

Licensing: Choice of Law and Venue

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In the process of negotiating intellectual property agreements, such as licenses, joint development agreements, and nondisclosure agreements (NDAs), the choice of law and venue provisions are often considered as subordinate terms. Generally speaking, the drafting party inserts its own local jurisdiction for the choice of both law and venue designations. Once the drafting party has established this jurisdiction as a starting point for negotiation, the other party generally has a hard time convincing the drafting party to choose a jurisdiction more favorable to them. Thus, the negotiation process often ends with no change to these provisions, or with the selection of a jurisdiction considered “neutral,” or at least equally inconvenient for both parties.

The inattention given these provisions belies their true significance. Choice of law and venue provisions can have profound impacts on the rights afforded your client and, importantly, the cost and complexity of resolving disputes. As an initial matter, the differing substantive laws of various jurisdictions can affect your client’s legal rights under an agreement. In addition, the requirement to appear in a distant court can impose significant costs, including the cost to retain local counsel, transportation expenses, and accommodations expenses. Moreover, when the distant court is located in the opposing party’s home state, concerns about real or perceived favoritism in favor of the “at home” party can arise. For these reasons, well-drafted choice of law and venue provisions are vitally important to your client. This article explores alternative approaches to such provisions, highlights the pros and cons of the various approaches, and provides practical recommendations for drafters of IP agreements concerning these provisions.

Before delving into a discussion of these provisions, some common understanding of terms is needed. In this article, we refer to choice of law, venue, and personal jurisdiction. A choice of law provision indicates the state or country whose laws will be applied for the interpretation of an agreement and for the enforcement process. For example, an IP agreement could include the following choice of law provision: “The validity, interpretation, performance, and enforcement of this agreement shall be governed by and interpreted in accordance with the laws of the state of Michigan.” A venue provision prescribes the court or tribunal that will resolve disputes between the parties to the agreement. For example, an IP agreement could include the following venue provision: “The parties agree that any action, suit, or proceeding arising out of this agreement shall be brought in the United States District Court for the Eastern District of Michigan.” Personal jurisdiction is the power of a court to compel a party to appear for resolving disputes.

Having addressed the foregoing definitional issues, we now turn our attention to the factors that a party should consider when negotiating venue and choice of law provisions in IP agreements.¹ First, we discuss the implications of choosing a particular venue or governing law. Second, we consider methods of expanding or limiting the scope of contractual venue provisions. In the context of these

discussions, we will consider a hypothetical agreement between one party domiciled in Michigan and a second party domiciled in Colorado. While this hypothetical agreement involves two domestic parties, the same considerations also apply to international agreements.

With respect to their choice of a particular venue or governing law, our hypothetical parties may take one of several different approaches. For example, the parties may agree that Michigan law will apply and that disputes will be resolved in Michigan state courts. Alternatively, they may agree that Michigan law will apply, but that disputes will be resolved in the Colorado courts, or vice versa. In addition, they may agree that disputes will be resolved in a neutral forum, such as Illinois. Finally, they may agree that the proper venue for dispute resolution will depend on the identity of the party bringing a lawsuit. In the following paragraphs, we discuss each of these scenarios in more detail, identifying the risks and advantages of each approach.

In the first scenario, our Michigan and Colorado domiciliaries agree that their contract will be governed by Michigan law and that disputes will be resolved in Michigan state courts. This is the most straightforward approach to venue and choice of law provisions, and most courts respect parties' freedom to structure their relationship in this manner. Specifically, the Michigan courts would exercise jurisdiction over lawsuits to enforce the agreement, and other courts would refrain from exercising such jurisdiction.

If one of the parties sought to enforce the agreement in a Michigan state court, the Michigan court would almost certainly find that it had personal jurisdiction over the defendant. Indeed, most courts find that a venue provision confers personal jurisdiction on the chosen courts. For example, a Florida appellate court recently held that a venue provision designating the Florida courts confers personal jurisdiction on those courts where one of the contracting parties is domiciled in Florida.² Specifically, the appellate court held that the Florida trial court had jurisdiction over the defendant, a Delaware corporation, by virtue of a venue provision in the defendant's agreement with the plaintiff, a Florida corporation.³ Similarly, a Washington appellate court has held that a written agreement containing a venue provision functions as consent to personal jurisdiction in the chosen venue.⁴ Specifically, the court affirmed the trial court's exercise of personal jurisdiction over the defendant, a citizen of Massachusetts, because the defendant's agreement with the plaintiff provided that "venue shall lie exclusively in Clark County, Washington."⁵ The parties' agreement exhibited consent to personal jurisdiction because venue could not lie exclusively in Washington unless the parties consented to the jurisdiction of the Washington courts.⁶ Likewise, in our hypothetical case, a Michigan court would likely find that the Colorado domiciliary consented to the jurisdiction of the Michigan courts by virtue of the venue provision in the agreement.

Conversely, if one of the parties sought to enforce the hypothetical agreement in a Colorado court, the Colorado court would enforce the venue provision of the contract by dismissing the lawsuit. More generally, most courts will dismiss or transfer a lawsuit on grounds of improper venue if an applicable venue provision designates a different jurisdiction. For example, the U.S. District Court for the

District of Oregon recently transferred a lawsuit to the Southern District of Ohio after finding that an applicable forum selection clause rendered venue improper in the Oregon court.⁷ In that case, the plaintiff, a citizen of Oregon, and the defendant, an Ohio corporation, had entered into an employment agreement providing that all suits “arising out of or connected with” the agreement had to be filed in an Ohio court.⁸ Finding that the suit was “connected with” the agreement,⁹ the Oregon court held that the plaintiff had filed his claims in an improper venue when he sued the defendant in the Oregon court.¹⁰ Likewise, if a lawsuit were filed in a Colorado court in our hypothetical case, venue would be improper, and the Colorado court would dismiss the lawsuit, or transfer the lawsuit to a Michigan court.

In the second scenario, our Michigan and Colorado domiciliaries agree that their contract will be governed by Michigan law, but that disputes will be resolved in the Colorado state courts. Thus, the parties agree that lawsuits must be filed in Colorado, but require the Colorado courts to interpret the contract by applying Michigan law. In this situation, sufficient contacts exist with the state of Colorado to enable the Colorado courts to exercise personal jurisdiction over both parties (as in the first scenario), and venue will be improper in other jurisdictions (also as in the first scenario). A party may select this approach when it regards one state’s laws as unacceptable or particularly desirable. For example, employers often want to avoid the application of California law, which is known to favor the rights of employee inventors and authors over the rights of their employers. On the other hand, New York and Delaware have highly developed bodies of law related to copyrights and publishing. Thus, parties negotiating a publishing contract may both prefer to have their agreement interpreted under New York or Delaware law.

Can our hypothetical parties trust that the chosen Colorado courts will apply Michigan law? Probably not. In some cases, courts do honor the parties’ agreement that nonforum law will govern the interpretation and enforcement of their contract.¹¹ In many cases, however, courts find one or another justification to apply the law of the forum state instead of the law designated in the parties’ choice of law provision. In one such justification, the court construes the choice of law provision narrowly and then determines that the claims of a particular lawsuit fall outside the scope of the provision. For example, the Ninth Circuit held that a choice of law provision in an employment contract applied only to the interpretation and enforcement of the contract itself, and not to other disputes between the parties.¹² Therefore, when the employees filed a lawsuit claiming that their employer deprived them of benefits required by the California Labor Code, the court held that California law would govern the employees’ rights under the Code, despite the parties’ choice of Texas law in the employment contract.¹³ In a second justification, the court determines that the application of the chosen law would do violence to a fundamental public policy of the forum state. For example, a California district court recently held, and the Ninth Circuit affirmed, that the enforcement of a certain arbitration clause in a franchise agreement would contravene the state’s fundamental public policy of protecting franchisees from unfair and deceptive business practices.¹⁴ The franchise agreement at issue contained a choice of law clause providing that the agreement would be governed by Texas law.¹⁵ However, since the arbitration clause would be enforceable under Texas law, but not under California law, the court held that California law would govern the enforceability of the arbitration clause.¹⁶

In the third scenario, our Michigan and Colorado domiciliaries agree that disputes will be resolved in some “neutral” jurisdiction that is equally convenient, or equally inconvenient, to both parties. For example, the parties might select Illinois as the venue, even though neither party has a connection with Illinois that is otherwise sufficient to support an exercise of personal jurisdiction under the Illinois long-arm statute. In this scenario, the parties must consider whether the Illinois courts will exercise personal jurisdiction on the basis of the venue provision alone.

Nationwide, courts are divided on this issue. On one hand, the Supreme Court of Florida has held that a forum selection clause, designating Florida as the forum, cannot operate as the sole basis for Florida to exercise personal jurisdiction over an objecting nonresident defendant.¹⁷ Thus, even though an agreement between the plaintiff, a Delaware corporation, and the defendant, a citizen of Mississippi, provided for venue in Florida, the court held that the Florida trial court lacked personal jurisdiction over the parties because the parties had not satisfied any provision of Florida’s long-arm statute.¹⁸

On the other hand, the New York courts recognize that a forum selection clause may serve as a court’s sole basis for personal jurisdiction over the defendant.¹⁹ Thus, even in a case where no party resided in New York, and none of the events giving rise to the plaintiff’s suit occurred in New York, a federal district court applying New York law found that a forum selection clause designating the New York courts was sufficient to confer personal jurisdiction on the court.²⁰ Accordingly, the court denied the defendants’ motion to dismiss for lack of personal jurisdiction.²¹

Like the New York courts, the Delaware courts also recognize that a party may consent to personal jurisdiction by agreeing to an appropriate venue provision.²² Delaware has a highly developed body of precedential and statutory law related to corporations since it is a very popular state for incorporation. Therefore, the Delaware courts represent the chosen destination in many venue provisions.

As the foregoing discussion indicates, some courts are willing to act as neutral arbiters of disputes between parties having no relationship to their respective jurisdictions, provided that the parties have previously agreed to resolve their disputes in those courts. Given that other courts require the parties to demonstrate an independent basis for personal jurisdiction, however, venue provisions designating a “neutral” court are fraught with uncertainty. Therefore, parties adopting such venue provisions in their agreements must ensure that the provisions designate courts that will treat them as an independent basis for personal jurisdiction.

In the fourth scenario, the choice of venue is a function of which party brings an action against the other. Typically, in these agreements one party must go to the other’s jurisdiction if they seek to bring an action. In our hypothetical, the Michigan domiciliary would be required to file suit in Colorado, while the Colorado domiciliary would be required to file suit in Michigan. Courts generally enforce these contingent venue provisions.²³ For example, the U.S. District Court for the District of Missouri recently transferred a lawsuit filed in contravention of such a provision.²⁴ In that case, the plaintiff, a Missouri corporation, and the defendant, a citizen of Ohio, had entered into a stock purchase agreement

containing the following venue provision: “Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement shall be brought against any of the parties only in the courts of the defending party.”²⁵ When the plaintiff sued the defendant in the plaintiff’s home state of Missouri, rather than the defendant’s home state of Ohio, the district court granted the defendant’s motion to transfer the action to Ohio based on the venue provision.²⁶

While contingent venue provisions have an attractive symmetry on their face, they do present one key disadvantage. Strategically, a contingent venue provision serves as a disincentive to a party considering bringing an action. Therefore, these agreements punish the party that has suffered a breach by the other party.

In addition to the foregoing considerations, parties negotiating an IP agreement should also exercise care to identify a court having subject matter jurisdiction over likely disputes. For example, if a patent infringement dispute is likely to arise, the parties should not select a state court, as patent infringement lawsuits fall within the exclusive jurisdiction of the federal courts.

Having selected a venue, the parties to an agreement must next decide on the scope of the venue provision. Will the provision apply only to lawsuits concerning the breach or interpretation of the agreement? Or will it apply to all disputes concerning the subject matter of the agreement, such as disputes related to underlying intellectual property rights? For example, suppose that our hypothetical Michigan and Colorado domiciliaries enter into a patent license agreement in which the Michigan corporation licenses certain patent rights to the Colorado corporation. The parties may decide that the venue provision will designate the Michigan courts. At this point the parties will need to determine the scope of the venue provision. In almost every case, the parties will want the provision to cover disputes over the terms of the agreement itself, e.g., a lawsuit in which the Michigan corporation alleges that the Colorado corporation has not fulfilled its royalty obligations. But the parties might also agree that the provision will apply to other disputes related to the subject patents, e.g., a lawsuit in which the Colorado corporation challenges the patents’ validity. How can the parties ensure that the venue provision will have the proper scope?

Not surprisingly, the scope of a venue provision depends almost exclusively on the language of the provision itself. Venue provisions pertaining to disputes “arising out of the agreement” generally apply only to breach of contract claims. For example, the Second Circuit recently considered the following venue provision in a recording contract: “[A]ny legal proceedings that may *arise out of* [this agreement] are to be brought in England.”²⁷ The recording artist had sued the record company in the Southern District of New York, alleging that the record company had: (1) breached the recording contract by failing to pay certain royalties, and (2) infringed the recording artist’s copyrights.²⁸ The court affirmed the district court’s dismissal of the breach of contract claims, finding that the venue provision required that these claims be brought in an English court.²⁹ However, the court reversed the district court’s dismissal of the copyright claims.³⁰ The court reached this decision because it found that the copyright infringement claims originated in the federal copyright laws, not in the recording contract.³¹

Therefore, these claims did not “arise out of” the recording contract, and the venue provision did not apply to these claims.³²

In contrast, venue provisions pertaining to disputes “regarding the agreement,” “connected with the agreement,” or “related to the agreement” are generally construed more broadly. For example, the District of Oregon recently considered the following venue provision in an employment agreement: “[A]ny dispute arising under this Agreement shall be determined in the common Pleas Court of Miami County, State of Ohio or in Federal District Court for the Southern District of Ohio, Western Division, and . . . no action shall be filed in any other court pertaining to any dispute arising out of or *connected with* this Agreement.”³³ The Oregon district court transferred the employee’s wrongful termination lawsuit to the Southern District of Ohio.³⁴ The court found that, because the employee’s claims were “premised on the termination of the relationship created and governed by the Employment Agreement, they [we]re necessarily ‘connected with’ it, although they d[id] not ‘aris[e] under’ it.”³⁵ Therefore, the court found that the claims fell within the scope of the venue provision.³⁶

In view of the foregoing, drafters of IP agreements should consider the following practice tips in the areas of venue and choice of law provisions.

Our aim in this article is to elevate the significance of choice of law and venue provisions in intellectual property agreements. Your task as an advocate for your client is not complete until you have given careful thought to these terms.

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Endnotes

1. Intellectual property agreements are contracts, and therefore such agreements are governed by the same principles applicable to contracts generally. Since the contract law principles applicable to venue and choice of law provisions are not specific to any particular type of underlying transaction, the following discussion will not be limited to case law involving intellectual property agreements. Rather, the discussion will reference relevant case law regardless of the nature of the underlying transaction.

2. See *Jetbroadband v. Mastec*, 13 So. 3d 159, 162 (Fla. Dist. Ct. App. 2009).

3. *Id.* at 163.

4. *See* Kysar v. Lambert, 887 P.2d 431, 76 Wn. App. 470, 484 (Wash. Ct. App. 1995).
5. *Id.*, 76 Wn. App. at 487.
6. *Id.*
7. *See* Sheasley v. Orr Felt. Co., No. CV 10-956-PK, slip op. at 11–12 (D. Or. Oct. 25, 2010).
8. *Id.* at 3.
9. *Id.* at 9.
10. *Id.* at 11.
11. *See, e.g.*, Huff v. Liberty League Int’l, No. EDCV 08-1010-VAP, slip op. at 15–18 (C.D. Cal. Apr. 14, 2009) (holding that Arizona law governed the interpretation and enforceability of the arbitration clause in an agreement between the plaintiff and the defendant, an Arizona corporation); Melt Franchising v. PMI Enters., No. CV 08-4148 PSG, slip op. at 3–5 (C.D. Cal. Jan. 2, 2009) (holding that Massachusetts law governed the relationship between the plaintiff, a Massachusetts corporation, and the defendant, and therefore dismissing defendant’s counterclaims that sounded in California law).
12. *See* Narayan v. EGL, Inc., 616 F.3d 895, 898 (9th Cir. 2010).
13. *Id.* at 899.
14. Bridge Fund Capital v. Fastbucks Franchise, No. 08-17071, slip op. at 14214 (9th Cir. Sept. 16, 2010).
15. *Id.* at 14213.
16. *Id.* at 14214.
17. *See* McRae v. J.D./M.D., Inc., 511 So. 2d 540, 542 (Fla. 1987).
18. *Id.* at 543.
19. *See, e.g.*, U.S. Bank Nat’l Ass’n v. Ables & Hall Builders, 582 F. Supp. 2d 605, 615 (S.D.N.Y. 2008) (citing Nat’l Union Fire Ins. Co. v. Worley, 257 A.D.2d 228, 231 (N.Y. Sup. Ct. 1999)).
20. *See id.*
21. *Id.* at 616.
22. *See, e.g.*, Alstom Power, Inc. v. Duke, No. 04C-02-275 CLS (Del. Super. Ct. Jan. 31, 2005) (“[I]t is well settled that a party can consent to the personal jurisdiction of the court.’ A forum selection clause is one avenue to expressly consent to personal jurisdiction.”) (quoting Res. Ventures, Inc. v. Res. Mgmt. Int’l, Inc., 42 F. Supp. 2d 423, 431 (D. Del. 1999)).

23. *See, e.g.*, *CIC Group, Inc. v. Mitchell*, No. 4:10CV1789MLM (E.D. Mo. Dec. 15, 2010); *Warner & Swasey v. Salvagnini*, 633 F. Supp. 1209 (W.D.N.Y. 1986).

24. *See CIC Group*, No. 4:10CV1789MLM, slip op. at 7.

25. *Id.* at 3.

26. *Id.* at 5–7.

27. *See, e.g.*, *Phillips v. Audio Active*, 494 F.3d 378, 382 (2d Cir. 2007)(emphasis added).

28. *Id.* at 383.

29. *Id.* at 387.

30. *Id.* at 392.

31. *Id.* at 390–91.

32. *Id.* at 390–92.

33. *See Sheasly v. Orr Felt. Co.*, No. CV 10-956-PK, slip op. at 3 (D. Or. Oct. 25, 2010) (emphasis added).

34. *Id.* at 11–12.

35. *Id.* at 9.

36. *Id.*