

Clause	Annotation
<p>MEMORANDUM OF UNDERSTANDING REGARDING ADAPTING A SUPPLIER'S COMPONENT TO AN OEM CUSTOMER'S PRODUCT [1]</p>	<p>[1] This agreement was developed for chip companies, possessing proprietary silicon designs and application software for formulating OEM interfaces to the silicon, when involved in "design-ins", i.e., adapting their components for integration with larger products marketed by OEM customers. A design-in is a lengthy process and may require extensive collaboration between the two companies. However, the resources of a chip company are often stretched thin, and working without compensation for prospective customers entails a high level of risk. Moreover, mitigating this risk can be difficult given that no adaptation has yet occurred and companies may not yet wish to bind themselves contractually.</p> <p>This agreement is intended to be used after an initial confidential exchange of information, but before the signing of a purchase order under a master purchases agreement. The agreement clarifies the obligations of each party during this time, providing the chip company with comfort knowing that the other party is a serious customer and worthy of an unpaid period of research and development.</p> <p>The form was developed in response to a challenge from a Supplier-client for it to be as short and simple as possible, leading to fast execution and no lengthy negotiation over boilerplate. In this regard, emphasis has been placed on making the provisions neutral and in eliminating as much boilerplate as is tolerable.</p>
<p>This Memorandum of Understanding ("<b>MOU</b>") [2] is being entered into effective upon the date of last signature below (the "<b>Effective Date</b>"), by and between OEM Customer ("<b>Customer</b>") and Component Supplier ("<b>Supplier</b>") with respect to collaboration in testing and adapting Supplier's Component (the "<b>Component</b>") described in the attached Schedule A for use in Customer's product (the "<b>Product</b>") also described in the attached Schedule (the "<b>Collaboration</b>"). [3]</p>	<p>[2] The MOU is an agreement to agree. Unlike a typical letter of intent, this MOU is an affirmative agreement to achieve milestones specified in the attached schedule. As such, it is a legally binding document that requires both parties to act in good faith to work towards negotiating a final agreement. If circumstances ever indicate that either party cannot go forward, there would be no liability. However, parties who do not have a serious intent to move forward and subsequently fail to achieve the milestones or work towards negotiating a final agreement are in breach and may be exposed to damages.</p> <p>Note that this agreement does not explicitly state that it is legally binding. In some cases, it may be helpful to include this language, particularly when using it with unsophisticated parties.</p> <p>[3] As noted in [1], this agreement was developed primarily for chip companies seeking to place their components in larger OEM products. However, the agreement can be applicable to any</p>

	<p>situation in which there is a costly development period between an initial confidentiality agreement and a final master purchase agreement. For example, a similar situation arises for a software product that is integrated as a module into a larger software product.</p>
<p><b>1. Collaboration.</b> [4]</p> <p>Each party agrees to exercise commercially reasonable efforts [5] to perform the obligations assigned to it in the Collaboration Milestones described in the Schedule within the time frame specified therein.</p> <p>Each party shall bear the cost of its own performance to the extent commercially reasonable. [6]</p>	<p>[4] This clause details the purpose of the MOU, which is to establish a collaboration between the two parties to reach a subsequent master purchase agreement.</p> <p>[5] “Commercially reasonable efforts” are a pragmatic standard when requiring the parties to commit to achieve a stated goal. Such level of effort may be most appropriate for the context of this MOU, where both parties are trying to determine whether the subsequent master purchase agreement will be worth the investment. However, in some cases parties may wish to use a less demanding standard, such as good faith, or just state that there is no liability or a liability cap for any failure to perform.</p> <p>[6] This clarifies that the collaboration is essentially unpaid.</p>
<p><b>2. Subsequent Agreements.</b> [7]</p> <p>If as a result of the Collaboration, the Product incorporating the Component meets the Performance Metrics [6] specified in the Schedule, Customer and Supplier will each exercise commercially reasonable efforts to enter into a master purchase agreement for the purchase of Supplier’s Component under which Customer presently anticipates that it will place orders in the aggregate quantity of ____ units of the Component for delivery by ____, 20__, under a mutually agreeable pricing and delivery schedule.[8]</p>	<p>[7] As noted in [2], the MOU is an agreement to agree. Thus, this agreement binds the parties to negotiate any subsequent agreements in good faith.</p> <p>[8] At this stage, many of the terms of the subsequent agreement are not yet known and are expected to be later negotiated. However, estimating the quantity of goods in the MOU is an important aspect that affects whether the parties are willing to invest resources in a potential collaboration.</p> <p>Nearly all chip manufacturers have their manufacturing performed by semiconductor foundries, typically located in Asia. Pricing is directly related to quantity. This can be broken down further into a large initial setup cost, but with low marginal costs. Thus, downstream pricing negotiations and expectations will be directly related to quantity. Given the ubiquity of consumer electronic devices, this may involve hundreds of thousands of individual units. Reducing the cost of individual chips is paramount.</p> <p>If this OEM customer ultimately issues binding purchase orders for a large number of chips, it may want to enjoy the status of being the Supplier’s exclusive purchaser of that type of chip. The MOU may contain a provision for such exclusivity for a limited time in a particular field of use.</p>

	<p>Depending on the nature of the relationship, one may also change this provision to provide a required minimum quantity, with liquidated damages if performance is met, but no subsequent agreement is reached. Such modifications can help defray the cost of the unpaid design-in period. Alternately, there may be a provision permitting termination of the MOU by either party without cause upon payment of a break-up fee.</p> <p>Even though this is an agreement to agree, a chip manufacturer should beware an OEM product manufacturer that is reluctant to give at least a firm estimate on quantity. In such cases, a business decision must be made on whether to invest resources. Similarly, while non-binding, a manufacturer that later significantly deviates from the expected quantity may be liable for breaching their duty to negotiate in good faith.</p>
<p><b>3. Press Release.</b> [9]</p> <p>At a mutually agreed time prior to the launch of a Customer Product incorporating the Component, the parties will issue a press release containing mutually-agreed upon language announcing the use of Supplier's Component for use in Customer's Product.</p>	<p>[9] Whether the OEM Product manufacturer wishes to keep the supply chain relationship confidential is an important factor that can significantly impact the value of the subsequent master purchase agreement. For chip manufacturers, publicizing that their chips will be integrated into the latest and greatest new hardware may lead to newer and better deals with other companies. Placing this provision in the MOU thus helps the two companies clarify their understanding regarding publicity value at this early stage.</p>
<p><b>4. Intellectual Property Rights.</b> [10]</p> <p>All patent, copyright, mask work, trade secret, know how, and similar technology rights in and to products (collectively "<b>Intellectual Property Rights</b>") that are created in the course of the Collaboration shall be owned as follows: Supplier shall own all Intellectual Property Rights with respect to modifications and improvements of the Component, whether created by Supplier, Customer, or jointly; and Customer shall own all Intellectual Property Rights with respect to modifications and improvements of the Product, whether created by Customer, Supplier, or jointly.</p>	<p>[10] The agreement covers a period of collaborative research and development between the parties, so clarification of intellectual property ownership is critical. This IP rights provision is a simple partition that is intended to make all parties comfortable with the agreement. In the context of chip companies and OEM products, typically the OEM vendor will desire any IP related to customization of their product, as otherwise it could be made available to their competitors, or even worse – the vendor could be locked out from using an improvement for their own product. Similarly, the chip company will desire IP related to improvements of the component. This provision clarifies that any improvements made to either the Component or the Product are owned respectively regardless of which party created it, allowing the parties to comfortably march forward in their collaboration.</p> <p>In some cases, this provision may inspire further negotiation, particularly for IP relating to combinations of both the chip and OEM product. The parties may negotiate ownership of combination IP (e.g., owned jointly) in this MOU, or alternately postpone it for the final agreement. Parties should also consider whether they would want a back-license to any</p>

<p>Accordingly, each party agrees to assign, and does hereby assign, such Intellectual Property Rights, created by it with respect to such modifications and improvements, to the other party. Each party shall take such action and execute such documents as reasonably requested by the owning party to perfect such ownership.</p>	<p>generated IP. For example, an improvement may relate to interface software, but nevertheless it may be used with other Products and Components. Similarly, there may be aspects of the IP that require a license be made available to other customers.</p> <p>However, experience with use of this form has resulted in most parties being satisfied with the provision as currently shown, even after extensive discussion, particularly since the Collaboration as defined in the in the MOU limits the scope of any anticipated inventive activity .</p>
<p><b>5. Confidentiality.</b> [11]</p> <p>All information exchanged in the course of this Agreement shall be subject to the provisions of the mutual nondisclosure agreement (“NDA”) between the parties dated _____, 20__, regardless of any subsequent expiration or termination of the NDA.</p>	<p>[11] This provision defers to the previously-executed NDA. As noted above, this agreement is positioned after an NDA and initial exchange of information, and prior to a subsequent master purchase agreement. This clause simply links the agreements together, as there is typically no reason to re-negotiate the NDA at this point.</p> <p>While this will likely be addressed by the NDA, it is possible that the parties may disagree regarding the confidentiality of any generated IP. For example, one party may wish to file a patent application on aspects of the chip or of its combination with the product, whereas the other may wish to keep this information a trade secret. In some cases this can be mitigated by filing a non-publication request with any filed patent applications. However, parties should consider whether this situation may arise in order to better understand the value of the subsequent agreement.</p>
<p><b>6. Assignment.</b> [12]</p> <p>Neither party may assign this MOU, without the prior written consent of the other party, except that either party may assign this MOU to a successor to all or substantially all of the business of the assigning party provided that such successor agrees in writing to be bound by the obligations of the assigning party under this MOU within thirty (30) days following such succession. If the successor does not so agree within such period, then either party may terminate this MOU without liability by giving</p>	<p>[12] This assignment clause addresses a concern that many small companies have when binding themselves in potentially risky business ventures. Many companies today (and particularly in Silicon Valley) are formed by serial entrepreneurs, who have no desire to run a large company. Rather, the entrepreneur prefers working on something new, building value, and then cashing out via acquisition by a larger entity. However, to build sufficient value, the smaller company must often undertake more risk than a larger company is willing to absorb. Agreements such as this one may be perceived as potential deal breakers to an acquiring entity, who may prefer to negotiate directly with the other party on new terms. Unfortunately, it is difficult to determine what any future deal breakers may be at this early stage.</p> <p>[13] To solve the problem described in [12], the assignment clause allows either party to terminate if the successor does not wish to step in. This makes both parties comfortable with the prospect of a future acquiring entity wishing to back out. Of course, should the acquiring entity</p>

<p>written notice within an additional period of thirty days. [13]</p> <p>For the foregoing purposes any merger, reorganization, or sale or transfer of capital stock, whereby a successor gains control of a party, directly or indirectly shall be deemed an assignment. [14]</p>	<p>wish to continue with the agreement, it may do so as described here. Typically, the acquiring entity will clarify whether they desire to be bound by the MOU before acquisition. However, a 30 day period is provided should any extra time be needed to further evaluate the agreement; also it will allow the acquisition transaction to close without any requirement to involve the OEM prior to closing.</p> <p>[14] This clarifies the circumstances in which the assignment provision is invoked, i.e., when another gains control of a party to the agreement.</p>
<p><b>7. Governing Law and Disputes.</b> [15]</p> <p>(a) This MOU shall be interpreted and governed in accordance with the laws of the state of New York, USA, without application of its conflicts of law provisions and without application of the United Nations Convention on the International Sale of Goods, [16] the parties hereby acknowledging that the transactions covered by this Agreement exceed the threshold value set forth in Section 5-1402 of the New York General Obligation Law. [17]</p> <p>(b) The parties will attempt in good faith to resolve any dispute in connection with this MOU through friendly consultations. In the event that such dispute is not resolved within thirty (30) days following written notice by either party to the other party specifying the nature of the dispute, the parties will be limited in resolving the dispute by binding arbitration in proceedings conducted in the English language in New York County, State of New York, USA, and administered by the Centre for International Dispute Resolution in accordance with its International Arbitration Rules, and judgment on</p>	<p>[15] Many agreements provide blank spaces for governing law and venue, and sometimes even for arbitration tribunals. However, this agreement explicitly specifies which organizational rules apply, which is helpful given that the agreement will typically be international in scope.</p> <p>[16] Exclusive jurisdiction and venue in New York County (i.e., Manhattan) with New York law applicable is a useful provision because New York has a statute that allows parties to litigate in their courts by contract, even if they do not have a significant commercial nexus with the state. So, even if the client does not have a place of business in New York state, New York state or federal courts would still apply this provision, including section 7(b).</p> <p>[17] However, the New York statute described in [17] requires a million-dollar threshold. In some cases, the value of the agreement may not be known. Accordingly, explicitly specifying that the parties agree that the threshold is met can be helpful.</p> <p>If one party is a Delaware corporation, Delaware can be considered for governing law and venue.</p> <p>Consider also the “borrowing statutes” of New York and Delaware which require the application of a shorter statute of limitations for causes of action accruing outside the state; see <i>Standard New York Choice of Law Provisions May Apply Foreign Laws to Bar Claims</i>, New York State Bar Association Business Law Journal, vol. 20, p.26 (2016) and <i>Ontario, Inc. v. Samsung C&amp;T Corp.</i>, New York Court of Appeals Slip Opinion 04274 (June 12, 2018).</p> <p>[18] Agreements in the chip industry typically involve at least one Asian company. For US companies, a best practice for international agreements is to explicitly specify the rules of the International Centre for Dispute Resolution (“ICDR”, <a href="http://www.icdr.org">www.icdr.org</a>). ICDR is an affiliate of the American Arbitration Association with rules specific for international dispute resolution. For most</p>

the arbitration award may be entered in any court having jurisdiction thereof. [18]	US clients, these rules will be familiar and may better meet expectations than the International Chamber of Commerce, which is more focused on civil / European law. Of course, these same reasons may lead to push back from the Asian company.										
<b>8. Complete Agreement.</b> [19]  This MOU is the complete agreement between the parties with respect to the subject matter thereof, superseding all previous understandings and agreements, written or oral. It may be modified, amended, or any provision thereof waived, only by a writing signed on behalf of the party against which such modification, amendment, or waiver is asserted.	[19] The merger clause simply clarifies that this MOU is the complete agreement. In some cases, one may wish to explicitly exclude the NDA from this provision, or additionally include provisions directed towards term, termination, and survival. Further, the addition of a limitation of liability clause can help cap any damages resulting from breach; see comment 5 above.										
<p><b>IN WITNESS WHEREOF</b>, the parties have caused this MOU to be signed by their undersigned duly authorized representatives, to become binding upon the parties as of the effective date.</p> <table border="0"><thead><tr><th data-bbox="128 803 737 836"><b>Customer</b></th><th data-bbox="737 803 1934 836"><b>Supplier</b></th></tr></thead><tbody><tr><td data-bbox="128 909 737 982">By: _____ (Signature)</td><td data-bbox="737 909 1934 982">By: _____ (Signature)</td></tr><tr><td data-bbox="128 1047 737 1088">_____ (Printed Name)</td><td data-bbox="737 1047 1934 1088">_____ (Printed Name)</td></tr><tr><td data-bbox="128 1153 737 1193">_____ (Title)</td><td data-bbox="737 1153 1934 1193">_____ (Title)</td></tr><tr><td data-bbox="128 1258 737 1299">_____ (Date)</td><td data-bbox="737 1258 1934 1299">_____ (Date)</td></tr></tbody></table>		<b>Customer</b>	<b>Supplier</b>	By: _____ (Signature)	By: _____ (Signature)	_____ (Printed Name)	_____ (Printed Name)	_____ (Title)	_____ (Title)	_____ (Date)	_____ (Date)
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<b>SCHEDULE</b> [20]	[20] The attached Schedule can include helpful headings for describing the Component, Product, Milestones, and Performance Metrics that, if met, will lead to the good faith negotiation of a master purchase agreement.
<b>Description of Component</b>	
<b>Description of Product</b>	
<b>Collaboration Milestones</b>	
<b>Performance Metrics</b>	