

Chapter 2

DRAFTING

§ 5 GENERAL DRAFTING CONSIDERATIONS

§ 5.1 Analyzing the Client's Needs

The first step in drafting an agreement is to identify the needs of the client. Often, clients are unsure of their exact needs or unaware that they have particular rights that need to be reflected in an agreement. This chapter is designed to provide the nonintellectual-property practitioner with a brief overview of the types of intellectual property that should be at least considered when drafting a license agreement.

When drafting the license agreement it is necessary for the attorney to consider all forms of intellectual property and to make sure that they are reflected in the agreement where appropriate. Also, by being able to identify intellectual property that a client may have, the attorney is providing a valuable service to the client and is assisting the client in preserving his or her rights.

§ 5.2 Drafting Considerations

When drafting an agreement of any type, three “C’s” must always be observed. Namely, all agreements must be

- clear,
- concise, and
- complete.

Most litigation arises out of the failure to adhere to the three “C’s” principal.

(a) *Clear Meanings*

The pursuit of clarity in contracts is seemingly a never-ending quest. Well-meaning parties can, and often do, draft agreements that contain some portion of ambiguity that can be the trigger for dispute. The need for clarity in drafting the

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terms of an agreement is especially important when drafting the terms of a trade secret license or when conveying trade secrets to another party. In these cases, the designation of what a trade secret is must be done with such clarity that a layperson can understand what is protectable and what is not. *Staffbridge, Inc., v. Gary D. Nelson Assocs., Inc.*, No. 0124912BLS, 2004 WL 1429935, at *2 (S. Ct. June 11, 2004).

Unambiguous and clearly worded agreements not only help reduce the conflict between the parties by providing a catalogue of their duties and obligations, they also help provide the courts with a clear understanding of the intent of the parties.

When a court is called upon to interpret a contract, the court is “required to determine the parties’ intent as that intent was expressed in the words they used, the setting in which the contract was entered and the primary purpose or object for which the bargain was struck.” *Instruments S.A. v. Am. Holographic, Inc.*, 57 U.S.P.Q.2d 1852 (citing *Shea v. Bay State Gas Co.*, 383 Mass. 218, 222 (1981); *Blue Shield of Mass., Inc. v. Bd. of Review of Div. of Ins.*, 22 Mass. App. Ct. 160, 164 (1986)).

Contracts will be construed “according to the fair and reasonable meaning of the words in which the agreement of the parties is expressed.” *Proteon, Inc. v. Digital Equip. Corp.*, No. 9801533F, 1999 WL 1336438 at *4 (Mass. Super. Ct. Jan. 13, 1999) (quoting *Liberty Mut. Ins. Co. v. McLaughlin*, 412 Mass. 492, 494 (1992) (quoting *Cody v. Conn. Gen. Life Ins. Co.*, 387 Mass. 142, 146 (1982))).

If an agreement is unclear, a court will read a contract “sensibly.” “There is a long tradition in contract law of reading contracts sensibly; contracts—certainly business contracts of the kind involved here—are not parlor games but the means of getting the world’s work done.” *R.I. Charities Trust v. Engelhard Corp.*, 267 F.3d 3, 7 (1st. Cir. 2001), cited in *i.LAN Sys., Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328 (D. Mass. 2002).

To determine the intent of the parties, the court will review the contract for its purpose and setting and seek to interpret the agreement as a reasonable outsider given the parties’ handiwork. *R.I. Charities Trust v. Engelhard Corp.*, 267 F.3d at 7 (citing *Krosnowski v. Krosnowski*, 22 N.J. 376, 387–88 (1956) (citing *Morrill & Whiton Constr. Co. v. City of Boston*, 186 Mass. 217, 220 (1904); *Mass. Mun. Wholesale Elec. Co., v. Town of Danvers*, 411 Mass. 39, 57–59 (1991)).

Also, a court is bound to interpret the contract in a way “which gives a reasonable meaning to all of the provisions of the contract as preferred to one which leaves a part useless or inexplicable.” *Proteon, Inc. v. Digital Equip. Corp.*, No.

9801533F, 1999 WL 1336438 at *4 (Mass. Super. Ct. Jan. 13, 1999) (quoting *Jacobs v. U.S. Fid. & Guar. Co.*, 417 Mass. 75, 77 (1994) (quoting *Sherman v. Employers' Liab. Assurance Corp.*, 343 Mass. 354, 357 (1961))).

(b) “Concise” and “Complete” Mean Different Things

Quantity is the enemy of quality. All agreements should avoid the use of extraneous materials not useful or relevant to the subject matter of the agreement. This is not meant to advocate the use of basic or short agreement merely to be brief. However, overly complex agreements are at least as likely to cause problems with their implementation and execution as short agreements are. Many businesspeople take the position that overly detailed agreements unnecessarily complicate the implementation and enforcement of the agreement, arguing that they would rather “conduct business” than administer agreements. A counsel’s role is to find the appropriate balance in the agreements for his or her clients.

Since a court is not permitted to assume or effectuate the parties’ hidden or unexpressed intent, *Pahlavi v. Palandjian*, 809 F.2d 938, 945 (1st Cir. 1987), an agreement must include terms that address all of the parties’ concerns. Also, since a court is not permitted to rewrite a contract to formulate provisions that more closely approximate the parties’ true intent than the provisions they themselves chose, *Fay, Spofford & Thorndike, Inc. v. Mass. Port Auth.*, 7 Mass. App. Ct. 336, 342 (1979), the need to be concise and complete is paramount.

Notwithstanding the need to be concise, all agreements need to completely address as many issues as possible under the agreement. The drafting checklist in § 5.2(c), below, provides an overview of the issues that should typically be considered when preparing an agreement.

Finally, a detailed and accurately worded license agreement will prevent a party from basing a claim of fraud on oral representations if those oral representations are directly at odds with the provisions of a written contract. *See Turner v. Johnson & Johnson*, 809 F.2d 90, 95 (1st Cir. 1986).

(c) License Drafting Checklist

The following checklist provides an overview of the topics that should be included in a license agreement.

Section 1: Preamble

- Names of the parties

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- Addresses and state of incorporation for each party
- Effective date of the agreement

Section 2: “Whereas” Clauses

- General background and context of the agreement
- Designation of consideration

Section 3: Definition Section

- List of all key terms used in the document with relevant definitions

Section 4: Grant of License

- Identification of property to be licensed
- Nature of license: exclusive/nonexclusive
- Rights granted (make, use, sell)
- Rights being reserved
- Right of licensee to sublicense
- Third-party rights (e.g., Open-Source) rights covered by license grant
- Territory (in some cases identified in a separate exhibit)
- Identification of devices upon which software may be loaded
- Identification of location where licensed materials may be used

Section 5: Term

- Initial term of the agreement
- Renewal Rights

Section 6: Payment Terms

- Payment due dates/deadlines
- Royalty rates/license fee

- Royalty statements/accountability
- Currency considerations
- Types of payment accepted
- Invoicing terms
- Interest
- Acceleration terms
- Right to prorate payments
- Refunds
- Deductions
- Disputed charges

Section 7: Audit Rights of Licensor

- Frequency of audit
- Time and place
- Underpayment and interest
- Payment of costs associated with an audit

Section 8: Confidentiality

- Mutual or one-sided

Section 9: Representations and Warranties

- Ownership of intellectual property and right to license
- Authorization to enter into an agreement
- Noninfringement
- Functionality of product or reliability of services
- Disabling devices and free from viruses

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- Ability to contract
- Term of warranty
- Financial stability of licensee
- Limitations on implied warranties

Section 10: Indemnifications

- Infringement claims
- Bodily harm or other torts
- Right to seek injunctive relief
- Mutual or one-sided
- Duty to cooperate

Section 11: Insurance Requirements

- Quality of carrier
- Amounts of coverage
- Specific contract terms

Section 12: Limitations on Damages

- Types of damages limited
- Amount of limitation

Section 13: Quality Controls

- Right to review and approve marketing
- Right to review and approve products manufactured under the license
- Notice requirements/attribution

Section 14: Termination

- Termination for cause

- Termination for convenience
- Termination upon bankruptcy filing
- Termination upon change of control, sale, merger, or acquisition
- Effects of termination
- Remedies

Section 15: General Provisions

- Entire agreement
- Force majeure
- Jurisdiction and venue
- Dispute resolution
- Notice provision
- Binding on successors
- No-waiver provision
- Relationship of parties/independent contractor
- Right to assign agreement
- Compliance with laws
- Counterparts
- Headings
- Severability
- Integration clause
- Survival
- Cumulative remedies
- Waiver

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Execution Block

- Names and titles.

Exhibits and/or Statements of Work

§ 6 GENERAL PROVISIONS

The following section provides examples of how various provisions contained in a license agreement could be formulated. Other examples can be found in the agreements located in the exhibits. The example terms provided below are intended to introduce a specific topic and should not be seen as a definitive example on how to draft a particular type of paragraph, as the terms and language of any actual license agreement must be driven by the particular needs of the parties.

§ 6.1 Preamble or Background

Sample Language

Licensor manufactures machines for which the main market is the _____ industry. Licensee manufactures filling machines and roll-through labelers, primarily for the _____ industry.

Licensor owns secret and essential know-how concerning the manufacture and outfitting of _____ Up to now Licensee has not manufactured such devices.

In view of the growing tendency to fill _____, Licensee is interested in acquiring a license for the know-how specified herein. The parties believe the machine to be built with the licensed know-how can be a suitable complement to the materials already offered by Licensee. On the other hand this may open up new sales possibilities in the industry for Licensor.

Comments

Often, an agreement does not require a preamble. However, in certain circumstances a party may wish to document the motivation for entering into an agreement. For example, a party may wish to attempt to defuse a potential claim of economic duress by documenting the motivation of the other party for entering into the agreement. (Regarding the elements of “economic duress” and re-

lated defenses, see *John G. Alden, Inc. of Mass. v. Alden Yachts Corp.*, No. 03-10263RWZ, 2005 WL 1692451 (D. Mass. July 20, 2005).)

§ 6.2 Grant of License

Sample Language

Grant. *Upon issuance of a Purchase Order by any Licensee to Licensor, Licensor shall, in consideration of the license fee to be paid, grant to Licensee a non-exclusive, non-transferable license, for perpetual use, to use the Products on one (1) Hardware System at the Site designated in the Purchase Order in accordance with the terms and conditions established in this Agreement.*

Ownership Rights. *Licensee shall not acquire any rights of ownership in the Products, including any modifications or improvements thereto. Licensee acquires only the right to use the Products subject to the terms of this Agreement.*

Backup Copies. *Licensee may copy the Products for safekeeping (archival) or backup purposes, provided that all such copies of Products are subject to the provisions of this Agreement, and also provided that each copy shall include in readable format any and all confidential, proprietary and copyright notices or markings contained in the original.*

Comments

The grant of rights must contain the basics of the license grant, which include the following:

- whether the license is exclusive or nonexclusive;
- the duration of the license grant;
- the territory of the license grant;
- any restrictions on the field of use;
- grant of right to sublicense; and
- provisions for related rights, if any, such as cross-licenses, ownership of improvements, or modifications, grant backs, and the like.

When drafting the grant of license, the practitioner must remember the following dictate: “expressio unius est exclusio alterius” (an express grant of permitted uses precludes other uses). See *FDIC v. Singh*, 977 F.2d 18, 22 (1st Cir. 1992);

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Chatham Pharm., Inc. v. Angier Chem. Co., 347 Mass. 208, 211 (1964), cited in *Digital Equip. Corp. v. AltaVista Tech.*, 960 F. Supp. 456 (Mass. 1997).

In other words, under Massachusetts law, an express grant of license will preclude other uses. Therefore, the grant of license should be clearly and concisely formulated. When the grant of license is not explicit, an implied nonexclusive license may exist if the parties intended for a license to occur. For the three-prong test for determining the intent of the parties, refer to *John G. Danielson, Inc. v. Winchester-Conant Props., Inc.*, 322 F.3d 26, 33 n.2 (1st Cir. 2003).

In cases where some ambiguity is found in a license agreement, a court may consider extrinsic evidence when determining the scope of the license grant. See *Infigen, Inc. v. Advanced Cell Tech., Inc.*, 65 F. Supp. 2d 967 (W.D. Wis. 1999).

The standard for what can be described as “ambiguous” has been clearly established under Massachusetts law. A contract is ambiguous only where “its terms are inconsistent on their face or where the phraseology can support reasonable differences of opinion as to the meaning of the words employed and obligations undertaken.” *Lohnes v. Level 3 Communications, Inc.*, 272 F.3d 49, 53 (1st Cir. 2001) (citations omitted). An ambiguity is not created merely because a dispute exists between the parties, each favoring an interpretation contrary to the other. *Wyner v. N. Am. Specialty Ins. Co.*, 78 F.3d 752, 756 (1st Cir. 1996). Nor does an ambiguity arise “merely because an imaginative reader devises a way to split hairs.” *Lexington Ins. Co. v. Gen. Accident Ins. Co. of Am.*, 338 F.3d 42, 47 (1st Cir. 2003).

Agreements, especially commercial arrangements, are designed to make sense. If one reading produces a plausible result for which parties might be expected to bargain, that reading has a strong presumption in its favor as against another reading producing an unlikely result (e.g., windfall gains, conditions that cannot be satisfied, dubious incentives).

Nat’l Tax Inst., Inc. v. Topnotch at Stowe Resort and Spa, 388 F.3d 15, 19 (1st Cir. 2004).

[T]he actual meaning of a contractual provision which can *reasonably* accommodate two or more interpretations should be left to the jury. . . . But the question whether a provision can reasonably support a proffered interpretation is a legal one, to be decided by the court.

Fleet Nat'l Bank v. Anchor Media Television, Inc., 45 F.3d 546, 556 (1st Cir. 1995); see also *M-Yachts, Inc. v. FastBoatWorks, Inc.*, No. 03-10185-RGS, 2005 WL 280329 (D. Mass. Feb. 4, 2005) (citing *Compagnie de Reassurance D'Ile de France v. New England Reinsurance Corp.*, 57 F.3d 56, 75 (1st Cir. 1995) (“where the terms of a contract are unambiguous, as is the case here, matters of contract interpretation are issues of law for the court”)).

§ 6.3 License Fee

Sample Language

License Fee. *In consideration for the license and rights herein granted by Licensor to Licensee and the other undertakings of Licensor contained herein, Licensee agrees to pay to Licensor the following license fees upon successful installation of the software as quoted by Licensor. _____ [insert the amount of the licensing fees here] _____. Such fees are to be paid according to the following fee schedule: [insert schedule].*

License Fee Exclusions. *The license and support fees shall not be construed to include transportation, insurance, and local, state or federal sales, use, excise or other similar governmental taxes or duties and Licensed Participant agrees that any such taxes and duties such as, but not limited to, sales, property, use, value added, custom duties, import fees, excise taxes, or similar taxes or charges, shall be assumed and paid for by Licensee. License fees are subject to change at the discretion of Licensor unless otherwise noted. The license fee shall not include installation of the Products and consulting, or training services.*

Payment. *Payment shall be according to mutually agreeable payment terms. The failure of Licensee to pay when payment is due, or the subsequent dishonoring of any check or draft by Licensee, shall constitute a material breach hereunder. “The agreed upon license fee of \$ _____ will be paid in twelve monthly increments. Each monthly increment is to be paid by the 15th day of each calendar month.”*

Late Charge. *Any amounts due Licensee hereunder which are not paid within thirty (30) days after they are due under this Agreement shall incur interest at the rate of one percent (1%) over the prime rate of interest on corporate loans in effect in the U.S. at the time the amounts are first due per annum per month. The interest shall be calculated from the date payment is originally due hereunder until the date payment is made in full. Licensee shall also pay such interest, with all payments first being applied to interest and then to principal.*

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Site Location. *Delivery of the Products shall be to the Site as specified by the Licensee in its Purchase Order.*

Comments

Usually, even the most poorly drafted license fee provision will set out the amount of a license fee or royalty rate for a license. Problems arise when the license agreement does not address uses of license or sale of licensed products outside of the territory set forth in the agreement.

In cases where a use or sale of a license occurred outside of the territory, the District Court of Massachusetts has ruled that the actual royalty rate provided for in a license agreement served as an appropriate minimal estimate of the value of the intellectual property rights that are infringed upon by the unpermitted sale. *Techs., S.A. v. Cyrano, Inc.*, 460 F. Supp. 2d 197 (D. Mass. 2006).

§ 6.4 Warranty Provisions

Sample Language

Licensor further represents and warrants that it has no actual knowledge that the Software [or the Licensed Technology] infringes any valid rights of any third party.

*Licensor warrants that the Software will perform in accordance with the specifications provided by Licensor to Licensee, a copy of which will be added to this Agreement. **THE WARRANTY PROVIDED FOR HEREIN IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, THAT MAY ARISE EITHER BY AGREEMENT BETWEEN THE PARTIES OR BY OPERATION OF LAW, INCLUDING THE WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.***

In the event of a claim by Licensee under this warranty, Licensor shall have the option to either repair or replace the Software. In the event that Licensor fails to repair or replace the Software within a reasonable period, Licensee's sole recourse shall be to terminate the Agreement and Licensor's sole obligation shall be to return any Licensee and Installation Fees paid by Licensee.

Comments

Typically, a licensor does not wish to provide extensive warranties of any type as the licensor wants to minimize its exposure wherever possible. Often, a licensor will state that the licensed materials are being provided "as is." The licensee,

however, has a great interest in reducing its exposure to third-party claims of ownership, so it will often seek, at a minimum, a warranty that the licensed materials are owned by the licensor, that the licensor has the right to license the technology, and that the technology is not subject to third-party rights.

In addition, in the case where software or technology is being licensed, licensees often will want to have a warranty that the software will function substantially in accordance with the specifications set forth in the user manual.

§ 6.5 Limitations on Liability

Sample Language

TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, IN NO EVENT SHALL [insert company name] OR ITS SUPPLIERS BE LIABLE FOR ANY SPECIAL, INCIDENTAL, INDIRECT, OR CONSEQUENTIAL DAMAGES WHATSOEVER (INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOSS OF BUSINESS PROFITS, BUSINESS INTERRUPTION, LOSS OF BUSINESS INFORMATION, OR ANY OTHER PECUNIARY LOSS) ARISING OUT OF THE USE OF OR INABILITY TO USE THE SOFTWARE PRODUCT, EVEN IF [insert company name] HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN ANY CASE, [insert company's name]'S ENTIRE LIABILITY UNDER ANY PROVISION OF THIS EULA SHALL BE LIMITED TO THE AMOUNT ACTUALLY PAID BY YOU FOR THE SOFTWARE PRODUCT.

Comments

After the provision containing the grant of rights, the limitation on liability is arguably the most important provision of a license agreement, at least from the licensor's perspective. The ability to obtain a limitation on damages will often be determined by the relative economic positions of the respective parties. The stronger the position of the licensor, the greater the chances of the licensor to obtain a limitation on damages. When the licensor is not in a strong position, the licensee will most likely be able to insist that this paragraph be deleted in its entirety or that the limitations be expanded to provide greater opportunities to recover damages.

The importance of adding a damages limitation clause becomes more apparent when one reviews the types of damages awarded by Massachusetts courts in licensing matters. Here is an overview:

- specific performance, *see i.LAN Sys., Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328 (D. Mass. 2002);

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- actual damages, *see Cipes v. Mikasa, Inc.*, 379 F. Supp. 2d 84 (D. Mass. 2005);
- reliance damages, *see VMark Software, Inc. v. EMC Corp.*, 37 Mass. App. Ct. 610 (1994);
- statutory damages, especially in patent, trademark, and copyright matters;
- unjust enrichment, *see Bruce v. Weekly World News, Inc.*, 310 F.3d 25 (1st Cir. 2002);
- lost profit damages, *see Grain Processing Corp. v. Am. Maize Prods. Co.*, 185 F.3d 1341 (Fed. Cir. 1999);
- product liability, *see Lou ex rel. Chen v. Otis Elevator Co.*, 20 Mass. 123 (2005); *see also Theos & Sons, Inc. v. Mack Trucks, Inc.*, 431 Mass. 736 (2000);
- prejudgment interest, *see Bowers v. Baystate Techs., Inc.*, 112 F. Supp. 2d 185 (D. Mass. 2000);
- consequential injuries, *see Sonesta Int'l Hotels Corp. v. Cent. Fla. Invs., Inc.*, 47 Mass. App. Ct. 154 (1999); and
- attorney fees and costs (under G.L. c. 93a), *see Perfectyourself.com v. Accusoft Corp.*, No. 2001-02578, 2008 WL 1932102 (Mass. Super. Ct. Apr. 14, 2008).

In cases of “intentional fraud,” the severe sanctions of G.L. c. 93A may apply. *See VMark Software, Inc. v. EMC Corp.*, 37 Mass. App. Ct. 610 (1994).

§ 6.6 Termination

Sample Language

A license granted under this Agreement shall remain in effect unless terminated by one of the following actions:

- *If either party fails to perform in accordance with any of the provisions of the license granted under this Agreement and has not remedied such failure within a thirty (30) day period after having been notified by the other party identifying the failure, unless extended by mutual agreement of both parties; or*

- *Licensee fails to pay Licensor monies owed and has not remedied such failure within a thirty (30) day period after having been notified in writing, or*
- *If either party is adjudicated as bankrupt under the United States Bankruptcy Code, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy law or other similar law, or upon assignment of a receiver, liquidator, assignee, trustee, custodian (or similar official) of either party to this Agreement or any substantial part of their properties, or ordering the winding-up of or liquidation of the affairs of either of the parties to this Agreement, the other party shall be entitled at its own discretion to terminate any license granted under this Agreement forthwith by written notification to the party concerned.*
- *Licensee may terminate a license granted under this Agreement upon thirty (30) days notice to Licensor. However, Licensed Participant shall still be bound by the non-disclosure portions of the license after termination.*

Comments

Termination, either voluntary or involuntary, shall not entitle a licensee to any refund for license fees paid. If a licensor terminates a licensee's license, the licensee may not continue to use or possess the licensed products. The licensee must notify the licensor of any efforts to destroy the original and all copies of the licensed software within thirty days of termination.

Even where a license agreement exists between the parties regarding the use and exploitation of a patent, the agreement may be terminated for failure to exploit the license. *See Eno Sys. v. Eno*, 311 Mass. 334 (1942).

In the case of a copyright license, the license may not necessarily be terminated upon death of the author. *Cf. Latin Am. Music Co. v. Cardenas Fernandez & Assocs., Inc.*, No. 02-2104, 2003 WL 1825657 (D. P.R. Apr. 8, 2003).

Also, since a license agreement need not be terminated prior to bringing an action, *see MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007), the parties should consider adding language to the termination section requiring termination in the event that a party brings an action.

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§ 6.7 Indemnification

Sample Language

Patent Indemnification. *Licensor shall defend, at its expense, any action brought against Licensee to the extent that it is based on a claim that the use of the licensed Programs when used within the scope of this Agreement infringes any patent, trade secret or copyright. Licensor shall indemnify Licensee from any costs, damages and fees finally awarded against Licensee which are attributable to such claim, provided that Licensee notifies licensor promptly in writing of the claim. Licensed Participant shall permit Licensor, at its sole discretion, to defend, compromise or settle the claim and provide all available information, assistance and authority to enable Licensor to do so, provided Licensor reimburses Licensee for such activity. Licensee shall have no authority to settle any claim on behalf of Licensor.*

Patent Infringement Remedy. *Should the licensed Programs become, or in the opinion of Licensor, be likely to become the subject of a claim of infringement of a patent, trade secret or copyright, Licensor may, at its sole option, after obtaining written authorization from Licensee (i) procure for Licensee, at no cost to Licensee, the right to continue to use the licensed Programs, or (ii) replace or modify the licensed Programs and/or documentation, at no cost to Licensee, to make such non-infringing, provided that the same function is performed by the replacement or modified licensed Programs and/or documentation, or (iii) if the right to continue to use cannot reasonably be procured or the licensed Programs cannot reasonably be replaced or modified, terminate the license to use such licensed Programs and/or documentation, remove the licensed Programs, and refund a portion of the license fees paid for the licensed Programs for the specific site. Such portion shall be determined based on a three (3) year straight-line depreciation of the license fees paid for the licensed Programs from the date of the license grant for the Site. If the Licensed Participant determines that none of the above mentioned options is sufficient for its needs, Licensee may terminate the Agreement immediately.*

Exclusions. *Licensor shall have no liability for any claim of copyright, trade secret or patent infringement based on the (i) use of other than the then latest Release of the licensed Programs from Licensor, if such infringement could have been avoided by the use of the latest Release of the licensed Programs and such latest version had been made available to Licensor, or (ii) use or combination of the licensed Programs with software, hardware or other materials not provided by Licensor.*

Entire Liability. THIS ARTICLE STATES THE ENTIRE LIABILITY OF LICENSOR WITH RESPECT TO INFRINGEMENT OF COPYRIGHTS, TRADE SECRETS, PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS BY THE LICENSED PRODUCTS, DOCUMENTATION OR ANY PARTS THEREOF AND LICENSOR SHALL HAVE NO ADDITIONAL LIABILITY WITH RESPECT TO ANY ALLEGED OR PROVEN INFRINGEMENT.

License Fee Limitation. Except for the indemnification provisions of Section _____, the maximum liability of Licensor for damages shall be limited to the license fees paid by Licensee under this Agreement for the particular licensed Products which caused the damages.

Personal Injury. Nothing in this Agreement shall exclude or restrict the liability of Licensor for death or personal injury caused by the negligence of Licensor.

Comments

When drafting the terms of the indemnification section of an agreement, both parties to the agreement will have an interest not only in limiting their warranty obligations, but also their obligations to indemnify. For this reason, the parties will often seek to adopt language that does not necessarily restrict the duty to indemnify, but does, nonetheless, restrict the amount of the indemnification obligation. For example, the parties will agree to limit the amounts to be indemnified to the parties' insurance coverage amounts or to the amounts paid under the license agreement.

§ 6.8 Confidentiality

Sample Language

Confidential Information. It is recognized that each party under this Agreement as well as the Licensee may make available to the other confidential information related to the business of such party.

Confidential information may include, but is not limited to, processes, formulae, specifications, programs, instructions, source code for operating system-dependent routines, technical know-how, methods and procedures of operation, benchmark test results, business or technical plans and proposals.

It is agreed that confidential information made available by one party to another party under this Agreement shall: (a) be kept confidential by the receiving party; (b) be treated by the latter in the same way as it treats confidential information generated by itself; (c) not be used by the receiving party otherwise than in con-

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nection with the implementation of this Agreement; and (d) be divulged to such of the receiving party's personnel only as have a need to know and have undertaken to keep confidential information secret.

Each party agrees to use every effort to ensure that the other party's confidential information is not disclosed by its employees or agents in violation of the provisions of this Article.

Confidentiality Term. *The commitments pursuant to Section ___ of this Article shall continue during the Term of this Agreement and survive the termination of this Agreement for five (5) years.*

These commitments shall cease if, but only to the extent that, confidential information:

- is or becomes generally known or available to the public at large through no act or omission of the receiving party; or*
- can be demonstrated to be available lawfully to the receiving party prior to the disclosure or has thereafter been furnished to the receiving party without restrictions as to disclosure or use; or*
- can be demonstrated, subsequent to disclosure, to be independently developed by the receiving party without use of any confidential information received from the disclosing party.*
- is disclosed by operation of law or court order, provided that the party whose information is to be disclosed is given an opportunity to prevent such disclosure and, if disclosed, the confidential information will only be used for the specified legal purposes.*

It is understood that each party is entitled to disclose confidential information to any of its associated companies on condition that such associated companies shall be bound by the same commitments undertaken under this Article.

Trade Secret. *Licensor considers the licensed Products covered by this Agreement to be a trade secret. Licensor does not disclose any information to Licensor competitors or potential competitors. Licensee cannot use design, code or documentation gained by access to the software product to market a competing software product. If the Licensee does so, Licensor may sue Licensee for development costs and damages resulting from the disclosure of Licensor's trade secrets.*

Access to Computer Systems. *Periodically, with reasonable notice, during normal business hours, Licensor may require Licensee to furnish information relat-*

ing to Licensee's efforts to protect Licensor's trade secrets. Licensee agrees to allow Licensor access to Licensee's computer systems to verify appropriate protection of such trade secrets and usage of the licensed Products.

Comments

Confidentiality provisions do not need to include language regarding trade secrets and often do not. The sample text provided above anticipates the need to protect trade secrets. The trade secret language is typically left out when no trademarks are at issue in the agreement.

Mere designation of information as a "trade secret" is itself not sufficient to establish the material as a trade secret. The material that is alleged to be trade secret material must be handled as a trade secret. (See **Error! Reference source not found.**, above, for a discussion of trade secret law.)

§ 6.9 Escrow Provisions

Sample Language

Upon execution of this Agreement, Licensor has delivered to Escrow Agent the Software, receipt of which is hereby acknowledged by both Escrow Agent and Licensee. A written list of the Software provided for escrow is attached.

Whenever the Software is changed, Licensor shall deliver to Escrow Agent such changes and a written list of the modifications to the Software, which list shall be signed and dated by both Licensor and Licensee and shall include those portions of the previously stored Software that are either to be returned to Licensor by Escrow Agent or certified destroyed by Escrow Agent. Any such list shall be appended hereto and shall supersede any prior list.

In the event of an occurrence of the type requiring Escrow Agent to release such Software to Licensee, Licensee shall send, by national overnight courier service, to both Escrow Agent and Licensor, a signed and notarized affidavit declaring that an event of default has occurred under the terms and conditions of the License Agreement such that the Software should be released to it and reciting the basis for such default in detail. Licensor shall, thereupon, have [number] days from the date of dispatch by Licensee to notify Escrow Agent in writing that such event has not occurred or is to be contested. Escrow Agent shall not release the Software until resolution of such dispute. A lack of a timely response by Licensor shall be deemed as Licensor's agreement to release the Software to Licensee, which release shall occur within [number] days after receipt of Licensee's affidavit by Escrow Agent.

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In the event a dispute involving release of the Software between Licensor and Licensee is not resolved, and whether or not Licensor or Licensee institutes proceedings therefore, Escrow Agent shall have the right to institute such actions it deems appropriate to protect its position, including but not limited to interpleader and/or declaratory judgment. In such an event, Escrow Agent shall deposit the Software with the court and declare itself a disinterested party, and its obligations under this Agreement shall thereupon cease. Agency shall also abide by any order of a court of appropriate jurisdiction with regard to disposition of the Software. In no event shall Escrow Agent be held liable by Licensor or Licensee for any acts taken by it pursuant to this paragraph.

Licensee shall be entitled to request release of the Software under the following circumstances:

In the event that Licensor files a petition in bankruptcy or is adjudicated bankrupt or insolvent, or makes an assignment for the benefit of creditors, or makes an arrangement pursuant to any bankruptcy law, or if the Licensor discontinues or dissolves its business or if a receiver is appointed for the Licensor or for the Licensor's business and such receiver is not discharged within [number] days; or

In the event that Licensor breaches the License Agreement and fails to cure such breach within [number] days of notification by Licensee.

Comments

An escrow provision should be included in any agreement for the licensing of system critical software.

§ 6.10 Entire Agreement/Integration

Sample Language

This Agreement including all Statement of Works and all Exhibits annexed hereto and made a part hereof constitutes the entire understanding of the parties, and revokes and supersedes all prior agreements between the parties and is intended as a final expression of their Agreement. It shall not be modified or amended except in writing signed by the parties hereto and specifically referring to this Agreement. This Agreement shall take precedence over any other documents that may be in conflict therewith.

Comments

When an integration clause is contained in an agreement, courts will not allow a party to rely on extrinsic evidence to expand their rights under contract. *Boston Scientific Corp. v. Radius Int'l, L.P.*, No. 06-10184-RGS, 2008 WL 238174 (D. Mass. Jan. 24, 2008).

§ 6.11 Force Majeure

Sample Language

Neither party shall be liable for any delays resulting from circumstances or causes beyond its control, including, without limitation, fire or other casualty, act of God, strike or labor dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.

Comments

The language above is self-explanatory; the general rules on drafting described above apply.

§ 6.12 Jurisdiction/Forum/Venue

Sample Language

Any and all disputes arising under or in connection with this Agreement shall be adjudicated in the appropriate state or federal courts located in Boston, Massachusetts. Each party hereby irrevocably consents to the personal jurisdiction of such courts for purpose of the adjudication of any such dispute, stipulate to the convenience, efficiency and fairness of proceeding in such courts, and covenant not to allege or assert the inconvenience, inefficiency or unfairness of proceeding in such courts.

Comments Regarding Jurisdiction

Original and Exclusive Jurisdiction

District courts have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyright, and trademarks. Such jurisdiction shall be exclusive of the courts in patent, plant variety

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protection. and copyright cases. *See* 28 U.S.C.A. § 1338(a); *see also Stark v. Advanced Magnetics, Inc.*, 50 Mass. App. Ct. 226 (2000).

There is, however, no federal question of jurisdiction where patent noninfringement issues are raised as a mere defense to breach of licensing agreement claims in state court. *See Boston Scientific Corp. v. Bonzel*, 132 F. Supp. 2d 45(D. Mass. 2001).

To the extent that the resolution of a breach of contract claim requires a determination of patent infringement, there is a federal question of jurisdiction. *See Kleinerman v. Luxtron Corp.*, 107 F. Supp. 2d 122 (D. Mass. 2000).

Personal Jurisdiction

Regarding personal jurisdiction, for a defendant to be subject to personal jurisdiction under the Massachusetts long-arm statute on grounds of transacting business within the Commonwealth, the defendant must have transacted business in Massachusetts and the plaintiff's claim must have arisen from transaction of such business. G.L. c. 223A, § 3(a). Where a contract with a Massachusetts resident is associated with other forum-related activities, the transacting business requirement of Massachusetts the long-arm statute is met. G.L. c. 223A, § 3(a).

An Internet site operator's license to use a Massachusetts licensor's trademark was sufficient to comprise a transaction of business for purposes of the Massachusetts long-arm statute: the agreement was an integral part of the operator's transaction of business in Massachusetts; the operator's contract with the licensor was the vehicle through which the operator solicited business from Massachusetts residents; and the operator had made at least three sales to Massachusetts residents. G.L. c. 223A, § 3(a).

The operation of an Internet site that reached Massachusetts residents provided the basis for an exercise of personal jurisdiction under the Massachusetts long-arm statute based on misrepresentations made in Massachusetts: the operator allegedly infringed the trademark by using it on its site, the operator knew that its site reached residents of Massachusetts who chose to access it; and operator plainly intended to market its wares in Massachusetts. G.L. c. 223A, § 3(c).

The operator of an Internet site allegedly committed a tort in Massachusetts based on acts committed elsewhere and regularly solicited business, and thus operator was subject to personal jurisdiction under Massachusetts' long-arm statute; the operator allegedly committed trademark infringement on the site, the site solicited business in Massachusetts; and the operator sold advertising space and software through the site to citizens of Massachusetts. G.L. c. 223A, § 3(d).

The Massachusetts District Court's exercise of personal jurisdiction over a California Internet site operator did not violate due process: the operator maintained a site that allegedly breached a licensing agreement with a Massachusetts corporation and allegedly infringed that corporation's trademark; the operator's site mirrored the Massachusetts corporation's site; potentially thousands of Massachusetts residents visited the site each day, Massachusetts had an interest in protecting trademark rights of the Massachusetts corporation, and forum was convenient for the corporation. U.S.C.A. Const. Amend. 5.

For a discussion of personal jurisdiction issues, see *Digital Equip. Corp. v. AltaVista Tech.*, 960 F. Supp. 456 (D. Mass. 1997), *HTI Voice Solutions, Inc. v. Tel. Credit Union of N.H.*, No. 01-2532, 2002 WL 287715 (Mass. Super. Ct. Feb. 2, 2002), and *Cognex Corp. v. Lemelson Med., Educ. & Research Found., Ltd. P'ship*, 67 F. Supp. 2d 5 (D. Mass. 1999).

Comments Regarding Forum Selection

Generally, there is no difference between federal common law and Massachusetts law on the issue of forum selection. *Doe v. Seacamp Ass'n*, 276 F. Supp. 2d 222, 224 (D. Mass. 2003).

Courts will uphold forum selection clauses in licensing agreements provided it is fair and reasonable to do so. *Jacobson v. Mailboxes Etc. U.S.A., Inc.*, 419 Mass. 572, 579 (1995); see also Restatement (Second) of Conflict of Laws § 80 (1971) (rev. 1989) ("The parties' agreement as to the place of the action will be given effect unless it is unfair or unreasonable"), cited in *Cambridge Biotech Corp. v. Pasteur Sanofi Diagnostics*, 433 Mass. 122 (2000).

The U.S. Supreme Court has stated that, for a court to conclude that enforcement of a forum selection clause in a freely negotiated international commercial transaction is unfair or unreasonable, the party who seeks to escape the consequences of the clause must show that "trial in the contractual forum will be so gravely difficult and inconvenient that he will for all practical purposes be deprived of his day in court." *The Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 18 (1972); see Restatement (Third) of the Foreign Relations Law of the United States § 421 cmt. h, at 308 (1987) (action brought contrary to selected forum will generally be dismissed "unless the plaintiff shows that the chosen forum is no longer available or could not be expected to grant him a fair hearing").

When drafting the forum selection clause it is important to remember that where such a clause governs "any claim related to or arising from the contract at issue," it covers "not only claims directly based on that contract but, as well, tort claims that grew out of the contractual relationship." *Reder Enters., Inc. v. Loomis, Fargo & Co. Corp.*, 490 F. Supp. 2d 111 (D. Mass. 2007) (citation omitted).

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The intent here is to not allow a plaintiff to “vitiating the effect of a forum selection clause simply by alleging peripheral claims that fall outside of its apparent scope.” *Reder Enters., Inc. v. Loomis, Fargo & Co. Corp.*, 490 F. Supp. 2d 111 (D. Mass. 2007) (quoting *Jacobson v. Mailboxes Etc. U.S.A., Inc.*, 419 Mass. at 579).

Even when a plaintiff has raised a claim of fraudulent inducement and sought a rescission of an agreement, Massachusetts courts have required more than conclusory allegations as to the fraudulent inducement and applied a credibility standard to the review of the merits of the case. *Shelby American Automobile Club, Inc. v. Carroll Shelby Licensing, Inc.*, No. 08-10131-RGS, 2008 WL 2356995 (D. Mass. June 5, 2008).

Another factor to consider when drafting an agreement is the applicability of rules regarding exclusive jurisdiction. Under 28 U.S.C. § 1338(a), district courts have jurisdiction over actions “arising under any Act of Congress relating to patents, . . . copyrights and trademarks.” Except for trademark cases, this jurisdiction is exclusive of the state courts. The mere presence of intellectual property in a case does not automatically confer federal jurisdiction if the claim arises under contract rather than copyright or patent law. Where a case is “brought to enforce, set aside, or annul a contract, the action arises out of the contract, and not under the patent laws, even though the contract concerns a patent right.” *Royal v. Leading Edge Prods., Inc.*, 833 F.2d 1, 4 (1st Cir. 1987) (quoting *Combs v. Plough, Inc.*, 681 F.2d 469, 470 (6th Cir. 1982)).

In cases where the issue of forum non conveniens is raised, the first filed action is generally preferred. See *J.J. Reidy & Co., Inc. v. Airwater Corp.*, No. 05-40049-FDS, 2005 WL 3728726 (D. Mass. Sept. 27, 2005) (citing *Cianbro Corp. v. Curran-Lavoie, Inc.*, 814 F.2d 7, 11 (1st Cir.1987)).

§ 6.13 Dispute Resolution

Sample Language

Dispute Resolution

Procedures Mandatory. *The parties agree that any dispute arising out of or relating to this Agreement shall be resolved solely by means of the procedures set forth in this Section ____, and that such procedures constitute legally binding obligations that are an essential provision of this Agreement, provided that all procedures and deadlines specified in this Article may be modified by written agreement of the parties. If either party fails to observe the procedures of this*

Section __, as modified by their written agreement, the other party may bring an action for specific performance in any court of competent jurisdiction.

Dispute Resolution Procedures

Negotiation. In the event of any dispute arising out of or relating to this Agreement, the affected party shall notify the other party, and the parties shall attempt in good faith to resolve the matter within ten (10) days after the date of such notice (the “Notice Date”). Any disputes not resolved by good faith discussions shall be referred to senior executives of each party, who shall meet at a mutually acceptable time and location within thirty (30) days after the Notice Date and attempt to negotiate a settlement.

Arbitration. If the matter remains unresolved within sixty (60) days after the Notice Date, or if the senior executives fail to meet within thirty (30) days after the Notice Date, the parties shall promptly submit the matter to binding arbitration under the commercial rules of the American Arbitration Association. Any such arbitration shall be conducted by a panel of three arbitrators (the “Arbitration Panel”) and shall be conducted in Boston, Massachusetts. Company Y on the one hand, and Licensor on the other, shall each appoint one arbitrator, and the third arbitrator shall be appointed by the two arbitrators appointed by Company Y and Licensor. The Arbitration Panel shall have the authority to grant specific performance and to allocate between the parties the costs of arbitration in such equitable manner as it shall determine. Judgments upon the award so rendered may be entered in any court having jurisdiction or application may be made to such court for judicial acceptance of any award and an order of enforcement, as the case may be.

Preservation of Rights Pending Resolution.

Performance to Continue. Each party shall continue to perform its obligations under this Agreement pending final resolution of any dispute arising out or relating to this Agreement; provided, however, that a party may suspend performance of its obligations during any period in which the other party fails or refuses to perform its obligations.

Provisional Remedies. Although the procedures specified in this Section __ are the sole and exclusive procedures for the resolution of disputes arising out of relating to this Agreement, either party may seek a preliminary injunction or other provisional equitable relief if, in its reasonable judgment, such action is necessary to avoid irreparable harm to itself or to preserve its rights under this Agreement.

Comments

Notice of termination of an agreement can be given by e-mail in the event that nothing to the contrary has been agreed to by the parties. *See Amgen, Inc. v. Hoffman-LaRoche Ltd.*, 456 F. Supp. 2d 267 (D. Mass. 2006).

§ 6.15 Limitation on Actions

Sample Language

No action, regardless of form, arising under or relating to this Agreement or any Statement of Work, may be brought by either party more than one year after the cause of action has accrued, except that an action for non-payment may be brought by a party not later than one year following the date of the last payment due to such party hereunder.

Comments

General rules on drafting described above apply.

§ 6.16 No Modification/Waiver Provision

Sample Language

No modification, amendment, supplement to or waiver of this Agreement or any Schedule hereunder shall be binding upon the parties hereto unless made in writing and duly signed by all parties. A failure or delay of any party to this Agreement to enforce at any time any of the provisions hereof, or to exercise any option which is herein provided, or to require at any time performance of any of the provisions hereto shall in no way be construed to be a waiver of such provisions of the Agreement.

Comments

General rules on drafting described above apply.

§ 6.17 Relationship of Parties/Independent Contractor

Sample Language

Nothing contained herein shall be deemed to create any association, partnership, joint venture, or relationship of principal or agent or master or servant among the parties hereto or any affiliates or subsidiaries thereof, or to provide any party with the right, power or authority to incur any obligation or make any representations, warranties or guarantees on behalf of the other party(ies). The parties understand and agree that each of the parties hereto is an independent contractor and that neither party is, nor shall be considered to be, an agent, distributor or representative of the other. Neither party shall act or represent itself, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other.

§ 6.18 Right to Assign Agreement

Sample Language

This Agreement and each Statement of Work shall be binding on the parties and their respective permitted successors and assigns. Except as provided below, neither party may assign this Agreement or any Statement of Work without the written consent of the other. Licensor may assign or subcontract its rights and obligations hereunder to any affiliate without the consent of Client. The foregoing shall not prevent an assignment of this Agreement or any Statement of Work (and the rights and obligations hereunder and thereunder) by Licensor to any successor to all or substantially all of the business or assets of Licensor.

Comments

As the right to assign a license can be either ‘restrictive’ or ‘permissive,’ *Proteon, Inc. v. Digital Equip. Corp.*, No. 9801533F, 1999 WL 1336438 (Mass. Super. Ct. Jan. 13, 1999), care should be given to provide the reader with guidance as to the type of right granted. Since the court will look to the “fair and reasonable meaning of the words in the agreement,” the language of the agreement, the provision should be drafted as plainly as possible. *Proteon, Inc. v. Digital Equip. Corp.*, No. 9801533F, 1999 WL 1336438 at *4 (Mass. Super. Ct. Jan. 13, 1999) (quoting *Liberty Mut. Ins. Co. v. McLaughlin*, 412 Mass. 492, 494 (1992) (quoting *Cody v. Conn. Gen. Life Ins. Co.*, 387 Mass. 142, 146 (1982))).

When drafting a patent license agreement (see **Exhibit F**) the author of the agreement must remember that “[g]enerally, under federal common law, non-

exclusive patent licenses are not assignable in the absence of express language.” *In re GlycoGenesys, Inc.*, 352 B.R. 568 (Bankr. D. Mass. 2006) (quoting *Stenograph Corp. v. Fulkerson*, 972 F.2d 726, 729 n.2 (7th Cir. 1992)).

§ 6.19 Compliance with Laws

Sample Language

The parties shall be responsible for complying with all applicable governmental regulations of the United States or any foreign countries with respect to the use of the Products by participant outside of the country in which Licensor delivers the Products to Licensee, including, but not limited to import and export restrictions, obtaining any necessary consents and licenses and registering or filing any documents. Licensee shall defend, indemnify and hold Licensor harmless from and against any and all claims, judgments, costs, awards, expenses (including reasonable attorneys’ fees) and liability of any kind arising out of the non-compliance with applicable governmental regulations, statute, decree or other obligation with respect to the use or transfer of the Products by Licensee outside of the country in which Licensor delivered the Products to Licensee.

Comments

General rules on drafting described above apply.

§ 6.20 Counterparts

Sample Language

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall be deemed to be one and the same instrument.

Comments

General rules on drafting described above apply.

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§ 6.21 Headings

Sample Language

The paragraph headings contained in this Agreement are for convenience of reference only and shall not affect the meaning or interpretation hereof.

Comments

Under Massachusetts law, the title or heading of a document is usually of little legal consequence. It is the terms of the agreement that determine the nature of a document. *See Cytologix Corp. v. Ventana Med. Sys., Inc.*, No. 04-11783-RWS, 2007 WL 3037404 (D. Mass., Oct. 17, 2007) (quoting *Aspex Eyewear Inc. v. Miracle Optics, Inc.*, 434 F.3d 1336 (Fed. Cir. 2006)).

Whether a transfer of a particular right or interest under a patent is an assignment or a license does not depend upon the name by which it calls itself, but upon the legal effect of its provisions. *Waterman v. MacKenzie*, 138 U.S. 252 (1891).

Notwithstanding the foregoing, it is beneficial to clarify that the headings of the document have no legal significance.

§ 6.22 Severability

Sample Language

To the extent that any law, statute, treaty, or regulation by its terms as determined by a court, tribunal, or other government authority of competent jurisdiction, is in conflict with this Agreement, the conflicting terms of this Agreement shall be superseded only to the extent necessary by the terms required by such law, statute, treaty, or regulation. If any portion of this Agreement shall be otherwise unlawful, void, or for any reason unenforceable, then that provision shall be enforced to the maximum extent permissible so as to affect the intent of the parties. In either case, the remainder of this Agreement shall continue in full force and effect.

Comments

General rules on drafting described above apply.

§ 6.23 Survival

Sample Language

The provisions of Paragraphs 3_____ hereof shall survive the expiration or termination of this Agreement and any Statement of Work.

Comments

General rules on drafting described above apply.

§ 6.24 Cumulative Remedies

Sample Language

Except as expressly provided otherwise hereunder, no remedy referred to in this agreement is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to hereof or otherwise available at law or equity.

Comments

General rules on drafting described above apply.

§ 6.25 Waiver

Sample Language

The waiver by any party of a breach or default by the other party of any provision of this Agreement shall not be construed as a waiver by such party of any succeeding breach or default by the other party of the same or another provision.

Comments

General rules on drafting described above apply.

§ 6.26 Choice of Law

Sample Language

This Agreement and each Statement of Work shall be governed by, and construed in accordance with, the substantive laws of the Commonwealth of Massachusetts, conflicts of law excluded.

Comments

Where there is “at least a reasonable relation between the dispute and the forum whose law has been selected by the parties,” a court will “forego an independent analysis of the choice-of-law issue and apply the state substantive law selected by the parties.” *Hasbro, Inc. v. Mikohn Gaming Corp.*, No. 05-106 S, 2006 WL 2035501 (D. R.I. July 18, 2006) (quoting *Platten v. HG Bermuda Exempted Ltd.*, 437 F.3d 118, 127 n.5 (1st Cir. 2006).

§ 7 OVERVIEW OF DAMAGES IN PARTICULAR LICENSING SITUATIONS

§ 7.1 Calculating Patent Damages Awards

If a plaintiff can establish that he or she owns valid letters patent that have been infringed by a defendant, the plaintiff may be able to recover damages in addition to obtaining injunctive relief. Actual damages may be recovered under 35 U.S.C. § 284. However, they may be hard to prove. If actual damages cannot be proved, a plaintiff is entitled to recover “a reasonable royalty rate.” What constitutes a “reasonable royalty rate” has been hotly contested in the courts.

A reasonable royalty is one “which a person, desiring to manufacture and sell a patented article, as a business proposition, would be willing to pay as a royalty and yet be able to make and sell the patented article, in the market, at a reasonable profit.” *Cohesive Techs., Inc. v. Waters Corp.*, 526 F. Supp. 2d 84, 121 (D. Mass. 2007) (citation omitted).

Under *Cohesive Technologies, Inc.*, a reasonable royalty may be calculated by setting the royalty “upon an established royalty rate within the relevant market, if there is one, or by projecting a hypothetical negotiation between a willing licensor and licensee at the time infringement commenced.” *Cohesive Techs., Inc. v. Waters Corp.*, 526 F. Supp. 2d at 121–22. The hypothetical negotiation upon which a reasonable royalty rate may be calculated “requires the court to

envision the terms of a licensing agreement reached as a result of a supposed meeting of minds between the patent holder and infringer at the time infringement began.” *Cohesive Techs., Inc. v. Waters Corp.*, 526 F. Supp. 2d at 122.

When calculating a reasonable royalty rate, courts will usually apply the methodology for calculating a royalty rate established in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970).

The *Georgia-Pacific* factors can be summarized as follows:

- royalties that a patentee receives for the patent in suit;
- rates licensee pays for use of other comparable patents;
- nature and scope of the license;
- the licensor’s established policy regarding licensing of its technology;
- commercial relationship between the parties;
- effect on and extent of derivatives or conveyed sales;
- established profitability of the product made under the patent, its commercial success, and popularity;
- utility of the patented article and its advantage over old modes;
- nature of patented invention;
- character of commercial embodiment of the patent as owned or produced by the licensor;
- extent to which infringer has made use of invention;
- portion of profit or selling price customarily allowed;
- portion of realizable profit attributable to invention;
- the opinion testimony of qualified experts; and
- the amount a willing licensor and licensee would agree upon at the time of infringement, had both been reasonably and voluntarily trying to reach an agreement, including the amount of profit the licensee would be willing to contribute to the license.

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The *Georgia-Pacific* standard has also been adopted in Massachusetts when addressing awarding of damages for patent infringement. *See Bose Corp. v. JBL, Inc.*, 112 F. Supp. 2d 138, 165 (D. Mass. 2000). In *Bose*, the court also considered in addition to the *Georgia-Pacific* standard, the nature and scope of the license, and in particular whether a license is, for example, exclusive or contains territory restrictions. *Bose Corp. v. JBL, Inc.*, 112 F. Supp. 2d at 165.

§ 7.2 Calculating Copyright Damages Awards

The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work. 17 U.S.C. § 504(b).

As an alternative to an award of actual damages and profits set forth above, Section 504(c)(1) of the Copyright Act gives the plaintiff the right to "elect, at any time before final judgment is rendered, to recover . . . an award of statutory damages for all infringements involved in the action, with respect to any one work . . . in a sum of not less than \$750 or more than \$30,000 as the court considers just." 17 U.S.C. § 504(c)(1). However, under Section 504(c)(2), the court has the discretion to award as much as \$150,000 upon determining that the infringement was committed "willfully." However, where the infringer sustains the burden of proving that he or she was not aware and had no reason to believe that his or her acts constituted infringement of copyright, the court may reduce the statutory damages to an amount of not less than \$200. 17 U.S.C. § 504(c)(2).

A district court has broad discretion in determining the amount of statutory damages in a copyright infringement case. *Venegas-Hernández v. Sonolux Records*, 370 F.3d 183 (1st Cir. 2004).

§ 7.3 Calculating Trademark/Trade Dress and Trade Name Damages Awards

Under Section 35 of the Lanham Act, 15 U.S.C. § 1117, a party awarded damages for infringement of its trademark may recover subject to the following rules of equity:

- defendant's profits,

- any damages sustained by the plaintiff,
- the costs of the action, and
- attorney fees.

According to Section 35,

the court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

§ 7.4 Calculating Trade Secret Damages Awards

Under G.L. c. 93, § 42,

[w]hoever embezzles, steals or unlawfully takes, carries away, conceals, or copies, or by fraud or by deception obtains, from any person or corporation, with intent to convert to his own use, any trade secret, regardless of value, shall be liable in tort to such person or corporation for all damages resulting therefrom. Whether or not the case is tried by a jury, the court, in its discretion, may increase the damages up to double the amount found. The term "trade secret" as used in this section shall have the same meaning as is set forth in section thirty of chapter two hundred and sixty-six.

INTELLECTUAL PROPERTY LICENSING AGREEMENTS

Damages under this section include both the actual loss (lost profits) and the unjust enrichment (or infringer's profits) caused by misappropriation. *Jet Spray Cooler, Inc. v. Crompton*, 377 Mass. 159, 166 (1979). As the statute provides, in cases where the misappropriation was willful and malicious, a court may award exemplary damages in an amount double the actual loss, as well as attorney fees for the cost of pursuing the action. Such conduct may also constitute an unfair and deceptive act under G.L. c. 93A, entitling a party to treble damages and attorney fees.