

LANDSLIDE®

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A woman in a tiger-print outfit stands in a cage with tigers. She is holding a cigar and looking upwards. The background shows a crowd of people watching from behind the cage bars.

A New Approach to Curbing Copyright Trolls

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Mr. Devil Does



LESSONS LEARNED IN NEGOTIATING INTELLECTUAL PROPERTY AGREEMENTS

*Curious Clauses, Inexplicable Inserts, and Problematic Provisions That Have Stopped Me Dead in
My License-Reviewing Tracks*

BY STEVE GILLEN, WITH NAITASIA HENSEY

I'm something of a collector.

Over three decades of practicing law and reviewing and negotiating licensing agreements and other contracts involving rights in intellectual property, I have occasionally encountered language or provisions that gave me pause. Sometimes it was just a typo. Sometimes it was language or a provision borrowed ill-advisedly from another agreement. Sometimes it was careless. Sometimes, I think, it was a lawyer trying to be just a little too lawyerly. Sometimes, well, there was just no plausible explanation.

When we draft language like the language you will see in this article, courts are sometimes called in and tasked with divining what the parties intended when the deal was struck. They have, over the centuries, established rules of construction and interpretation to aid them in this process and to lend some predictability to the end result.

But the starting point is always this—when interpreting contract language, courts start with the assumption that the parties have used the language in the way that reasonable persons ordinarily do. With respect to the examples you will see here, that premise is clearly false.

Manifest Absurdity

Moving on, then, to a rule of construction we might be able to apply: Words in a written contract are to be interpreted according to their common, ordinary, and usual meaning . . . “unless manifest absurdity results.”¹

Laying the Foundation for the “Devil-Made-Me-Do-It” Defense

The provision below started as a perfectly ordinary force majeure provision when it went out to opposing counsel for review and comment. When it came back, however, it had the noted insertion:

Force Majeure. Neither party shall be in default or otherwise liable for any delay in or failure of its performance under this Agreement where such delay or failure arises by reason of any Act of God *or of the Devil*, nor any government or any governmental body, acts of the common enemy, or other similar cause beyond the reasonable control of such party.

What exactly is an “Act of the Devil”? Seriously. *Black’s Law Dictionary* includes a definition for “Act of God.” It has a definition for “Act of Nature” (i.e., see “Act of God”). It has a definition for “Act of Providence” and another for “Act of Grace.” But there is no definition for “Act of the Devil.” So if you’re going to use it in a contract (and I would recommend against it), you had better define it, lest you find that you have paved the way for the “Devil-Made-Me-Do-It” defense:

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“I don’t know what the devil got into me. . . . I just decided not to make that payment.”

ADR from Hell

The following language appeared in a contract for the publication of a children’s illustrated Bible:

The [parties] agree that God, In His Word, forbids Christians to bring lawsuits against other Christians in secular courts of law . . . when disputes of any nature arise between them. . . . In the event of a such a dispute, . . . [they] shall *meet together, pray together, and purpose to be reconciled*.²

When the publisher stopped paying the author, the author went to federal district court. The district court held that this language amounted to a mandatory arbitration provision.

Do You Mean “and” or “or”?

The words “and” and “or” are language landmines for the unwary. Their meanings are simple, but their role in a sentence is deceptively subtle, complex, and potentially mischievous. “And” can play the role of a conjunctive (apples and oranges [together]), or it can serve as an inclusive disjunctive (apples and oranges, meaning apples [or else] oranges [or else] both). “Or” can be an inclusive disjunctive (apples or oranges [or both]), an exclusive disjunctive (apples or oranges [but not both]), or a coimplicative (Honeycrisps or apples, meaning Honeycrisps or [to use another term] apples). The combination “and/or” is particularly troublesome and has been referred to by one judge as that “Janus-faced verbal monstrosity.”³

So what do you suppose the creditor meant in this covenant in a security agreement?

Grantor will not *do or fail to* perform any act whereby any of such Patent Collateral may lapse or become abandoned or dedicated to the public or unenforceable.

What is it that the grantor “will not” do? Or fail to? Perhaps a rule of construction will save us here. When the language of a contract is susceptible to two constructions, one of which renders the contract “fair, customary, and such as prudent men would naturally execute, while the other makes it inequitable, unusual, or such as reasonable men would not be likely to enter into,” courts will prefer the interpretation that results in a rational and probably enforceable contract.⁴ However, it is always best (when you can manage it) not to rely on being saved by a rule of construction.

Sloppiness

Ezra Pound said it: “A people that grows accustomed to sloppy writing is a people in process of losing grip on its empire and on itself.”⁵ Force majeure provisions seem to have turned up for this collection out of proportion to the space they consume in these agreements. Maybe it’s because they are in the boilerplate where they get less than our full attention. But this perfectly ordinary force majeure provision was the showstopper:

Force Majeure. Any delay or failure of either party to perform its obligations hereunder shall be excused if and to the extent that it is caused by an event or occurrence beyond such party's reasonable control and without its fault or negligence, such as, by way of example and not by way of limitation, acts of God, fires, floods, windstorms, explosions, riots, natural disasters, wars, sabotage, or court injunction or order; provided, however, that written notice of such delay (including the anticipated duration of the delay) shall be given to the other party within ten (10) days of the occurrence of such event.

So what's the problem with this provision? It's where it was . . . at the end of a "Disaster Recovery Services Agreement." Let's see now, you pay them to step in and provide recovery services for your business in the event of a disaster . . . unless of course there's a *disaster*.

I Feel Very Strongly Both Ways

A contract is ambiguous if its provisions are susceptible to two or more reasonable interpretations.⁶ The ambiguity can arise because the meaning of particular words is unclear, or it can arise because one part of the contract contradicts another part. In the example below, the two parts are pretty close together:

Severability. The provisions of this Agreement are not severable. In the event any term, covenant, condition or provision of this Agreement is found to be invalid, void or unenforceable, the remainder of this Agreement shall remain in full force and effect.

An ambiguity in a contract will be resolved against the drafter under a doctrine sometimes referred to as *contra proferentem* (Latin for "against the profferor").⁷ The rationale is that the one who created the problem should not be permitted to benefit from it.

Read even the boilerplate carefully, because you can't safely assume that it was written carefully.

Sometimes Equal Treatment Isn't Fair

Sometimes a provision in a contract (e.g., a limitation of liability provision) starts its life as a unilateral provision favoring the drafter of the form. Then, in negotiations, as a compromise the offer is extended to make the provision bilateral. Be careful how you do this, because done wrong, it can have disastrous effects.

Each party's liability to the other party for a claim of any kind related to this agreement, whether for breach of contract or warranty, strict liability, negligence or otherwise, is limited to the amount of fees such party has received from the other party in connection with services performed in accordance with this agreement during the most recent one-month period.

Note that the fees go only one way, so a customer who breaches by not paying gets off free. What if the vendor doesn't deliver; does the customer have to pay first, so it can then recover?

I'm getting dizzy. The same contract carved out breach of a nondisclosure agreement and indemnified claims from the limitation of liability and then, separately, agreed that the vendor would indemnify for any breach. So, the vendor

includes a limitation of liability that reads, at first blush, as though it is bilateral, but then adds additional language depriving it of any possible benefit from the provision it included—too smart, by half.

"The Sky's the Limit" or "How High Is High"

The following language appeared in an audit clause in a license:

Any amounts disclosed by the examination to be due to the Licensor shall be promptly paid together with interest at the highest allowable statutory rate calculated from the date the payment should have been made.

Usury laws would *not* apply to this transaction, and I'm not aware of any other statutory cap on interest rates in a private agreement between a business and its licensors. Courts favor an interpretation of a contract that gives it vitality, rather than one that renders performance impossible.⁸ So how does one interpret this so as to make the interest calculable?

Headings Are for Convenience and Reference

Only . . . or Not

The heading on this provision is clearly misleading, as what follows is all about expanding, rather than limiting, liability. Moreover, it represents an attempt to expand liability at least arguably beyond legally permissible bounds. Query what impact this would have on a court asked to enforce this provision, notwithstanding the boilerplate disclaimer as to headers affecting interpretation.

Limitation of Liability. Privacy Indemnification Obligations. WITH RESPECT TO LIABILITY ARISING FROM VENDOR'S PRIVACY OBLIGATIONS HEREUNDER, [name omitted to protect the overreaching] MAY SEEK PUNITIVE, EXEMPLARY OR ANY OTHER PENALTY-TYPE DAMAGES AND ANY APPLICABLE DIRECT AND/OR INDIRECT DAMAGES (INCLUDING SPECIAL, INCIDENTAL, AND/OR CONSEQUENTIAL DAMAGES, INCLUDING LOST PROFITS) STEMMING FROM A BREACH THEREOF.

The sole purpose of contract damages is to compensate a nonbreaching party for losses suffered as a result of the breach; punitive damages are not recoverable for breach of contract unless the conduct constituting the breach is also a tort for which punitive damages are recoverable.⁹ If your object is to create access to punitive damages as a remedy, rather than attempting to swim upstream against a long history of precedent, consider getting an acknowledgment that a breach of the privacy obligation gives rise to a [insert applicable tort claim here] as well as a contract claim and that the vendor understands that the availability of contract remedies is not intended to supplant tort remedies or any other remedies at law or in equity, all of which are cumulative and each of which is expressly reserved.

Overreaching

Sometimes the drafter, out of exasperation or out of ambition, flies a little too close to the sun and, like Icarus, ends up with aspirations sunk.

“To the Fullest Extent”

The following language appeared in a publishing contract:

ORIGINALITY OF THE WORK. The Author recognizes and understands that the Publisher will not accept plagiarism in any form in the Work. The Publisher interprets copying from Internet Web sites as such a violation and as a serious breach of this Agreement. The Publisher hereby gives notice that it has the right to use every available means, electronic and otherwise, to ensure that the Work is 100% original [good luck with that]. At its sole discretion, the Publisher may deem a Work as containing plagiarized content, and therefore unacceptable, and may cancel this Agreement at any time, requesting return of all payments made to date. All Warranties and Indemnities in Clause 9 of this Agreement apply to the fullest extent.

It was drafted by an editor with a little bit of copyright knowledge, who was touching up his employer’s form agreement with the apparent intention of dispelling the urban legend that everything on the Internet is in the public domain; and, lest there be any doubt about it, putting the author on notice that at least *one* of the clauses in the agreement will indeed be applied “to the fullest extent.” I wonder about the implications of this language for the enforceability of the other provisions in the contract. Will the omission of their mention here mean that they can be enforced in only a limited way?

If Only It Were True

I see language like this in indemnification provisions not infrequently. Its affect, if interpreted literally, is to obligate the licensor to provide a defense for *any* claim, regardless of how frivolous. At the extreme reaches, such baseless claims are not the result of any failing on the part of the licensor but are instead more properly viewed as a cost of doing business that should be borne solely by the licensee.

Licensor shall defend, indemnify and hold harmless the Licensee, its officers, employees, directors, agents, and distributors from and against any claim, demand, action, suit, liability, cost or expense, including reasonable counsel fees (collectively “Claims”) arising out of *any allegation which, if true, would constitute a breach* of any of the foregoing warranties or representations.

Sometimes we see indemnification provisions that obligate the indemnitor to cover not only allegations based on a breach of the representations and warranties, but also any breach of the agreement. This is generally objectionable as an inappropriate attempt to convert an ordinary breach of contract claim into an indemnified claim. But put that language with the “if true” language above, and you have just presented the indemnitee with a wild card.

Ownership in the Heavens

In this excerpt from the grant language in a copyright license, we have a front-runner in the race to most overreaching. Not satisfied with a mere worldwide license, the company asked for permission to exploit the work throughout the heavens.

And what, do you suppose, did it have in mind when it included the right to “distort” the work?

Company shall thereafter have the sole right to publish, reproduce, prepare derivative works, distribute, perform, exhibit, display, use, alter, *distort*, license, transfer or otherwise exploit the Rights in any manner whatsoever, in any media, whether now known or hereafter invented, throughout the world *and the heavens* (collectively, “Exploit”); *the intent of this Section being a buy-out of 100% of the Rights.*

Anytime you say essentially the same thing two different ways, you create the potential at least for an ambiguity—opening the door to a court that might be offended by the overreaching and construe the grant more narrowly. Say it once. Say it the way you mean it.

Big Brother Is Watching (Your Subcontractors)

In a provision dealing with the vendor’s (very closely controlled) use of subcontractors, this mammoth consumer products gorilla was using all of its 800 pounds:

Vendor shall check to see if the individual lives with, *or is related to*, anyone who works for a company that makes products similar to [name omitted]’s products

So at what distance from the immediate family do we draw the line? Father? Mother? Stepfather? Stepmother? Brothers? Sisters? Half-brother? Half-sister? Uncles? Aunts? Nephews? Nieces? First cousins? Second cousins? Cross-cousins? First cousin once removed, and so on? If you don’t request a family tree from everyone who works for each of your subcontractors and then run an employment check on each of the relatives in the family tree for each of them, are you in material breach?

Is “Quasi” the Same as “Non”?

I have seen references to a “semi-exclusive” license in a document where the nature of the limitation on exclusivity is expressly and precisely defined in that document. Until encountering this provision, I had never seen “quasi-exclusive” used in a document. Seems to me that if the company were, for example, a software company, it would have committed itself in this asset purchase agreement to schedule each and every end user license agreement:

The rights licensed under each Inbound License Agreement shall be exercisable by the Surviving Corporation on and after the Closing to the same extent as by the Company prior to the Closing. Schedule X also sets forth a list of all material license agreements under which the Company grants any rights under any Owned Intellectual Property, including any license agreement under which any *exclusive or quasi-exclusive* rights are granted or that include any negative covenant that restricts or limits the Company’s freedom of action in any respect, but excluding non-disclosure agreements, material transfer agreements entered into in the Ordinary Course of Business.

Turning again to *Black's Law Dictionary*, we see the prefix “quasi” explained as a term used in legal phraseology to indicate that one subject resembles another, with which it is compared, in certain characteristics, but that there are intrinsic and material differences between them. So what does it mean to say that a grant of rights is like an exclusive grant, but materially different in intrinsic respects?

Pay Me Now . . . or Pay Me Later

It is common in agreements concerning intellectual property to include language expressly providing for injunctive relief. Notwithstanding this language, one must still satisfy the four-factor test for access to this equitable remedy.¹⁰ The second factor is whether the movant can establish the likelihood of irreparable harm. An injury is irreparable if it cannot be undone by monetary remedies.¹¹

Each party recognizes and agrees that there is *no adequate remedy at law* for a threatened or actual breach of Section B [the payment provision], that such breach would irreparably harm the non-breaching party, and that such non-breaching party is entitled to seek equitable relief.

Like an order to pay? While there may be some circumstances where this might actually be enforceable, it would be far better to write in an express acknowledgment of the existence of those circumstances rather than to write in some sweeping right that will likely be largely unenforceable. If your client insists that you write it this way anyway, you should probably warn them that it is not likely to be as broadly enforceable as it appears (and then document that warning for your file).

Thinking Out Loud . . . or Not

It is common for the licensor to include an express reservation of rights in just about any sort of intellectual property rights license. This especially aggressive language was offered up in a license between an inventor and a toy company:

Licensor reserves all rights with respect to all or any portion of the Licensed Material not expressly granted, *nor expressly contemplated*, herein.

Turning again to our dictionary, “contemplate” means to have *in mind* as a possibility. *Contemplate* is the polar opposite of *express*. If there were ever two words that should never be found next to each other in an English language sentence, they would be “expressly” and “contemplated.”

Which party do you suppose introduced this phrase? Could it have been the licensee attempting to narrow the reservation of rights? Just imagine the mischief this phrase would have worked had it been included in the contracts litigated in *Random House v. Rosetta Books*,¹² where the issue was whether or not a 1960s-vintage grant of exclusive book publishing rights also encompassed the right to publish e-books.

Concluding Aspirations

And finally, here’s a rule of construction we should all aspire to have applied to our drafting—a contract that is, by its terms, clear and unambiguous requires no real interpretation or construction and will be given the effect called for by the plain language of the contract.¹³ ■

Endnotes

1. *Foster Wheeler Enviresponse, Inc. v. Franklin Cnty. Convention Facilities Auth.*, 678 N.E.2d 519, 526 (Ohio 1997) (emphasis added).
2. *Performance Unlimited, Inc. v. Questar Publishers, Inc.*, 52 F.3d 1373, 1376 (6th Cir. 1995) (emphasis added).
3. *Emp’rs Mut. Liab. Ins. Co. of Wis. v. Tollefsen*, 263 N.W. 376, 377 (Wis. 1935).
4. *Graham v. Drydock Coal Co.*, 667 N.E.2d 949, 954 (Ohio 1996).
5. EZRA POUND, ABC OF READING 34 (1934).
6. *Csulik v. Nationwide Mut. Ins. Co.*, 723 N.E.2d 90 (Ohio 2000).
7. See *Drydock*, 667 N.E.2d 949.
8. See *Buckeye Union Ins. Co. v. Zavarella Bros. Constr. Co.*, 699 N.E.2d 127 (Ohio Ct. App. 1997).
9. *In re Graham Square, Inc.*, 126 F.3d 823 (6th Cir. 1997).
10. “The four factors are: (1) the likelihood of the plaintiff’s success on the merits; (2) whether the injunction will save the plaintiff from irreparable injury; (3) whether the injunction would harm others; and (4) whether the public interest would be served.” *Performance Unlimited, Inc. v. Questar Publishers, Inc.*, 52 F.3d 1373, 1381 (6th Cir. 1995).
11. *Id.* at 1382 (citing *Interox Am. v. PPG Indus., Inc.*, 736 F.2d 194, 202 (5th Cir. 1984)).
12. *Random House, Inc. v. Rosetta Books LLC*, 283 F.3d 490 (2d Cir. 2002).
13. See *Saunders v. Mortensen*, 801 N.E.2d 452 (Ohio 2004); *Foster Wheeler Enviresponse, Inc. v. Franklin Cnty. Convention Facilities Auth.*, 678 N.E.2d 519 (Ohio 1997).