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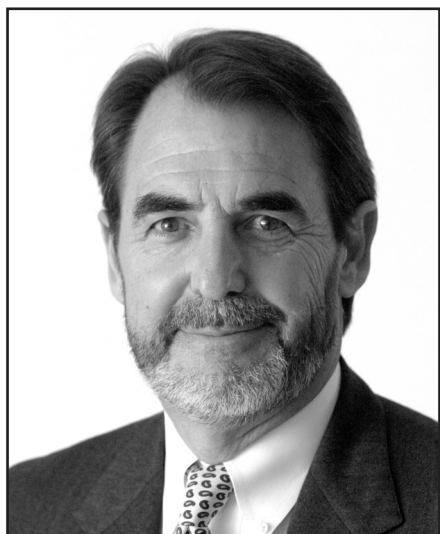
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The Licensing Corner



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ODDBALL DRAFTING

EVERY ONCE IN AWHILE AN AGREEMENT crosses my desk with “odd” provisions—language that makes me say “Huh?” It does not matter that thorough explanations and reasonable fixes are a few mouse-clicks away from anyone; weird provisions still seem to appear. So, in this column, I will explore a few of them that have occurred in recent times more than once. For those of you with long memories, you might recall some of these oddballs have been the topic of this column, but here I want to explore them with a weathered eye toward drafting.

The Once and Future Assignment

Often a license agreement crosses my desk that includes an assignment provision that is all too often invalid. It seems that someone keeps forgetting case law of the last quarter century (or so) making the rule quite clear: Assignments must be in the present tense to be valid.

That lesson is in the Federal Circuit Court’s opinion underlying the US Supreme Court’s opinion in *Stanford v. Roche*. (The Federal Circuit opinion is at 583 F.3d 832 (2009)). Some of the facts are worth reviewing, especially the “competing” assignment provisions at the heart of the (potentially) multi-billion dollar matter. Here’s what happened:

Competing Assignment Language

Stanford hired a researcher who signed Stanford’s standard “Copyright and Patent Agreement” by which the researcher assigned his rights to Stanford. The relevant language went as follows:

I agree to assign or confirm in writing to Stanford and/or Sponsors

that right, title and interest in [...] such inventions as required by Contracts or Grants.

With Stanford’s knowledge the researcher then went down the street (literally) to work from time to time with Cetus, a genetics research firm (later acquired by the multinational pharmaceutical, Roche). There the researcher signed *another* agreement—the Visitor’s Confidentiality Agreement, which included the following language (bracketed language my addition):

I will assign and do hereby assign to Cetus, my right, title, and interest in each of the ideas, inventions and improvements [arising from my involvement here...].

Basically, the court held that the *second* assignment trumped the first one. Why? It was the only valid assignment. Stanford’s agreement did not use language that *actually* assigned intellectual property rights. Therefore, the researcher did not assign his rights until he signed the Cetus agreement, which *did* include a valid assignment.

What? You say. That’s right. For an assignment to be valid, it must be in the present tense, or, perhaps more precisely, it cannot be in the future tense. Said the court about its view of assignment law:

We have held that the contract language “agree to assign” reflects a mere promise to assign rights in the future, not an immediate transfer of expectant interests.

Grants Today in Future Inventions Are Valid

You might ask yourself about technology agreements that include a grant, effective upon execution, of rights in future inventions. For example, I often see language to that effect:

Developer agrees to grant and does hereby grant to Client all right, title and interest in any invention, including Derivatives, developed in the course of performing the Services.

The federal circuit court has been clear on its position in those situations: It is a valid assignment. In their view, it is the time-frame of the *grant* and not the existence or non-existence of the invention that matters. (See *Imation v. Philips Electronics* 586 F.3d 980 (2009) citing *Filmtec v. Allied Signal* 939 F.2d 1568 (Fed.Cir. 1991)).

That should be clear enough for all of us who draft and negotiate license agreements with assignments in them. That *should* mean that this oddball will never cross my desk again. Right.

Indemnification for What Claims?

Few provisions vex lawyers as much as indemnification. Recently, a lawyer sent me an agreement with such troublesome language. A

digital platform developer was negotiating an agreement to license its platform to a company. The agreement also included a “time & materials” provision for implementation. The agreement included indemnification language similar to the following (emphasis added):

Platform Developer and Client (each the “Indemnifier”) hereby agrees to defend, indemnify, and hold the other harmless from all liabilities, damages and losses (including expenses arising from claims against the other by third parties as a result of the [...] acts or omissions of the Indemnifier.

What?? The basic principal of indemnification is, or at least should be, that an indemnifier will indemnify for claims arising from actions the indemnifier controls. That’s not the case here.

The developer should walk away from this language. Creating *anything* involves both acts and omissions. Obviously, *any* third-party claim would arise from an act or omission. In software development, you commit an act writing code and you have omissions when you make choices as to which way to write that code.

Note also that a “Claim” did not have to be filed in court. So, if a user of the platform (through the licensee) felt that it was harmed by use of the platform (say, lower-than-expected e-commerce revenues), it could complain to the licensee and the developer would have to pay the licensee for that “claim.”

In a pure licensing context, limits such as negligence or gross negligence would be insufficient protection, first, because of the difficulty of applying that standard for activities during the development stage, which is often several years prior to a claim. Second, the developer has little if any control over how the platform is used by the licensee (even with limits on use in the agreement). In this situation—both customization *and* licensing—those same limits would complicate indemnification because *both* parties would be involved in the customization. In other words, both parties would have been involved in acts and omissions in the choices necessary for the customization. Mrs. Palsgraf, where are you?

An Indemnification Solution

In this sort of situation, this best approach is to find out what risks most concern the other side. Then filter those risks through the “control” principle noted above. Ultimately, indemnification provisions are shaped by the relative market power of the two parties, as with almost every other provisions of any agreement. Nonetheless, one could reach a viable compromise without shifting pretty much all liability to only one party.

Warranty Disclaimers Pulled Back Into an Agreement

Here is another one that has popped up a few times when lawyers have sought my input on agreements they are negotiating. Raise your hand if you have ever seen a B2B agreement that did *not* include disclaimers of the implied warranties of merchantability or fitness for a

particular purpose. Raise your hand if you have ever seen an agreement where the disclaimers exist *but* there is an indemnification carve-out—in other words, the disclaimer does *not* apply for third-party claims arising from a breach of such warranties, even if disclaimed. No one, right?

Questions immediately come to mind: What are these disclaimers doing here when they apply to sales (rather than licenses) and, by statute, to *retail* sales? Entire library shelves holds large tomes on these warranties, so we will avoid adding to that literature. Whether or not they should be in the agreement in front of you, they *are* there, so how do you deal with language that makes third-party claims arising from their breach liabilities for your client?

The short answer is that you do *not* deal with them; you delete the link to indemnification liability. The second approach is the same as earlier points: This would be a walkaway point for your client. OK, and if that does not work? This goes back to the “control” principle underlying indemnification. If counsel for the other side will not accept the deletion, then you would explain that you would have to include several additional pages specifying the “acceptable” particular purposes and disclaiming those that would be “unacceptable.” Your client would also want comprehensive notice and approval of the *any* use by *any* user. Who wants that complexity?

One could argue that such language is not a major liability because the agreement prohibits the client from sublicensing (or selling) the technology to third parties. That might work, but in the world of digital platforms with a B2B2C model, this argument would provide cold comfort. True, the warranty disclaimer applies in the first place only as between the parties, so the third-party risk could be addressed only in the indemnification section. But that becomes part of the liability each party assumes in doing the deal in the first place—or they accept the complicated notice/approval process of future use.

CONCLUSION

More space would lead me to quick discussions of two other frequent errors: “accidental franchises” (one of two topics in a recent column) and the all-too-common error of including “work-for-hire” language in California independent contractor agreements with individuals. But, hey, it’s nice outside. ◀◀

The views expressed in this article are personal to the author and do not necessarily reflect the views of the author’s firm, the State Bar of California, or any colleagues, organization, or client.

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