



It's Not Just Boilerplate

What the heck do those provisions
really mean?

AUTM Conference
March 2007
San Francisco, CA



Contract Clauses

- Independent Contractor
- Notices
- Assignment
- Integration
- Modification/Counterparts/Headings
- Remedies
- Severability/Reformation
- Governing Law
- Waiver
- Representations and Warranties
- Indemnification
- Words of Authority
- Structure



Independent Contractor

“The relationship of Sponsor and Institution established by this Agreement is that of independent contractors, and nothing contained in this Agreement will be construed to (a) constitute the parties as partners, joint venturers, co-owners or otherwise as participants in a joint or common undertaking, or (b) allow any of the parties hereto to create or assume any obligation on behalf of another party hereto for any purpose whatsoever.”

- Attempts to avoid any implication that the parties have formed a partnership or that either party is responsible to the other as an employer.
- Microsoft case.



Notices

“All notices required or permitted under this Agreement must be in writing and must be given by addressing the same to the address for the recipient set forth in this Agreement or at such other address as the recipient may specify in writing under this procedure. Notices to Sponsor will be marked “Attention: Chief Executive Officer”. Notices to Institution will be marked “Attention: Director of Technology Transfer Office”. Notices will be deemed to have been given (a) three (3) business days after deposit in the U.S. mail with proper postage for first class registered or certified mail prepaid, or (b) one (1) business day after sending by nationally recognized overnight delivery service.”

- Applies to notices required by the terms of the agreement (not day-to-day communications between the parties).
- Specifies when a party sending a notice may deem the notice to be effective.
- Facsimile/email may not be reliable enough to use in notice provisions.
- Consider whether you are most likely to be sender or receiver – notice provision is a balancing act.



Assignment

“This Agreement may not be transferred, in whole or in part, by either party, without the prior written consent of the other party. However, Sponsor may transfer this Agreement, in whole or in part without the prior written consent of the other party, to an affiliate, or in connection with a merger, consolidation, or a sale or transfer of all or substantially all of the assets to which this Agreement relates, provided that all obligations of the assignor are assumed by the assignee.”

- Prevents a party from assigning without consent.
- Use of the term “transfer” is broader than assign and captures a party selling the agreement to a third-party.
- Many biotech companies will need to make a deal with pharma or larger biotech to commercialize product - eliminates administrative burden associated with written consents.



Integration Clause

“ This Agreement constitutes the entire agreement of the parties with regard to its subject matter, and supersedes all previous written or oral representations, agreements and understandings between Sponsor and Institution with regard to its subject matter [include applicable CDAs, MTAs, etc...]. In the event of any conflict, discrepancy, or inconsistency between this Agreement and the Research Plan, the terms of this Agreement will control.”

- Makes it clear that agreement is the final statement of the parties' agreement.
- Makes it clear that agreement controls in case of an inconsistency with research plan.
- Always review the agreements that are being “superseded” because in some cases, they may be more advantageous.
- Consider implications of superseding a 2 way CDA with a one way confidentiality provision.
- Supersedes = prior agreement governs as to its subject matter through effective date of new agreement and thereafter new agreement terms take over.



Modifications/Counterparts/ Headings

“This Agreement may be changed or any term may be modified only by a writing signed by an authorized representative of each party.”

- Requires any amendment to be in writing and signed by both parties.

“This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original and all of which together will constitute one and the same instrument.”

- Allows the agreement to be enforceable even if the required signatures are on separate pages.
- Generally don't agree to signature by fax except for CDAs - better to have originals.

“This Agreement contains headings only for convenience and should not be used in the construction of this Agreement.”

- Attempts to require that a court not look at the headings in the agreement in interpreting the agreement.



Remedies

“It is understood and agreed that each party may be irreparably injured by a breach of this Agreement by the other party; that money damages would not be an adequate remedy for any such breach; and that the non-breaching party will be entitled to seek equitable relief, including injunctive relief and specific performance, without having to post a bond, as a remedy for any such breach, and such remedy will not be the non-breaching party’s exclusive remedy for any breach of this Agreement.”

- Puts parties on notice that each may seek injunctive relief for breaches of confidentiality and agree, to a point, that, in certain circumstances, that kind of relief would be appropriate.
- Breaching party agrees that it will be liable for any damages arising from breaches of confidentiality –makes it clear non-breaching party is not giving up its rights to get other damages if a court determines that non breaching party can be compensated by money damages (which would generally preclude an injunction).



Remedies (con't)

- For injunction, need to prove (1) irreparable harm that (2) cannot be compensated adequately by damages. Injunction is one type of remedy that may be available for a breach. Non-breaching party still has to be able to prove a breach by other party that harmed the non-breaching party. If that breach can be compensated by paying money, the court will usually not issue an injunction.
- First step is usually to seek a temporary restraining order (TRO), which is intended to prevent further harm until court can conduct a hearing on a preliminary injunction. If court grants the TRO, it will hold a hearing on whether a preliminary injunction should be granted. At that hearing, court will consider the evidence, including the likelihood that party seeking the injunction is going to prevail in the underlying case. If court issues the preliminary injunction (which can be a high hurdle), the onus shifts to breaching party to convince court why a permanent injunction shouldn't issue. If the court issues a permanent injunction, breaching party is prohibited from engaging in the activity forever.



Remedies (con't)

- In most jurisdictions, party seeking an injunction has to post a bond in an amount sufficient to cover the damages that would be suffered by the other party if the court issues a TRO but doesn't issue the preliminary injunction.



Severability; Reformation

“Each provision in this Agreement is independent and severable from the others, and no restriction will be rendered unenforceable because any other provision may be invalid or unenforceable in whole or in part. If the scope of any restrictive provision in this Agreement is too broad to permit enforcement to its full extent, then such restriction will be reformed to the maximum extent permitted by law.”

- Attempts to tell a court that finds some part of the agreement to be unenforceable that the parties intend that (1) other parts of the agreement not automatically be found unenforceable; and (2) any unenforceable portions be construed in a way that preserve as much enforceability as possible.
- Provides some protection in the event a provision in the agreement that has been “overzealously” drafted is deemed unenforceable by a court and other party claims that that provision is the crux of the agreement and therefore the entire agreement is void.



Governing Law

“This Agreement will be interpreted and its performance governed by the laws of the Commonwealth of Massachusetts, U.S.A., applicable to contracts made and to be performed in Massachusetts, without giving effect to conflict of laws principles.”

- Each party generally wants it's local law to govern; for convenience and mitigation of uncertainty.
- Tells the courts that parties have expressed a desire to have the court apply a specific state law – court may show deference to contract or may overrule.
- Law vs. venue - applying specific state law does not mean that case will be in that state's courts – state court unlikely to apply another states laws.
- Silence on governing law – leaves it entirely in courts hands to decide governing law – may facilitate entry of case into federal courts.



Waiver

“No waiver of any term, provision or condition of this Agreement in any one or more instances will be deemed to be or construed as a further or continuing waiver of any other term, provision or condition of this Agreement. Any such waiver will be evidenced by an instrument in writing executed by an officer authorized to execute waivers.”

- Attempts to preserve a party’s right to enforce later breaches if it elects to waive a particular breach.
- Different states have different rules of evidence; by requiring waivers to be in writing, mitigates risk that a use or change of conduct will be interpreted as a waiver of requirements under the agreement.



Indemnification

“Institution will indemnify and hold Sponsor, its Affiliates, and their respective employees and agents (“Sponsor Indemnitees”) harmless against any and all actions, suits, claims, demands, prosecutions, liabilities, costs and expenses (including reasonable attorneys’ fees) (“Claims”) arising out of or relating to Institution’s and/or Principal Investigator’s (a) activities under the Research Program (except to the extent a Claim results from a Sponsor Indemnitees negligence, willful misconduct or breach of this Agreement), (b) negligence or willful misconduct, or (c) breach of this Agreement. The foregoing is contingent upon (i) Sponsor Indemnitee provides Institution prompt written notice of any such Claim, (ii) Institution, at its sole expense, is allowed to control the defense of such Claim, including, without limitation, settlement of such Claim, and (ii) Sponsor Indemnitee performs, at Institution’s sole expense, all acts that are reasonably necessary for the defense or settlement by Institution of such Claim.”

- “Hold harmless” vs. “indemnify”.
- “Defend” – may not need to offer up.
- “Arising out of” vs. “relating to”.
- “Arising solely out of” vs. “to the extent arising from”.
- Notices
- Carve Outs – avoid circularity and make sure they are in the right place.



Reps and Warranties

Representation: a presentation of fact – by words or conduct—made to induce someone to enter into a contract. (Black’s Law Dictionary)

- Inducement to enter into a contract.
- May be written or oral.
- Burden is on party claiming breach to show that representation is material.
- Substantial truth is the only requirement.

Warranty: an express or implied promise that something in furtherance of the contract is guaranteed by one of the contracting parties. (Black’s Law Dictionary)

- Essential part of a contract.
- Must be written into contract.
- Presumed to be material.
- Must be strictly complied with.



Words of Authority

Shall = has a duty to

“The receiver shall not be liable for....” vs. “The receiver is not liable for...”

Will = expresses both parties obligations

“This insurance policy shall cover the terms under which...” vs. “This insurance policy will cover the terms under which...” or just simply “This insurance policy covers the terms under which...”

Must = is required to

“No confidential information shall be disclosed to third parties without...” vs. “Receiver must not disclose confidential information to any third party without...”

May = has a right to

“Upon termination, the licensee shall have the right to retain...” vs. “Upon termination, the licensee may retain one copy of all records....”

Source: Garner, Bryan A, (2002) *Advanced Legal Drafting*, a LawProse® Seminar presented by Bryan A. Garner, Texas, LawProse, Inc.



Structure

- Use outline format:

6. Article

6.1 Section

(A) Paragraph

(i) Subparagraph

(a) Clause

(1) Subclause

- Use a subpart only if there are at least 2 items to list - i.e. don't have (A) if there is no "B".
- Use headings for articles and sections; not necessary for paragraphs, subparagraphs, etc...
- Use hanging indents to visually define structure.
- Make sure same outline format is used consistently throughout the agreement.

Source: Garner, Bryan A, (2002) *Advanced Legal Drafting, a LawProse® Seminar presented by Bryan A. Garner, Texas, LawProse, Inc.*



Conclusion

- It's really not "just boilerplate".
- Pay attention to "miscellaneous" section of contract even if you have "deal fatigue".
- Properly drafted clauses can facilitate/expedite the litigation process.
- Understand what the parties want and draft what you mean.
- If you don't understand something, don't include it in the agreement.