

Granting Language in Patent License Agreements: An Analysis of Usages

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I'm no expert on patent licensing. Instead, I've spent many years delving into contract usages, focusing on how to say clearly and effectively whatever you want to say.¹ That led one of my consulting clients to ask me to look into granting language used in patent license agreements—the provision that serves to grant the license. Here's an example:

Subject to the terms and conditions of this agreement, Acme hereby grants to the Licensee, and the Licensee hereby accepts, an exclusive royalty-bearing license under the Patent Rights, with the right to grant sublicenses, in the Field of Use, in the Territory, to make, have made, import, use, have used, offer for sale, sell, and have sold Licensed Products.

This commentary grew out of that client's request. It reflects an approach I call "active drafting," which contrasts with "passive drafting"—instead of sticking with the dysfunction of traditional contract language and relying on courts to resolve any disputes, the goal is to avoid confusion by expressing the deal clearly.²

Categories of Contract Language

The foundation of clear drafting is understanding and applying a concept I refer to as "the categories of contract language."³ A clause or sentence in the body of the contract expresses one of several semantic categories. I've formalized this by giving a label to each category. The categories relevant to an understanding of granting language are language of performance, language of discretion, and language of prohibition.

Language of Performance or Discretion?

Granting language used in any kind of license—for example, *Acme hereby grants the Licensee a license to*—is on its face language of performance. In other words, it accomplishes an action, in the manner of *I now pronounce you husband and wife*.⁴

But as a matter of semantics, the licensor is allowing the licensee to do or use something. In other words, the licensor is granting the licensee discretion. (Although that's not actually what's happening as a matter of patent law—see "Granting Immunity from Suit?," below.) But instead of using granting language, wouldn't it be simpler and clearer to use the main verb structure for language of discretion and say *the Licensee may*?

Advantages of Granting Language

But using language of performance with the verb *grants* offers advantages over using language of discretion. First, it's clear from granting language that discretion is being accorded regarding something

that the licensor controls. And second, using the concept of a license allows you also to use the concept of a sublicense. Expressing *A to B to C* using language of discretion would be trickier and wordier.

Given that granting language using language of performance is not only entrenched but also offers modest advantages, it would be obtuse to ask lawyers to abandon it.

Right Versus License

One indication that granting language is language of discretion disguised as language of performance is that some contracts state that what's being granted is a right, or a right and license, instead of simply a license.

Since granting language appears in license agreements, it makes sense to use consistent terminology—use the word *license* and not *right* in granting language.

Noun License or Verb License?

Instead of using in granting language the noun *license*, you could in theory use the corresponding verb. But using granting language plus the noun *license* allows the drafter to add adjectives. That's simpler than using adverbs to modify the verb *license*.

Another drawback to the verb *license* is that *Acme hereby licenses* on its own is unclear: it could mean that Acme is the licensee or that it's the licensor.

Use of Hereby

In language of performance, *hereby* signals that the act described is being accomplished by virtue of the speech act itself. You could omit *hereby*, but this use of *hereby* is consistent with standard English. If you omit *hereby* from *Acme hereby grants the Licensee a license to*, it would be clear from the context that the intended meaning isn't that, say, Acme is in the habit of granting licenses to the Licensee. But in purely grammatical terms, one couldn't exclude that meaning without using *hereby*. If you use *hereby* to eliminate alternative meanings, the reader doesn't have to work as hard.

As such, use of *hereby* in language of performance differs from use of other *here-* and *there-* words⁵—for example *herein* and *thereunder*. They're old-fashioned and can cause confusion.

Nothing is gained, other than a touch of archaism, by saying *does hereby grant*.⁶

Grants Versus Grants To

One sees the verb *grant* used without a prepositional phrase (*Acme hereby grants the Licensee*) and with (*Acme hereby grants to the Licensee*).

Using a prepositional phrase works only if you put it after the direct object—*Acme hereby grants a license to the Licensee*. That's because it sounds odd to put the prepositional phrase before the direct object.⁷ But in granting language, the direct object (beginning with *a license to*) is lengthy. That precludes putting the prepositional phrase *to the Licensee* after the direct object.

So use *grants* instead of *grants to*.

Don't Use *Agrees to Grant*

The phrase *agrees to* is confusing. It could be understood as either an alternative to *shall* for imposing obligations or as an alternative to *hereby* to express language of performance.⁸

So in granting language, don't use *agrees to grant* instead of *hereby grants*—a court might hold that it constitutes a promise to grant in the future.⁹ And combining the two—*agrees to grant and hereby grants* or some variant—results in either redundancy or conflict. That might not result in a dispute, and some courts have ignored the *agrees to grant* part,¹⁰ but it's nevertheless confusing and adds unnecessary extra words.

One authority says it's commonplace to use both elements if the license includes patents to be issued later on applications or inventions identified in the agreement.¹¹ But in a case involving granting language that featured both elements (“*agrees to and does hereby grant and assign*”), the court held that “*does hereby grant*” effected an assignment of rights in future inventions. That left “*agrees to ... grant*” no role to play.¹²

No Need to Accept the License

In some granting language not only does the licensor grant the license, the licensee also accepts the license. Because granting language constitutes an alternative way of saying that a party has discretion, having the licensee accept a license is as unnecessary as, say, adding *Acme accepts that it may* to the language of discretion *Acme may purchase the Equipment*.

Granting Immunity from Suit?

For purposes of patents, the word *license* doesn't reflect exactly what's being granted. A patent grants the right to exclude others from certain activities; it confers no right to practice the patented subject matter. It follows that a license can't grant any such right.¹³

The Federal Circuit summarized the issue as follows:

As a threshold matter, a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee. Even if couched in terms of ‘[l]icensee is given the right to make, use, or sell X,’ the agreement cannot convey that absolute right because not even the patentee of X is given that right. His right is merely one to exclude others from making, using or selling X. Indeed, the patentee of X and his licensee, when making, using, or selling X, can be subject to suit under other patents.¹⁴

Some contracts—particularly settlement agreements—use instead the phrase *covenants not to sue* or *hereby grants immunity from suit*, or some variation.¹⁵ The contract itself might be called a covenant not to sue or a nonassertion agreement.¹⁶

The verb *covenant* is an archaic way of expressing language of prohibition;¹⁷ a clearer, more modern alternative would be to say *shall not sue*. As for *hereby grants immunity from suit*, it, like standard license-granting language, is language of performance, but the underlying meaning is language of prohibition imposed on the licensor. Of those two alternatives, language of performance is preferable, as it makes it clear that prohibition is being imposed on the licensor regarding something that the licensor controls.

But whatever the conceptual merits of referring to immunity from suit, there's nothing to indicate that it offers any practical advantages. It has been suggested that immunity-from-suit language would express more clearly than does traditional license-granting language how a license under a subservient patent relates to dominant patents.¹⁸ (A subservient patent is a patent for a claimed invention that cannot be practiced without infringing a patent with a broader claim. The latter patent is referred to as the dominant patent.)¹⁹ But in fact the only way to accomplish that clearly would be to have the licensor state, or the licensee acknowledge, that dominant patents do exist or might exist.

Given that immunity-from-suit language offers no practical advantage, and given that licensing terminology is entrenched, nothing would be gained by using instead *hereby grants immunity from suit* or supplementing license-granting language so that it refers to immunity from suit.

Adjectives

Let's now consider the one or more adjectives that might be used to modify *license*.

Sole, Exclusive, and Nonexclusive

In licensing circles, it's widely accepted a *sole* license is different from an *exclusive* license. In a *sole* license, the licensor is obligated not to grant any additional licenses but retains the right to practice the licensed subject matter; in an *exclusive* license, only the licensee has the right to practice the licensed subject matter.²⁰

But in using *sole* and *exclusive* to convey those meanings, drafters are using jargon that isn't comprehensible to the uninitiated. That likely includes some clients.

Furthermore, for two reasons the distinction isn't as clear as it seems. First, a *sole* license could also be understood to mean not that the licensor retains the right to practice the licensed subject matter, but that prior licenses granted are preserved.²¹ And second, the confusing phrase *sole and exclusive*²² is used widely in contracts generally, and one sees instances of *sole and exclusive* used in granting language in different kinds of licenses. That muddies the notion of distinct meanings for *sole* and *exclusive*.

Another way to express the first meaning of *sole* mentioned above is *exclusive (except as to the Licensor)*. But it would be clearer still to state in a separate sentence that the licensor retains the right to practice the licensed subject matter.²³

Instead of *exclusive*, you could say *exclusive (even as to the Licensor)*. But *even* emphasizes something surprising or extreme—contracts aren't the place for that sort of emphasis. Use instead *exclusive (including as to the Licensor)*.

The term *coexclusive* is used by some as an alternative to *sole*,²⁴ but it could result in confusion over whether the licensor may name an additional licensee.

Compared with *sole* and *exclusive*, *nonexclusive* seems unobjectionable.

Duration

In granting language in other kinds of license agreements, the word *perpetual*, meaning "forever," could be used to state duration. But given the limited duration of patents, it doesn't make sense to use

perpetual to describe a patent license. But one often sees *perpetual* used with mixed licenses—licenses for both patent rights and technology.

Termination

Stating that a license is irrevocable means it can't be terminated early.

If you simply want to ensure that the licensor cannot terminate at will before the end of the express term of the license, that's implied when you state an express term—you don't need to make it explicit by means of *irrevocable*.²⁵

Depending on the jurisdiction, stating that a license is irrevocable (or even perpetual) could result in a court's deciding that the license cannot be terminated even if the licensee breaches.²⁶ So don't use *irrevocable* unless that's the intent.²⁷

If you want the license to terminate only in specified circumstances, or if you want it not to terminate, with the only remedies for breach being damages and equitable relief, say so in termination provisions. And if a license agreement contains termination provisions, it can be confusing to address termination partially in granting language, by means of *irrevocable*, with the full story coming in the termination provisions.

Assignment and Sublicense

Granting language often includes *assignable* or *nonassignable* in the string of adjectives. But if the license agreement contains a section on assignment of rights and delegation of obligations, address assignment of the license, or a prohibition on assignment, in that section too, to avoid inconsistency. (One also sees *transferable* and *nontransferable*. In patent law, *assignable* and *transferable* are generally considered synonyms.)²⁸

The words *sublicensable* and *nonpublicensable* are also often used in granting language. Addressing the issue explicitly is prudent—if a contract is silent on sublicensing, it might be unclear what is permitted.²⁹ But those adjectives are a mouthful. A clearer but still somewhat awkward alternative would be to use, within parentheses, *with a right to sublicense* or, conversely, *with no right to sublicense*.

It would be clearest, but less economical, to address sublicensing outside the context of granting language. That's what you should do if sublicensing involves anything other than blanket permission or prohibition.

Using *Worldwide*

Using *worldwide* in granting language to modify *license* suggests that the license is worldwide, but it would make more sense to think of *worldwide* as referring to the scope of activities permitted under the license. It follows that that's what the adjective *worldwide* should modify. This approach applies to any reference to territory.

In some contexts, *worldwide* might be too broad. A license applies only in those jurisdictions where patents covered by the license have been obtained and are in effect. Usually, that will be something less than worldwide.

But *worldwide* might be used if it's not known in what countries a patent will be obtained. For example, a licensor might file an application under the Patent Cooperation Treaty and plan on have that

application acknowledged as a regular national filing in various yet-to-be-determined member countries of the treaty.³⁰ In that context it might be expedient to use *worldwide*, but it doesn't accurately express the circumstances.

In any event, use of *worldwide* is sufficiently involved that full treatment of the subject is beyond the scope of this commentary.

Redundancy?

Some adjectives found in granting language appear redundant.

Consider *royalty-bearing* and *royalty-free*. If a license agreement provides for a royalty, there's no need to refer to that fact in the granting language. Similarly, if the license agreement doesn't provide for a royalty, why say as much in granting language? Once you start to specify what *isn't* in a contract, it's hard to know where to stop.

Regarding *paid-up*, if the licensee is required to pay anything up-front for the license, that would be specified in the contract, so it would be redundant to say *paid-up*. If the licensee isn't required to pay anything, *paid-up* would be misleading. Instead say, within offsetting commas, *at no cost to the Licensee*.

The word *limited* sometimes features in granting language. That raises the question, limited in what way? Presumably that's addressed elsewhere in the license agreement.

Anecdotal evidence suggests that many practitioners use the string of adjectives as a checklist—a way of seeing in one place the elements of the license that's being granted. But if you include in granting language adjectives that echo provisions elsewhere, you're ignoring a basic principle of contract drafting—that you shouldn't say the same thing twice.³¹ To avoid confusion, include, in parentheses, *in accordance with* plus an appropriate cross-reference after each adjective that reflects an issue addressed at greater length elsewhere.

A License to Do What?

The rights granted under the U.S. patent statutes are the rights to exclude others from “making,” “using,” “offering for sale,” “selling,” and “importing” the patented invention.³²

Patent license grants often track the patent holder's exclusive rights by using *make, use, offer to sell, sell, and import*. That results in a grant as broad as the statutory grant under a patent and provides the licensee a complete defense to a claim of infringement.³³ But a licensor could equally elect to grant fewer than all the rights.³⁴ And a licensee might, for example, not have any need to import.

Offer to Sell

One right granted in the U.S. patent statutes—the right to exclude others from offering for sale—would seem redundant in a nonexclusive license. If I can stop you from selling, it makes sense that I should also be permitted to stop you from offering to sell. But if I let you sell, it follows that even without saying so, I'm also letting you offer to sell—you can't sell something without first offering to sell it.

But in an exclusive license, the licensee would want to exclude others from offering for sale. Otherwise, if a licensee in Jurisdiction A doesn't have *offer for sale* rights, a licensee in Jurisdiction B under the same patent could in Jurisdiction A offer the product for sale, then actually sell it in Jurisdiction B.

Because *offer for sale* rights are helpful in exclusive licenses and are at worst redundant in nonexclusive licenses, retain *offer for sale* in all granting language that includes *sell*, instead of swapping it in and out as circumstances require.

Have Made

Often a grant will include *have made* in addition to *make*.³⁵ That permits a licensee to have an unlicensed nonparty manufacture a licensed good on behalf of the licensee without exposing the unlicensed nonparty to being sued by the licensor for infringement.

In *CoreBrace LLC v. Star Seismic LLC*,³⁶ the Federal Circuit held that a nonexclusive licensee with no right to sublicense implicitly has *have made* rights arising from a granted right to make the patented invention. But because that's just one decision, and an arguably problematic one at that,³⁷ you shouldn't rely on it if you want a license to include *have made* rights. Instead, make that explicit. Conversely, if you wish to exclude *have made* rights from a license, make that explicit, by adding *but not have made* to the granting language.

If it's commonplace to include *have made* in granting language, why not *have used*, *have offered for sale*, *have sold*, and *have imported*?³⁸ The question is in what context a licensee might need help from a nonparty. In using the patented technology? That doesn't seem compelling. The same could be said of the other elements, all except *have made*.

Other Elements

Some granting language goes beyond the rights granted under the U.S. patent statutes by including one or more additional verbs. One such is *export*; presumably that's because sale of a product for export in unassembled form is now by statute considered to be infringement.³⁹

Others such verbs include *lease* and *distribute*. It follows that breach relating to any such supplementary activities wouldn't give rise to an action for patent infringement. The benefit of such expansive granting language is uncertain,⁴⁰ but it might be appropriate in mixed licensing, with different forms of intellectual property requiring different treatment.

Using Subject to the Terms of this Agreement

Granting language often includes, usually at the beginning of the sentence, the phrase *subject to the terms of this agreement*. Variants refer to *terms and conditions*,⁴¹ or might cite specific sections.

Generally, using *subject to* in a provision signals that it's undercut by one or more other provisions. Using *subject to* is particularly helpful if that nexus wouldn't otherwise be obvious to the reader.

In granting language, that's not usually the case. For one thing, often other provisions—for example, a section on royalties—supplement granting language instead of undercutting it. Readers don't benefit from being alerted to such supplementary provisions—it's safe to assume that readers know that contracts should be considered as a whole.

And those provisions that do undercut granting language—for example, termination provisions—are likely to be sufficiently prominent, and their effect on granting language is likely to be sufficiently obvious, that alerting readers to them by means of *subject to the terms of this agreement* in granting language wouldn't serve any useful purpose.

So if you're looking for economy in granting language, you might want to dispense with *subject to the terms of this agreement* and its variants.

Note that *subject to the terms of this agreement* doesn't express a condition. If you wish to state that something is a condition to the granting of a license, with failure to satisfy that condition giving rise to a claim for infringement (as opposed to its being an obligation, with failure to comply with that obligation giving rise to a claim for breach of contract),⁴² you should make that explicit. The clearest way to do so would be to use one of the standard ways of expressing a condition, including using the word *condition*.⁴³

Occasionally one sees *subject to compliance with the terms of this agreement* added to granting language. That might reflect an attempt by the drafter to make compliance with every obligation a condition to the license. That seems an unlikely notion.

Revised Example

Oh, that example of granting language offered at the beginning of this commentary? Here it is again, adjusted to reflect the recommendations in this commentary:

Acme hereby grants the Licensee an exclusive, royalty-bearing (in accordance with section 4.5) license (with the right to sublicense) under the Patent Rights in the Field of Use to make, have made, use, offer for sale, sell, and import Licensed Products in the Territory.

No one would mistake that for easy reading, but it's an improvement.

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¹ See Kenneth A. Adams, *A Manual of Style for Contract Drafting* (3d ed. 2013).

² See Kenneth A. Adams, *Eliminating the Phrase Represents and Warrants from Contracts*, 16 Tenn. J. Bus. L. 203, 227–28 (2015) (comparing passive drafting and active drafting).

³ See Adams, *supra* note 1, at ch. 3.

⁴ See *id.* at ¶¶ 3.19–.43.

⁵ See *id.* at ¶¶ 13.260–.61.

⁶ See *id.* at ¶ 3.23.

⁷ See *id.* at ¶¶ 3.38–.43.

⁸ See *id.* at ¶¶ 3.83–.85.

⁹ See, e.g., *IpVenture, Inc. v. Prostar Computer, Inc.*, 503 F.3d 1324 (Fed. Cir. 2007) (holding that “agree to assign” does not effect an assignment).

¹⁰ See, e.g., *Imation Corp. v. Koninklijke Philips Electronics N.V.*, 586 F.3d 980, 986 (Fed. Cir. 2009) (holding that “agrees to grant and does hereby grant” in a license agreement “is a singular, *present* grant”).

¹¹ Brian G. Brunsvold, Dennis P. O'Reilley & D. Brian Kacedon, *Drafting Patent License Agreements* § 10.01.A (7th ed.).

¹² *DDB Technologies, L.L.C. v. MLB Advanced Media, L.P.*, 517 F.3d 1284, 1290 (Fed. Cir. 2008).

¹³ Paul M. Janicke, *A Need for Clearer Language About Patent Law*, 11 J. Marshall Rev. Intell. Prop. L. 457, 470 (2012).

¹⁴ *Spindelfabrik Suessen-Schurr, Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987) (citations omitted).

¹⁵ Harold Einhorn & Eric E. Bensen, *Patent Licensing Transactions* § 1.04[1] (2015).

¹⁶ Brunsvold, O'Reilley & Kacedon, *supra* note 11, at § 4.02.

¹⁷ See Adams, *supra* note 1, at ¶ 13.130 (use of *covenant* in language of obligation).

¹⁸ See Einhorn & Bensen, *supra* note 15, at § 1.04[2]; see Janicke, *supra* note 13, at 467–71.

¹⁹ John Gladstone Mills III et al., *1 Patent Law Fundamentals* § 1:12 (2d ed. 2012).

²⁰ See *Drafting License Agreements* § 1.02 (Michael A. Epstein and Frank L. Politano eds., 4th ed. 2012).

²¹ See Roger M. Milgrim, *Milgrim on Licensing* § 15.33 (2012).

²² See Adams, *supra* note 1, at ¶¶ 13.611–.12.

²³ See Robert A. Matthews, Jr., *1 Annotated Patent Digest* § 9:59 (2015) (“[S]hould a patentee wish to continue practicing its invention it should expressly reserve that right in the license agreement or clearly state in the agreement that the exclusive license is subject to the patentee’s continued right to practice the invention.”).

²⁴ See e.g., R. Gwen Peterson, *Patent Licensing Considerations*, Ass’n of Corp. Counsel (Aug. 27, 2013) (“A license can also be ‘co-exclusive’ between the patentee and licensee, wherein the patentee grants the licensee

exclusive rights with respect to everyone *except* the patentee.”), available at <http://www.acc.com/legalresources/quickcounsel/qcplc.cfm?makepdf=1>.

²⁵ See Raymond T. Nimmer & Jeff C. Dodd, *Modern Licensing Law* § 9:16 (2014).

²⁶ See, e.g., *Nano-Proprietary, Inc. v. Canon, Inc.*, 537 F.3d 394, 397 (5th Cir. 2008) (holding that an “irrevocable” and “perpetual” license “could not be terminated, notwithstanding a material breach of the agreement”).

²⁷ Brunsvold, O'Reilley & Kacedon, *supra* note 11, at § 10.01.E.

²⁸ See *id.* at § 15 n.1.

²⁹ See Nimmer & Dodd, *supra* note 25, at § 9:25.

³⁰ John Gladstone Mills III et al., *supra* note 19, at § 21:7.

³¹ See Adams, *supra* note 1, at ¶ 1.62.

³² See 35 U.S.C. §154(a)(1).

³³ See Milgrim, *supra* note 21, at § 15.20.

³⁴ See *id.* at § 2.27.

³⁵ See *id.* at § 15.20.

³⁶ 566 F.3d 1069, 1074–75 (Fed. Cir. 2009).

³⁷ See Milgrim, *supra* note 21, at § 15.20 (stating that the *CoreBrace* holding is “troubling in several respects”).

³⁸ See Lynda Covello & David Newman, *Standardizing Patent License Agreements: A Method of Evaluating What May Be Standardized*, 2010 Licensing Executives Soc’y 1 (proposing granting language that includes those elements), available at <http://www.gtlaw.com/portalresource/lookup/wosid/contentpilot-core-2301-14008/pdfCopy.name=/LES>.

³⁹ 5 U.S.C. §271(f) (2006).

⁴⁰ Brunsvold, O'Reilley & Kacedon, *supra* note 11, at § 10.01.F.2 (questioning whether “anything is gained by including in the granting clause such words as ‘to ... have made, ... lease, or otherwise dispose of’”).

⁴¹ See Adams, *supra* note 1, at ¶ 13.672.

⁴² See *Jacobsen v. Katzer*, 535 F.3d 1373, 1380 (Fed. Cir. 2008) (considering the distinction between failing to satisfy a condition to a copyright license and breach an obligation).

⁴³ See Adams, *supra* note 1, at ¶¶ 3.246–.69.