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What's in a licensing agreement?

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WHAT’S IN A LICENSE AGREEMENT?

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WELCOME BACK!
3 REVIEW FROM CONTRACT BASICS

• A valid (aka enforceable) contract is a legally binding obligation to do something in exchange for something else, either another promise or return performance (sometimes forbearance from doing something)

• An enforceable contract must have three elements: offer, acceptance, and consideration.

• Consideration is a core of an enforceable contract. It is a “bargained-for exchange”

• If there is a written document, courts will look to it first – and maybe only – to determine what the agreement includes
4 LEARNING GOALS FOR TODAY

- Become familiar with standard clauses (aka provisions) of a license agreement
- How to identify key provisions in a license by its section heading and language
- Understand the purpose of each provision we discuss today
- Understand the concept of risk allocation in contracts
- Understand the basics of drafting concepts such as qualifiers and standards of performance that allocate risk to the contracting parties
OVERVIEW OF LICENSE BUILDING BLOCKS

• **Introductory Provisions:**
  • Preamble, Recitals, and Words of Agreement: who’s contracting with whom, why, and what do they agree to?

• **Definitions and Defined Terms:**
  • what is the meaning of things that will appear more than once throughout the contract?

• **Action Sections:**
  • who’s doing what, how, under what conditions, and when?

• **Endgame and General Provisions:**
  • How does this agreement end? For a renewable license, how and when does it renew?
  • What are “boilerplate” provisions?
6 CORE CONCEPTS OF A LICENSE

• An enforceable contract creates a legal obligation for the party making a promise, and, on the flip side, a right for the party receiving that right.
  • Example: Database Vendor X is promising Library Y access to backfile of Journal Z in perpetuity.

• An enforceable contract creates levels of risk allocation to each contracting party based on standards of performance and qualifiers.
  • Example: Database Vendor X promises that it will resolve access problems to its content using its best efforts within a 24 hour period.

• The Promisor is master of the contract:
  • Meaning, the drafting party has the higher negotiating power in the deal. Reflect on what this means for Libraries as the consumers.

• Negotiating power of the non-drafting party
  • You may have leeway to negotiate some provisions more than others.
  • Boilerplate probably isn’t going to change, but perhaps the choice of law/venue provisions can
INTRODUCTORY PROVISIONS

• **General tips**
  - When reading a contract, don’t be intimidated long sentences and legalese
  - Break down sections to understand them better

• **Preamble/recitals**
  - Usually the first things you’ll see in a contract
  - They set the stage for the rest of the agreement, maybe tell you about the purpose of the agreement, may reference related documents
  - Nota Bene: the preamble is part of the agreement, even though it doesn’t contain the obligations of the agreement. Don’t overlook it.
  - Watch for things like: the effective dates of the contract, who is bound to the agreement, etc.
INTRODUCTORY PROVISIONS: PREAMBLE, RECITALS, WORDS OF AGREEMENT

- EBSCO License Agreement

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What is the definition section?

- This section defines how some terms will be used for this contract
- You can define things however you want
- Good definitions are consistent throughout a contract, and the definition section can help with this.

The definition section is very important!

- Be sure to read over the definitions and understand what the defined terms mean for this agreement
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• ""Authorized User(s)" are employees, students, registered patrons, walk-in patrons, or other persons affiliated with Licensee or otherwise permitted to use Licensee's facilities and authorized by Licensee to access Databases or Services. "Authorized User(s)" do not include alumni of the Licensee.
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• "Databases" shall mean the products made available by EBSCO.”
INTRODUCTORY PROVISIONS: DISCLAIMERS

• **What is a disclaimer**
  - A disclaimer is a statement about what the contract does not include/cover/guarantee
  - The contract drafter will use these to protect itself against possible complaints/lawsuits that could arise because of the contract.

• **In academic databases**
  - You’ll often see the provider disclaim the accuracy and/or other features of the content on the database.
  - Basically: “Don’t complain to us if you don’t like something you read on our database.”
• **EBSCO license agreement:**

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ACTION SECTIONS

- Where the main subject matter of the performance provisions occur
- Answer questions of:
  - What is the consideration, ie. what are the parties exchanging? financial, non-financial (performance-based)
  - “Follow the cash:” who, how much, when, how, and what triggers the payment?
  - Terms of license: relationship of contracting parties? An actual date or an anniversary term to end?
  - Is there an “evergreen” provision: auto-renew? And what notification rules?
- Representations & Warranties = Statements of past/present truth and a guarantee of truth | Language = Represents and Warrants
- Covenants = Promises / Obligations | Language = “Shall”
- Conditions = Conditions to what? Must relate to an action provision | Language = If X, then Y
- Discretionary Authority = Gives a party a choice or permission to do something | Language = “May”
- Declarations = define contract management policies
• A contract, or a license agreement, translates a business transaction into legal obligations and rights for the contracting parties
• Each provision creates risk allocation for the contracting parties
• A contract has to be read in its entirety to know what are its moving parts
• **Representations & Warranties:**
  • **A Representation:** fact statement about present or past condition
  • In a particular moment in time
  • Intended to induce reliance
  • **A Warranty:** A guarantee of the truth of that statement made by the maker of the statement
• Good drafting will couple Representations + Warranties so as to not create 2 legal standards under each separately.
• As for each action provision, there will be symmetrical Reps + Warranties for each contracting party
Obligations and Representations and Warranties:

“The APA represents and warrants that to the best of the APA’s knowledge, the Licensed Material used as contemplated by this License Agreement do not infringe the copyright or any other proprietary or intellectual property rights of any third party.”

Qualifier “to the best of APA’s knowledge:”

- Q: Is this a broad or narrow qualifier?

Qualifiers: “To the best of APA’s knowledge”

- Q: Is this a broad of narrow qualifier?
- Q: Whom do they benefit, the APA or the licensee?
STANDARDS OF PERFORMANCE

• How well does the promisor set its level of performance to the other contracting party
• Remember, the drafting party is writing your standard of performance!
• Standard of performance is tied to the legal liability the promisor takes on
• Standards: low: good faith effort -- reasonable effort -- best effort
• Sometimes defined by industry standards, court will have to interpret based practice
• What side are you on in this transaction? What is your standard of performance?
“Licensee represents and warrants that it will use reasonable endeavors to notify Authorized Users of the terms and conditions of this License Agreement and use best efforts to protect the Licensed Material from unauthorized use or other breach of this License Agreement.” What’s wrong with:

- Reasonable endeavors to notify standard
- Best efforts to protect standard
- Or other breach qualifier

What’s wrong with this language? “Represents and Warrants” with “it will use..?”

How would you re-draft this Rep + Warranty to make it right?

Bad drafting invites litigation!
• Covenants:
  • Are promises to do something or refrain from doing something in the future
  • Operative language = Licensor (or licensee)... shall | shall not
  • The promisor (party making the promise) creates an obligation for itself | a right for the non-drafting party
  • With standards of performance, they carry a standard of liability
  • Are very important because remedies flow from this provision!

• Example:
  • “Licensee agrees to indemnify and hold harmless the APA, its directors, its officers, employees, successors and assigns from and against any claims, actions or demands arising from a breach of this License Agreement or from a third party claim of infringement due to derivative work created by Licensee and/or Authorized User or due to an unauthorized use of the Licensed Materials by Licensee or Authorized User.

• Q: Is this a broad or narrow standard for the licensee?
ACTION SECTIONS: CONDITIONS

- If/Then statements that denote a fact that must exist before the contracting parties are obligated to do something
- Control sequence of transaction
- Can be found throughout license
- Always tied to another provision, so, conditions to what? A covenant? Discretionary Authority?
- Example:
  - “If the APA identifies any unauthorized use of the Licensed Materials in breach of this License Agreement, the APA has the right to immediately terminate access under this License Agreement for the offending IP Address until the breach is corrected. The APA and Licensee agree that they will work together to correct the breach as soon as possible so that access can be restored.”
- Whom does the condition obligate? How easy or difficult is it to satisfy this condition?
ACTION SECTIONS: DISCRETIONARY AUTHORITY

• Gives a party the choice to do something, not dispositive

• A good negotiation tool. Which side of the transaction are you on?

• Scope: can be broad or narrow. Again, which side of the transaction are you on?

• Example:
  • 6. Confidential Information
  • 6.3 “Notwithstanding the foregoing, each Party may disclose Confidential Information (a)..(b)..(c).. Or (d)

• For the library licensee, this could be a tool for leveraging some negotiation

• Beware, like too many conditions and too much discretionary authority can bog down the transaction
ACTION SECTIONS: DECLARATIONS

• Rules that govern the transaction between the contracting parties
• Do not require performance, like covenants
• Include how the parties will communicate, whose state to bring suit if breach, venue - choice of court
• No remedies flow from this provision, but is still enforceable
ACTION SECTIONS: RECAP

- Where the main subject matter of the performance provisions occur
- Representations & Warranties
  - Statements of past/present truth and a guarantee of truth | Language = Represents and Warrants
- Covenants
  - Promises / Obligations | Language = “Shall”
- Conditions
  - Conditions to what? Must relate to an action provision. | Language = If X, then Y
- Discretionary Authority
  - Gives a party a choice or permission to do something | Language = “May”
- Declarations = define contract management policies
• **Boilerplate provisions**
  • Theses are provisions you’ll see in every contract that look almost identical
  • It can be easy to overlook these as “white noise”

• **Termination provisions**
  • These provisions regulate what happens in the case of breach and/or how to break the agreement

• **“Act of God” provisions**
  • These provisions disclaim liability if something goes wrong because of an “act of god”
  • This means, if there is a natural disaster and the EBSCO databases aren’t available, you can’t sue

• **Severability provisions**
  • These provisions say that if one section of the contract is deemed to be invalid, the rest of the contract still applies
  • One bad section does not kill the entire contract

• **Choice of law/choice of venue provisions**
  • These provisions regulate where a lawsuit must happen and/or what law governs the lawsuit
ENDGAME/GENERAL PROVISIONS: EXAMPLES

Termination

“In the event of a breach of any of its obligations under this Agreement, Licensee shall have the right to remedy the breach within thirty (30) days upon receipt of written notice from EBSCO. Within the period of such notice, Licensee shall make every reasonable effort and document said effort to remedy such a breach and shall institute any reasonable procedures to prevent future occurrences of such breaches. If the Licensee fails to remedy such a breach within the period of thirty (30) days, EBSCO may (at its option) terminate this Agreement upon written notice to the Licensee.

“If EBSCO becomes aware of a material breach of Licensee’s obligations under this Agreement or a breach by Licensee or Authorized Users of the rights of EBSCO or its licensors or an infringement on the rights of EBSCO or its licensors, then EBSCO will notify the Licensee immediately in writing and shall have the right to temporarily suspend the Licensee’s access to the Databases or Services. Licensee shall be given the opportunity to remedy the breach or infringement within thirty (30) days following receipt of written notice from EBSCO. Once the breach or infringement has been remedied or the offending activity halted, EBSCO shall reinstate access to the Databases or Services. If the Licensee does not satisfactorily remedy the offending activity within thirty (30) days, EBSCO may terminate this Agreement upon written notice to the Licensee.”
ENDGAME/GENERAL PROVISIONS: EXAMPLES

• “Act of God”
  • “Neither EBSCO nor its licensors will be liable or deemed to be in default for any delays or failure in performance resulting directly or indirectly from any cause or circumstance beyond its reasonable control, including but not limited to acts of God, war, riot, embargoes, acts of civil or military authority, rain, fire, flood, accidents, earthquake(s), strikes or labor shortages, transportation facilities shortages or failures of equipment, or failures of the Internet.”

• Assignment
  • “This Agreement and the license granted herein may not be assigned by the Licensee to any third party without written consent of EBSCO.”

• Severability
  • “If any term or condition of this Agreement is found by a court of competent jurisdiction or administrative agency to be invalid or unenforceable, the remaining terms and conditions thereof shall remain in full force and effect so long as a valid Agreement is in effect.”
ENDGAME/GENERAL PROVISIONS: EXAMPLES

• Whole agreement
  • “This Agreement represents the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior agreements and understandings, written and/or oral. There are no representations, warranties, promises, covenants or undertakings, except as described here.”
SUMMARY, MAIN TAKEAWAYS

- Building blocks of a typical license are: Introductory, Action Sections, Endgame & General Provisions
- Which side of the transaction are you on? Drafting or the non-drafting party?
- What is your side’s risk allocation? Look to obligations, standards of performance, qualifiers, and Discretionary Authority = these are your negotiation best friends
- Drafting party will have control over the license
- Non-drafting party may have some leverage in negotiating provisions such as choice of law, venue
- Non-drafting party has some leverage in negotiating language of standards of performance and qualifiers
QUESTIONS?

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