Stradling
Attorneys at Law

Wicked World of IPCraft – No Treats, All Tricks

Prepared for:

Corporate Counsel Roundtable

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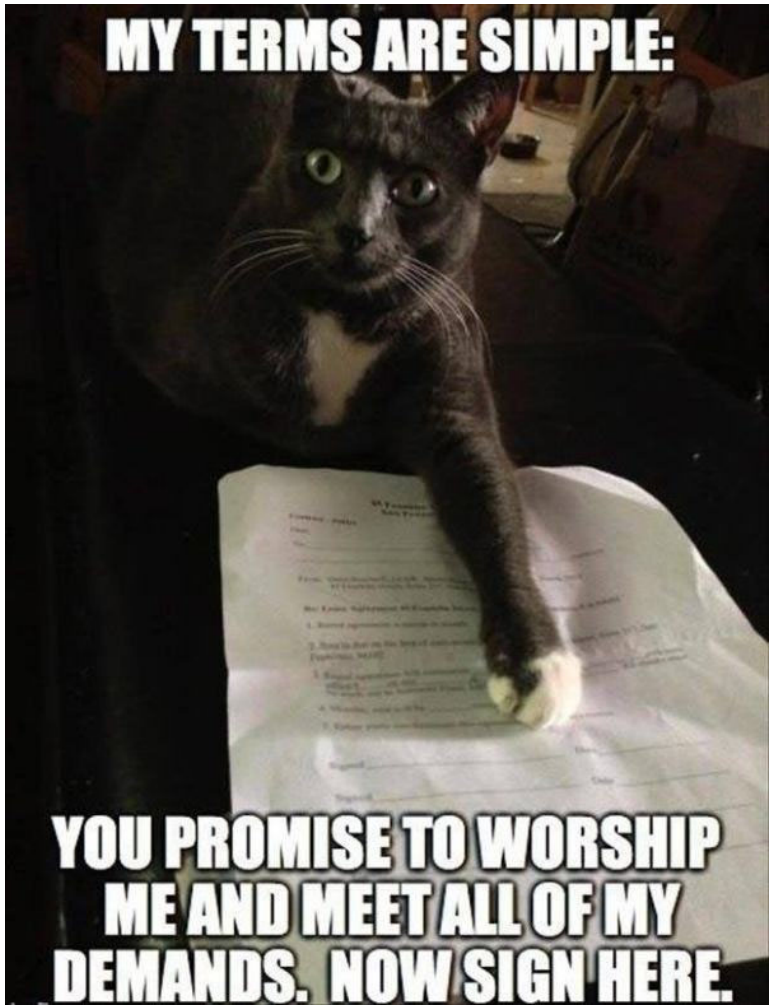
In short…


MY TERMS ARE SIMPLE:
YOU PROMISE TO WORSHIP ME AND MEET ALL OF MY DEMANDS. NOW SIGN HERE.

Introduction

- Interactive Format Today
  - Questions, Comments and Discussion Encouraged!
- Examples Today Drawn From:
  - Typical Contract Provisions and
  - Actual Negotiations

Avoiding Unpleasant Surprises Down the Road

- IP issues are frequently business issues
- Common issues include:
  - Unusual provisions with broad or unknown future impact
  - Licenses out > licenses in
  - Indemnification obligations out > indemnification obligations in
  - Ongoing product maintenance obligations
  - Software escrows
  - Top-line royalty obligations in inbound licenses

"Three-Card Monte" -- Warranty Clause

10.1 Contractor warrants and represents to Customer that:

(a) Contractor has the full right, power and authority to enter into this Agreement and perform the Services and its other obligations hereunder, and that its execution of this Agreement and its performance of the Services shall not result in a breach of or default under any other agreement to which Contractor is a party or by which it is bound.

(b) Contractor shall not, during the term of this Agreement, accept any work or enter into any agreement or obligation inconsistent or incompatible with Contractor's obligations under this Agreement.

(c) (i) The Work Product shall be an original work of Contractor; (ii) Contractor possesses all necessary rights, title and interest in the Work Product necessary for Contractor to grant to Customer the rights and licenses stated in this Agreement; (iii) in performing the Services and furnishing Work Product, it shall not infringe on any patent, copyright, trademark, trade secret or any other proprietary rights of any third party; (iv) it has not transferred or assigned to any third party any proprietary rights in the Work Product; (v) no portion of the Work Product shall be subject to any lien, encumbrance, security interest, or other restriction of any nature; (vi) Contractor will not disclose to Customer any information that is confidential to any third party, unless Contractor has been granted the right by third party to disclose such information to Customer (and in such case, Contractor shall clearly identify such information as being third party confidential information).

(d) In carrying out the Services described in this Agreement and any Statement of Work, Services shall be performed in a timely manner and in accordance with highest applicable industry, government and professional standards. Contractor shall re-perform any Services not in compliance with this warranty at no additional cost to Customer.

(e) All Work Products delivered shall be free from defects in workmanship and material and shall be fit for the purposes for which such Work Products are intended. As a remedy for breach of the foregoing warranty, Customer may elect, at Customer's option, (i) the replacement of non-conforming Work Products or deliverables, which shall be accomplished by Contractor at no charge to Customer; (ii) repair, modification or adaptation of the non-conforming Work Products at Contractor's expense; or (iii) return of the non-conforming Work Products to Contractor and a full refund to Customer of the aggregate purchase price paid therefor.

"Three-Card Monte" -- Indemnification Clause

Contractor shall defend, indemnify and hold Customer and its officers, directors, employees, agents and customers (each an "**Indemnified Party**") harmless from and against any and all claims, losses, liabilities, damages, costs and expenses (including attorneys' fee(s)) arising from or related to (i) any breach or alleged breach of the representations and warranties expressed under Section 10 (Representations and Warranties), (ii) the negligence, recklessness or intentional misconduct of Contractor or any of its employees or agents in performing the Services (at Customer's facilities or elsewhere) and (iii) any payments or liabilities for which Contractor becomes liable as described in Section 14 (Independent Contractor). If any third party asserts a claim or initiates an action against an Indemnified Party for which Contractor is responsible under this section, when Customer becomes aware of such claim or action it shall promptly notify Contractor, however Customer's failure to provide prompt notice to Contractor shall not relieve Contractor from any obligations owed hereunder, except to the extent that Contractor has been prejudiced by Customer's failure or delay in giving notice. Customer shall have the right to participate at its own expense in the defense of such claim or action, including any related settlement negotiations. No such claim or action may be settled or compromised without Customer's express written consent, which may be conditioned upon the execution of a release of all claims against the Indemnified Parties by the party bringing such claim or action. Customer shall have the right to withhold from payments due to Contractor the amount of Customer's costs of defending any such claim or action, plus reasonable additional amounts, as security for Contractor's obligations under this section.

"Three-Card Monte" --Limitation of Liability Clause

EXCEPT FOR LIABILITY ARISING FROM A PARTY'S BREACH OF SECTION 8 (CONFIDENTIALITY), OR FROM CONTRACTOR'S INDEMNITY OBLIGATIONS UNDER SECTION 11, IN NO EVENT WILL CUSTOMER AND CONTRACTOR BE LIABLE TO EACH OTHER FOR ANY SPECIAL, INCIDENTAL, INDIRECT OR CONSEQUENTIAL DAMAGES. SUBJECT TO THE FOREGOING EXCLUSIONS, IN NO EVENT WILL CUSTOMER AND CONTRACTOR'S CUMULATIVE LIABILITY TO EACH OTHER EXCEED THE AMOUNT PAYABLE UNDER THIS AGREEMENT.

Putting Words in Your Mouth!

2. Customer recognizes the great value of the goodwill associated with the Licensed Marks, and it acknowledges that the Licensed Marks, and all rights therein and goodwill pertaining thereto, belong exclusively to Vendor or its Affiliates and that the Licensed Marks have acquired distinctiveness in the minds of the public. Customer acknowledges and agrees that all usage of the Licensed Marks, and any goodwill established thereby, shall inure to the exclusive benefit of Vendor or its Affiliates and that this Agreement does not confer any goodwill or other interests in the Licensed Marks to Customer.

2.1 Customer acknowledges that the Licensed Marks and the registrations thereof are subsisting, valid and enforceable in law and equity, and Customer agrees not to contest, challenge or question the ownership of the Licensed Marks or the registration thereof, nor assist others in doing so.

2.2. Customer acknowledges that any unauthorized use of the Licensed Marks, and any use thereof in violation of this Agreement, shall constitute an infringement of such Licensed Marks.

Trolling the Troll

From a "General Services Agreement":

Immediately prior to (a) an assignment, sale or grant of an exclusive license of a patent or patent application by Vendor or any of its Affiliates, or (b) Vendor or any of its Affiliates becoming a Patent Assertion Entity, Vendor, on behalf of itself and its Affiliates, hereby grants Company and its Affiliates, the following rights: (i) a worldwide, non-exclusive, royalty-free, perpetual, irrevocable license under such Vendor's or its Affiliates' patent and patent application to make, have made, use (including distribute products or services), sell, offer to sell, import or otherwise distribute products and services, alone or in combination with other products or services, upon such patent being asserted by a Patent Assertion Entity against Company or its Affiliates; and (ii) a release from and a covenant not to sue for any and all past damages relating to alleged infringement by Company and its Affiliates, or by their direct and indirect customers solely with respect to such customers' use of Company's or its Affiliates' products or services, alone or in combination with other products or services, upon Vendor's or its Affiliates' patent being asserted by a Patent Assertion Entity against Company or its Affiliates. These licenses, releases and covenants shall bind and apply to all entities that subsequently obtain any right to enforce any patent to which such licenses and covenants pertain. A "**Patent Assertion Entity**" means any entity, inclusive of all Affiliates, that primarily earns revenue (or that primarily seeks to earn revenue) from (i) monetizing patents or patent applications through assertion and/or assertion-based or threat-of-assertion-based licensing, or (ii) transferring patents or patent applications to an entity that does subpart (i).

"Smoke & Mirrors"

Right of First Refusal. Licensee shall have a right of first refusal (a "Right of First Refusal") to exclusively license any licensable technology owned or controlled by the Company that is or may be usable in connection with or developing products or services for the research and development market (each, a "Research Market Innovation"). Research Market Innovations may include, but are not limited to, technologies useful for the development of research tools, assays and /or quality control tools. Notwithstanding the foregoing, this Right of First Refusal shall not apply to technologies that are solely useful for the Company's development or discovery of [LIST OF SPECIFIC COMPANY PRODUCT TECHNOLOGIES].

"License to Steal"

Additionally, notwithstanding anything contained herein to the contrary, Group Member and the Alliance may use Residuals for any purpose whatsoever, including without limitation use in development, manufacture, promotion, sale and maintenance of its products and services. For purposes hereof, the term "Residuals" means any information related to a Technical Contribution that is retained in the unaided memory of the Group Member's and the Alliance's employees, contractors, or affiliates (or personnel thereof) who have had access to a Proponent's Confidential Information pursuant to the terms hereof. A person's memory is unaided if the person has not intentionally memorized the Confidential Information for the purpose of retaining and subsequently using or disclosing it.

"Yours, Mine & Ours?"

From an Equipment Maintenance Services Agreement:

> It is understood, that in undertaking to provide this service, Provider does not accept or assume liability for any defect in material or workmanship of equipment not manufactured by Provider, or for any condition or occurrence affecting the proper operation of equipment resulting from accident, negligence, abuse or misuse of the equipment, or any other cause whether or not similar to those described above.

The "Trojan Horse"

From an Equipment Maintenance Services Agreement:

> Provider shall not be liable in contract or in tort (including negligence and strict liability) for any direct, indirect, special, incidental, or consequential damages sustained by Customer, and arising out of any act or omission on the part of Provider in connection with its performance or non-performance under this Agreement . . . .

"All or Nothing"

For the avoidance of doubt, the infringement, violation or misappropriation of Intellectual Property Rights alleged in the applicable Infringement Claim will not be deemed to be proximately caused by the applicable Product if the infringement, violation or misappropriation of Intellectual Property Rights alleged in the applicable Infringement Claim is attributable in whole or in part to (x) any modification, additions or revisions to Product not performed by SELLER, or performed by SELLER at the direction of BUYER, (y) any use of Product in contravention of the applicable specifications, directions, user manual or similar use instructions available from SELLER or (z) any use of Product in combination with any product or component not supplied to BUYER by SELLER. Subject to Section 14, this Subsection 13.2 states the entire liability of SELLER, and the sole remedy of BUYER, with respect to any actual or alleged infringement, violation or misappropriation of any Intellectual Property Right by or in connection with any Product.

Gaps and Overlaps

(a) Rights in Deliverables. Subject to the other provisions of this Section 8, Customer will own the copyrights in and to all deliverables that are specifically developed and delivered by Contractor under this Agreement and are paid for by Customer (the "**Deliverables**"). Such copyright shall give Customer all rights to use, copy, modify, maintain, create derivative works from, and license sell, publish or otherwise transfer the Deliverables for any business purpose of Customer.

(b) [Provision relating to 3rd party software omitted.]

(c) Tools; Residual Technology. Subject to the restrictions on the disclosure of confidential information set forth in Section 7, Contractor (i) will retain all right, title and interest in and to all know-how, intellectual property, methodologies, processes, technologies, algorithms, development tools or forms, templates or output used in performing the Services which are based on trade secrets or proprietary information of Contractor or are otherwise owned or licensed by Contractor, and all improvements thereto that are developed or created by or on behalf of Contractor in the course of performing the Services (collectively, the "Tools"), and (ii) will be free to use the ideas, concepts, methodologies, processes and know-how that are used, developed or created in the course of performing the Services and may be retained by Contractor' employees in intangible form (collectively, the "Residual Technology"), all of which constitute substantial rights on the part of Contractor in the technology developed as a result of the Services performed under this Agreement.

"To Assign Or Not To Assign" That is the Question!

"Developer hereby **agrees to assign** all of its intellectual property rights in the New Developments to Customer."

- "Agrees to assign" vs. "Assigns" – Is there a difference?
  - See Stanford v. Roche Molecular Systems, 583 F.3d 832 (Fed. Cir. 2009)

"Sleight of Hand" Part 1

15.1. **Insurance.**
Vendor shall during the Term have and maintain in force the following insurance coverages:
(a) Worker's Compensation Insurance, including occupational illness or disease coverage, or other similar social insurance in accordance with the laws of the country, state, or territory exercising jurisdiction over the employee and Employer's Liability Insurance with a minimum limit of $1,000,000 per occurrence.
(b) Commercial General Liability Insurance, including Products, Completed Operations Liability and Personal Injury, Contractual Liability and Broad Form Property Damage Liability coverage for damages to any property with a minimum combined single limit of $1,000,000 per occurrence. This policy shall be endorsed to name the Customer as additional insured.
(c) Electronic Data Processing All Risk Property Insurance on equipment, data, media and valuable papers, including extra expense coverage, with a minimum limit adequate to cover such risks on a replacement costs basis.
(d) Automotive Liability Insurance covering use of all owned, non-owned, and hired automobiles with a minimum combined single limit of $1,000,000 per occurrence for bodily injury and property damage liability. This policy shall be endorsed to name the Customer as additional insured.
(e) Umbrella Liability Insurance with a minimum limit of $10,000,000 in excess of the insurance under policies indicated in Subsections 15.1(a), (b) and (d).
(f) Employee Dishonesty and Computer Fraud coverage for loss arising out of or in connection with any fraudulent or dishonest acts committed by the employees of Vendor, acting alone or in collusion with others, including the property and funds of others in their care, custody or control, in a minimum amount of $10,000,000.
(g) Errors and Omissions Liability Insurance covering the liability for financial loss due to error, omission, negligence of employees and machine malfunction in an amount of at least $10,000,000.
The foregoing insurance coverages shall be primary and non-contributing with respect to any other insurance or self insurance which may be maintained by the Customer. Vendor shall cause its insurers to issue certificates of insurance evidencing that the coverages and policy endorsements required under this Agreement are maintained in force and that not less than ninety (90) days written notice shall be given to the Customer prior to any modification, cancellation or non-renewal of the policies. The insurers selected by Vendor will have an A.M. Best rating of A-X or better or, if such ratings are no longer available, with a comparable rating from a recognized insurance rating agency. Vendor shall assure that its subcontractors, if any, maintain insurance coverages as specified in this Article 15 or are endorsed as additional insureds on all required Vendor coverages.

"Sleight of Hand" Part 2

16.1. **Indemnity By Vendor.**

Vendor agrees to indemnify, defend and hold harmless the Customer and its officers, officials, directors, employees, agents, successors and assigns from any and all Losses and threatened Losses arising from or in connection with any of the following:

(a) . . . . .;

(b) . . . . .;

(c) Any claims arising out of or related to occurrences Vendor is required to insure against pursuant to Article 15;

(d) . . . . .

"Sleight of Hand" Part 3

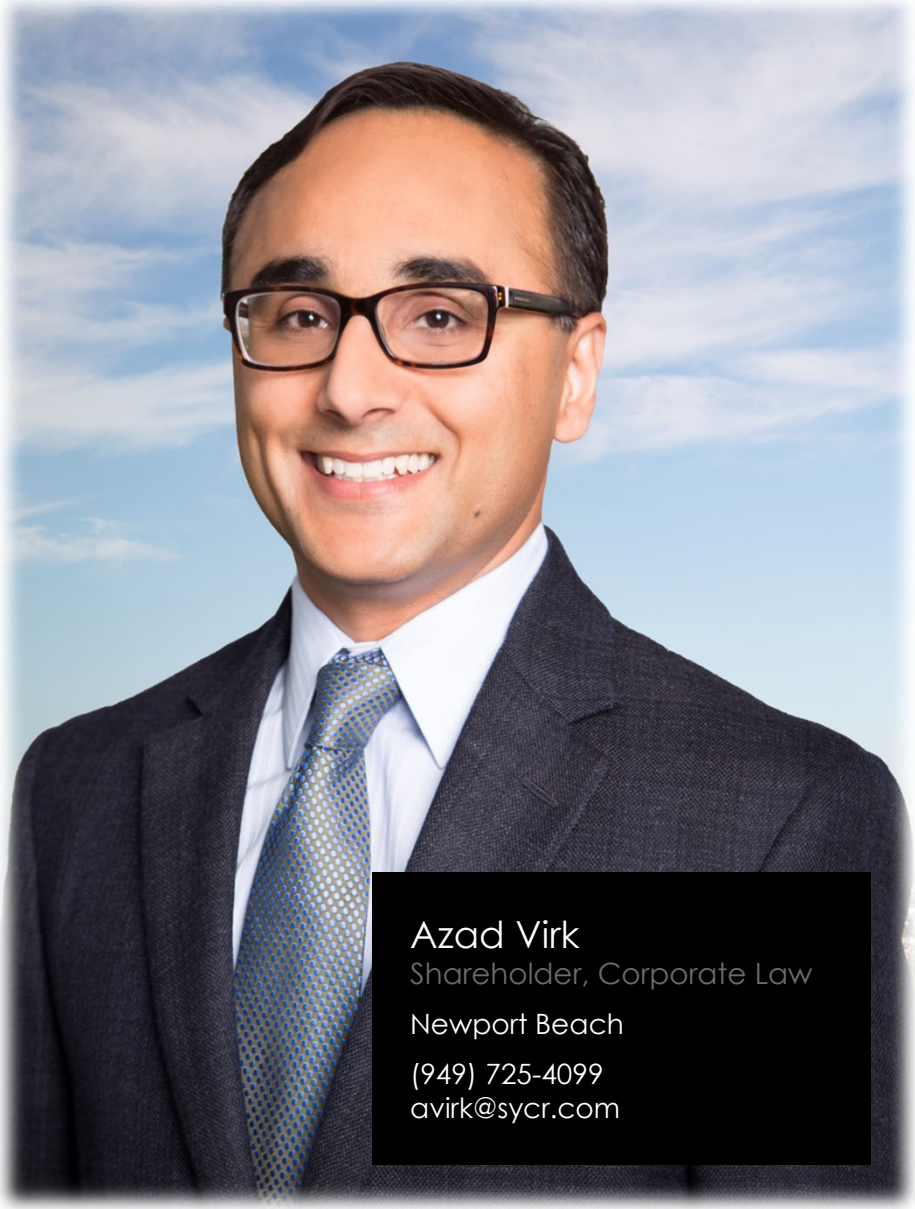
17.2. **Liability Restrictions.**

(a) SUBJECT TO SUBSECTION 17.2(c), FOR ALL CLAIMS ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT, FOR ANY CAUSE WHATSOEVER, AND REGARDLESS OF THE FORM OF ACTION, WHETHER IN CONTRACT OR IN TORT (INCLUDING BREACH OF WARRANTY, NEGLIGENCE AND STRICT LIABILITY IN TORT), IN NO EVENT SHALL A PARTY BE LIABLE FOR INDIRECT OR CONSEQUENTIAL, EXEMPLARY, PUNITIVE OR SPECIAL DAMAGES EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES IN ADVANCE.

(b) Subject to Subsection 17.2(c), each Party's aggregate liability to the other for any causes whatsoever, and regardless of the form of action, whether in contract or in tort (including breach of warranty, negligence and strict liability in tort) that impose liability shall be limited to an amount equal to the aggregate total charges payable to Vendor pursuant to this Agreement for the twelve (12) months prior to the month in which the most current event giving rise to liability occurred; provided, however, that if the most current event giving rise to liability occurs during the first twelve (12) months after the Effective Date, liability shall be limited to an amount equal to the aggregate total charges payable to Vendor pursuant to this Agreement during such twelve (12) month period.

(c) The limitations set forth in Subsections 17.2(a) and (b) shall not apply with respect to: (i) damages occasioned by the willful misconduct or gross negligence of a Party; (ii) claims that are covered by the indemnification provisions of Section 16.1 or 16.2; (iii) the recovery of any amounts due as payments for services under this Agreement; . . . .

Questions?



Speaker

Azad Virk is a Shareholder in Stradling's Corporate and Technology Transactions practice groups.

Azad's practice focuses on a variety of corporate, commercial and intellectual property transactions, including the formation of startups, equity and debt financings, mergers and acquisitions, joint ventures, strategic alliances, intellectual property and technology transactions across multiple industries.

His clients include companies in the following industries:

- High technology
- Pharmaceutical
- Medical device
- Biotechnology

Azad practiced law in India before relocating to the United States, counseling clients on intellectual property issues and representing a diverse range of clients in intellectual property, corporate and technology-related litigation before various courts and tribunals.

Azad was named a "Southern California Rising Star" by Super Lawyers in 2015, 2016 and 2017.

Speaker

Shoshana Zimmerman is an Associate in Stradling's Corporate and Technology Transactions practice groups.

Shoshana currently represents companies in a broad range of corporate matters, including negotiating and drafting commercial contracts and advising on intellectual property transactions. Shoshana also has extensive experience representing clients on both the buy and sell sides of mergers and acquisitions.

Prior to joining Stradling, Shoshana practiced at a large international law firm, where she represented private equity firms in mergers and acquisitions.

Shoshana's clients include start-up and emerging growth companies as well as established entities in the following industries:

- Augmented reality
- SAAS / on premise enterprise software solutions
- Medical devices
- Commercial product manufacture

Shoshana earned a J.D. from University of Southern California and an LLM from London School of Economics and Political Science.

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