

IP License Agreements: General Contract Provisions

A Lexis Practice Advisor® Practice Note by Michael J. Kasdan, Wiggin and Dana LLP



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This practice note discusses provisions common in most agreements that are included in a carefully-drafted and complete license of intellectual property.

Notice

The notice provision is a straight forward concept. In the event of an issue under the agreement—whether it is a change in ownership, the spinoff of a subsidiary, or a suspected breach, for example —the parties must be able to get in touch with one another. The term of a license agreement may run for many years, and, in the case of a lump sum payment, the parties may not have had any communication since execution.

The notice provision provides the “to whom” and “how” of communicating with the other party. The clause specifies how legal notice may be accomplished and identifies the complete contact information for a trusted recipient on each side. As a backup, the parties should also list their outside counsel and require that a copy also be sent to that counsel.

Confidentiality

In many cases, both sides to an agreement want the details of the agreement to remain confidential. However, there are situations where one side is eager to publicize the details of

the agreement while the other is not. For example, in a patent license, a non-practicing entity (i.e., a patent holder that is in the business of licensing patents rather than practicing the underlying inventions) with an ongoing licensing program may be eager to announce that it has signed a marquee licensee (e.g., Microsoft, Apple, Toyota), while that licensee would just as soon have no one know, particularly the non-practicing entities of the world or competitors. Parties should consider their goals during negotiations and be explicit in the agreement. An agreement will not be considered confidential unless it contains a clause stating that it should be treated as such.

A standard confidentiality clause begins with the broad rule that unless otherwise provided, the contents and existence of the agreement remain confidential:

“The Parties shall retain as confidential and shall not disclose to any third party the terms and conditions of this Agreement except as provided herein.”

Standard exceptions to the obligation to maintain confidentiality are described below:

1. Parties should be able to make limited disclosures in response to a subpoena or court order, if the other parties are provided with sufficient prior notice of the subpoena or order to give an opportunity to move for a protective order.
2. Parties should be able to make limited disclosures in connection with due diligence disclosures related to acquisitions, divestitures, mergers, etc., so long as such disclosures are protected by a written non-disclosure agreement. Disclosure of other proprietary and privileged documents should not be permitted.

3. Parties should be able to make disclosures to lawyers, accountants, advisors, etc. who are subject to contractual or professional obligations of confidentiality.
4. Any other disclosures otherwise agreed upon in writing by the parties.

Where one party desires publicity and the other does not, the parties may compromise with a limited disclosure of information. One option is a press release that requires the advance written consent of the other parties. Another is for the parties to agree to specific language of a press release, as set forth in an appendix or exhibit to the agreement. Alternatively, the parties can explicitly permit limited disclosure of certain information, as follows:

“Notwithstanding the prior paragraph, each Party may inform any third party that the Parties have settled the lawsuit between them and that licensee is licensed under the Licensed Assets, without disclosing other terms or conditions of this Agreement.”

This allows the licensee to use the existence of the license as a tool in negotiations with third parties or disclose it to customers or suppliers without requiring repeated negotiation with the licensee over the disclosure.

Where the parties have exchanged technical or business information or sensitive financials not disclosed in the agreement, confidentiality concerns may go beyond the content of the agreement, and the parties may wish to include language to address this aspect of confidentiality as well.

“All Parties hereto, and all those acting in concert or privity therewith or otherwise affiliated in any way with one or more of them, shall retain as confidential all non-public information it learned or acquired in connection with this Agreement.”

Severability/Survival Clause

Severability is not a concept that is unique to intellectual property licensing. A severability clause provides that the illegality or unenforceability of one paragraph, provision or part of the agreement does not invalidate the entire agreement.

Commonly, the severability clause limits survival of the remainder of the agreement to situations where the agreement is not materially altered by the removal of the offending provision(s). This gives the parties some comfort that the agreement would not be canceled outright if, for example, the grant back clause or promise to cease infringement were found unenforceable.

In more complex agreements, the parties may want to specify what procedures will be taken in the event that the stricken provision causes a material change, such as a renegotiation of the unenforceable provision.

If the secondary negotiations to replace the stricken provision(s) are unsuccessful, the party most impacted by the material change may want the right to terminate the portions of the agreement that have been materially impacted, and may include language to that effect.

The second and third layers to the severability clause may be unnecessary depending on the nature of the agreement, the course of dealing between the parties, and their business relationship. Nevertheless, in negotiating more complex agreements with higher stakes, parties will want to consider the worst-case scenario.

The survival clause specifically sets forth the sections of the agreement that will survive the termination of the agreement, whether by expiration, an affirmative termination by one of the parties, or the unenforceability of one of the provisions of the agreement. For example, the clause may state: “The following provisions will survive termination or expiration of this Agreement: Sections 1, 2 and 6-9.”

Typical surviving clauses include confidentiality provisions, releases for past infringement, and terms related to the interpretation of the agreement. Parties should consider what terms remain important or logically should survive after termination, such as reimbursements and other outstanding payments, future transfers of materials, and requirements for assignment of intellectual property.

Integration/Merger Clause

Another clause not unique to intellectual property licensing is the integration clause, sometimes referred to as a merger clause. This clause provides that the pages of the agreement represent the complete understanding of the parties.

“This Agreement sets forth the entire agreement and understanding between the Parties and supersedes and cancels all previous negotiations and commitments, whether oral or in writing, with respect to the subject matter described herein and therein, and no Party shall be bound by any term, clause, provision, or condition except as expressly provided in this Agreement, or by a future written instrument signed by duly authorized officers of each Party.”

Choice of Language

Where the parties reside in different countries, the choice of language is a concern. Even though an agreement can be translated into another language, only one language should control.

Statute of Frauds – Written Agreement Requirement

Given that patent license agreements, like other commercial contracts, are primarily governed by state contract law, they must satisfy any applicable statute of frauds. Although the Patent Act contains a statute of frauds provision, 35 U.S.C. § 261, that requirement does not apply to many license agreements because it has been interpreted to apply only to assignments of patents and patent applications. *Waymark Corp. v. Porta Systems Corp.*, 334 F.3d 1358, 1364 (Fed. Cir. 2003). Even if the federal statute of frauds does not apply, however, other statute of frauds provisions, such as those arising under the Uniform Commercial Code or state law, may apply.

UCC Statute of Frauds Provision

Transactions involving patent or other IP licenses as one aspect of an asset sale may fall under the statute of frauds provision of Article 2 of the Uniform Commercial Code (U.C.C. § 2-201), which requires a writing for all contracts to sell goods in excess of \$500.

Most jurisdictions apply a “predominant factor” test to determine whether a contract involving a mix of goods and services is governed by the Uniform Commercial Code. If the sale of goods predominates, then the UCC governs for all issues, including the statute of frauds. For example, where a settlement agreement involved a patent license and a sale of goods, but the patent and license issues were predominant, one court held that the UCC statute of frauds did not apply. *Tseng v. Home Depot USA, Inc.*, 2006 U.S. Dist. Lexis 37306, *13-*15 (W.D. Wash. June 7, 2006).

State Statute of Frauds Law

Patent license agreements may fall under the applicable statute of frauds in some states. General state statute of frauds provisions may require that patent licenses be evidenced by a writing, depending on the terms of the agreement. Since many statutes apply to contracts that cannot be performed within one year, the application of the statutes may depend on the exact on-going obligations of the parties under the license agreement and whether the obligations inevitably will continue beyond the one-year period.

In all events, due to the complexity of most patent license agreements, and the potential for later disagreement concerning each party's obligations, it is advisable to memorialize the terms of the license agreement in a clear and integrated writing.

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Michael J. Kasdan is a partner in the Intellectual Property Practice at Wiggin and Dana LLP. Michael has spent his career handling litigations, licensing matters, and transactional work, performing analyses and providing opinions, and advising companies on all aspects of intellectual property. Trained in electrical engineering and with a business background as a technology consultant, Michael works with a broad range of technologies, including consumer electronics, mobile devices, computer architecture, semiconductor chips, Internet and e-commerce, and medical devices.

In addition to his diverse experience as outside counsel, Michael has served as in-house patent counsel to Panasonic Corporation in Japan while working on secondment in Panasonic's licensing center. In that role, he acted as lead counsel in numerous third-party patent assertions and license negotiations, negotiated complex agreements, including portfolio cross-license agreements, and worked with the company to identify high value patents and strengthen their protection.

Michael also teaches as an adjunct professor at his alma mater, NYU School of Law, and has served as an adjunct professor at Seton Hall University School of Law, addressing topics such as patent and trade secret law, IP Licensing, global patent litigation, patent exhaustion, and inequitable conduct. He also frequently writes and speaks on a range of topics including IP litigation, patent monetization and licensing practices, strategic portfolio development, patent eligibility, patent exhaustion, willful infringement, patent misuse and standards estoppel, standards essential patents, damages and patent valuation, inequitable conduct, social media and privacy issues, and legal ethics.

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