502:Handling Common (& Difficult) Contract Negotiation Issues

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Faculty Biographies

Maureen R. Dry

Maureen R. Dry is an associate general counsel of Vertis, Inc. in the world headquarters office in Baltimore. Vertis is the premiere provider of targeted advertising, media, and marketing services that drive consumers to marketers more effectively. Her responsibilities include contract drafting and negotiation, employment and ERISA counseling, and litigation management.

Ms. Dry began her legal career by joining Vertis after completing law school.

Ms. Dry is on the board of directors of ACC's Baltimore Chapter, and served for two years as president.

Ms. Dry graduated from the University of Virginia and attended law school at the University of Maryland School of Law.

David T. Glynn

David T. Glynn is chief administration officer, general counsel, and corporate secretary for OneNeck IT Services, Corporation in Scottsdale, Arizona, a premier IT outsourcing solutions provider specializing in managing information systems for mid-size enterprises. Mr. Glynn is responsible for all corporate legal issues, contract negotiations, the company's risk management, human resources, administrative staff, and corporate facilities. He is also OneNeck's corporate records custodian.

Prior to joining OneNeck, Mr. Glynn worked as associate counsel at law firms in Kansas City and Phoenix in the civil litigation departments before starting his own law firm in Phoenix and serving as OneNeck's outside legal counsel.

In addition to his duties for OneNeck, Mr. Glynn serves on the board of directors of ACC's Arizona Chapter.

David holds a BS from the University of Kansas and earned his JD from Creighton University School of Law.

Matthew A. Karlyn

Matthew A. Karlyn is associate general counsel for ibex Healthdata Systems, Inc., a company that provides web based applications to hospitals and physicians that track patients and staff, documents care, and supports clinical interaction to reduce error and augment clinical decision making. His primary focus is licensing in the software industry.

Prior to joining ibex, Mr. Karlyn was corporate counsel for Macromedia, inc. in Boston.

Mr. Karlyn currently serves on the board of ACC's Chicago Chapter and is pursuing his MBA at the University of Chicago.

Mr. Karlyn received his BA from Union College in Schenectady, New York, and his JD from Temple University School of Law in Philadelphia.

Session 502 – Handling Common (& Difficult) Contract Negotiation Issues

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David T. Glynn	**Chief Administration Officer and General Counsel, OneNeck IT Services Corporation**
Matthew A. Karlyn	**Associate General Counsel, Ibex, a Picis Company**

WHAT WE WILL COVER

- Preparation for contract negotiations
- Conducting contract negotiations
- ***Goal***: Giving you some effective approaches to contract negotiations and some practical and useful fallback provisions for commonly negotiated provisions

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PREPARATIONS FOR CONTRACT NEGOTIATIONS

- Know your business
  - Know risk management philosophies of business
  - Know your products/services, vendor needs and other important business details and relationships

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PREPARATIONS FOR CONTRACT NEGOTIATIONS

- Know your contract goals
  - Importance of contract to business
  - Short and long-term goals

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PREPARATION FOR CONTRACT NEGOTIATIONS

- PREPARE
  - Know your contract – inside and out
  - Understand your "deal killers"
  - Be prepared with viable alternatives/fallbacks
  - Anticipate what the customer will ask for and how you will respond
- "Start from Fair"
  - A good deal is a fair deal
  - Being fair doesn't mean you can't be aggressive

PREPARATION FOR CONTRACT NEGOTIATIONS

- Be prepared to compromise
  - Anticipate and understand the other side's position.
  - Talk to your Client(s) and understand what effect compromise will have on them.
  - Be a lawyer but don't over-lawyer – pick and choose your battles and don't sweat the small points.
  - Stay calm – Don't raise your voice or respond inappropriately to requests, as it undermines your position and credibility
    - *"Speak when you are angry and will make the best speech you will ever regret." Ambrose Bierce*
    - Recommended readings:
      - Getting to Yes, Roger Fisher & William Ury
      - Getting Past No, William Ury
      - Smart Negotiating, James C. Freund
      - "When is it legal to Lie in Negotiations," Shell G. Richard (in the Sloan Management Review) (NOTE: The short answer is NEVER but, you should read the paper).
      - "Essentials of Negotiation," James K. Sebenius

PREPARATION FOR NEGOTIATIONS FORM AGREEMENTS

- Form Agreements
  - Identify most commonly negotiated contracts in your business and create forms (e.g., NDA, Services Agreement, Independent Contractor)
  - Make forms balanced
  - Provides a helpful clause library

PREPARATION FOR NEGOTIATIONS TOOLKIT

- Toolkit for forms
  - Helps establish your business policies toward various contract provisions
  - Increases efficiency and speed of contract negotiations by considering in advance fallbacks for common change requests to form
  - Aids non-lawyers working on contracts
  - Toolkit Sample

PREPARATION FOR NEGOTIATIONS - SOFTWARE

- ElectraSoft's Multi Clipboard
  - www.electrasoft.com
  - One-time license fee of approximately $20
  - Provides user friendly, simple system for cataloging fallback provisions and other common text
  - Can be shared among members of a department by sharing files
- Microsoft Word – "Paste Special"

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CONTRACT NEGOTIATIONS – FALLBACK PROVISIONS

- Commonly negotiated provisions
  - Intellectual Property
  - Termination
  - Warranties
  - Limitation on Liability
  - Indemnification
  - Audit Rights

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FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Intellectual Property: Single most valuable asset
  - Technology-dominated world
  - Option/license agreements; joint ventures; corporate partnering; co-marketing; and strategic alliances
- Facilitating transfer of and protecting IP is paramount
  - Ownership
  - Confidentiality/Non-Disclosure
  - IP Rights Upon Termination

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FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Ownership
  - Ensure ownership of IP remains with creator
    - All patents, copyrights, trademarks, tradenames, trade secrets, and service marks
    - All derivatives of the foregoing
  - Prevent sale, transfer, publishing, disclosure, display, and copy of IP
  - Very little room for negotiation – cannot forego any ownership rights
  - Do not confuse "ownership" with a "license"

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FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Provision: "All aspects of Company's IP, including without limitation, any patent, industrial design, trade mark, copyright, proprietary information, design, process, method, technique, procedure or know-how which is owned by Company or its affiliates prior to this Agreement, shall remain the sole and exclusive property of Company and shall not be sold, revealed, disclosed or otherwise communicated, directly or indirectly, by Client to any person, company or institution whatsoever other than as set forth herein. It is expressly understood that no title to or ownership of the Company's IP, or any part thereof, is hereby transferred to Client. Any breach or default by Client under this provision shall be the basis for immediate termination of this Agreement."

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FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Support for Provision: Preserve rights to re-use IP for other clients; retention allows creator to avoid "re-inventing the wheel" and associated costs
- *Request:* What about our (Client) IP?
  - Fallback:
    - Client wants protection for IP it created
    - Unreasonable to ask to retain ownership and not allow Client same protection
  - Language:
    - Add identical provision to cover Client IP developed prior to Agreement or modify language to provide mutual protection

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FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- *Request:* What about new IP created by Company for Client? Or jointly created by Company and Client?
  - Fallback:
    - Client wants to receive ownership of IP created specifically for Client in order to prevent use by competitors – "I paid for it, I want to own it."
    - Company should explain that Client will receive ownership of original works, preventing Company from using the original work BUT also that Company will retain all ownership rights to elements of the original work (and any modifications thereto) that Company owned prior to creation of the new original work
    - Company may be able to suggest joint ownership or a broad license back to Company by Client

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Language:
  - Joint Ownership: "***Any and all IP***, including without limitation, any patent, industrial design, trade mark, copyright, proprietary information, design, process, method, technique, procedure or know-how, ***created by Company during the term of this Agreement for and on behalf of Client, shall be jointly owned by Company and Client***. Neither Party will owe an accounting to the other Party for any proceeds from any revenues derived from the jointly owned IP."
  - License Back: "***Any and all IP***, including without limitation, any patent, industrial design, trade mark, copyright, proprietary information, design, process, method, technique, procedure or know-how, ***created by Company during the term of this Agreement for and on behalf of Client, belong exclusively to Client. Client grants to Company a*** non-exclusive, transferable, worldwide, royalty-free, irrevocable ***license to*** perform, display, use, make, improve, sublicense, and create derivative works from ***the IP created hereunder***, excluding trademarks, logos, or confidential information of Client."

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Other Language Options:
  - License - "Notwithstanding the ownership rights of Company's IP, Company grants to Client a non-exclusive, non-transferable, worldwide, royalty-free license to perform, display, and use _____, excluding trademarks, service marks, and logos of Company."
    - License allows licensor to retain ownership rights and licensee to use IP within constraints of agreement
  - Assignment & Royalties
    - Typically used for Patents because suits and settlement are better controlled and borne by company active in business than by passive transferor; it also provides for reversion rights if royalties not paid

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Assignment & Royalties – cont'd
  - a. "Company hereby sells, assigns, transfers and conveys to Client, its successors and assigns, its entire right, title and interest in and to the U.S. and Other Patent Rights, the same to be held and enjoyed by Client for its own use and benefit as fully and entirely as this right, title and interest would have been held and enjoyed by Company if this assignment, transfer and conveyance had not been made.
  - b. "In consideration of the assignment, transfer and conveyance by Company to Client, and in full payment therefore, Client will, on or before [date] and on or before [date] in each year thereafter until the expiration of the last to expire of the patents included among the U.S. and Other Patent Rights, pay to Company, as an annual installment of the purchase price for the U.S. and Other Patent Rights, an amount equal to __% of _____, if any, during the preceding calendar year."
  - c. "Company, on thirty (30) days advance notice to Client, shall be revested with the entire right, title, and interest in and to the patent rights if Client fails or refuses to make any royalty payments to Company as set forth herein.

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- Confidentiality/Non-Disclosure
  - Provision:
    - "Client agrees that the Confidential Information of Company received under this Agreement shall be kept in strict confidence and shall not be used or disclosed except as such use or disclosure is reasonably necessary for the performance of Client's obligations hereunder, or as such is required by applicable laws or regulations or the order of any court or governmental agency. In any such case where disclosure is so required, Client shall be responsible for enforcement of its confidentiality obligation."
  - Support:
    - Information that may be valuable to competitors cannot be disclosed without consent

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- *Request:* Not all information is *really* confidential.
  - Fallback:
    - Include a provision that excludes certain "information" from being confidential
  - Language: (add this provision to the original)
    - "Confidential Information shall not include: i) information which is or becomes publicly available (other than by the person or entity having the obligation of confidentiality) without breach of this Agreement; ii) information independently developed by the receiving party; iii) information received from a third party not under a confidentiality obligation to the disclosing party; or iv) information already in the possession of the receiving party without obligation of confidence at the time first disclosed by the disclosing party."

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- *Request:* What about our (Client) Confidential Info?
  - Fallback:
    - Client wants protection for its Confidential Information
    - Unreasonable to request confidentiality and not allow Client same protection
  - Language:
    - Add identical provision to cover Client Confidential Information (or make language mutual)

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- IP Rights Upon Termination
  - Provision:
    - "Upon termination of this Agreement, Client shall return or destroy and provide written assurance thereof any and all confidential information and documentation of Company IP regardless of format. The confidentiality and non-disclosure provisions of this Agreement shall survive any termination of this Agreement."
  - Support for Provision:
    - Do not want to give up on protecting confidential information or IP simply because current agreement terminates; need on-going protection obligations

FALLBACK PROVISIONS – INTELLECTUAL PROPERTY

- *Request:* This provision needs to be mutual
  - Fallback:
    - Client seeks the same protection Company desires
    - Again, unreasonable to ask for protection and not allow Client same protection
  - Language:
    - Add identical provision to cover Client confidential information and IP or modify language to provide mutual protection

FALLBACK PROVISIONS – TERMINATION

- Termination Rights
  - For Convenience
    - Provision:
      - "Client may terminate this Agreement for any reason or no reason, at its convenience, by providing Company a minimum _____ (xx) months prior written notice; provided Client pays Company an early termination fee ("**Termination Fee**") in an amount equal to _____ percent (xx%) of the Estimated Remaining Value of this Agreement. The Termination Fee shall apply to any early termination of this Agreement other than pursuant to termination of this Agreement by Client under cause/default or insolvency provisions hereunder."

FALLBACK PROVISIONS – TERMINATION

- Support for Provision:
  - Long-term contracts need to be flexible
  - Allows Client flexibility to make proper business choice as needed and know the cost
  - Allows Client out of its full commitment without making it completely "convenient" – cannot be less painful than termination for cause/default
  - Provides a pre-determined fee (liquidated damage) for Client making the decision to walk away from agreement

FALLBACK PROVISIONS – TERMINATION

- *Request:* Can we reduce the Termination Fee and the Notice period?
  - Fallback
    - » Client seeks to lower cost of termination and speed with which to carry out the termination
    - » Remind Client that this fee can be avoided by simply not choosing to terminate – choice is in their control
    - » Company needs to protect its overall risk profile – changes to these two provisions will likely effect pricing
    - » Contemplate lower percentages and a shorter period but DO NOT significantly change the risk profile without a reciprocating change in the pricing

FALLBACK PROVISIONS – TERMINATION

- For Cause/Default
  - Provision:
    - "In the event either Party fails to perform any of its material obligations under this Agreement and defaulting Party fails to substantially cure such default within sixty (60) days after receiving written notice specifying the nature of the default, then the non-defaulting Party may, by giving notice to the other Party, terminate this Agreement as of the date specified in such notice of termination."
  - Support for Provision:
    - Company (or Client) needs ability to terminate its obligations under the agreement when Client (or Company) is failing to meet its obligations

FALLBACK PROVISIONS – TERMINATION

- *Request:* Can we shorten the cure period?
  - Fallback
    - » Assess the nature of the agreement and determine whether a shorter period is feasible – often times the cure time may need to be lengthy
    - » Assess adding a provision allowing some monetary remedy during period of cure
  - Language
    - » "During the pendency of any cure period under this Section, non-defaulting Party shall be entitled to _____."

FALLBACK PROVISIONS – TERMINATION

- Insolvency/Bankruptcy
  - Provision:
    - "In addition to the termination rights set forth herein, subject to the provisions of Title II, United States Code, if either Party becomes or is declared insolvent or bankrupt, is the subject to any proceedings relating to its liquidation, insolvency, or for the appointment of a receiver or similar officer for it, makes an assignment for the benefit of all or substantially all of its creditors, or enters into an agreement for the composition, renewal, or readjustment of all or substantially all of its obligations, then the other Party, by giving written notice to such Party, may terminate this Agreement as of the date specified in such notice of termination. In addition, immediately prior to the voluntary or involuntary filing of bankruptcy, Client grants a preferred security interest in any and all Client Equipment located in OneNeck's Data Center pursuant to this Agreement, subject only to any purchase money security interest(s) in such Client Equipment and grants OneNeck preferred/critical vendor status and shall represent OneNeck as such in subsequent bankruptcy filings.

FALLBACK PROVISIONS – TERMINATION

- Support for Provision:
  - Company (or Client) needs ability to terminate its obligations under the agreement when Client (or Company) is unable to meet its obligations
- *Request:* Can we remove the security interest provision? . . .the critical vendor requirement?
  - Fallback
    - » Client usually has bank covenants that prevent this type of security interest clause
    - » Client may push back on critical vendor status if Company unable to convince that Company is critical to operations of Client
    - » If you do not ask, you do not receive; no issue with removing these clauses

FALLBACK PROVISIONS – WARRANTIES

- PREPARE: Understand what your warranty says and where it came from
  - How long?
  - What Warranties do you Offer?
    - Quality of Service; Performance of Software; No Open Source; No Sunset of Software or Support; Adequacy of Documentation and Training; Frequency and Quality of Updates; Replacement of Damaged Media; Corporate Power and Authority; Sufficient Title; No Violation of Intellectual Property; Y2K Compliance; No Disabling Devices; No Unintentional Destruction or Improper Alteration of Data.
  - Remedies – repair, replace, refund
  - Disclaimers
- PREPARE: What effect does the Warranty have on your client?
  - Revenue
  - Liability (next few slides)

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Warranty: Remedies

- Repair and Replace but no refund
  - What if you can't?
  - Liability – Consequential Damages
  - EXAMPLE:

    Licensor warrants that (i) it is authorized to grant the Licenses hereunder; and, (ii) upon the Go Live Date, **the Software Programs will function in conformance with the Specifications. Licensor's entire liability and Licensee's exclusive remedy for any breach by Licensor of the warranty in Section 7.1 shall be for Licensor to provide the necessary functionality within 30 days of written notification of the Error by repairing the Software Programs**, provided that Licensee supplies such additional information regarding the Error as Licensor may reasonably request, and further provided that the Error is not caused by...

    The above warranties are the only warranties made by Licensor with respect to the performance of the Software Programs or results that may be obtained by the use thereof. LICENSOR EXPRESSLY DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE SOFTWARE PROGRAMS AND THE SERVICES, INCLUDED ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NONINFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS OR ARISING FROM THE COURSE OF DEALING BETWEEN THE PARTIES OR USAGE OF TRADE.

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Warranty: Remedies (continued)

- Limitation of Liability
  - **In no event shall Licensor be liable for any direct, indirect, consequential or resulting damages** or injury due to failure of, or otherwise relating arising out of the Licensed Software, or for any lost profits, time, business, records, or other monetary damages, nor for any claim or demand against Licensee by any other person. Licensee shall indemnify and hold Licensor harmless from and against any claim asserted against Licensor as a result of, or arising out of Licensee's use of the Licensed Software. **LICENSEE'S SOLE AND EXCLUSIVE REMEDY FOR ANY FAILURE OF THE LICENSED SOFTWARE SHALL BE THE WARRANTIES CONTAINED HEREIN** AND THESE ARE IN LIEU OF ANY AND ALL OTHER WARRANTIES. THERE ARE NO WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE EXCEPT AS HEREIN EXPRESSLY PROVIDED. UNDER NO CIRCUMSTANCES WILL LICENSOR'S LIABILITY EXCEED THE COST OF THE LICENSED SOFTWARE SET FORTH ON THE SCHEDULE.
  - Exclusive/limited remedy and limitation of liability are interdependent clauses.
- Recommended Reading:
  - Caudill Seed and Warehouse Company, Inc. v. Prophet 21, Inc., United States District Court, E.D. Pennsylvania, November 22, 2000 (123 F.Supp.2d 826).

Warranty: Remedies (continued)

- The Flip-side of the Remedies & Liability Coin
  - Exclusive/limited remedy and limitation of liability as independent clauses with different standards.
- Recommend Reading:
  - Piper Jaffray & Co. v. Sungard Systems International, Inc., United States District Court, D. Minnesota, September 30, 2004

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Warranty: One Possible Solution

- Refund
  - If your warranty offers a refund, you limit the chances that the exclusive/limited remedy will fail of its essential purpose.
  - Result: Limitation on damages available will withstand scrutiny.
  - Licensor warrants that for a period of ninety (90) days from the Installation Date, when used as intended in this Agreement, **the Software will operate in conformance with the specifications** (the "Warranty"). Licensor does not warrant that the functions contained in the Software will meet Licensee's requirements or that operation of the Software will be uninterrupted or error free. If Licensee discovers a material defect that causes the Software to fail to substantially conform to the specifications, Licensee shall promptly inform Licensor in writing setting forth in detail such nonconformity. Licensor's entire obligation and Licensee's sole remedy will be for Licensor to (a) use commercially reasonable efforts to correct such failure; and (b) **if Licensor is unable to correct such failure, refund that portion of the License Fee paid by Licensee for the non-conforming component of the Software**. In the event a portion of the License Fee is returned, Licensee will de-install and return to Licensor all copies of the non-conforming component of the Software. **THE FOREGOING IS LICENSOR'S ENTIRE LIABILITY TO LICENSEE AND LICENSEE'S EXCLUSIVE REMEDY FOR DEFECTS IN THE SOFTWARE OR ANY BREACH OF THE FOREGOING WARRANTY. THE FOREGOING WARRANTY SHALL TERMINATE IMMEDIATELY IF THE SOFTWARE IS USED FOR ANY PURPOSE OTHER THAN AS IS EXPRESSLY INTENDED HEREUNDER OR IN THE EVENT OF ANY OTHER MATERIAL BREACH OF THIS AGREEMENT BY LICENSEE.**

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Warranty: Remedies (continued) Why is this important?

- PREPARE
  - To negotiate a warranty successfully understand the effect it has on other parts of the contract and the risks involved.
  - Being educated on issues like these will help the negotiation and enable you to evaluate risk and reach a fair result.
  - Compromising and being fair are important but, you need to understand the issues and how the clauses interact in order to negotiate a good agreement.

FALLBACK PROVISIONS – INDEMNIFICATION

- What will you agree to?
  - IP Infringement
    - Trademark, Copyright, Trade Secret, Patent?
  - Bodily Injury / Property Damage
  - Use of Output
- Limitations on Indemnification – what won't you be responsible for?
  - Who / What is covered?
  - All costs or final judgment?
  - Subject to Limitation of Liability?
- Process
  - Difference between "provided that" requirements, and obligations on the indemnified party

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Indemnification (continued)

- Sample Infringement Provision:
  - Licensor will defend at its expense and hold Licensee harmless from and against any third-party action brought against Licensee to the extent it is based upon a claim that the Software, when used in accordance with this Agreement, **infringes a U.S. copyright or trade secret**, and Licensor will pay **any settlements and damages awarded to such third party, including reasonable expenses and attorney's fees** incurred by Licensee solely in connection with defending such third party claim; **provided that** (i) Licensee promptly notifies Licensor in writing of any such action, (ii) Licensee gives Licensor full information and assistance in connection therewith, and (iii) Licensee gives Licensor exclusive control of the defense and settlement thereof. **If the Software is, or in Licensor's opinion might be, subject to a claim of infringement as set forth above, Licensor may, at its option, replace or modify** the Software to avoid infringement or procure the right for Licensee to continue the use thereof. If neither of such alternatives is commercially reasonable in Licensor's opinion, **Licensee will return the infringing component of the Software to Licensor and Licensor shall refund the License Fee paid by Licensee for such component**, less amortization based on a five (5) year, straight-line amortization schedule from the Effective Date. Licensor shall have no liability for any claim of infringement arising out of (a) any Modification or Modification by Licensor pursuant to Licensee's specifications; (b) the failure of Licensee to use the current Version (as that term is defined in Exhibit 1) of the Software; or, (c) any combination of the Software with any other software. **THIS SECTION 7 STATES LICENSOR'S ENTIRE LIABILITY FOR ANY INFRINGEMENT BY THE SOFTWARE OR ANY PART THEREOF.**

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Another Indemnification Clause

- Licensor will defend at its expense and hold Licensee harmless from and against **all claims of infringement or misappropriation of intellectual property or other proprietary rights** related to the Software or other software provided by Licensor hereunder, and shall pay **any settlements and damages awarded to such third party. You shall** (i) promptly notify Licensor in writing of any such action, (ii) give Licensor full information and assistance in connection therewith, and (iii) give Licensor exclusive control of the defense and settlement thereof.
- Licensor shall indemnify, defend and hold harmless Licensee, its parents, subsidiaries, affiliates and assigns, and their respective officers, directors, employees and agents, harmless from and against any actions brought against Licensee to the extent that it is based on a claim that the Software, when used in accordance with this Agreement and the Documentation, **infringes any patent issued in North America or any member country of the EU and Japan as of the Effective Date, worldwide copyright, trade secret or trademark…**

Indemnification (continued)

- The importance of due diligence
  - Understand your product
  - Understand what's in your product
  - Due diligence and release cycles
  - Follow-up on action items

FALLBACK PROVISIONS – LIMITATIONS ON LIABILITY

- Exclusive Remedy, Limitation on Direct Damages, and Disclaimer of Consequential Damages – important to consider them together
- Relationship between value of agreement and liability amount on damages
- Not an insurer

FALLBACK PROVISIONS – LIMITATIONS ON LIABILITY

- **Sole and Exclusive Remedy: Repair/Replace/Rework or Refund**

"Customer will provide Company with prompt written notice of any claim arising out of this Agreement, and Customer's sole and exclusive remedy for any such claim will be for Company, in its sole discretion and subject to the limitations described in this section, to: (a) use commercially reasonable efforts at its expense to cure the breach or damage that gave rise to the claim; or (b) refund to Customer the amounts paid to Company for Services related to the claim."

- Limiting types of damages lessens exposure for direct damages liability
- Contract law – "benefit of the bargain" and not a windfall

FALLBACK PROVISIONS – LIMITATIONS ON LIABILITY

- **Support for Sole and Exclusive Remedy Provision:** If a customer is not satisfied with the work that has been performed, or otherwise feels that the service provider has not satisfactorily performed its obligations, then the service provider would like the opportunity to "make good" with the customer. If service provider is not able to "make good" with the customer, then it will refund to the customer the fees it paid for the defective services. With either result, the customer is fairly compensated for the service provider's failure.

FALLBACK PROVISIONS – LIMITATIONS ON LIABILITY

- ***Request***: **Remove exclusive remedy provision**
  - First step:
    - Establish dialogue regarding what damages you/the other side may have and really need and why to highlight potential compromise areas
  - Fallbacks:
    - add to list of exclusive remedies with specific additional remedies
    - allow customer to select remedy among options if contract gave discretion to service provider
    - **If compromise is not reached, agree to remove the provision, but then be sure you get an adequate cap on direct damages.**

      "Customer will provide Company with prompt written notice of any claim arising out of this Agreement, and Customer's sole and exclusive remedy for any such claim will be for Company, subject to the limitations described in this section and Customer's approval (which may not be unreasonably withheld), to: (a) use commercially reasonable efforts at its expense to cure the breach or damage that gave rise to the claim; or (b) refund to Customer the amounts paid to Company for Services related to the claim."
- Not an insurer

LIMITATIONS ON LIABILITY
DISCLAIMER OF CONSEQUENTIAL DAMAGES

- **Disclaimer of Consequential Damages**

  "In no event will Company be liable for any indirect, punitive, special, or consequential damages, including lost sales or profits, even if it has been advised of the possibility of such damages."

- **Support for Disclaimer of Consequential Damages**
  - This sentence is reasonable because Company should not be held liable for losses that are far removed from a breach of the Agreement. Company cannot predict, and be prepared to be held responsible for, every possible loss that may stem from a breach of the Agreement. Company is not an insurer.

- ***Request*: Make this mutual**
  - Unless there are very compelling reasons why the nature of the obligations between the parties are sufficiently different such that only one side should be liable for these types of damages, you should probably agree to the request. Be sure to consider the types of claims each side would likely make against the other in evaluating what you lose in making this mutual.

    "In no event will either party be liable for any indirect, punitive, special, or consequential damages, including lost sales or profits, even if it has been advised of the possibility of such damages."

LIMITATIONS ON LIABILITY
DISCLAIMER OF CONSEQUENTIAL DAMAGES

- ***Request:*** Delete provision.
  - You should avoid at all costs incurring consequential damage liability in a contract in which you are the service provider. If your only obligation is to make payments or your obligations are otherwise not going to entail large and spiraling damages, then you can consider not having a disclaimer of consequential damages.
  - Service Agreements:
    - Argue that the prices quoted would need to be increased significantly for Company to assume that level of risk.
    - Argue it's commercially standard in most contracts to have limitations for these types of damages.
    - Explore if other side has similar provision in its contracts with customers (check website)
    - Require appropriate level authority to approve high levels of liability

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LIMITATION ON LIABILITY
DIRECT DAMAGES

- **Limitation of Direct Damages Liability**

"Company's liability to Customer for claims arising under this Agreement, regardless of form, will not exceed the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will Company's aggregate liability for all claims under this Agreement exceed the total fees paid by Customer for the specific portion of Services in dispute."

- **Support for Limitation of Direct Damages Liability**
  - It is prudent that Company limit its exposure to an amount that is related to the value of the services being provided. The services are priced by taking into account the liability that Company may be exposed to in the event of a breach of the Agreement. If Company expected to be exposed to a greater limit of liability (or no limit of liability), then it would price its services much higher.

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LIMITATION OF LIABILTY
DIRECT DAMAGES

- ***Request:*** **Increase (or remove) this limit of liability**
  - **Fallback:**
    - **Negotiate increases to the cap seeking to keep limit to no more than one times the value of the entire contract. Be sure to obtain appropriate approvals for liability level accepted.**

      "Company's liability to Customer for claims arising under this Agreement, regardless of form, will not exceed two times the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will Company's aggregate liability for all claims under this Agreement exceed two times the total fees paid by Customer for the specific portion of Services in dispute. "
    - **Resist having no limit on direct damages liability. If you decide to have no limit, return to the sole and exclusive remedies and be sure they are as limiting as possible.**
    - Use same arguments used for disclaimer of consequential damages.

LIMITATION OF LIABILITY
DIRECT DAMAGES

- **Request: Make the limitation on direct damages mutual**
  - You need to consider the type of contract and obligations on each side. As service provider, if you agree to make this sentence mutual, then you must take into consideration that the cap would apply to the customer's obligation to indemnify Company for third party claims, and the customer's obligation to make payments due under the Agreement (and any other unique obligations the customer might have in a particular matter). Therefore, Company could agree to make this sentence mutual, but the cap should not apply to the customer's payment obligations and Company must determine whether it should apply to indemnification obligations. If both Company and the customer are equally likely to seek indemnification, the cap generally should not apply. If, however, the customer is more likely to seek indemnification from Company, the cap should apply to indemnification claims.

LIMITATION OF LIABILITY
DIRECT DAMAGES

- **In general, the indemnification obligations should remain capped. If Company determines that the indemnification obligations should not be capped in a particular deal, also add the language in brackets and italics below:**

  "Each party's liability to the other party for claims arising under this Agreement, regardless of form, will not exceed the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will either party's aggregate liability for all claims under this Agreement exceed the total fees paid by Customer for the specific portion of Services in dispute; provided, however, the foregoing limitations of liability will not apply[: (a)] to Customer's payment obligations under this Agreement[; or (b) to either party's indemnification obligations under this Agreement]."

LIMITATION OF LIABILITY
EXCEPTION TO LIMITS ON DAMAGES

- ***Request*: Create an exception from the limitation of liability for indemnification claims.**
  - Providing indemnification is only available for third party claims (not for claims by one contract party against the other), it is permissible to specify that the liability cap does not apply to indemnification claims. This position is reasonable because the indemnitee's liability to the third party is probably not limited, so the indemnitor's liability should not be limited either.

    "Company's liability to Customer for claims arising under this Agreement, regardless of form, will not exceed the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will Company's aggregate liability for all claims under this Agreement exceed the total fees paid by Customer for the specific portion of Services in dispute; provided, however, the foregoing limitations of liability will not apply to limit Company's indemnification obligations under this Agreement."

FALLBACK PROVISIONS – AUDIT RIGHTS

- Especially following SOX, there seems to be an increase in the use of Audit Right provisions in agreements.
- In deciding how to negotiate an audit right provision, first think about the nature of the performance under the Agreement and whether it makes sense to have an audit provision.
- Audits can be disruptive, overbroad, and give the auditing party inappropriate access to confidential information, so audit requests must be considered with care.

FALLBACK PROVISIONS – AUDIT RIGHTS

- ***Request:*** **Include an audit provision.**
  - **Reasons to Have/Not Have an Audit Provision**
    - An audit provision would be appropriate where the charges for services performed are based on a variable factor, such as the number of hours worked. In these situations the audit would permit the auditing company to verify that the charges are correct.
    - If the charges are based on a final tangible work product that a customer receives or the prices for the work are fixed, then there is no need for an audit.

FALLBACK PROVISIONS – AUDIT RIGHTS

- Fallback language if you decide to agree to an audit but want to limit it's scope:

  "For the duration of the Services and a period of 6 months thereafter, Customer will have the right, after giving Company at least 10 days' prior written notice, to review certain records directly relating to the charges paid for the Services. This right will not extend to any fixed fee component of the charges, or to any Services performed more than 2 years prior to the date of Customer's request for a review. If Customer exercises this right, Company will make available such records as it determines to be necessary to support the amounts charged to Customer. Customer agrees to compensate Company for time expended by Company's staff to facilitate the review and to reimburse Company for any expenses incurred in connection with the review. Customer may exercise this right only once in any calendar year and Customer agrees to limit the duration of the review to a reasonable period. The review must be conducted at mutually convenient times and locations and in a manner that does not disrupt Company's business operations. Customer agrees to keep information disclosed to Customer in the course of the review confidential from all third parties, except for any third party participating in the review with Company's consent."

NEGOTIATING TOOLKIT
FOR
KEY PROVISIONS FROM THE
COMPANY SERVICES AGREEMENT

1. Introduction.

The purpose of this Toolkit is to help Company personnel understand the key provisions of the Company Services Agreement (the **"CSA"**) and to facilitate negotiation of these provisions, whether used as part of the CSA or as insertions to customer agreements. This Toolkit addresses the most commonly raised issues in the CSA. For each issue, the Toolkit provides:

- A statement regarding the purpose of the CSA provision.
- Supporting arguments in favor of the provision.
- Requests for changes to the provision that customers may commonly make.
- An argument opposing the customer request and/or a description of a "fallback" position that may be taken in response to a customer request.
- For provisions for which a fallback position is appropriate, fallback language to insert in the contract.

If you have any questions on how to use this Toolkit, or if the customer's concern is not addressed in the Toolkit, please contact an Associate General Counsel or the General Counsel.

2. Non-U.S. Customer Agreements.

This Toolkit is designed for use with customers located in the United States. If a customer is located outside of the United States, you must notify and obtain approval to proceed with the agreement from the General Counsel.

3. Approval of Certain Business Terms.

The business terms of customer agreements may expose Company to risks that require approval by specific Company executives. Approval from one or more individuals, as listed below, must be obtained prior to execution of agreements containing any of the following terms:

- If the value of an agreement exceeds _____, the _____must approve the agreement prior to its execution. If the value of an agreement exceeds _____, the _____also must approve the agreement prior to its execution.
- If an agreement provides for renewal with price concessions, the _____must approve the agreement prior to its execution.
- If an agreement requires Company to make capital expenditures, the _____must approve the agreement prior to its execution.
- If any of the following provisions are in an agreement, the _____ must approve the agreement prior to its execution.
    - Unlimited direct damages liability
    - No disclaimer of consequential damages
    - Exclusivity
    - Most Favored Nations Pricing/Terms
    - Termination of Agreement for Change in Control

4. Use of Fallback Provisions.

It is important that you advocate use of Company's original agreement provisions before you resort to using one of the fallback provisions, because the original agreement provisions are designed to best protect Company's legal and business interests. To assist you in this effort, this Toolkit includes supporting arguments in favor of Company's original agreement provisions. A fallback provision should be a last resort that is used only if a customer will not agree to an original

agreement provision. Also, whenever possible the fallback provision should be "traded" for a concession by the customer that Company wants. Finally, examine the agreement as a whole when determining whether a fallback provision is acceptable, because a provision may function in connection with a related provision so that one change may necessitate another (for example, a provision that limits a party's liability is closely related to a provision that specifies a sole remedy - if the sole remedy is removed, then the limitation of liability should be closely examined).

Before modifying the CSA by using any of the fallback provisions in this Toolkit, you may be required to obtain approval in accordance with the Approval Process specified with each fallback position and described as follows:

Approval Process	Approval
1	An Associate General Counsel in conjunction with the Senior Business Executive (the business executive above the individual who obtained the account) involved in the transaction must approve use of the fallback provision. If such approval is not granted, you may escalate the decision to the General Counsel and the COO for a final determination.
2	An Associate General Counsel must approve use of the fallback provision, taking into consideration the facts of the particular deal.
3	The CFO must approve use of the fallback provision, taking into consideration the facts of the particular deal.
4	The General Counsel must approve use of the fallback provision and, as the General Counsel deems necessary, in consultation with the CFO and the COO. If such approval is not granted, you may escalate the decision to the CEO for a final determination.
5	The Business Unit Credit Executive must approve use of the fallback provision.
6	The Sr. VP Finance, COO, and CFO must approve use of the fallback provision.
7	The COO must approve use of the fallback provision.
8	The General Counsel must approve use of the fallback provision in consultation with the Sr. VP Finance, COO, and CFO. If such approval is not granted, you may escalate the decision to the CEO for a final determination.

Note: In addition to obtaining the approvals noted above, you may need to obtain additional approval for agreements that include any of the business terms specified above in Item 3.

KEY PROVISIONS

I. Intellectual Property Infringement.

A. Main Provision.

Intellectual property rights infringement may occur when one party provides goods or services that inappropriately incorporate another party's intellectual property. For example, if Company were to design a website for a customer using code that was copied from another party's website, Company may be infringing on the other website owner's copyright. If that website owner saw the Company customer's new website, it may realize that the code was used without permission, and sue the Company customer for copyright infringement. The Company customer would want to have Company defend that lawsuit and pay any damages because Company designed the website. Normally, the legal fees for such cases run into the mid-six figures at a minimum. An intellectual property infringement indemnification provision is designed to address this customer concern, while also giving Company appropriate control of the response to such an allegation.

CSA Provision: Indemnification by Company. Company will indemnify, defend, and hold Customer (including its directors, officers, shareholders, and employees) harmless against any third party claim: (a) relating to bodily injury or death of any person or damage to real or tangible property to the extent proximately caused by Company's negligence or willful misconduct in the performance of this Agreement; or (b) that any Services provided by Company misappropriate a trade secret or infringe a copyright or United States patent right of such third party.❶ Company will not be liable to Customer to the extent a claim of infringement is based on: (i) Customer's misuse or modification of the Services; (ii) Customer's failure to use corrections or enhancements made available by Company; (iii) Customer's use of the Services in combination with any service, product, software or hardware not expressly directed by Company in writing to be used with the Services; (iv) information, direction, specifications, or materials provided by Customer or any third party; (v) Customer's distribution or marketing of the Services to third parties; or (vi) any third party items provided under this Agreement.❷ If any portion of the Services is, or in Company's opinion is likely to be, held to constitute an infringing item, Company will at its expense and option either: (a) procure the right for Customer to continue using it; (b) replace it with a non-infringing equivalent; (c) modify it to make it non-infringing; or (d) direct the return of the item and refund to Customer the fees paid for such item, less a reasonable amount for Customer's use of the item up to the time of return. **THE PROVISIONS OF THIS SECTION CONSTITUTE CUSTOMER'S SOLE AND EXCLUSIVE REMEDIES AND COMPANY'S ENTIRE OBLIGATION TO CUSTOMER WITH RESPECT TO INFRINGEMENT.**❸

Sentence ❶ ***Indemnification by Company***

Company will indemnify, defend, and hold Customer (including its directors, officers, shareholders, and employees) harmless against any third party claim: (a) relating to bodily injury or death of any person or damage to real or tangible property to the extent proximately caused by Company's negligence or willful misconduct in the performance of this Agreement; or (b) that any Services provided by Company misappropriate a trade secret or infringe a copyright or United States patent right of such third party.

Purpose. Requires Company to take responsibility for certain claims that a third party may bring against a customer alleging that services (including work product) provided by Company to the customer violate the third party's intellectual property rights.

Support. This sentence protects the customer from infringement claims that are within Company's reasonable ability to investigate and remedy. Only claims of infringement of United States patents are included because patent rights are country-specific, and it would be overly burdensome for Company to investigate patent owners' rights worldwide in order to verify that Company's invention does not violate a foreign patent. Therefore, Company should resist a customer's request that Company indemnify the customer for patent infringement claims brought by individuals holding patents in countries other than the United States.

Request #1: **Remove "United States"**	***Approval:***	**2**

Fallback #1. Company should resist the customer's request by explaining its reasons for limiting its indemnification obligation to claims for infringement of United States patents. If, however, a customer persists in its request, Company could offer as a compromise to include indemnification for United States and _____patents, because Company conducts business in these countries and thus is willing and able to take on this responsibility. You should explain to the customer that Company will only provide indemnification for patent infringement in the countries where Company conducts business, which are also the locations where Company anticipates the customer will utilize Company's services.

Fallback Language #1. Company will indemnify, defend, and hold Customer harmless against any third party claim that any Services provided by Company infringe any copyright, trade secret, or United States or _____ patent right of such third party.

Request #1 - Fallback #2	***Approval:***	**4**

Fallback #2. If, a customer is still not satisfied Company could agree to remove "United States." This would result in Company taking on more risk than it would typically like, but it is a risk that Company may be willing to take in some situations.

Fallback Language #2. Company will indemnify, defend, and hold Customer harmless against any third party claim that any Services provided by Company infringe any copyright, trade secret patent right of such third party.

Request #2: **Include indemnification for trademark infringement**	***Approval:***	**None**

Fallback. Company could agree to indemnify the customer if marks or logos Company provides the customer infringe a third party's trademark rights.

Fallback Language. Company will indemnify, defend, and hold Customer harmless against any third party claim that any Services provided by Company infringe any trademark, copyright, trade secret, or United States patent right of such third party.

Sentence ② ***Indemnification by Company***

Company will not be liable to Customer to the extent a claim of infringement is based on: (i) Customer's misuse or modification of the Services; (ii) Customer's failure to use corrections or enhancements made available by Company; (iii) Customer's use of the Services in combination with any service, product, software or hardware not expressly directed by Company in writing to be used with the Services; (iv) information, direction, specifications, or materials provided by Customer or any third party; (v) Customer's distribution or marketing of the Services to third parties; or (vi) any third party items provided under this Agreement.

Purpose. Excuses Company from indemnifying the customer in situations where infringement occurs due to something that was beyond Company's control (and, in many cases, was in the customer's control).

Support. Company should not be required to indemnify the customer for infringement claims that arise because the customer does not follow Company's instructions, or because the infringement is caused by something not provided by Company. In the case where Company provides third-party items to a customer, such as computer hardware, Company is doing so primarily as a convenience to the Customer. Supplying hardware is not Company's usual business, so it is not in a position to assess whether third-party items may have infringement issues. If any such issues exist, the customer can deal directly with the manufacturer.

Request #1. **Remove or change this sentence.**	***Approval:***	**1**

Fallback #1. Company should not change the substance of items (i) through (v) of this sentence. If a customer uses an item in a way that is not permitted, or if the infringement is caused by something not provided by Company, then Company should not be held responsible.

However, if a customer expresses a particular concern regarding item (vi) (infringement by third party items), Company could agree, to the extent reasonably possible, to pass through any warranties against non-infringement or indemnification for infringement made by the seller or licensor of the third party items (this will require review of the third party warranties and indemnification provisions and possibly discussion with the third party).

Fallback Language #1. Company represents that Customer is entitled to make [warranty and/or indemnification] claims regarding the third party items specified in Exhibit 1 against the third party specified in Exhibit 1, under the terms of the [warranty and/or indemnification] provisions[s] set forth in Exhibit 1. Such claims shall be Customer's sole and exclusive remedy with regard to such third party items, and Company shall have no liability for such third party items.

Fallback #2. If a customer is still not satisfied, Company could agree to remove item (vi) if Company reviews the contracts under which the third party items were purchased by or licensed to Company and confirms that Company received a warranty of non-infringement and/or indemnification from the provider of the third party items. This would allow Company to pursue claims against the third party if the customer pursued claims against Company.

Fallback Language #2. Remove item (vi) from the paragraph.

Sentence ❸ ***Indemnification by Company***

If any portion of the Services is, or in Company's opinion is likely to be, held to constitute an infringing item, Company will at its expense and option either: (a) procure the right for Customer to continue using it; (b) replace it with a non-infringing equivalent; (c) modify it to make it non-infringing; or (d) direct the return of the item and refund to Customer the fees paid for such item, less a reasonable amount for Customer's use of the item up to the time of return.

Purpose. This Sentence limits the remedies that Company must provide to a customer who is sued because an item provided by Company infringes a third party's intellectual property rights.

Support. This sentence is reasonable because they result in the customer being fairly compensated (i.e., the customer receives from Company either a repaired or substituted item that does not infringe, or the customer is refunded any fees that have been paid for the period in which the customer will no longer be able to use the infringing item).

Request #1. **Remove the phrase "less a reasonable amount for customer's use of the item up to the time of return."**	***Approval:***	**2**

Fallback. Company should explain that this phrase is reasonable because if the item is found to be infringing after it has been used by the customer for several months (or years, as the case may be), then the customer should not be entitled to a refund of fees that are attributed to the customer's use of the item prior to it being found to infringe.

If the customer persists in its request, Company could offer the following compromise: the phrase "less a reasonable amount for customer's use of the item up to the time of return" must remain in the CSA, but Company will agree to reimburse the customer for the expenses (up to a reasonable cap) that the customer may incur to transition to a new service provider. The cap should be set by considering the costs the customer will incur during the time of the transition, which are the costs the customer would have avoided (for awhile, at least) if the customer had been able to use Company's service. The cost of the new service is less relevant, however, because the customer would have had to pay for Company's service.

Fallback Language. . . (d) direct the return of the item and refund to Customer the fees paid for such item, less a reasonable amount for Customer's use of the item up to the time of return, in which case Company will reimburse Customer for up to $_____ of the costs that Customer actually incurs to transition to a new service provider, such costs to be substantiated by documentation provided by Customer to Company within ____ days of Company's notice to Customer to return the infringing item.

Request #2.	**Allow the customer to decide which remedy Company will use.**	***Approval:***	**2**

Fallback. Company should explain that as the provider of the service, it is in the best position to identify the appropriate remedy. If a customer persists, arguing, for example, that Company's proposed remedy would unduly disrupt the customer's operations, Company could allow the customer the right to approve the remedy, providing such approval could not be unreasonably withheld.

Fallback Language. If any portion of the Services is, or in Company's opinion is likely to be, held to constitute an infringing item, Company will at its expense and option, subject to Customer's approval (not to be unreasonably withheld), either . . . .

B. Related Provisions. **Intellectual Property Infringement**

CSA Provision: Prerequisites to Indemnification. Neither party will be required to indemnify the other party unless the party seeking indemnification: (i) notifies the other party promptly in writing of the claim; (ii) cedes sole control of the defense and all related settlement negotiations to the other party; and (iii) provides the other party with all necessary assistance in the defense (at the indemnifying party's expense).

Purpose. This provision allows the indemnifying party to respond to an indemnification claim in a timely manner, and to have access to all the resources it may need to effectively defend the claim.

Support. A party should not be required to indemnify the other party unless it is provided the opportunity to respond in a timely manner and to handle the defense as it deems necessary.

Request #1.	**Remove this provision, because if a party seeking indemnification fails to give prompt notice, it might not be indemnified.**	***Approval:***	**2**

Fallback. Instead of removing this provision, Company could agree to include a provision in the CSA that specifies that a delayed notice from a party seeking indemnification will not void the other party's indemnification obligation if the party seeking indemnification can show that the delay was not prejudicial to the other party's ability to defend the claim.

Fallback Language. Neither party will be required to indemnify the other party unless the party seeking indemnification: (i) notifies the other party promptly in writing of the claim, provided, however, that a delayed notice from a party seeking indemnification will not void the other party's indemnification obligation if the party seeking indemnification can show that the delay was not prejudicial to the other party's ability to defend the claim, ...

Request #2.	**Allow the party seeking indemnification to control the defense.**	***Approval:***	**4**

Fallback. Company should explain to the customer that the party who will ultimately be responsible for the payment of any damages award or settlement amount should be permitted to control the defense and settlement of the claim. Company could, however, agree to include language that provides the party seeking indemnification the right to reasonably approve a settlement agreement, and/or the right to participate through its own counsel and at its own expense in defense of a claim.

Fallback Language. . . (ii) cedes sole control of the defense and all related settlement negotiations to the other party, provided, however, that the party seeking indemnification may, at its own cost and expense, participate in the defense and all related settlement negotiations through its own counsel, and provided that any settlement that affects the rights or obligations of the party seeking indemnification will be subject to approval by such party, such approval not to be unreasonably withheld.

CSA Provision: Warranty and Remedy. A warranty against infringement is not provided in the CSA.

Purpose. Company chose to not include a warranty against infringement in the CSA because it would be impossible for Company to confirm that its services do not infringe a third party's intellectual property rights. For example, patent applications are secret for at least 18 months after they are filed, so Company would often not be able to learn if its services are infringing on a patent until the patent is issued, which could be after Company signs the contract with the infringement warranty. At that point, Company would be in a breach of the warranty even though it could not have avoided it.

Support. The exclusion of this warranty is reasonable because the customer is protected by the indemnification for infringement provision discussed above.

Request: **Include a warranty against infringement.**	***Approval:***	**2**

Fallback. Company could agree to include a warranty against infringement, provided:

- The warranty is "to Company's knowledge at the time of execution of the CSA"; and
- The customer's sole remedy for breach of the warranty is for Company to indemnify the customer as described in the infringement indemnification provision.

If the customer will not agree to both of the provisos discussed above, then Company could agree to make the warranty against infringement with just one of the provisos.

Fallback Language. Company warrants that, to Company's knowledge at the time of execution of this Agreement, the Services provided by Company do not infringe any copyright, trade secret, or United States patent right of any third party. Customer's sole remedy for breach of the foregoing warranty is for Company to indemnify Customer as described in this Agreement's provision on infringement indemnification.

***Note**: If the warranty against infringement is made, the term "non-infringement" should be removed from the disclaimer of warranties, as discussed below.*

***Note**: If Company agrees to indemnify the customer for trademark infringement, then the fallback language may include a reference to trademarks as follows:*

Company warrants that, to Company's knowledge at the time of execution of this Agreement, the Services provided by Company do not infringe any trademark, copyright, trade secret, or United States patent right of any third party. Customer's sole remedy for breach of the foregoing warranty is for Company to indemnify Customer as described in this Agreement's provision on infringement indemnification.

***Note**: If Company agrees to remove "United States" from the infringement indemnification provision resulting in Company being obligated to indemnify Customer for patent infringement world-wide, then the term "United States" may be removed from the fallback language set forth above.*

CSA Provision: <u>Disclaimer</u>. COMPANY DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT, ACCURACY, OR FITNESS FOR A GENERAL OR PARTICULAR PURPOSE. COMPANY DOES NOT WARRANT OR REPRESENT THAT ACCESS TO AND USE OF ANY TECHNOLOGY SERVICES PROVIDED BY COMPANY WILL BE UNINTERRUPTED OR ERROR-FREE, OR THAT ENJOYMENT OF SUCH TECHNOLOGY SERVICES WILL BE WITHOUT INTERFERENCE.

Purpose. Company included the term "non-infringement" in this disclaimer because it helps to clarify Company's position that it will indemnify a customer for third party infringement claims, but that it does not warrant that the services are non-infringing. In addition, the term "non-infringement" could be necessary under some state laws that provide that if the warranty of non-infringement is not expressly disclaimed, then it is implied to be part of the CSA.

Support. Disclaimer of the warranty of non-infringement does not prevent the customer from seeking indemnification for infringement as discussed above. Indemnification in accordance with the procedures described in the CSA will result in the customer being protected to the extent of its losses.

Request.	**Remove the term "non-infringement."**	***Approval:***	**2**

Fallback. Company could agree to remove the term "non-infringement" if a warranty against infringement is made in accordance with the instructions described above.

II. Indemnification by Customer.

An indemnification provision is intended to ensure that the party who caused damage to a third party pays for such damage. For example, if the customer has Company provide services that contain content that is subject to copyright protection by Business X, Business X (a "third party" because it is not a party to the agreement between Company and the customer) may sue Company because Company provided the services that contained the content. In such a case, the customer should step in and defend Company, and pay any damages because the customer caused the problem by providing the content to Company. This is what the indemnification provision requires. Note that indemnification obligations only apply when a third party makes a claim, not when one party to the contract alleges the other party breached the contract. This distinction can be important, because in some cases, indemnification claims are not subject to a limitation of liability, but claims by one party against another party to the contract are subject to the limitation of liability.

A. Main Provision.

CSA Provision: Indemnification by Customer. Customer will indemnify, defend, and hold Company (including its directors, officers, shareholders, and employees) harmless against any third party claim relating to:❶ (i) Customer's or its authorized users' use of the Services;❷ (ii) bodily injury or death of any person or damage to real or tangible property to the extent proximately caused by Customer's negligence or willful misconduct in the performance of this Agreement;❸ (iii) Customer's provision of materials that (a) actually or allegedly infringe on any patent, trademark, trade secret, copyright, or other proprietary rights of any third party;❹ (b) are defamatory, obscene, or improper; (c) invade any person's right to privacy or other personal rights; or (d) give rise to a claim of unfair competition; or❺ (iv) Customer's failure to pay sales, use, and similar taxes as required in this Agreement.❻

Sentence ❶ ***Indemnification by Customer***

Customer will indemnify, defend, and hold Company harmless against any third party claim relating to:

Purpose. This provision requires the customer to take full responsibility for third party claims that relate to certain things that are within the customer's control.

Support. The customer is in the best position to prevent the types of third party claims that are described in this provision.

Request #1.	**Recognize that claims could be partially caused by Company.**	***Approval:***	**2**

Fallback. Company could agree to limit this indemnification provision so that it applies to third party claims only "to the extent relating to" the various causes described.

Fallback Language. Customer will indemnify, defend, and hold Company harmless against any third party claim to the extent relating to . . . .

Sentence ❷ ***Indemnification by Customer***

(i) Customer's or its authorized users' use of the Services;

Purpose. This provision protects Company if a third party (for example: someone who uses the services provided by Company) sues Company because the customer's use of Company's

services was unlawful. It requires the customer to defend the lawsuit and to be responsible for the payment of any costs that Company might incur due to the lawsuit.

Support. This provision is reasonable because the customer alone determines how to use Company's services, and is in the best position to minimize any risks associated with such use.

Request #1. **Remove this provision.**	***Approval:***	**1**

Fallback. Company should explain that this provision is reasonable, for the reasons discussed above. If the customer persists, discuss with the customer whether there are specific uses it believes it is not responsible for, and consider carving them out instead of deleting the provision.

Sentence ❸ ***Indemnification by Customer***

(ii) bodily injury or death of any person or damage to real or tangible property to the extent proximately caused by Customer's negligence or willful misconduct in the performance of this Agreement;

Purpose. This provision protects Company if a third party sues Company because of injury or damage caused by the customer. It requires the customer to defend the lawsuit and to be responsible for the payment of any costs that Company might incur due to the lawsuit.

Support. This provision is reasonable because the customer alone controls whether it causes injuries or property damages, and it is in the best position to minimize any risks that may result in such injuries or property damages.

Request #1. **Make this provision mutual (or make the entire indemnification obligation mutual).**	***Approval:***	**2**

Fallback. Company could agree to make this bodily injury/property damage provision mutual, because Company would be willing to take responsibility for bodily injury or property damage that it causes. Company should not make the entire indemnity provision mutual, however, because the risks each party faces and can control are different, and the indemnity provisions reflect that risk allocation. For example, Company does not pay sales taxes, so it would be unnecessary for Company to provide a tax indemnity.

Fallback Language. Delete item (ii) only from and add the following language to the CSA:
Each party will indemnify, defend, and hold the other party harmless against any third party claim relating to bodily injury or death of any person or damage to real or tangible property to the extent proximately caused by the indemnifying party's negligence or willful misconduct in the performance of this Agreement.

Note*: When making this change, ensure that the agreement contains a provision on prerequisites to indemnification.*

Request #2. **Change "negligence" to "gross negligence."**	***Approval***	**1**

Fallback. "Gross negligence" means that a person intentionally failed to do something in reckless disregard for the consequences. "Negligence" is less severe, in that it means a person failed to do something that a reasonable person would have done. The customer may prefer "gross negligence" to "negligence" in this provision because the customer would have to act recklessly in order to be considered grossly negligent. Company should reject this request, however, because it would result in Company not being made whole for damages that the customer caused.

Request #3. **Remove this provision.**	***Approval***	**1**

Fallback. Company could agree to remove this provision, if it is unlikely that the customer will be in a position to cause injuries or damage that could be attributed to Company, e.g., the customer will not be on Company's property and Company's representatives will not be on customer property.

Sentence ④ ***Indemnification by Customer***

(iii) Customer's provision of materials that (a) actually or allegedly infringe on any patent, trademark, trade secret, copyright, or other proprietary rights of any third party;

Purpose. This provision requires the customer to take responsibility for certain claims that a third party may bring against Company alleging that materials provided by a customer to Company for use in the performance of the services violates the third party's intellectual property rights.

Support. This provision protects Company from infringement claims that are within the customer's reasonable ability to investigate and remedy.

Request #1. **Make this infringement indemnity identical to that granted by Company.**	***Approval:***	**1**

Fallback. If the customer will only use the services in the U.S., Company could narrow the customer's obligation to be identical to Company's (i.e., copyright, trade secret, and U.S. patent rights), but a reference to "trademarks" should be added to Company's provision and remain in this provision also. If the services may be used outside the U.S., a more complete risk assessment should be done before changing this Section.

Fallback Language. Revise Company's provision to include a reference to "trademark,", and replace item (iii) above with the following:

. . . (iii) Customer's provision of materials that (a) actually or allegedly infringe on any trademark, copyright, trade secret, or United States patent right of any third party. . . .

Request #2. **Remove this provision.**	***Approval:***	**2**

Fallback. Company should explain that this provision is reasonable, for the reasons discussed above. If the customer is not providing materials or information to Company, removal of this provision might be acceptable.

Sentence ⑤ ***Indemnification by Customer***

b) are defamatory, obscene, or improper; (c) invade any person's right to privacy or other personal rights; or (d) give rise to a claim of unfair competition;

Purpose. These provisions protect Company if a third party sues Company based on materials provided by the customer to Company for use in the services. It requires the customer to defend the lawsuit and to be responsible for the payment of any costs that Company might incur due to the lawsuit.

Support. These provisions are reasonable because the customer alone controls the materials it provides to Company, and it is in the best position to minimize any risks related to the customer's materials.

Request #1 **Remove these provisions.**	***Approval:***	**2**

Fallback. Company should explain that these provisions are reasonable, for the reasons discussed above. If the customer is not providing materials or information to Company, removal of these provisions might be acceptable.

Sentence ⑥ ***Indemnification by Customer***

(iv) Customer's failure to pay sales, use, and similar taxes as required in this Agreement.

Purpose. This provision protects Company if a third party sues Company because the customer failed to pay sales, use, and similar taxes related to the services. It requires the customer to defend the lawsuit and to be responsible for the payment of any costs that Company might incur due to the lawsuit.

Support. This provision is reasonable because the customer is responsible for paying any sales, use, and similar taxes, and it is in the best position to ensure that such taxes are paid.

Request #1. **Remove this provision.**	***Approval:***	**3**

Fallback. Company should explain that this provision is reasonable, for the reasons discussed above. If the customer persists, discuss with the CFO whether the services and other items provided to the customer are taxable and assess the risk of removing this provision. Note that removing this provision does not mean the customer does not pay taxes on the services and other items.

B. Related Provisions. **Indemnification by Customer**

CSA Provision: Prerequisites to Indemnification. Neither party will be required to indemnify the other party unless the party seeking indemnification: (i) notifies the other party promptly in writing of the claim; (ii) cedes sole control of the defense and all related settlement negotiations to the other party; and (iii) provides the other party with all necessary assistance, information, and authority to perform the above (at the indemnifying party's expense).

See earlier commentary on this provision.

III. Exclusive Remedy and Limitation of Liability.

If Company inadvertently does something wrong while performing work for a customer, the customer may suffer damages. This provision describes what Company will do in such a case, and is related to the warranty provision discussed earlier in this Toolkit. This provision provides that Company will stand behind its work, and will either re-perform it or refund the customer's payments. Company's obligation to do so is only limited by the amount the customer paid for the service. This is reasonable because by setting the limit of liability at the amounts paid, the risk Company takes in doing the work (i.e., the amount it might be required to pay in damages) is balanced by its reward (i.e., the amounts paid by the customer). Customers sometime assume that Company has no risk if the limit of liability equals the fees paid, but such statements are mistaken because the fees paid cover Company's labor costs and other expenses plus profit. Thus, if Company had to pay damages equal to the fees, it would lose more than the profit from a job.

CSA Provision: Exclusive Remedy and Limitation of Liability. Customer will provide Company with prompt written notice of any claim arising out of this Agreement, and Customer's sole and exclusive remedy for any such claim will be for Company, in its sole discretion and subject to the limitations described in this section, to: (a) use commercially reasonable efforts at its expense to cure the breach or damage that gave rise to the claim; or (b) refund to Customer the amounts paid to Company for Services related to the claim.❶ In no event will Company be liable for any indirect, punitive, special, or consequential damages, including lost sales or profits, even if it has been advised of the possibility of such damages.❷ Company's liability to Customer for claims arising under this Agreement, regardless of form, will not exceed the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will Company's aggregate liability for all claims under this Agreement exceed the total fees paid by Customer for the specific portion of Services in dispute.❸

Sentence ❶ ***Exclusive Remedy and Limitation of Liability***

Customer will provide Company with prompt written notice of any claim arising out of this Agreement, and Customer's sole and exclusive remedy for any such claim will be for Company, in its sole discretion and subject to the limitations described in this section, to: (a) use commercially reasonable efforts at its expense to cure the breach or damage that gave rise to the claim; or (b) refund to Customer the amounts paid to Company for Services related to the claim.

Purpose. This provision allows Company the opportunity to cure any claim that arises out of the CSA.

Support. If a customer is not satisfied with the work that Company has performed, or otherwise feels that Company has not satisfactorily performed its obligations, then Company would like the opportunity to "make good" with the customer. If Company is not able to "make good" with the customer, then it will refund to the customer the fees it paid for the defective services. With either result, the customer is fairly compensated for Company's failure.

Request #1. **Remove this sentence.**	***Approval:***	**2**

Fallback. Company could agree to remove this sentence, in which event the customer could sue Company for damages.

Note*: If Company agrees to remove this sentence, it must ensure that its liability for direct damages remains capped at an amount that is reasonable given that Company will not be provided the opportunity to cure the claim. The liability cap is discussed below.*

Note*: If Company agrees to remove this sentence, it should consider that this has the effect of removing the sole remedies of cure or refund from breaches of the warranty.* **Be aware, however, that if this sentence is removed it is especially important that the liability cap is adequate.**

Request #2. **Remove the "sole discretion" language, so customer can identify the appropriate remedy.**	***Approval:***	**4**

Fallback. Providing the limitation of liability is at an acceptable level, and customer agrees to not unreasonably withhold approval of Company's proposed remedy, this change is permissible.

Fallback Language. Customer will provide Company with prompt written notice of any claim arising out of this Agreement, and Customer's sole and exclusive remedy for any such claim will be for Company, subject to the limitations described in this section and Customer's approval (which may not be unreasonably withheld), to: (a) use commercially reasonable efforts at its expense to cure the breach or damage that gave rise to the claim; or (b) refund to Customer the amounts paid to Company for Services related to the claim.

Sentence ② ***Exclusive Remedy and Limitation of Liability***

In no event will Company be liable for any indirect, punitive, special, or consequential damages, including lost sales or profits, even if it has been advised of the possibility of such damages.

Purpose. This sentence states that Company will not be liable for damages that do not flow directly from a breach of the CSA. For example, if Company breaches the CSA by not providing services to a customer in time for the customer to be able to generate certain sales of its own, then Company will not be liable for any revenues the customer did not earn.

Support. This sentence is reasonable because Company should not be held liable for losses that are far removed from a breach of the CSA. Company cannot predict, and be prepared to be held responsible for, every possible loss that may stem from a breach of the CSA.

Request #1. **Make this sentence mutual.**	***Approval:***	**2**

Fallback. Company could agree to make this sentence mutual, thus protecting both parties from liability for indirect losses.

Fallback Language. In no event will either party be liable for any indirect, punitive, special, or consequential damages, including lost sales or profits, even if it has been advised of the possibility of such damages.

Sentence ❸ ***Exclusive Remedy and Limitation of Liability***

Company's liability to Customer for claims arising under this Agreement, regardless of form, will not exceed the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will Company's aggregate liability for all claims under this Agreement exceed the total fees paid by Customer for the specific portion of Services in dispute.

Purpose. This provision caps the amount for which Company will be held liable for damages that flow directly from a breach of the CSA. Company would only be liable, however, up to the liability cap contained in this provision.

Support. It is prudent that Company limit its exposure to an amount that is related to the value of the services being provided. The services are priced by taking into account the liability that Company may be exposed to in the event of a breach of the CSA. If Company expected to be exposed to a greater limit of liability (or no limit of liability), then it would price its services much higher.

Request #1.	**Increase (or remove) this limit of liability, or exclude certain damages from it (e.g., those related to breach of confidentiality obligations or indemnification).**	***Approval:***	**8**

Fallback. Company could agree to increase its limit of liability, perhaps to two times the fees paid for the services at issue. Company could also consider excluding indemnification obligations from the limit, as described in the following Request. Company should not, however, agree to remove this limit of liability or carve other types of damages out of it.

Fallback Language. Company's liability to Customer for claims arising under this Agreement, regardless of form, will not exceed two times the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will Company's aggregate liability for all claims under this Agreement exceed two times the total fees paid by Customer for the specific portion of Services in dispute.

Request #2.	**Make this sentence mutual.**	***Approval:***	**8**

Fallback. If Company agrees to make this sentence mutual, then it must take into consideration that the cap would apply to the customer's obligation to indemnify Company for third party claims, and the customer's obligation to make payments due under the CSA (and any other unique obligations the customer might have in a particular matter). Therefore, Company could agree to make this sentence mutual, but the cap should not apply to the customer's payment obligations and Company must determine whether it should apply to indemnification obligations. If both Company and the customer are equally likely to seek indemnification, the cap generally should not apply. If, however, the customer is more likely to seek indemnification from Company (which is likely, given Company's general reticence to pursue legal action against customers), the cap should apply to indemnification claims.

Fallback Language. In general, the indemnification obligations should remain capped. If Company determines that the indemnification obligations should not be capped in a particular deal, also add the language in brackets and italics below:

Each party's liability to the other party for claims arising under this Agreement, regardless of form, will not exceed the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will either party's aggregate liability for all claims under this Agreement exceed the total fees paid by Customer for the specific portion of Services in dispute; provided, however, the foregoing limitations of liability will not apply[: (a)] to Customer's payment obligations under this Agreement[; or (b) to either party's indemnification obligations under this Agreement].

Request #3.	**Create an exception from the limitation of liability for indemnification claims.**	***Approval:***	**8**

Fallback. Providing indemnification is only available for third party claims (not for claims by one contract party against the other), it is permissible to specify that the liability cap does not apply to indemnification claims. This position is reasonable because the indemnitee's liability to the third party is probably not limited, so the indemnitor's liability should not be limited either.

Fallback Language. Company's liability to Customer for claims arising under this Agreement, regardless of form, will not exceed the amounts paid by Customer for the defective portion of the Services that is the subject of the claim, and in no event will Company's aggregate liability for all claims under this Agreement exceed the total fees paid by Customer for the specific portion of Services in dispute; provided, however, the foregoing limitations of liability will not apply to limit Company's indemnification obligations under this Agreement.

IV. Warranty.

A Warranty is a promise about the quality of Company's work for a customer. Company's standard warranty is that it will perform its work in a "workmanlike manner." This essentially means that Company will perform the work using a level of care and skill that companies doing the same work in the same situation would use. Customers on occasion ask for warranties that Company will use the highest standard of care possible, which would hold Company to an "expert" standard of care, which is much higher than the "reasonable person" standard of care suggested by the "workmanlike" warranty. Because the warranty imposes on Company an obligation to correct problems, the customer is required to give Company notice of such problems within a specific time period, so that these obligations are not open-ended. The warranty relates to the limitation of liability because the actions Company will take in response to a warranty claim are described in that section (correct the problem or refund the fees).

CSA Provision: Warranty and Remedy. Company warrants that it will perform the Services in a workmanlike manner, and that any Technology Services will conform materially to their written specifications contained in this Agreement. Customer's sole and exclusive remedy for any breach of Company's warranty is set forth in the exclusive remedy and limitation of liability section of this Agreement.❶ Customer must bring any warranty claims within 30 days of Company's provision of any non-conforming portion of the Services, and failure to do so will constitute irrevocable acceptance of such Services and waiver of any related claims.❷

Sentence ❶ ***Warranty and Remedy***

Company warrants that it will perform the Services in a workmanlike manner, and that any Technology Services will conform materially to their written specifications contained in this Agreement. Customer's sole and exclusive remedy for any breach of Company's warranty is set forth in the exclusive remedy and limitation of liability section of this Agreement.

Purpose. If Company breaches the warranty contained in this section, then the customer can only seek the remedies of cure or refund outlined in the exclusive remedy provision.

Support. The customer's remedy for breach of warranty should be the same as for other breaches of the CSA. Also, as discussed above, if a customer is not satisfied with the work that Company has performed, then Company would like the opportunity to "make good" with the customer. The limited remedy permits Company this opportunity.

Request #1. **Remove this sentence.**	***Approval:***	**2**

Fallback. Company could agree to remove this sentence, in which event the customer could sue Company for damages.

Approval Process #2 applies if the agreement disclaims Company's liability for consequential damages and limits Company's liability for direct damages to a hard cap. Approval Process #4 applies in all other circumstances.

Sentence ② ***Warranty and Remedy***

Customer must bring any warranty claims within 30 days of Company's provision of any non-conforming portion of the Services, and failure to do so will constitute irrevocable acceptance of such Services and waiver of any related claims.

Purpose. This sentence limits the time period in which a customer may bring a breach of warranty claim to 30 days.

Support. This sentence requires the customer to identify, and notify Company of, any problems with the services in a timely manner. By learning of a problem early, Company is in a better position to correct the problem.

Request #1. **Increase (or remove) the 30 day warranty period.**	***Approval:***	**2**

Fallback. Company could agree to increase the warranty period to 60 or 90 days. Company should not, however, agree to remove the warranty period because Company then could be faced with a warranty claim many months from the time of performance of the services when (due to the lapse in time) it may be difficult for Company to determine the cause of the problem or correct it.

Fallback Language. Failure to make a written warranty claim within [60/90] days of completion of any non-conforming portion of the Services (or such other period as may be specified in an Appendix) will constitute irrevocable acceptance of such Services and waiver of any related claims.

CSA Provision: Third Party Products. If Company provides Customer with third party products under this Agreement, Company will use reasonable efforts to assign any warranty on such third party products to Customer, but will have no liability for such third party products. All third party products provided under this Agreement are provided "as is," with all faults, as between Company and Customer.

Purpose. If Company purchases products from a third party that it then passes on to the customer, Company provides the products to the customer without making any warranties regarding them. Company will, however, to the extent reasonably possible, pass through any warranties made by the seller of the third party products.

Support. It would be unreasonable for Company to have to provide a warranty for products over which it has no control.

Request #1. **Provide a warranty for third party products.**	***Approval:***	**4**

Fallback. Company should not provide a warranty for third party products, because Company has no control over the quality of the third party products. Further, it provides them as a customer convenience, not as a main component of the business model. Company could, however, agree to attach to the CSA a copy of any warranties that the third party agrees can be passed through to the customer (this will require review of the third party warranties and possibly discussion with the third party).

Fallback Language. All third party products provided under this Agreement, including without limitation software, hardware, or other equipment, are provided "as is," with all faults, as between Company and Customer. Company represents that Customer is entitled to make warranty claims regarding the third party products specified in Exhibit 1 against the third party specified in Exhibit 1, under the terms of the warranty provisions set forth in Exhibit 1. Such claims shall be Customer's sole and exclusive remedy with regard to such third party products.

CSA Provision: Disclaimer. **COMPANY DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT, ACCURACY, OR FITNESS FOR A GENERAL OR PARTICULAR PURPOSE. COMPANY DOES NOT WARRANT OR REPRESENT THAT ACCESS TO AND USE OF ANY TECHNOLOGY SERVICES PROVIDED BY COMPANY WILL BE UNINTERRUPTED OR ERROR-FREE, OR THAT ENJOYMENT OF SUCH TECHNOLOGY SERVICES WILL BE WITHOUT INTERFERENCE.**

Purpose. This provision clarifies that Company only makes the warranties that are included in the CSA, and that all other warranties (including the implied warranties of merchantability and fitness for a general or particular purpose that are implied by the Uniform Commercial Code) are disclaimed. This disclaimer protects Company from a claim that it has made other express warranties, such as in proposals or promotional materials, or that it intends for any implied warranties to apply.

See discussion of the disclaimer of a warranty of non-infringement.

Support. This provision protects both Company and the customer in that it clarifies that all warranties must be specified in the CSA. Thus, both parties know what to expect regarding Company's services.

Request #1. **Make this provision mutual.**	***Approval:***	**2**

Fallback. Company could agree to make this provision mutual, so that both parties would be disclaiming all other warranties.

Fallback Language. EACH PARTY DISCLAIMS ALL WARRANTIES NOT EXPRESSLY SET FORTH IN THIS AGREEMENT, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION, WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT, OR FITNESS FOR A GENERAL OR PARTICULAR PURPOSE.

Note: The non-infringement warranty should not be disclaimed by the customer if it is providing materials, such as ad copy, unless the customer agrees to a non-infringement indemnity.

V. Ownership of Intellectual Property.

Although there is not a provision in the CSA that addresses ownership of works created by Company for a customer, this issue is addressed in several of the appendices to the CSA. Generally, these provisions establish the following:

The customer's rights are as follows:

- The customer owns any original content created by Company for the customer (e.g., original website content).
- The customer retains ownership of any content it provides to Company (e.g., customer designs, logos, and similar content).
- The customer owns any changes made by Company to content provided by the customer (e.g., changes by Company to customer designs, logos, and similar content).
- The customer receives a limited license to use works that were developed by Company not in connection with the services provided to the customer, but that are incorporated into original work product created by Company for the customer, or otherwise provided to the customer as part of the services (e.g., software programs and website templates).
- The customer receives a limited license to use any changes made by Company to works owned by Company (e.g., software customization), regardless of whether such changes were requested by the customer and paid for by the customer as part of the services.

Company's rights are as follows:

- Company retains ownership of any works that Company developed not in connection with the services provided to the customer (e.g., software programs and website templates).
- Company owns any changes made by Company to works owned by Company, even if such changes were requested and paid for by a customer as part of the services.

Purpose. The ownership provisions preserve Company's ability to re-use on other projects software, design components, and similar items that Company develops for use with many customers. Company may not, however, re-use unique items that it develops specifically for a particular customer.

Support. The ownership provisions allow Company to continue its business of providing services to many different customers. It is important that Company maintain the flexibility to re-use certain products. If Company did not retain this flexibility, then it would have to create each new item

from scratch, which would cost Company money and time. On the other hand, the ownership provisions protect a customer's ability to retain Company to create original works that will not later be used by Company in connection with other customers of Company. The provisions also protect a customer's rights in works that the customer has created and has provided to Company for use in providing the services.

Request #1.	**Grant to the customer ownership rights to all works provided by Company to a customer.**	***Approval:***	**4**

Fallback. A customer may feel that if it does not receive ownership of all work product provided by Company to the customer, that its competitors may be able to benefit from this work product in the future. Customers also often feel that if they pay for something, they should own it outright. In response, Company should explain that the customer will receive ownership of original works; thus, Company could not re-use these items on projects for other customers. Company must, however, retain the ability to re-use certain base elements, and changes to those base elements, or Company would be hampered in its ability to continue its business. A fallback position may be available depending on the specific nature of the services to be provided to the customer. For example, Company could in certain circumstances agree to joint ownership, or that the customer receives ownership but grants a broad license back to Company. These must be considered on a case by case basis, and the fallback language below is provided only as a starting point. If you use it, tailor it to your situation (e.g., consider whether to impose limits on the joint owner's use).

Fallback Language. All proprietary rights, including without limitation all trade secrets, trademarks, trade names, patents, and copyrights, in and to the _____ will be jointly owned by Company and Customer. Neither party will owe an accounting to the other party for the proceeds of any revenues that are derived from the jointly owned _____.

Fallbakck Language. All proprietary rights, including without limitation all trade secrets, trademarks, trade names, patents, and copyrights, in and to the _____ belong exclusively to Customer. Customer grants to Company a non-exclusive, transferable, worldwide, royalty-free, irrevocable license to perform, display on the Internet, use, make, improve, sublicense, and create derivative works from the _____, excluding any trademarks, logos, or confidential information of Customer.

