

## PART II

# License Building Blocks

This part focuses on the principal terms of an intellectual property (IP) licensing agreement. Contrary to popular belief, save for online and “shrinkwrap” agreements (see [Chapter 17](#)), no two licensing agreements are exactly the same. Nevertheless, many licensing agreements share the same general layout and structure. Below is a rough summary of the different parts of a licensing agreement, with a few pointers regarding provisions that don’t merit a full discussion in the chapters that follow. In the Online Appendix to this book are samples of several different types of licensing and other transaction agreements, which you may wish to refer to as you use this book.

### INTRODUCTORY MATERIAL

The first few paragraphs of the agreement typically include the title of the agreement, the names of the parties, the effective date, and recitals framing the purpose of the agreement (see [Section 13.1](#)).

### DEFINITIONS

Though they may seem routine, the defined terms in an agreement (those Capitalized or ALL CAPS terms that appear throughout the document) are among its most important terms. Many agreements include a section listing defined terms at the beginning (or, less frequently, at the end) of the agreement. The alternative to including a section devoted to defined terms is to define terms throughout the agreement “in line” (e.g., “the Parties shall conduct the research and development activities at 123 South Infinite Loop, Cupertino, California (the ‘Facility’)”). We will discuss important defined terms throughout the following chapters as they arise.

### ACTIVITIES AND DELIVERABLES

Many agreements require one or both parties to perform some activity or service – the development of a new technology, the manufacture of a product, the provision of an online service, or any of a thousand other things. The general framework for the performance of these activities is usually laid out in the agreement, along with references to any products, prototypes, plans or designs that are required to be delivered (usually referred to as “Deliverables”). If the services or deliverables are complex, then they may be described in more detail in any number of schedules or exhibits to the main agreement. Services relating to the development of IP are discussed in [Section 9.2](#).

#### LICENSE GRANTS AND EXCLUSIONS

The core of any license agreement is the license grant. [Chapters 6](#) and [7](#) focus on the drafting and issues surrounding this key set of provisions.

#### IP OWNERSHIP AND MANAGEMENT

Sometimes each party brings IP to a collaboration; sometimes new IP is developed during the course of a collaboration. These provisions describe which party or parties owns particular categories of IP, and how the parties allocate responsibility for managing that IP (e.g., prosecuting patents). These issues are discussed in [Chapter 9](#).

#### PAYMENTS

Most license agreements involve the payment of funds by one party to the other. [Chapter 8](#) addresses the many different variants by which parties are paid.

#### REPRESENTATIONS, WARRANTIES AND INDEMNIFICATION

By this point in a license agreement, most businesspeople have stopped reading. We are now entering lawyers' territory, with a set of provisions that is both important and underappreciated. Representations, warranties and indemnification, discussed in [Chapter 10](#), allocate liability among the parties for a host of potential issues.

#### TERM AND TERMINATION

It is the rare agreement that lasts forever, so every agreement contains clauses relating to its duration and eventual end. These provisions are discussed in [Chapter 12](#).

#### THE BOILERPLATE

At the end of every agreement comes a set of terms – often running to several pages – that are seldom negotiated, but can become critically important under the right circumstances. These are covered in [Chapter 13](#).

#### SIGNATURES

Every agreement must evidence the mutual assent of the parties. Today, assent can be manifested in many ways – through email, text, spoken word or handshake. But by far the most common method used in license agreements, other than consumer clickwrap agreements, is the personal signature of an authorized representative of the signing party. If the identity of the signatory needs to be verified, signatures can be notarized.

#### SCHEDULES

After the body of the agreement often come a variety of attachments. Schedules often contain lists or descriptions responsive to a particular section of the agreement. For example, if [section 2.4](#) of the agreement requires the licensor to list all employees who are responsible for

developing a particular technology, that list could be provided on schedule 2.4. The schedule is part of the agreement, but placed at the end for convenience.

#### EXHIBITS

Like schedules, exhibits come after the main body of the agreement. Though these two terms are often used interchangeably, traditionally an “exhibit” is a pre-existing document or item that is appended to the agreement, as opposed to a schedule, which is created specifically for the purposes of the agreement. Thus, exhibits to a license agreement might include a registration document for the licensed IP, a copy of an existing sublicense or a form of document that the parties will sign in conjunction with the license agreement, such as a promissory note, an assignment, a guaranty or a security interest form.

#### A FEW NOTES ON CONTRACT DRAFTING

**Part II** of this book concerns itself with the drafting of contractual clauses, what they mean, how they vary, and how they have been interpreted by the courts over the years. As such, it is worth spending a few words on the process of contract drafting itself.

#### Forms and Templates

Today, it is seldom the case that one sits before a blank computer screen to begin drafting a new agreement. Almost all agreements are based, at least in part, on forms, templates and precedents, of which there are vast troves to be found in online databases, law firm files and even the publicly searchable EDGAR database maintained by the Securities and Exchange Commission. One would be foolhardy to attempt to reinvent the wheel with each new agreement. Thus, it is both natural and efficient to rely on prior examples when beginning to draft a new agreement.

Yet, it is also important not to rely too heavily on precedent documents. Every IP licensing transaction other than the most routine consumer-facing nonexclusive licenses is different. The parties have different needs, desires and sensitivities. It is a mistake to assume that the current deal will be exactly like the last deal. Thus, the diligent attorney must approach every agreement clause with care and attention to the specific transaction and client at hand.

#### Rules versus Standards

In terms of specific drafting advice, it is important always to keep in mind the delicate balance between detail and generality. As one set of commentators aptly explains:

In legislation, treaties, private contracts, and many other dealmaking areas, drafters must make a decision between using a rule or a standard to express meaning. Rules—“deliver the goods on October 1, at 7 p.m. Eastern, unless it is already dark, in which case, deliver the next day”—are more time-consuming to negotiate and draft, but easier to enforce. Standards—“deliver the goods at a reasonable time”—are the opposite: they are easier to draft, but harder to enforce.<sup>1</sup>

No matter how detailed a contract may be, it cannot take into account every eventuality that can arise in the complex hurly-burly of modern business and technology. Thus, do not strain to

<sup>1</sup> Cathy Hwang & Matthew Jennejohn, *Deal Structure*, 113 Nw. L. Rev. 279, 285 (2018).

address every possible eventuality, but become comfortable with broader standards of conduct except where specificity is needed to protect the known interests of your client.

### Constructive Ambiguity

Some lawyers feel the urge to specify every detail of a commercial transaction to the *n*th degree. Detail is, of course, critical in complex commercial arrangements. Delivery schedules, payment amounts, acceptance criteria and myriad other details must be negotiated and recorded in an agreement before it is signed. Failing to do so can, and often does, lead to disagreements down the road.

But not every detail needs to be specified in a contract, particularly when the parties already have a good working relationship. The common law provides a number of flexibilities that enable parties to rely on concepts like reasonable efforts, promptness and good faith as default regimes that can fill gaps in detail that the parties did not reduce to writing at the time of execution. Michal Shur-Ofry and Ofer Tur-Sinai refer to this approach as “constructive ambiguity,” and find that in certain contractual areas and transactions a limited degree of flexibility and ambiguity can be more efficient than the often futile and imperfect attempt to predict every detail that will arise in a complex commercial arrangement.<sup>2</sup> This said, intentional flexibility is not the same as lazy drafting – some obligations *do* need to be spelled out in detail, and failing to do so is inadvisable.

### Balance

When you, as an attorney, draft an agreement, you are usually doing so on behalf of a client. It is thus natural to draft in a manner that is favorable to your client and a bad idea to draft an agreement that disadvantages your client unnecessarily. That being said, the first draft of an agreement should not be viewed as a declaration of total war. Every clause need not favor your client and disfavor the other party. For example, limitations of liability that only benefit one party, confidentiality provisions that only protect information disclosed by your client, indemnification clauses that only run one way. Any competent lawyer representing the other party will markup these clauses to be more balanced, and may even go further than he or she ordinarily would because of your initial aggressive approach. More importantly, such one-sided agreements seldom serve their purpose or facilitate reaching a mutually acceptable deal. Worse still, I have seen instances in which such a one-sided agreement has triggered a phone call by a business executive on the receiving end to the executives of the well-intentioned attorney’s client. Comments like “your lawyer obviously doesn’t understand this business relationship or the way this industry works” do little to further one’s legal career. In sum, drafting a totally one-sided agreement wastes time, money and goodwill on both sides. A much better approach is to draft a balanced agreement that puts your client’s best foot forward, but does not seek to destroy the other party. Doing so will earn you the respect of both your client and the opposing party and its counsel.

<sup>2</sup> Michal Shur-Ofry & Ofer Tur-Sinai, *Constructive Ambiguity: IP Licenses as a Case Study*, 48 U. Mich. J. L. Reform 391 (2015).

### Comprehension

There is no excuse for not understanding the agreement that you have drafted. When a law firm partner or an opposing counsel in a negotiation asks, “what does this clause mean?”, there is no situation in which “I don’t know” is an acceptable response. Nor is it acceptable to respond, “because that clause was in the form that I copied from.” One of the goals of this book is to illuminate many of the types of contractual provisions found in IP licensing agreements. But there are many, many more, and it is up to you, as the drafter of an agreement, to take responsibility for understanding everything that is in it and being capable of explaining it to your co-counsel, your client and the opposing parties.<sup>3</sup>

### Precision, Simplicity and Clarity

Words matter. An agreement serves many different purposes and has many different audiences. An agreement memorializes the terms pursuant to which a business transaction is carried out. It will often be read by managers and corporate representatives to guide their conduct. An agreement, particularly an IP licensing agreement, also serves as a legal instrument by which particular rights are granted – an adjunct to the formal grant of rights by the Patent and Trademark Office or which otherwise exists under the law. As such, an agreement is like a promissory note or a debenture – it is a document with independent legal effect that defines valuable asset classes held by different entities. Agreements also define the boundaries of permitted conduct by the parties and, too often, become the subject of disputes. When this happens, the words of agreements are parsed carefully by courts and, sometimes, juries to determine the obligations and liability of the parties.

Each of these scenarios argues for the careful drafting of agreements. But more importantly, they suggest that agreements should be written for a broad audience. The best agreement is one that can easily be comprehended by a lay juror who sees its words displayed on a projection screen in a courtroom. Obscurity generally benefits no one (or at least the party who will benefit cannot easily be predicted).

As a result, clarity in drafting is of paramount importance. Below are a few drafting tips that experienced practitioners abide by:

- *The fewer words, the better.* Don’t use five words when you can use two. Instead of saying “any obligation of any type, nature or kind arising under or pursuant to this Agreement,” you can usually just say “any obligation hereunder.” Don’t say “shall mean” when you can just say “means.”
- *Be consistent.* All agreements have defined terms (see above and [Section 13.2](#)). Use them, and use them consistently. If you define “Term” to mean the term of the agreement, use “Term” every time you refer to the term of the agreement, and don’t say “the term of this Agreement” when you just mean “Term.”
- *Be modular.* A good agreement, like a good computer program, is modular in nature. This means that concepts, particularly definitions, should be contained in chunks that refer to one another, rather than spun out in huge paragraphs that are difficult for anyone but the

<sup>3</sup> One exception to this rule arises in the context of large M&A agreements, in which highly specialized representations and warranties are included on subjects such as environmental compliance, data privacy, retirement plans, taxes and the like. Generally, these provisions are drafted and negotiated by specialists, and the general agreement “quarterback” is not expected to understand or negotiate their details.

drafter to follow. This is not just a stylistic preference. Modular agreements are much easier to change, both during negotiation and later, if they need to be amended.

- *Avoid legalese.* Always remember that the ultimate audience for your agreement may be a jury of non-lawyers. Most jurors don't speak Latin. There is simply no need to show off your erudition by using terms like "*inter alia*" when you can just say "among others."

IP law is not quantum physics. There are few legal concepts or contractual commitments that a lay person cannot understand, so long as they are expressed clearly and concisely. As you draft agreement clauses, imagine that they will be read by your favorite elderly relative. Will he or she understand what you have drafted, given sufficient interest and patience? If not, consider revising your language.

### Trust No One, Proofread, and Don't be Lazy

Lawyers are busy people, and it is often tempting to cut corners. This is human nature. But there are some circumstances under which you, as a lawyer, should never take shortcuts, and these include ensuring that an agreement that you drafted, negotiated or reviewed accurately reflects the deal that was made, and the intentions of your client. Ultimately, your client is paying you to vouch for the agreement. He or she won't read it in detail – that is your job, and neglecting to do this can be a career-ending mistake. Take, for example, the unfortunate facts in *D.E. Shaw Composite Holdings, L.L.C. v. Terraform Power, LLC* (N.Y. Sup. Ct., Dec. 22, 2020), in which one extraneous letter "s" among hundreds of pages of complex M&A documents resulted in a \$300 million liability for one party, and a malpractice suit against the law firms that made the mistake.<sup>4</sup> Or consider *PBTM LLC v. Football Northwest, LLC* (W.D. Wash. 2021), a case involving the proposed sale of PBTM's VOLUME 12 and LEGION OF BOOM trademarks to the Seattle Seahawks football franchise. Though negotiations stalled over PBTM's price for the VOLUME 12 mark, the parties reached a deal on the LEGION OF BOOM mark. The court explains what happened next:

General counsel for the Seahawks drafted a purchase agreement for the trademark, which [the] parties signed on August 24, 2014.

PBTM claims that parties did not discuss the VOLUME 12 mark during negotiations and was therefore "surprised to see later drafts" of the LEGION OF BOOM Agreement that included clauses about VOLUME 12. PBTM claims that it specifically objected to paragraphs 21 and 22 and "wanted them deleted," since they contained language requiring PBTM to obtain the Seahawks' consent prior to marketing a BOOM or VOLUME 12 product. However, Seahawks management allegedly insisted that paragraphs 21 and 22 remain but promised to modify the language so that PBTM would not be required to obtain the Seahawks' consent prior to marketing a BOOM or VOLUME 12 product.

PBTM claims that notwithstanding [the] parties' discussions about paragraphs 21 and 22, the Seahawks did not revise paragraph 22 to remove the mandatory consent provision. PBTM alleges that as a result of pressure from Seahawks management to immediately sign the agreement, and because [the] parties previously had a cordial working relationship, PBTM only gave the execution version a "cursory review." Consequently, it failed to notice that paragraph 22 was not revised as PBTM requested ...

<sup>4</sup> *Terraform Power, LLC v. Orrick, Herrington & Sutcliffe LLP and Cleary Gottlieb Steen & Hamilton LLP* (N.Y. Supreme Ct., filed October 13, 2021).

Shortly after signing, PBTM discovered that the Seahawks had omitted the language PBTM requested in paragraph 22 to make the Seahawks' consent non-mandatory, and PBTM "promptly protested this omission several times." Although the Seahawks reassured PBTM that its general counsel would add the "not mandatory" language to paragraph 22 to make the consent provision non-obligatory, the language was never added and the Seahawks have since refused to do so.

When PBTM finally brought an action for contract reformation on the basis of unilateral mistake, the statute of limitations had run. And even if it had not, it is not clear that such an action would have been successful.

The moral of this story? Don't trust opposing counsel to make "agreed" changes to a draft agreement without checking that they were actually made. Better still, don't trust anyone to do your work without checking that it was done. Ultimately, you, as an attorney, will be held responsible for mistakes such as these, and the facts recited above would not play well in a legal malpractice action or a bar disciplinary proceeding.

