must expressly restrict this right in their agreement.

13.3.2 *The Right to Assign IP Licenses*

Notwithstanding the general rules of contract assignment noted in Section 13.3.1, IP licenses have long been treated as special cases under federal common law. As early as 1852, the Supreme Court recognized the rule that patent licensing agreements are personal and not assignable unless expressly made so (*Troy Iron & Nail Factory v. Corning*, 55 U.S. (14 How.) 193, 14 L. Ed. 383 (1852)).

Over the years this rule has evolved to differentiate between exclusive and nonexclusive IP licenses. In general, "It is well settled that a non-exclusive licensee of a patent has only a personal and not a property interest in the patent and that this personal right cannot be assigned unless the patent owner authorizes the assignment or the license itself permits assignment" (*Gilson v. Republic of Ireland*, 787 F.2d 655, 658 (D.C.Cir.1986)).

The Ninth Circuit in *Everex Systems, Inc. v. Cadtrak Corp.*, 89 F.3d 673 (9th Cir. 1996) explains the policy rationale for this rule as follows:

> Allowing free assignability … of nonexclusive patent licenses would undermine the reward that encourages invention because a party seeking to use the patented invention could either seek a license from the patent holder or seek an assignment of an existing patent license from a licensee. In essence, every licensee would become a potential competitor with the licensor-patent holder in the market for licenses under the patents. And while the patent holder could presumably control the absolute number of licenses in existence under a free-assignability regime, it would lose the very important ability to control the identity of its licensees. Thus, any license a patent holder granted – even to the smallest firm in the product market most remote from its own – would be fraught with the danger that the licensee would assign it to the patent holder's most serious competitor, a party whom the patent holder itself might be absolutely unwilling to license. As a practical matter, free assignability of patent licenses might spell the end to paid-up licenses … Few

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FIGURE 13.2 The Supreme Court's 1852 decision in *Troy Iron & Nail* first established that patent licensing agreements are not assignable.

> patent holders would be willing to grant a license in return for a one-time lump-sum payment, rather than for per-use royalties, if the license could be assigned to a completely different company which might make far greater use of the patented invention than could the original licensee.

For similar reasons, the rule against assignment of nonexclusive patent licenses has also been applied to nonexclusive copyright licenses[5] and trademark licenses.[6]

But exclusive licenses, at least in some cases, have been treated differently, as they have been construed as conveyances of IP ownership – a right that is generally amenable to free alienability by its holder.[7]

13.3.3 *Assignment of Licenses in M&A Transactions*

One of the most contentious issues relating to the assignment of IP licensing agreements arises in the context of corporate acquisitions. Specifically, what is the effect of an acquisition of a company (often called the "target" company) on licensing agreements to which it is a party?

[5] *Harris v. Emus Records Corp.*, 734 F.2d 1329 (9th Cir. 1984).

[6] *Tap Publications, Inc. v. Chinese Yellowpages (New York), Inc.*, 925 F. Supp. 212 (S.D.N.Y. 1996) ("the general rule is that unless the license states otherwise, the licensee's right to use the licensed mark is personal and cannot be assigned to another" (citing 2 McCarthy on Trademarks and Unfair Competition § 18.14[2]; 25.07[3] (3d ed. 1996)).

[7] See *In re Golden Books Family Entertainment, Inc.*, 269 B.R. 311 (Bankr. D. Del. 2001) (exclusive license could be assigned without licensor's consent).

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Does a corporate acquisition constitute an assignment of the target company's IP licenses? And, if so, is such an assignment prohibited under applicable law?

The answer depends, in large part, on the structure through which an acquisition is effected. There are three basic forms of corporate acquisition: asset acquisitions, stock acquisitions and mergers. Parties choose the form of an acquisition for a range of tax, accounting, liability and other reasons. Treatment of IP licensing agreements is rarely an overriding consideration in choosing the form of such a transaction. Nevertheless, the choice of acquisition structure can have a significant effect on IP licensing agreements, which must often (unfortunately) be sorted out after the acquisition takes place.

In *asset acquisitions*, the acquiring company purchases some or all of the target company's assets and properties, including agreements and other IP rights, directly from the target company. In this case, the target company expressly assigns these licensing agreements to the acquirer along with its other assets. To the extent that applicable law prohibits such assignments, and they are not expressly permitted under the terms of the agreements themselves, then the target company must obtain the permission of the licensor in order to make such assignments.

Stock acquisitions involve an acquirer's purchase of a target company's stock from its prior owners. In this model, the corporate identity of the target company is unaffected by the acquisition; it remains a party to whatever agreements were in place prior to the acquisition. Thus, no assignment is generally recognized, and no consent is required from the licensor.

Mergers are statutory devices that enable an acquiror to absorb a target company into itself or into a subsidiary. After the merger, the target company no longer exists in its prior form, which is where things get complicated in terms of agreement assignment. There are three general types of merger transactions: direct mergers, forward triangular mergers and reverse triangular mergers. In a direct merger, the acquiror merges the target company directly into itself. In a forward triangular merger, the acquiror forms a wholly owned subsidiary into which it merges the target company. In a reverse triangular merger, the acquiror forms a wholly owned subsidiary that merges into the target company. After a direct merger and a forward triangular merger, the target company no longer exists. All of its assets and liabilities are absorbed, respectively, into the acquiror or its wholly owned subsidiary. In a reverse triangular merger, the target survives the merger as a wholly owned subsidiary of the acquirer. These three transaction types are illustrated in Figure 13.3.

Given these different structural outcomes, there is some debate, and inconsistency in the case law, regarding whether an IP licensing agreement can be assumed by the "surviving" company following the merger without the consent of the licensor.[8] In both a direct and a forward triangular merger the target company (licensee) is no longer in existence, so there is considerable doubt whether its licenses can be assigned to the surviving company without the licensor's consent. The best structure for allowing the assumption is the reverse triangular merger, in which the target company (the licensee) remains intact, though with a new owner. At least in Delaware, where many important mergers and acquisitions (M&A) decisions are reached, the courts have found that a reverse triangular merger does not result in an assignment of the target company's IP licenses.[9]

[8] See, generally, Elaine D. Ziff, *The Effect of Corporate Acquisitions on the Target Company's License Rights*, 57 Business Lawyer 767 (2002).

[9] See *Meso Scale Diagnostics, LLC v. Roche Diagnostics GmbH*, 62 A.3d 62 (Del. Ch. 2013).

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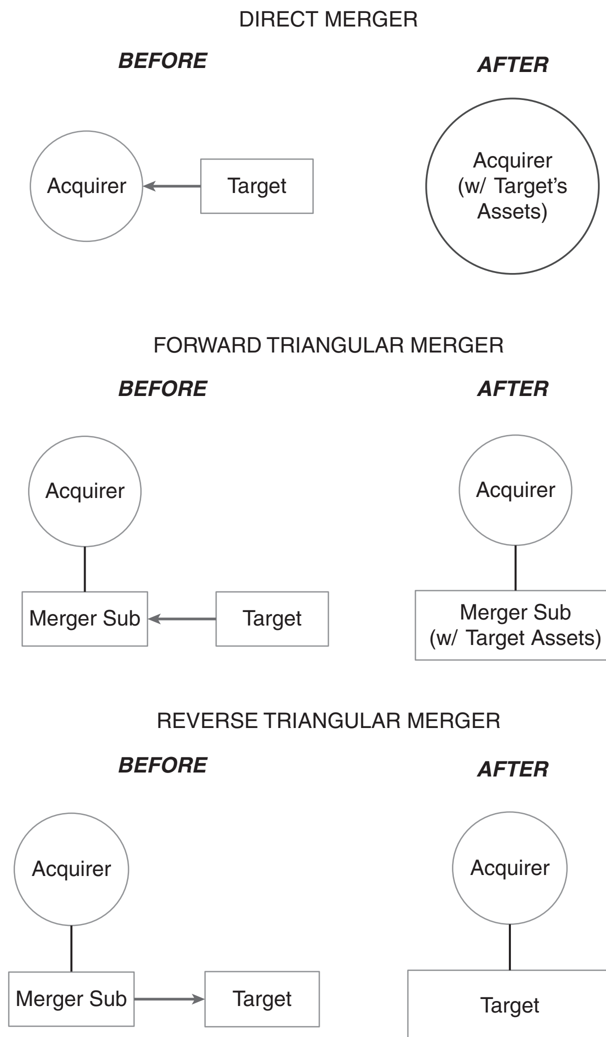

FIGURE 13.3 Asset acquisitions, stock acquisitions and mergers.

13.3.4 *Anti-Assignment Clauses*

Given the uncertain treatment of IP licensing agreement following the various types of transactions discussed above, parties often seek to define contractually the precise terms on which such agreements may be assigned.

EXAMPLE: ASSIGNMENT

a. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither party may assign or transfer this Agreement in whole or in part, nor any of its rights or delegate any of its duties or obligations hereunder, without the prior written consent of the other party [which shall not be unreasonably withheld, conditioned or delayed] [except that either party may assign

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this Agreement in full to a successor to its business in connection with a merger or sale of all or substantially all its assets [**1**] [relating to the subject matter hereof] [**2**]].

b. For purposes of this Section, a change in the persons or entities who control 50% or more of the equity securities or voting interest of a Party in a single transaction or set of related transactions shall be considered a prohibited assignment of such Party's rights [**3**].

c. Any assignment made in violation of this Section shall be void, the assignee shall acquire no rights whatsoever, and the non-assigning party shall not recognize, nor shall it be required to recognize, the assignment. This provision limits both the right and the power to assign this Agreement, and the rights hereunder [**3**].

d. Any assignment permitted hereunder shall be evidenced by a writing executed by the assigning party and the assignee, under which the assignee expressly assumes all obligations [and liability] [**4**] of the assigning party. Such executed assignment document shall be provided to the non-assigning party contemporaneously with the assignment.

DRAFTING NOTES

[1] *Acquisitions* – in order to avoid the variability that often accompanies M&A transactions, parties often wish to specify that IP licensing agreements may be assigned in connection with a merger or sale of assets. This being said, not all licensors may be comfortable with a licensee's assignment of a license agreement to an acquirer that is a competitor of the licensor, or to an acquirer that is substantially larger than the original licensee (especially if an up-front fee or royalties were calculated based on estimates of the original licensee's market). In these cases, substantial negotiation often occurs around limitations on the use of the assigned license agreement by the acquirer.

[2] *Partial divestiture* – in some cases, a party may divest the division or business unit that is most related to a licensing agreement. If this is the case, the other party may wish to permit assignment of the agreement to the acquirer of that division or unit. Be aware, however, that this language can become problematic if a party simply wishes to "sell" the agreement as a freestanding asset.

[3] *Change in control* – as noted in Section 13.3.3, some types of M&A transactions (e.g., a sale of stock or a forward triangular merger) do not involve an assignment of rights to a new entity, but merely a change in ownership of an existing licensee. Nevertheless, for the reasons set forth in Item [1], a licensor may not wish to permit a license to continue if the licensee undergoes a significant "change in control." Clause (b) characterizes such changes as prohibited assignments requiring the licensor's consent. Of course, if the optional language permitting assignment in a merger is selected in clause (a), then clause (b) is unnecessary. Alternately, a change in control may be prohibited only if it involves a competitor of the other party.

[4] *The right and the power to assign* – even creating an express prohibition against assignment may not actually prevent an assignment from occurring. Restatement § 322(2)(b) provides that a "contract term prohibiting assignment of rights under the contract

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... gives the obligor a right to damages for breach of the terms forbidding assignment but does not render the assignment ineffective."[10] In order to prevent assignment, the agreement must eliminate both a party's *power* to assign, as well as its *right* to assign.[11]

13.3.5 *Transfers of Rights*

Most of the above considerations relating to assignments concern the licensee and whether it may pass on to an acquiring entity the rights that it has received from the licensor. But a related topic concerns the licensor. Specifically, if a licensor assigns or transfers IP rights that it has previously licensed, what is the effect on existing licensees? As discussed in Section 3.5, an IP license generally runs with the underlying IP.

But what about the multitude of other contractual obligations contained in a licensing agreement? Licensor obligations relating to service, maintenance, technical assistance, indemnification and confidentiality are not likely to constitute part of the core license property interest, so what happens to them when the licensor transfers the underlying IP to a new owner?

One theory is that the original licensor remains obligated to perform its contractual obligations so long as they have not been assigned to someone else. Thus, if the original licensor does not assign a licensing agreement to the acquirer of the underlying IP, the original licensor is still required to perform these obligations. But this requirement may be cold comfort to the licensee, as the original licensor may have few remaining assets with which to perform those obligations. The licensee might prefer that the new owner of the underlying IP be obligated to perform the original licensor's commitments. To that end, a clause is sometimes included in the assignment section relating to transfer.

EXAMPLE: TRANSFER OF RIGHTS

Each party shall ensure that any purchaser, assignee, transferee or exclusive licensee of any of the intellectual property rights underlying the licenses and covenants granted herein ("Transferee") shall be bound by all terms and conditions contained in this Agreement, and shall require that such Transferee confirm in writing prior to any such sale, assignment, transfer or exclusive license ("Transfer"), as a condition thereof, that the licenses and other rights granted hereunder shall not be affected or diminished in any manner by such Transfer nor subject to any increased or payment or other obligation.

The following case brings together many of the issues and themes discussed above with regard to the assignment of IP licensing agreements and anti-assignment clauses.

[10] See *Rumbin v. Utica Mutual Ins. Co.*, 757 A.2d 526, 531 (Conn. 2000) (it is the "general rule that contractual provisions limiting or prohibiting assignments operate only to limit [the] parties right to assign the contract, but not their power to do so").

[11] See, e.g., *Pravin Banker Associates, Ltd. v. Banco Popular Del Peru*, 109 F.3d 850, 856 (2nd Cir. 1997) (to "preclude the power to assign, or cause an assignment ... to be wholly void, [a contractual] clause must contain express provisions that any assignment shall be void or invalid if not made in a certain specified way"); *Cedar Point Apartments, Ltd. v. Cedar Point Investment Corp.*, 693 F.2d 748, 754 (8th Cir. 1982) (refusing to invalidate an assignment where "[m]erely the 'right to assign,' not the power to assign, [was] limited by the express language of the [anti-assignment] clause").

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PPG Industries, Inc. v. Guardian Industries Corp.

597 F.2d 1090 (6th Cir. 1979)

LIVELY, CIRCUIT JUDGE

The question in this case is whether the surviving or resultant corporation in a statutory merger acquires patent license rights of the constituent corporations.

Prior to 1964 both PPG and Permaglass, Inc., were engaged in fabrication of glass products which required that sheets of glass be shaped for particular uses. Independently of each other the two fabricators developed similar processes which involved "floating glass on a bed of gas, while it was being heated and bent." This process is known in the industry as "gas hearth technology" and "air float technology"; the two terms are interchangeable. After a period of negotiations PPG and Permaglass entered into an agreement on January 1, 1964 whereby each granted rights to the other under "gas hearth system" patents already issued and in the process of prosecution. The purpose of the agreement was set forth in the preamble as follows:

> WHEREAS, PPG is desirous of acquiring from PERMAGLASS a world-wide exclusive license with right to sublicense others under PERMAGLASS Technical Data and PERMAGLASS Patent Rights, subject only to reservation by PERMAGLASS of non-exclusive rights thereunder; and
>
> WHEREAS, PERMAGLASS is desirous of obtaining a nonexclusive license to use Gas Hearth Systems under PPG Patent Rights, excepting in the Dominion of Canada.

This purpose was accomplished in the two sections of the agreement quoted below:

Section 3. Grant from Permaglass to PPG

3.1 Subject to the reservation set forth in Subsection 3.3 below, PERMAGLASS hereby grants to PPG an exclusive license, with right of sublicense, to use PERMAGLASS Technical Data in Gas Hearth Systems throughout the United States of America, its territories and possessions, and all countries of the world foreign thereto.

3.2 Subject to the reservation set forth in Subsection 3.3 below, PERMAGLASS hereby grants to PPG an unlimited exclusive license, with right of sublicense, under PERMAGLASS Patent Rights.

3.3 The licenses granted to PPG under Subsections 3.1 and 3.2 above shall be subject to the reservation of a non-exclusive, non-transferable, royalty-free, world-wide right and license for the benefit and use of PERMAGLASS.

Section 4. Grant from PPG to Permaglass

4.1 PPG hereby grants to PERMAGLASS a non-exclusive, non-transferable, royalty-free right and license to heat, bend, thermally temper and/or anneal glass using Gas Hearth Systems under PPG Patent Rights, excepting in the Dominion of Canada, and to use or sell glass articles produced thereby, but no license, express or implied, is hereby granted to PERMAGLASS under any claim of any PPG patent expressly covering any coating method, coating composition, or coated article.

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Assignability of the agreement and of the license granted to Permaglass and termination of the license granted to Permaglass were covered in the following language:

Section 9. Assignability

9.1 This Agreement shall be assignable by PPG to any successor of the entire flat glass business of PPG but shall otherwise be non-assignable except with the consent of PERMAGLASS first obtained in writing.
9.2 This Agreement and the license granted by PPG to PERMAGLASS hereunder shall be personal to PERMAGLASS and non-assignable except with the consent of PPG first obtained in writing.

Section 11. Termination

11.2 In the event that a majority of the voting stock of PERMAGLASS shall at any time become owned or controlled directly or indirectly by a manufacturer of automobiles or a manufacturer or fabricator of glass other than the present owners, the license granted to PERMAGLASS under Subsection 4.1 shall terminate forthwith.

Eleven patents are involved in this suit. In Section 9.1 and 9.2 assignability was treated somewhat differently as between the parties, and the Section 11.2 provisions with regard to termination apply only to the license granted to Permaglass.

As of December 1969 Permaglass was merged into Guardian … Guardian was engaged primarily in the business of fabricating and distributing windshields for automobiles and trucks. It had decided to construct a facility to manufacture raw glass and the capacity of that facility would be greater than its own requirements. Permaglass had no glass manufacturing capability and it was contemplated that its operations would utilize a large part of the excess output of the proposed Guardian facility.

FIGURE 13.4 Guardian Glass got its start as a manufacturer of automotive windshields.

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Shortly after the merger was consummated PPG filed the present action, claiming infringement by Guardian in the use of apparatus and processes described and claimed in eleven patents which were identified by number and origin. The eleven patents were covered by the terms of the 1964 agreement. PPG asserted that it became the exclusive licensee of the nine patents which originated with Permaglass under the 1964 agreement and that the rights reserved by Permaglass were personal to it and non-transferable and non-assignable. PPG also claimed that Guardian had no rights with respect to the two patents which had originated with PPG because the license under these patents was personal to Permaglass and non-transferable and non-assignable except with the permission of PPG. In addition it claimed that the license with respect to these two patents had terminated under the provisions of Section 11.2 by reason of the merger.

One of the defenses pled by Guardian … was that it was a licensee of the patents in suit. It described the merger with Permaglass and claimed it "had succeeded to all rights, powers, ownerships, etc., of Permaglass, and as Permaglass' successor, defendant is legally entitled to operate in place of Permaglass under the January 1, 1964 agreement between Permaglass and plaintiff, free of any claim of infringement of the patents …"

After holding an evidentiary hearing the district court concluded that the parties to the 1964 agreement did not intend that the rights reserved by Permaglass in its nine patents or the rights assigned to Permaglass in the two PPG patents would not pass to a successor corporation by way of merger. The court held that there had been no assignment or transfer of the rights by Permaglass, but rather that Guardian acquired these rights by operation of law under the merger statutes of Ohio and Delaware. The provisions of the 1964 agreement making the license rights of Permaglass non-assignable and non-transferable were held not to apply because of the "continuity of interest inherent in a statutory merger that distinguishes it from the ordinary assignment or transfer case."

Questions with respect to the assignability of a patent license are controlled by federal law. It has long been held by federal courts that agreements granting patent licenses are personal and not assignable unless expressly made so. This has been the rule at least since 1852 when the Supreme Court decided *Troy Iron & Nail v. Corning*, 14 L. Ed. 383 (1852). The district court recognized this rule in the present case, but concluded that where patent licenses are claimed to pass by operation of law to the resultant or surviving corporation in a statutory merger there has been no assignment or transfer.

There appear to be no reported cases where the precise issue in this case has been decided. At least two treatises contain the statement that rights under a patent license owned by a constituent corporation pass to the consolidated corporation in the case of a consolidation, W. Fletcher, Cyclopedia of the Law of Corporations § 7089 (revised ed. 1973); and to the new or resultant corporation in the case of a merger, A. Deller, Walker on Patents § 409 (2d ed. 1965). However, the cases cited in support of these statements by the commentators do not actually provide such support because their facts take them outside the general rule of non-assignability. Both texts rely on the decision in *Hartford-Empire Co. v. Demuth Glass Works, Inc.*, 19 F. Supp. 626 (E.D.N.Y.1937). The agreement involved in that case specified that the patent license was assignable and its assignability was not an issue. Clearly the statement in the *Hartford-Empire* opinion that the merger conveyed to the new corporation the patent licenses owned by the old corporation results from the fact that the licenses in question were expressly made assignable, not from any general principle that such licenses pass to the resultant corporation where there is a merger. It is also noteworthy that the surviving corporation following the merger in *Hartford-Empire* was

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the original licensee, whereas in the present case the original licensee was merged into Guardian, which was the survivor.

Guardian relies on two classes of cases where rights of a constituent corporation have been held to pass by merger to the resultant corporation even though such rights are not otherwise assignable or transferable. It points out that the courts have consistently held that "shop rights" do pass in a statutory merger. A shop right is an implied license which accrues to an employer in cases where an employee has perfected a patentable device while working for the employer. Though the employee is the owner of the patent he is estopped from claiming infringement by the employer. This estoppel arises from the fact that the patent work has been done on the employer's time and that the employer has furnished materials for the experiments and financial backing to the employee.

The rule that prevents an employee-inventor from claiming infringement against a successor to the entire business and good will of his employer is but one feature of the broad doctrine of estoppel which underlies the shop right cases. No element of estoppel exists in the present case. The license rights of Permaglass did not arise by implication. They were bargained for at arms length and the agreement which defines the rights of the parties provides that Permaglass received non-transferable, non-assignable personal licenses. We do not believe that the express prohibition against assignment and transfer in a written instrument may be held ineffective by analogy to a rule based on estoppel in situations where there is no written contract and the rights of the parties have arisen by implication because of their past relationship.

The other group of cases which the district court and Guardian found to be analogous hold that the resultant corporation in a merger succeeds to the rights of the constituent corporations under real estate leases. The most obvious difficulty in drawing an analogy between the lease cases and those concerning patent licenses is that a lease is an interest in real property. As such, it is subject to the deep-rooted policy against restraints on alienation. [There] is no similar policy which is offended by the decision of a patent owner to make a license under his patent personal to the licensee, and non-assignable and non-transferable. In fact the law treats a license as if it contained these restrictions in the absence of express provisions to the contrary.

We conclude that the district court misconceived the intent of the parties to the 1964 agreement. We believe the district court put the burden on the wrong party in stating:

> Because the parties failed to provide that Permaglass' rights under the 1964 license agreement would not pass to the corporation surviving a merger, the Court finds that Guardian succeeded to Permaglass' license

The agreement provides with respect to the license which Permaglass granted to PPG that Permaglass reserved "a non-exclusive, non-transferable, royalty-free, world-wide right and license for the benefit and use of Permaglass." Similarly, with respect to its own two patents, PPG granted to Permaglass "a non-exclusive, non-transferable, royalty-free right and license …" Further, the agreement provides that both it and the license granted to Permaglass "shall be personal to PERMAGLASS and non-assignable except with the consent of PPG first obtained in writing."

The quoted language from Sections 3, 4 and 9 of the 1964 agreement evinces an intent that only Permaglass was to enjoy the privileges of licensee. If the parties had intended an exception in the event of a merger, it would have been a simple matter to have so provided in the agreement. Guardian contends such an exception is not necessary since it is

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universally recognized that patent licenses pass from a licensee to the resultant corporation in case of a merger. This does not appear to be the case. We conclude that if the parties had intended an exception in case of a merger to the provisions against assignment and transfer they would have included it in the agreement.

Thus, Sections 3, 4 and 9 of the 1964 agreement between PPG and Permaglass show an intent that the licenses held by Permaglass in the eleven patents in suit not be transferable. While this conclusion disposes of the license defense as to all eleven patents, it should be noted that Guardian's claim to licenses under the two patents which originated with PPG is also defeated by Section 11.2 of the 1964 agreement. This section addresses a different concern from that addressed in Sections 3, 4 and 9. The restrictions on transferability and assignability in those sections prevent the patent licenses from becoming the property of third parties. The termination clause, however, provides that Permaglass' license with respect to the two PPG patents will terminate if the ownership of a majority of the voting stock of Permaglass passes from the 1964 stockholders to designated classes of persons, even though the licenses themselves might never have changed hands.

Apparently PPG was willing for Permaglass to continue as licensee under the nine patents even though ownership of its stock might change. These patents originated with Permaglass and so long as Permaglass continued to use the licenses for its own benefit a mere change in ownership of Permaglass stock would not nullify the licenses. Only a transfer or assignment would cause a termination. However, the agreement provides for termination with respect to the two original PPG patents in the event of an indirect takeover of Permaglass by a change in the ownership of a majority of its stock. The fact that PPG sought and obtained a stricter provision with respect to the two patents which it originally owned in no way indicates an intention to permit transfer of licenses under the other nine in case of a merger. None of the eleven licenses was transferable; but two of them, those involving PPG's own development in the field of gas hearth technology, were not to continue even for the benefit of the licensee if it came under the control of a manufacturer of automobiles or a competitor of PPG in the glass industry "other than the present owners" of Permaglass. A consistency among the provisions of the agreement is discernible when the different origins of the various patents are considered.

Notes and Questions

1. *The federal common law of IP licenses*. As noted above, courts have long held that questions of assignability of copyright and patent licenses are matters of federal law rather than state contract law. Is there a federal law of contract? Why don't federal courts defer to the state contract laws that otherwise govern copyright and patent licensing agreements?

   Contrast this approach with trademark licenses, which have generally been treated as governed by state contract law, notwithstanding the presence of federally registered trademarks. *Tap Publications, Inc. v. Chinese Yellowpages (New York), Inc.*, 925 F. Supp. 212 (S.D.N.Y. 1996) ("The mere fact that a trademark was the subject of the contract does not convert a state-law breach of contract issue into a federal Lanham Act claim"). What might account for this difference in treatment?
2. *Exclusive vs. nonexclusive*. As discussed in *Everex* (Section 13.3.1), the general rule permits exclusive licensees to assign their rights under an IP license, but prohibits nonexclusive licensees from doing so. Do you agree with the rationale for making this distinction?

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Why isn't a nonexclusive licensee treated like the holder of the copyright in a book? The owner of a copy of the book may freely sell it in competition with the copyright holder's ability to sell a new copy. Why should a nonexclusive licensee's ability to compete with the granting of new licensees by the rights holder prevent its assignment of a nonexclusive license?

3. *Remedies*. In *PPG*, did Permaglass's violation of the anti-assignment clause mean that the transfer to Guardian was ineffective, or simply that Permaglass breached the contract, giving PPG a right to seek damages and/or terminate for breach?

   As noted in Drafting Note 3 of Section 13.3.4, § 322(2)(b) of the *Restatement (Second) of Contracts* provides that a "contract term prohibiting assignment of rights under the contract … gives the obligor a right to damages for breach of the terms forbidding assignment but does not render the assignment ineffective." Is this rule sensible? What are the implications of prohibiting assignments outright? Consider the potential impact on M&A transactions.

   If the *Restatement* rule had applied in *PPG*, how would PPG's infringement claim have been affected?

4. *Change of control*. *PPG* also illustrates the operation of a change of control clause. How is such a clause different than an anti-assignment clause? In *PPG*, Permaglass underwent a forward merger after which it was subsumed into Guardian. Would the result have been different if Guardian acquired Permaglass through a reverse triangular merger? Why? Isn't this merely form over substance?

   An alternative approach was proposed in Section 503(2)(3) of UCITA. It provided that the prohibited assignment would be ineffective. This addresses some of the concerns with the *Restatement* approach, but introduces issues of its own. For example, if the assignment of a license is ineffective, who is left with the license after the transaction? One might assume it is the original licensee, but what if that entity is merged out of existence or exists only as a shell?

   In *First Nationwide Bank v. Florida Software Services*, 770 F. Supp. 1537 (M.D. Fla. 1991), a software licensing agreement contained a clause that deemed the transfer of more than 60 percent of the stock of the licensee to constitute an attempted transfer of the agreement, giving FSS, the licensor, a right to terminate the license. During the Savings and Loan Crisis of 1988, two licensee banks were put into receivership and then acquired by First Nationwide under a federal bailout program. In response, FSS threatened to terminate the licensing agreements unless First Nationwide paid it new license fees amounting to nearly $2 million. Though the change in control clause was clear, the court declined to enforce it, reasoning that doing so would be against public policy, and going so far as to call FSS's approach "extortion." Is this a fair characterization? Should courts have the discretion to disregard such provisions? If so, under what circumstances?

5. *Shop rights*. The court in PPG distinguishes cases holding that shop rights transfer upon a merger. How are shop rights different than license rights, and why does this distinction make a difference in the context of mergers?

13.4 PATENT MARKING

Section 237(a) of the U.S. Patent Act provides that if a patent owner wishes to recover damages for infringing activity before it formally notifies the infringer, it must mark each patented article with the relevant patent number:

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> Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them, or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent … In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter …

Today, Section 237(a) has been amended to provide for "marking" via product packaging, documentation or internet site. But for some products, physical stamping of patent numbers on metal or plastic is still done. Accordingly, patent licensing agreements that involve the sale of products often require the licensee to mark all licensed products with the licensed patent numbers. Below is an example of such a clause.

> EXAMPLE: PATENT MARKING
>
> Licensee shall, and shall require its Affiliates and Sublicensees to, mark all Licensed Products sold or otherwise disposed of by it in the United States in a manner consistent with the marking provisions of 35 U.S.C. § 287(a). All Licensed Products shipped or sold in other countries shall be marked in such a manner as to conform with the patent laws and practice of the country to which such products are shipped or in which such products are sold.

Trademark licenses often contain similar provisions, along with detailed requirements for the size, placement and color of a licensed mark. These requirements are discussed in Section 15.4. Affixing a copyright notice to a copyrighted work is not legally required, but also often required in licensing agreements (see, e.g., Sections 19.1 and Sections 19.2 regarding required contractual notices for online content and software).

Notes and Questions

1. *Marking logic*. What kind of products do you think originally gave rise to the marking requirement? Why might such a requirement have been imposed? Does it serve any useful purpose today?

FIGURE 13.5 Historically, patented articles were marked with applicable patent numbers.

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PATENT MARKING AND SOLO CUPS

Before the enactment of the America Invents Act in 2011, 35 U.S.C. § 292(a) allowed any person (a "*qui tam*" plaintiff) to bring a suit for "false marking" of a patented article. False marking included marking a product with a patent that does not cover the product or with an expired patent. The penalty for false marking was a fine up to $500 for each such product, of which a *qui tam* plaintiff was entitled to keep half.

In 2007 an enterprising patent attorney named Matthew Pequignot noticed that the iconic Solo plastic cups used at dormitory parties and backyard barbeques around the country were marked with one or more expired patent numbers. He initiated a *qui tam* suit against Solo Cup Co., seeking $500 for each of the approximately 21 billion cups that it sold after its patents expired. For good measure, Pequignot also sued Gillette and Proctor & Gamble for falsely marking billions of razors, razor blade cartridges, antiperspirants and deodorants.

It was an inspired plan, but the courts did not play along. The district courts found, and the Federal Circuit affirmed, that there was no evidence that the product manufacturers intended to deceive the public, and hence no violation of law. *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010). A year later, Congress amended § 292(a) to provide that only persons who have suffered a competitive injury as a result of the false marking may bring a *qui tam* suit, and eliminating from false marking claims products that are marked with expired patent numbers, so long as the patents once covered the products.

13.5 COMPLIANCE WITH LAWS

Different attorneys take different positions about the compliance with laws clause that appears in almost every agreement. In its most basic form, the provision can be stated in a single sentence.

EXAMPLE: COMPLIANCE WITH LAWS

Each party agrees that it shall comply with all applicable federal, state and local statutes, rules, regulations, judicial orders and decrees, administrative rulings, executive orders and other legal and regulatory instruments ("Laws") with respect to its conduct, the products that it provides and the performance of its obligations under this Agreement. [Each party shall indemnify and defend the other party with respect to its failure to comply with any applicable Laws in accordance with the requirements of Section __.]

While a contractual commitment such as the one above does not make compliance with applicable laws any more or less mandatory, it does establish that a party that fails to comply with applicable laws can be found to be in breach of contract, in addition to any liability that the noncomplying party may have to regulatory or enforcement authorities. Without such an obligation, it is not at all clear that a party's violation of local health or safety regulations, tax withholding requirements, import duties, data privacy requirements or any of a thousand other legal and regulatory requirements would constitute a breach, or that the other party would have any contractual recourse for such a violation. In fact, the other party might even be implicated

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in the violation. Thus, the compliance with laws clause is both a useful statement of the parties' mutual intention to abide by the law, and their expectation that the other party will do so as well.

Some contract drafters, however, feel the need to explicitly enumerate a long string of laws, rules and regulations with which the parties will comply. Typical areas recited in this manner include anti-bribery regulations, export restrictions, currency controls, anti-money-laundering rules, antidiscrimination laws, and data security and privacy rules. Strictly speaking, it is not necessary to enumerate any particular area of legal compliance unless one party wishes to receive notifications or otherwise to be involved in the other party's compliance efforts (as is sometimes the case with regulatory approvals sought for food and drug products), or if one party requires the assistance of the other party to achieve compliance (which is sometimes the case with respect to international payments).

In addition to legal requirements, the parties may wish to require compliance with extralegal best practices, licensure requirements, accounting and other professional standards, conflicts of interest rules, sustainability certifications, diversity goals, codes of conduct and codes of ethics. For example, firms such as Walmart have adopted strict standards for their supply chain partners that prohibit a range of practices, whether or not illegal in the partner's country, including prohibitions on forced and child labor, unsafe working conditions and excessive working hours and assurances of fair compensation, environmentally sustainable practices and the availability of collective bargaining.[12]

Because one party may be implicated in the violation of law by the other party, it is prudent to ensure that the violating party indemnifies the other for such violations. Assuming that an agreement contains a general indemnification provision (see Section 10.3), the compliance with law provision may simply reference the general indemnification provision of the agreement.

13.6 FORCE MAJEURE

The concept of *force majeure* – literally "superior force" – has its origins in Roman law. It refers to an event beyond the control of a party that prevents that party from performing its contractual obligations. The doctrine is recognized under both the civil law and the common law, and is related to other doctrines that excuse contractual performance including impossibility, impracticability and frustration of purpose. Nevertheless, *force majeure* today is largely a contractual construct that is defined by the language of the agreement.

Force majeure is typically defined as an event that is beyond reasonable control of the affected party, was not reasonably foreseeable, has an impact that cannot be avoided through the exercise of reasonable efforts, and materially impedes a party's ability to perform its contractual obligations. Performance must typically be impossible or impractical in light of the event, not simply more burdensome. For example, an increase in the price of supplies or labor, by itself, would generally not qualify as an event of *force majeure*, as parties are expected to take price fluctuations into account when negotiating contractual commitments.

In addition to establishing the characteristics of a *force majeure* event, many *force majeure* clauses provide a list of *force majeure* events (see the example below). Depending on the language of the clause, the list may be exhaustive or nonexhaustive. Some clauses also include a generic "catch-all" phrase such as "any other events or circumstances beyond the reasonable control of the parties." Other clauses may include a list of excluded events that do not constitute *force majeure*, such as financial hardship.

[12] See Walmart Stores, Inc., Standards for Suppliers Manual, April 2014, https://cdn.corporate.walmart.com/7c/c3/3d339cb74ec9a2fad98fd43d3589/standards-for-suppliers-manual-english.pdf.

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In some jurisdictions, including New York, courts will excuse performance on the basis of *force majeure* only if the *force majeure* clause specifically names the type of event that prevented a party from performing, even if the clause otherwise contains an expansive catch-all phrase.[13] Courts may also refuse to excuse a party's performance on the basis of *force majeure* if an event was foreseeable or known at the time that the agreement was executed, especially if the event is not specifically listed in the *force majeure* clause.

If a *force majeure* event has occurred within the meaning of the contractual definition, and a party cannot perform its obligations, a typical *force majeure* clause excuses that party's performance for the duration of the *force majeure* event. Some clauses set forth additional requirements on the party whose performance is excused, such as a duty to mitigate damages or to resume performance as soon as possible.

EXAMPLE: *FORCE MAJEURE*

[Except for the obligation to make payments as required under this Agreement] [**1**], neither Party will be liable for any failure or delay in its performance under this Agreement due to any cause beyond its reasonable control and which was not foreseeable [**2**], including, without limitation, acts of war, acts of God [**2**], earthquakes, floods, fires, embargos, riots, terrorism, sabotage [, strikes and other labor disputes] [**3**], [extraordinary governmental acts] [**4**], pandemic, quarantine or other public health emergency, [**5**] or failure of third party power, telecommunications or computer networks (each, a "Force Majeure Event"), provided that the affected Party: (a) gives the other Party [**6**] prompt notice of such Force Majeure Event and its likely impact on such Party's performance, and (b) uses its reasonable efforts to resume performance as required hereunder.

Notwithstanding the foregoing, if such Force Majeure Event causes a delay in performance of more than thirty (30) days, the unaffected Party shall have the right to terminate this Agreement without penalty upon written notice at any time prior to the affected Party's resumption of performance. [**7**]

DRAFTING NOTES

[1] *Exclusion of payment obligations* – some *force majeure* clauses do not allow the excuse or delay of payment obligations on the basis of *force majeure*, on the theory that it is always possible to make a payment through some mechanism.

[2] *Catch-all language* – as noted above, catch-all language is often not recognized by courts interpreting *force majeure* clauses, so an effort to list as many specific *force majeure* events as possible is recommended.

[3] *Labor issues* – some *force majeure* clauses seek to excuse performance if a party suffers a labor strike, lockout or other labor dispute. Yet this type of event is often viewed as within the control of the affected party (e.g., if it had paid its employees a reasonable wage, they would not have gone on strike).

[13] See *Phibro Energy, Inc. v. Empresa de Polimeros de Sines Sarl*, 720 F. Supp. 312, 318 (S.D.N.Y. 1989) (question of fact whether an "electrical mishap" that shut down production for eleven days constituted an "accident" under a contractual *force majeure* clause).

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[4] *Governmental acts* – some *force majeure* clauses seek to excuse performance on the basis of "governmental acts," a broad description that could be interpreted to include ordinary health and safety regulations, taxes, tariffs and other regulatory measures that generally should not excuse performance under a contract. The intent of the "governmental acts" exclusion is to excuse performance based on unforeseen and extraordinary governmental actions such as nationalization of an industry, expropriation of private property, trade embargoes, etc.

[5] *Public health emergencies* – the COVID-19 pandemic has resulted in renewed interest in *force majeure* clauses, and will generate significant amounts of contractual litigation.

[6] *Other party* – some *force majeure* clauses refer to the other party as the "unaffected party." This terminology should be avoided, as both parties could be affected by an event of *force majeure*, though only one seeks to excuse its performance under the agreement.

[7] *Outside date* – most *force majeure* clauses require that performance be resumed within some reasonable period, often thirty days. If not, then the other party may have the right to terminate the agreement or the affected party's nonperformance may be considered a breach. While such a cutoff date may seem harsh to the affected party, it recognizes that the other party may require the flexibility to seek an alternate supplier or partner if the affected party's nonperformance will be long term.

13.7 MERGER AND ENTIRE AGREEMENT

As discussed in Section 7.3, the court in *Permanence Corp. v. Kennametal, Inc.*, 725 F. Supp. 907 (E.D. Mich. 1989) partially based its refusal to imply an obligation of best efforts on the licensee on the fact that the licensing agreement in question contained a "merger" or "integration" clause, which stated that the written agreement "contains the entire agreement of the parties." Such clauses are practically *de rigueur* in agreements today, but that does not reduce their value.

EXAMPLE: MERGER [1] OR ENTIRE AGREEMENT

This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, with respect to the subject matter hereof, including, without limitation, the [letter of intent/memorandum of understanding dated _________] **[2]**.

DRAFTING NOTES

[1] *Merger* – the term "merger" in this context derives from the idea that the written agreement *merges* all prior understandings into itself. It has nothing to do with "mergers and acquisitions" (see Section 13.3.3).

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[2] *Exclusion of pre-contract documents* – the terms of such preliminary documents such as letters of intent or memoranda of understanding (see Section 5.3) often differ from the terms of the final, negotiated agreements (the so-called "definitive agreements"). Thus, it is advisable that any such preliminary documents be expressly called out and superseded, so as to avoid interpretive conflicts.

13.8 NO WAIVER

The equitable doctrine of waiver is an affirmative defense whereby a party accused of a wrong may claim that it should not be held liable for that wrong because the accusing party has previously failed to seek redress for the same wrong, effectively waiving its right to do so. The waiver defense arises in connection with IP licensing agreements when one party has neglected to declare a breach of the agreement after repeated failures of performance by the other party. For example, if a licensee repeatedly pays its quarterly royalties more than sixty days after the date due, and the licensor fails to assert a breach, then the licensor may inadvertently waive its right to assert a breach for late payment.

To avoid this result, parties have taken to including "no waiver" clauses in their agreements along the following lines.

EXAMPLE: NO WAIVER

No waiver by either Party of any right or remedy hereunder shall be valid unless the same shall be in writing and signed by the Party giving such waiver. No waiver by either Party with respect to any default, misrepresentation, or breach of warranty or covenant hereunder shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

Notwithstanding the inclusion of such a clause, a court might still recognize a breaching party's waiver defense based on applicable precedent. The issue was addressed by the Eighth Circuit in *Klipsch Inc. v. WWR Technology Inc.*, 127 F.3d 729 (8th Cir. 1997):

> The District Court … granted summary judgment to WWR based on the affirmative defense of waiver… The court found that Klipsch waived its right to enforce the automatic termination provision of the License Agreement by its prior acceptances of defective performance.
>
> Klipsch advances various arguments as to why the District Court erred in granting summary judgment to WWR based on the affirmative defense of waiver. First, Klipsch contends that the agreements' non-waiver clauses prevented it from waiving the right to enforce the termination provision.
>
> Non-waiver provisions exist in or are incorporated into each of the relevant agreements. As re executed.More importantly, parties writing online or clickwrap agreements m an example, the non-waiver provision in the License Agreement provides:
>
> > "The waiver by either party of any breach of this Agreement by the other party in a particular instance shall not operate as a waiver of subsequent breaches of the same or

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> different kind. The failure of either party to exercise any rights under this Agreement in a particular instance shall not operate as a waiver of such party's right to exercise the same or different rights in subsequent instances."

The District Court found that under Indiana law the existence of the non-waiver provisions does not prohibit WWR from asserting the defense of waiver…

Klipsch relies upon the Indiana Supreme Court's decision in *Van Bibber v. Norris*, 419 N.E.2d 115 (Ind. 1981), to support its argument that the non-waiver provision in the License Agreement prevents WWR from asserting the defense of waiver. In *Van Bibber*, the parties entered into an installment sale security agreement, which provided for debtor's purchase of a mobile home from seller. During the course of the agreement, seller's bank accepted numerous late payments from debtor, without declaring a default. In the sixth year of the security agreement, however, after an untimely payment, the bank declared a default and repossessed the mobile home. The trial court found that the bank, through its pattern of accepting late payments, had waived its right to enforce strict compliance with the terms of the security agreement. The Indiana Supreme Court reversed, holding that the trial court improperly had ignored the security agreement's non-waiver clause, which prevented the acceptance of late payments from acting as a waiver of the bank's right to strictly enforce the terms of the agreement.

We hold that *Van Bibber* does prevent WWR from successfully asserting its waiver defense. The District Court noted that "[a] broad interpretation of *Van Bibber* would bar WWR's waiver argument," but found "that such a broad interpretation would be improper." The District Court reasoned that language in *Van Bibber* strongly indicated that the Indiana Commercial Code compelled that court's holding, and that Indiana cases decided since *Van Bibber* extend its holding only to cases involving non-waiver clauses in the mortgage context. We believe that the language in *Van Bibber* is sufficiently expansive to apply to this case. The specific purpose of the non-waiver clause as stated in *Van Bibber*, "avoiding the risk of waiver by notifying the debtor in a contract term that the secured party's acceptance of late payments cannot be relied on as treating the time provisions as modified or waived," seems equally germane to the present case. If the parties' License Agreement "is to be truly effective according to its terms, we must conclude that [Klipsch] did not waive its rights to demand strict compliance and to pursue its contract and statutory remedies."

13.9 SEVERABILITY

Despite, or sometimes because of, the best efforts of contract attorneys, courts may sometimes find certain provisions of an agreement to be invalid. The invalidity of agreement terms can, as we will see, arise from bankruptcy law, antitrust law, the laws surrounding IP misuse and various other theories.

If an agreement provision is found by a court to be invalid, a question arises regarding the effect of that invalid clause on the rest of the agreement. Does one bad apple spoil the barrel? Or should the invalid clause be surgically excised from the agreement, so that its remaining, inoffensive provisions continue in effect? Courts have wrestled with this question over the years, and in many cases have come up with answers (e.g., patent or copyright misuse generally invalidates the entire agreement – see Chapter 24).

But in an effort to avoid the uncertainty of judicial determinations, attorneys have developed contractual mechanisms to save the rest of their agreements after one provision is found to be invalid. This is known as the severability clause.

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EXAMPLE: SEVERABILITY

a. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.
b. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified.

In the above example, clause (a) seeks to save other terms of the Agreement when one term is found invalid. Clause (b) seeks to reform the offending clause itself to make it as enforceable as possible. For example, a court might find that the parties' ten-year noncompetition covenant is unreasonably lengthy. Instead of deleting the noncompetition covenant entirely, the parties here invite the court to substitute the original ten-year term with a shorter, more reasonable, one.

One relatively uncommon twist on the severability clause is the so-called *essentiality* clause. If a particular clause of an agreement is considered to be essential to the parties' bargain, then the invalidation of that clause could disrupt the commercial value of the agreement to one or both parties. Thus, the agreement may specify that if the essential clause is found to be invalid or unenforceable, then the entire agreement will terminate at the option of one or both of the parties.

Such clauses are rare,[14] probably for a number of reasons. For one, they draw attention to a potentially invalid or illegal clause. Second, they provide an incentive for a party wishing to terminate the agreement to challenge the legality of the essential clause.

13.10 ORDER OF PRECEDENCE AND AMENDMENT

In some cases parties will execute a variety of documents in connection with a single large transaction or series of related transactions. In addition to one or more IP licensing agreements, parties may execute service, consulting, supply, manufacturing, sponsored research, distribution, resale, agency, marketing, advertising, employment, investment and a range of other agreements, as well as multiple statements of work, service orders, purchase orders, affidavits and the like. Not surprisingly, this barrage of documents sometimes includes conflicting and contradictory terms. For example, an IP licensing agreement may call for indemnification for patent claims up to certain limits, while a related statement of work may include an uncapped indemnity and a purchase order may disclaim any responsibility for IP infringement at all. This situation resembles the classic contractual "battle of the forms," with the added twist that many of the contradictory documents are signed and negotiated agreements, rather than preprinted stock forms.

[14] See Smith, supra note 1, at 1194–96.

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To address this problem, parties often include a clause relating to the order of precedence of the many different agreements included in their transaction. That is, in the event of a conflict, they specify which document takes precedence over the others.

EXAMPLE: PRECEDENCE

In the event of any conflict or inconsistency between the terms of this Agreement and any statement of work, work order, purchase order, invoice, correspondence or other writing issued by a party hereto, the terms of this Agreement shall control and supersede, followed by the terms of any mutually-signed statement of work, followed by any work order issued under that statement of work, followed by any written and signed correspondence, followed by any pre-printed form or clickwrap, browsewrap or similar electronic indication of assent [**1**], in each case whenever issued or signed [**2**].

The terms of a work order issued under one statement of work shall have no effect on the rights or obligations of the parties under any other statement of work or work order issued under any other statement of work.

Purchase orders shall be effective solely with respect to specifying the number and kind of products being ordered. Invoices shall be effective solely with respect to specifying the charges for products shipped and services rendered. All other terms and conditions printed or included on such purchase orders, invoices and other correspondence shall be of no effect or force.

EXAMPLE: AMENDMENT

The terms of this Agreement may be amended, modified and waived solely in a written instrument executed and dated by both parties which specifically references this Agreement and states that it is thereby being amended, and electronic means shall not suffice to evidence assent to any amendment, modification or waiver of the terms of this Agreement [**1**].

DRAFTING NOTES

[1] *Clickwraps* – as discussed in Chapter 17, clickwrap agreements can under many circumstances be treated as binding agreements of equal stature with negotiated and signed agreements. As a result, it is particularly important to supersede such electronic instruments, whenever they are executed.

More importantly, parties writing online or clickwrap agreements may wish to include language in those agreements that specifically prevents them from superseding the terms of prior written agreements. For example,

This Online Agreement does not affect any existing written agreement between Licensee and Licensor and may be superseded by a subsequent written agreement signed by both Licensee and Licensor. Except as indicated in the prior sentence, this Online Agreement constitutes the entire agreement between the parties with respect to the use and license of the Licensed Products, and hereby supersedes and terminates any prior agreements or understandings relating to such subject matter …[15]

[15] *I. Lan Systems, Inc. v. Netscout Service Level*, 183 F. Supp. 2d 328, 330 n.1 (D. Mass. 2002).

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[2] *Subsequent writings* – because contract law generally permits a later writing to amend or supersede an earlier one, it is important to specify that the above order of precedence applies even to later-executed writings of lower precedence.

13.11 MUTUAL NEGOTIATION

There is an ancient rule of contract interpretation – *contra proferentem* – that states that ambiguities in a contract are resolved in favor of the nondrafting party. That is, if a contractual clause is ambiguous or incomplete, the fault lies with the drafter, and the drafter should not get the benefit of an ambiguity or omission that it could have avoided. As succinctly put by Henry Smith, "The drafter is presumed to be the cheapest cost avoider."[16]

But even if one party produces the first draft, most complex agreements today are reviewed and negotiated by counsel for both parties. Should the party that produced the first draft be placed at a perpetual disadvantage when a contract is interpreted? Or should careful records be kept of who drafted the final version of each provision in the agreement? To avoid these headaches, many agreements contain a short clause that places responsibility for drafting the agreement on *both* parties.

EXAMPLE: MUTUAL NEGOTIATION

The Parties agree that the terms and conditions of this Agreement (including any perceived ambiguity herein) shall not be construed in favor of or against any Party by reason of the extent to which any Party or its professional advisors participated in the preparation of the original or any further drafts of this Agreement, as each Party has been represented by counsel in the drafting and negotiation of this Agreement and it represents their mutual efforts.

13.12 NOTICES

Much of the day-to-day management of contracts occurs via telephone, email or in-person meetings. But when official notification is required under an agreement – notice of breach, termination, achievement of milestones, etc. – the only prudent practice is to require that such notices be in writing and physically delivered.

EXAMPLE: NOTICES

All notices, requests, demands, claims, and other communications hereunder ("Notices") shall be in writing and shall be deemed duly delivered three (3) business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, or one business day after it is sent for next business day delivery via a reputable nationwide/international overnight courier service, in each case to the designated recipient set forth below:If to Licensor:

[16] Smith, supra note 1, at 1202.

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NAME/POSITION OF LICENSOR REPRESENTATIVE [**1**]
DELIVERY ADDRESS

With a copy to:

LICENSOR COUNSEL [**2**]

If to Licensee:

NAME/POSITION OF LICENSEE REPRESENTATIVE [**1**]
DELIVERY ADDRESS

With a copy to:

LICENSEE COUNSEL [**2**]

[*Also consider special telephonic/email "expedited" notice instructions for specified events requiring immediate actions, such as data breaches* (see Section 18.1)]

Either Party may give any Notice using any other means (including personal delivery, messenger service, telecopy, ordinary mail, or electronic mail [**3**]), but no such Notice shall be deemed to have been duly given unless and until it actually is received by the party for whom it is intended [**4**].

Either Party may change the address to which Notices hereunder are to be delivered by giving the other Party notice in the manner herein set forth [**5**].

DRAFTING NOTES

[1] *Designated recipient* – bearing in mind that many IP licensing agreements continue for years, it is useful to identify the recipient of legal notice by position rather than name. For example, "Chief Financial Officer," "Project X Contract Manager," "General Counsel," rather than "Jane Smith," who may have left the company the year before notice was sent.

[2] *Counsel copy* – whether or not justified, there is a general belief that law firm partners are more likely to remain in their positions than corporate executives. As a result, external counsel are often listed as "copy to" addressees of formal legal notices. Another reason to include counsel (external or internal) on official notices is to ensure that someone who understands the meaning of the notice will receive and act on it in a timely fashion. In many cases the "copy to" notice does not constitute official Notice under an agreement.

[3] *Electronic mail* – in today's connected world it seems quaintly archaic to require that formal legal notice be given by certified mail or FedEx. Why not email, which is the main means of business communication today? There are many reasons. First, email is linked to an individual. If that individual leaves the employ of the relevant company, odds are good that the notice will never be delivered. Second, email is not always reliable. It can be filtered and redirected to spam folders. It can also be deleted inadvertently far more easily than a FedEx package. Third, a physical, signed document carries more weight and draws more attention than yet another email, which can get lost in the

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inbox of a busy executive. Finally, email can easily be misaddressed. Thus, the requirement to send a physical letter serves to protect the sender as well as the recipient.

[4] *Effective upon receipt* – if electronic or other means are accepted as suitable for delivering official notice, then notice should be effective at the time that the message was received (i.e., there is little need for a delay, as there is for a mailed copy).

[5] *Changing notice addresses* – every agreement should contain some provision for changing or updating the individuals and addresses to be used for notice, but regrettably few parties avail themselves of the opportunity to make such updates.

FIGURE 13.6 Many older agreements still provide for official notice by Telex or teletype machine. This technology was a fixture in business offices from the 1950s to the 1970s and preceded the facsimile or fax machine.

Finally, for transactions involving multiple documents (e.g., license agreements, maintenance agreements, services agreements), it is useful to ensure that all notice provisions are consistent. This is particularly important when drafting has been split up among different counsel. Consider stating the notice provision in the main transaction agreement and incorporating it by reference elsewhere.

13.13 INTERPRETATION

Some agreements set forth a set of rules by which the contractual language will be interpreted, should the need for interpretation arise. While these rules may seem obvious or trivial, each is the result of actual disputes between parties over the years.

EXAMPLE: INTERPRETATION

(a) the use of any gender will be applicable to all genders;
(b) the word "or" is used in the inclusive sense to mean one or more of the listed words or phrases;

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(c) the term "including" means including, without limiting the generality of any description preceding such term;
(d) any definition of or reference to any agreement or other document refers to such agreement or other document as from time to time amended or otherwise modified;
(e) any reference to any laws refer to such laws as are from time to time enacted, repealed or amended;
(f) the words "herein," "hereof" and "hereunder", and words of similar import, refer to this Agreement in its entirety and not to any particular provision hereof; and
(g) all references herein to Sections and Schedules, refer to the Sections of and Schedules to this Agreement.

(Courtesy of Jim Farrington)

Notes and Questions

1. *Giving the boilerplate its due*. As noted in this chapter, there is a lot embodied in the boilerplate clauses at the end of an agreement. Why do so few people, even attorneys, read the boilerplate, let alone negotiate it? Is this inattention to the boilerplate efficient (see the quote from Henry Smith in footnote 1)? How can you give your clients an advantage by being more attentive to these seemingly standardized clauses?
2. *Making the cut*. Attorneys are sometimes put into the awkward position of limiting the number of pages or words that their clients will tolerate in an agreement. Once the operative agreement terms are finalized, there is seldom much space for the boilerplate. How would you prioritize the different provisions discussed in this chapter? Which would you insist on including, and which would you cut?
3. *Predicting the unpredictable*. The COVID-19 pandemic of 2020 drew renewed attention to the *force majeure* clauses of agreements of all kinds. COVID-19 was unexpected, not only by public health officials, but by contract drafters. It did not manifest as an acute event, such as a hurricane or Ebola outbreak, but as a long, slow process that fundamentally altered business and economic norms over a lengthy period. Was (is) COVID-19 an event of *force majeure*? How would such a pandemic potentially affect an IP licensing agreement? Under what circumstances do you think a pandemic would excuse performance under such an agreement? How can *force majeure* clauses be drafted to take unexpected events into account while remaining enforceable?
4. *Protecting parties from themselves*. Many of the boilerplate clauses discussed in this chapter are intended to protect the parties to a contract from the unanticipated or adverse effects of their own errors, omissions and misjudgments. Which clauses are most directed to this purpose and how?

Problem 13.1

Draft the "general provisions" section of an IP licensing agreement including versions of the clauses discussed in Sections 13.3–13.13, assuming that you represent:

a. BioWhiz, a San Jose, California, biotech start-up that is in discussions with Stanford University to obtain an exclusive patent license to a groundbreaking new cancer therapy target discovered by the university.

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b. Consolidated Edibles, a Minnesota-based agricultural products conglomerate that wishes to obtain exclusive rights to distribute and sell coffee grown on the Café Dulce plantation in Costa Rica.
c. SoftAsia, a medium-sized Korean video game developer that acquires the rights to video game ideas, characters and artwork from individuals located around the world.

To what degree should the boilerplate clauses be adjusted to address the likely needs of these different clients, and to what degree should they remain the same across all of the agreements?

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