

Curator's Notes for the PRECUT™ Nondisclosure Agreement

Discussion draft 2010-09-03

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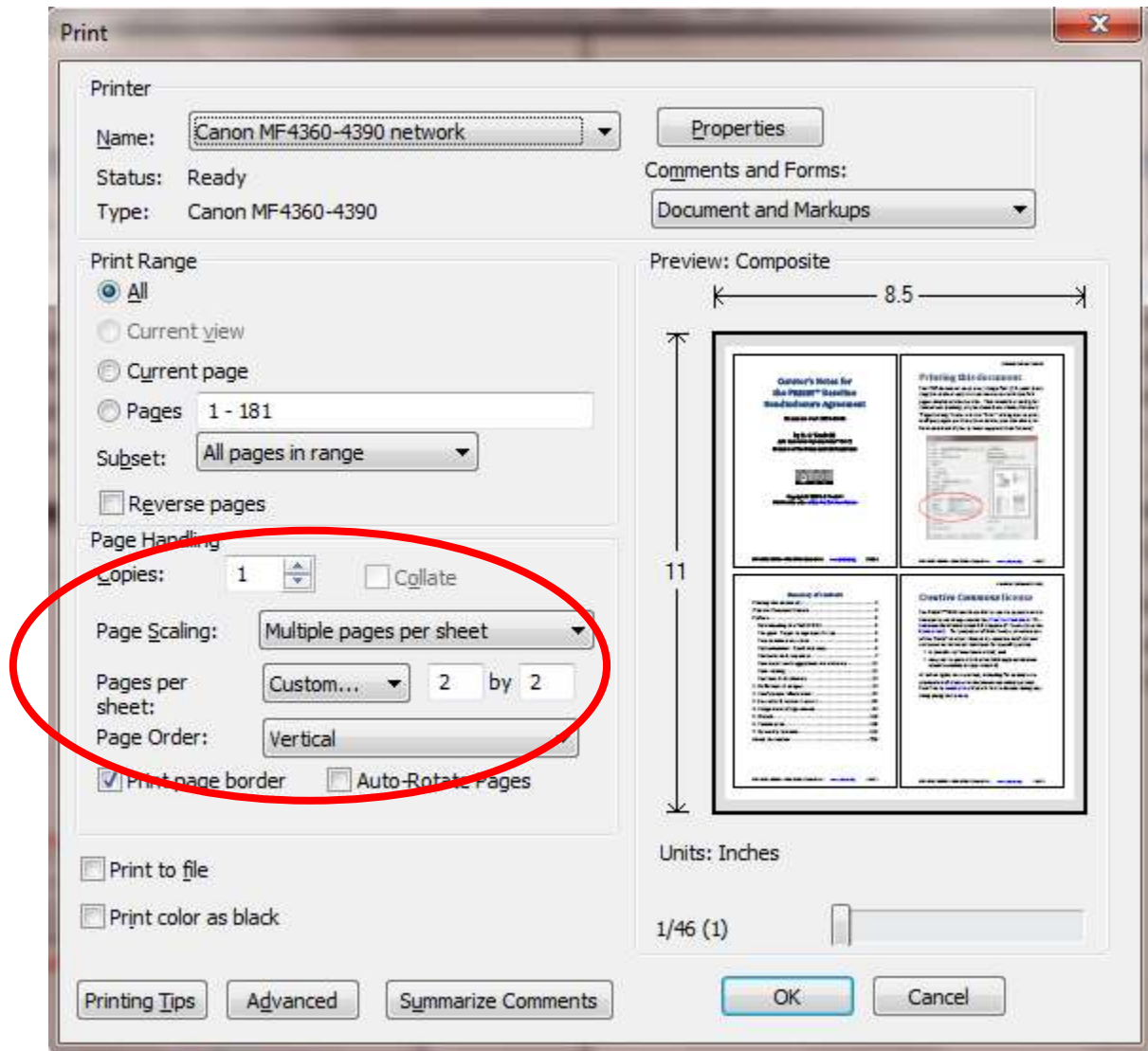
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Printing this document

This PDF document uses a very large font (20 -point body copy) to make it easy to read on-screen with two full pages displayed side by side. That would be too big for convenient printing, so you should use Adobe Reader’s “Page Scaling” feature in the “Print” dialog box to print multiple pages per sheet (see below; you can also print front-and-back if your printer supports that feature):



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All other rights are reserved, including for example reproduction of clauses in document-assembly systems. Feel free to [contact me](#) if you'd like to discuss doing anything along these lines.

Downloading the contract

Download a free, form-fillable PDF copy of the PRECUT™ Nondisclosure Agreement at www.precut.org.

Preface

The goal: To get to signature faster

You may well have had to endure the ritual of negotiating a nondisclosure agreement (“NDA”) before exploring a business transaction. The lawyers email ‘redlined’ drafts to each other; maybe a conference call takes place. Who knows how much time passes before the NDA gets signed and the companies can finally get on with their business.

Any number of times, business clients have asked me, “is there some kind of standard form that we can just sign?” The answer has almost always been no, but it doesn’t have to be that way. The PRECUT™ NDA sets out ‘down-the-middle’ terms and conditions that, at least to my mind, represent a reasonable balance between the parties’ interests.

Two common use cases

In my experience, the two most-common reasons for parties to enter into a nondisclosure agreement are:

- so the parties can explore, and perhaps negotiate, a business relationship, and
- because the parties are signing another contract that does not have its own confi-

dentiality provisions. Both of these use cases are included in [section 2.202\(b\)](#) of the NDA.

Customization: Quick, easy, inexpensive

It may be that the PRECUT NDA's provisions aren't quite what you need. If that's the case, you can save some money in legal fees — and additionally speed up the other side's legal review — by asking your lawyer to create a custom addendum to finish out the contract. This could include selectively copying and editing additional clauses from these Curator's Notes.

Or it may be that the other side is doing the drafting for your nondisclosure agreement. Presumably, you and your lawyer will have to review their draft. In that case:

1. Ask the other side to use the PRECUT NDA and, if they wish, an addendum with other clauses from these Curator's Notes.
2. Then, you and your lawyer can then use the clause-by-clause commentary in these Curator's Notes to help speed up your legal review of their draft.

Concerns and responses

“How do I know the PRECUT NDA is any good?”

Show the PRECUT NDA and these Curator’s Notes to your lawyer (assuming you’re not a lawyer yourself). I think she’ll appreciate the time and money she can save clients by using the PRECUT contract form.

(My [biographical information](#) at the end of this document might also give you some comfort that I know what I’m talking about, sort of.)

“I like to lead off with a really tough first draft, so I can horse-trade to get more concessions.”

Some negotiators subscribe to the theory that it’s always best to start with a tough contract draft: Doing so gives you a batch of potential concessions that you can use for horse-trading with the other side. That way, the theory goes, in the end you’ll get more of what you want from the other side. Certainly there are transactions in which it makes at least some sense to do this. And of course it’s always gratifying to play “the art of the deal,” to win legal concessions from the other side.

But don't underestimate the price you'll pay for these putative benefits, in business-staff time; legal expense (which includes in-house counsel, too); and opportunity cost, especially as the 'shot clock' is running down at the end of the fiscal quarter. When you're talking about routine transactions, it seldom makes sense to pay that price in every single case.

And there's another concern: If you lead off with a killer form, the other side might demand that you revise the clauses that benefit you, turning those clauses around to favor them instead.¹

“We've got the upper hand — let's just insist on using our 'killer' contract”

First off, whenever you send *any* contract draft to the other side, their lawyers will have to review it to see if it contains any unpleasant surprises. *That will take time*, which will delay getting the contract to signature. (And

¹ Here's a real-world example: A client's contract form, which I didn't draft, contained an exclusive jurisdiction clause saying, in effect, *All litigation must be in our home court*. The other side's markup of the contract form said, in effect, *No, we want all litigation to be in our home court*. Fortunately, the other side went along with my suggestion that we simply drop the clause altogether, leaving the contract silent on that issue.

you might not like the other side's proposed changes, about which more later.)

Second, even if you can cram a killer contract form down the other side's throat, doing so might backfire on you. The other side might grudgingly go along, but you could be left with a wounded tiger as a business partner. If you ever needed something from them that wasn't strictly required by the contract, you might have a hard time getting it.

On the other hand, starting out by offering the other side a reasonable contract can be an important gesture that promotes a healthy long-term relationship; see [this blog posting](#) for more on this subject.

“If the other side doesn't know what to ask for, it's not our job to educate them.”

Certainly one hates to give up the advantage of superior knowledge. But the real danger of a clueless contract reviewer on the other side is that s/he could slow things down, because s/he won't know what's reasonable.

And for all you know, the other side might bring in an expert who will demand whatever changes are needed to make the contract reasonable. You might as well save everyone the time and trouble and 'go there' to begin with.

In any case, suppose the other side is indeed on unfamiliar ground: You're still likely to get them to sign off faster if the draft you're proposing seems fair and balanced.

“I want my contracts to give me as much legal protection as I can get.”

Some drafters want their contracts to address every potential concern they can imagine. But think about how long the deal will be held up because the parties have to review, and probably negotiate, all the resulting verbiage. At some point you have to ask yourself: Is this the most productive use you can make of the calendar?

All in all, you might well be better off (i) using a 'baseline' contract that addresses “typical” concerns, and (ii) as a matter of business risk, taking the chance that the parties will be able to work out other concerns if and when they actually arise.²

² See generally a 2007 article about the [Pathclearer](#) approach developed by in-house counsel at a UK brewery. The approach involves using short letter agreements instead of long, complicated contracts, and relying on commercial motivations and the general law to fill in any gaps that might be left.

“The other side always insists on using their own contract forms.”

Even when the other side insists that they only use their own contract forms, there's still a good chance they can be convinced to use a reasonably-balanced form that fairly addresses the needs of both parties. To read a blog posting with real-world examples, [see here](#).

Comments and suggestions are welcome

Please email me *nonconfidential* comments, suggestions, etc. at dc_ahtt_toedt_dahtt_cahm.³

Now for some necessary legalese: ● I reserve the right, in my sole discretion, to use any feedback or other materials you send me in updates, new contract forms, books, e-books, etc., with no obligation to you. ● Unless you tell me otherwise, I will assume you have the right to authorize me to use whatever you send me. ● Your sending me feedback, etc., will not in itself create an attorney-client relationship between us. ● I will try, but can't guarantee, to attribute any suggestion that I use to the person(s) who submitted it, unless a given submitter tells me s/he wants to remain anonymous.

³ I've spelled out the address that way to try to fool [spambots](#) that crawl the Web looking for email targets.

Color coding

I've grouped the provisions of the PRECUT NDA into the following categories, based pretty much on experience (my own), not on any systematic research:

Clauses in green are what I think of as the “core” terms and conditions for a contract of this kind.

Clauses in gray can be mixed-and-matched as a reasonable compromise between the parties' interests. (Some of the clauses might be the subject of horse-trading between the parties.)

One side or another might object to clauses in yellow, typically for reasons explained in the commentary.

Clauses in red are very likely to be controversial, because they could easily cause problems for one side or another.

Cautions & disclaimers

Ask your lawyer if the PRECUT NDA is right for you:

Sometimes an off-the-rack suit might need adjustment by a tailor; likewise, in any given situation the PRECUT NDA might benefit from tweaking by an attorney.

Use at your own risk: The PRECUT NDA and these Curator's Notes are provided AS IS, WITH ALL FAULTS, WITH NO WARRANTIES, REPRESENTATIONS, OR IMPLIED TERM OF QUALITY.

Don't rely on these materials as a substitute for legal advice about your specific situation.

No attorney-client relationship: In itself, your use of the PRECUT NDA or these Curator's Notes won't establish an attorney-client relationship with me or anyone else.

1. Definitions & usages

The terms below have the stated meanings. Other definitions may be set forth "in line" in the clauses in which they appear. All references to sections, articles, exhibits, schedules, addenda, and appendixes refer to those of this Agreement unless clearly indicated otherwise.

COMMENT: There are two-and-a-half schools of thought about defined terms:

1. Put all defined terms in a Definitions section;
2. Define each term as it is first used (perhaps including an alphabetical index at the end);
- 2.5 A combination of 1 and 2.

I've adopted approach #2.5 for the PRECUT NDA and these Notes.

1.1 General definitions

1.101 And/or

And/or means the inclusive or. EXAMPLE: “The parties expect to meet each Tuesday and/or Wednesday” means that they expect to meet Tuesday, Wednesday, or both.

COMMENT: Some critics rail against the use of *and/or* as a crutch for the lazy. According to one judge — no slave to brevity — “the drafter could express a series of items as, ‘*A, B, C, and D together, or any combination together, or any one of them alone.*’”⁴ Um, sure, Your Honor

I’m usually a stickler for ‘correct’ language. But count me in the camp of those who insist that *and/or* is a perfectly serviceable shorthand. Language was made for man, not man for language.⁵

⁴ Carley Foundry, Inc. v. CBIZ BVKT, LLC, [No. 62-CV-08-9791](#), slip op. at 8 (Minn. Ct. App., Apr. 6, 2010); (affirming summary judgment dismissing malpractice claim on grounds of prior release) (unpublished) (italics added); see also, e.g., materials cited in the [Wikipedia entry](#) for the term “and/or.”

⁵ Ken Adams rightly [warns](#) on his contract-drafting blog, as does UT Law School legal-writing professor [Wayne Scheiss](#) in a comment there, against using *and/or* in contexts where it’s substantively wrong.

1.102 **Business discretion**

IF: This Agreement commits a decision, determination, or action to a person's *business discretion*; THEN: That decision, determination, or action may be taken in the person's sole and unfettered discretion, with a mind solely to the person's own wishes and not those of any other person, and without reference to any putative standard of reasonableness, good faith, or fair dealing.

PURPOSE: This section offers a less-harsh substitute for the traditional phrase "sole and unfettered discretion." (It says more or less the same thing, but in a way that should be less disconcerting to the other side.) This definition is also intended to deter attacks in litigation by 'creative' lawyers, claiming that the other side had some sort of *implied* duty to exercise its discretion in a particular way.

CONTENTIOUS? The definition itself shouldn't be contentious. But negotiators might disagree about whether a party should be allowed to exercise its unfettered discretion in a particular situation.

NOTE: A party exercising *business discretion* can do pretty much anything it wants in that exercise, as long as it's legal, of course. This contrasts with the abuse-of-discretion standard that restricts what lower-court judges can do when they have discretion.

1.103 **Examples**

Examples (and terms such as for example) and *include* and similar terms (e.g., *including*), whether or not capitalized, are used in this Agreement for purposes of illustration, not of limitation, unless another meaning is clear from the context.

PURPOSE: This section eliminates the need to repeatedly write (and read), for example, "by way of example but not of limitation."

CONTENTIOUS? This type of clause is not uncommon in contracts; it's generally uncontroversial when used.

1.104 For the avoidance of doubt

For the avoidance of doubt, IF: The parties omit from this Agreement a form clause containing the term “for the avoidance of doubt” (or similar phrases such as “for clarity”); THEN: That omission does not in itself signify that the parties agreed to a proposition contrary to the omitted form clause.

BACKGROUND: (1) Suppose that, in a nondisclosure agreement (NDA) negotiation, the disclosing party requested a clause stating that only its confidential information was protected by the NDA.

(2) But suppose also that the receiving party refused to agree to that clause, whereupon the disclosing party dropped its request.

(3) The receiving party might later try to argue that this negotiation history — the disclosing party proposing a provision, but the receiving party rejecting the proposal — meant that the parties had implicitly agreed to the contrary, that is to say, that they had agreed that the receiving party’s confidential information, not just that of the disclosing party, was protected by the NDA.

(4) This kind of problem could arise if a contract form contained such a “for the avoidance of doubt” provision, but then the parties omitted that provision from their actual contract. Conceivably, a party might later try to ar-

gue that, by omitting that provision, the parties had implicitly agreed to the opposite of the provision.

PURPOSE: This provision is intended to forestall a party from making an argument along the lines summarized above.

COMMENT: Computer programmers will appreciate the provision's **recursive** use (not circular use) of the term “for the avoidance of doubt” itself.

1.105 **Include, etc. — see Examples.**

1.106 Otherwise agreed

(a) *Otherwise agreed* and its variations, for example, *agreed otherwise*, whether or not capitalized, require a writing.

(b) Exception: The parties may agree in writing that, for a particular matter or a particular class of matters, their agreement otherwise need not be in writing.

(c) Any decision whether or not to agree otherwise is within the *business discretion* of the relevant person unless expressly stated otherwise in this Agreement.

COMMENT: The exception allows the parties to agree (in writing) that they may later vary specific terms by oral agreement, without needing to sign a writing to that effect.

1.107 Reasonable efforts

(a) Reasonable efforts, whether or not capitalized, refers to one or more reasonable actions reasonably calculated to achieve the stated objective.

(b) Any assessment of *reasonable efforts* shall give due regard to the information reasonably available at the relevant time about, for example, (i) the likelihood of success of specific action(s); (ii) the likely cost of other actions; (iii) the parties' other interests, (iv) the safety of individuals and property, and (v) the public interest.

(c) For the avoidance of doubt, *reasonable efforts* does not necessarily require taking every conceivable reasonable action.

PURPOSE: This section attempts to give some predictability to the term “reasonable efforts.”

CONTENTIOUS? This definition is my own coinage. Whether a given drafter or reviewer will want to use it will likely depend on the specific context in which the defined term is to be used.

COMMENT: Chapter 7 of Ken Adams's [A Manual of Style for Contract Drafting](#), 2d Ed., contains useful research. See also a helpful [2007 Jones Day memo](#) by Shawn C. Helms, David Harding, and John R. Phillips at <http://bit.ly/4noETJ>.

1.108 Seasonably

An action is taken *seasonably* (whether or not the word is capitalized) if the action is taken at or within the time agreed or, if no time is agreed, at or within a reasonable time.

COMMENT: This definition is reproduced verbatim from [UCC § 1-205](#).

1.109 Specified

Specified, whether or not capitalized, means as specified in the applicable section or in the Agreement unless otherwise clear from the context.

1.110 Stated – see *specified*.

1.111 ***Term* refers to the [ONE-YEAR] period following the effective date of this Agreement.**

For the avoidance of doubt, the term of this Agreement may be renewed or extended by written agreement.

COMMENT: Many agreements use the concept of the *term of the Agreement*. In my view such usage is not always appropriate, for reasons I won't go into here. But for a nondisclosure agreement, the *term* is a useful way to distinguish between information that was initially disclosed during the *term* (and therefore is protected by the NDA) and information that wasn't (and therefore isn't protected), as in section [2.102\(a\)](#).

1.2 Corporate-related definitions

1.201 Affiliate

Affiliate status exists (i) when one individual or organization is in a *control relationship* with another, and (ii) in any other circumstance expressly stated by this Agreement.

PURPOSE: Sometimes when a company negotiates a contract, it wants the benefits (or obligations) of the contract to extend also to other companies with which the first company considers itself (or the other side) to be “affiliated.” This definition puts fences around the concept of affiliation.

CONTENTIOUS? This definition is very common and seldom objected to. It's based on definitions used in a number of SEC regulations (see the commentary in the definition of *control* below).

NOTE: Think about what would happen if one of the other side's existing- or future *affiliates* turned out to be one of your competitors, or some other person or organization you'd just as soon not do business with.

NOTE: It might be well to specify, elsewhere in the Agreement, just what would happens in case of loss of *affiliate* status. For example, suppose that (1) that a software license agreement permitted the licensee's *af-*

filiate to use the software, and (2) that a particular *affiliate* were later to lose its status as such because of a corporate divestiture. It could be disruptive if the *affiliate* were required immediately to stop using the licensed software.

1.202 Affiliate — the following are also *affiliate* relationships: [N/A]

For purposes of this Agreement, the specified persons are *affiliates* of each other regardless whether they have a control relationship.

PURPOSE: This clause can be useful in the situation in which, let's say, Company A is a partner in a joint venture, and doesn't have a control relationship with the joint venture, but it still wants the joint venture to have affiliate benefits under the agreement.

1.203 **Control; control relationship**

(a) For purposes of determining *affiliate* status, *control* of an organization (whether or not the term is capitalized) refers to the direct or indirect possession of (i) voting control of securities of the organization carrying at least 50% of the aggregate right to vote for the organization's board of directors or comparable governing body, or (ii) the right to select, or to prevent the selection, of a majority of the members of such board or other body

(b) A *control relationship* exists between two persons (where a person is an individual or an organization) when one such person *controls*, is controlled by, or is under common control with, the other person, either directly or indirectly via one or more intermediaries.

PURPOSE: See the discussion in the definition of [Affiliate](#).

CONTENTIOUS? The 50% language is common, as is the definition of *control*, which has roots in the definition of *affiliate* in U.S. securities laws such as [Rule 501\(b\)](#) of SEC Regulation D, 17 CFR § 230.501(b).

NOTE: Some parties may want the percentage to be less than 50% because they have subsidiaries in which they don't own that much stock. Consider instead using section 1.202 to specify that particular organizations are to be deemed *affiliates* even without a *control relationship*.

1.204 **Control via management power**

Control of an organization, for purposes of determining *affiliate* status, also includes the power to direct or cause the direction of the management and policies of the organization, by contract or otherwise.

PURPOSE: Some contracting parties want their “affiliates” to include companies that they think they “control.” The language of this clause is modeled on text found in the U.S. securities laws (for example, in [Rule 1-02\(g\)](#) of SEC Regulation S-X).

COMMENT: For regulatory purposes, the SEC’s language may be all well and good. But if this kind of definition of “control” were to be used in a contract, it’s not hard to imagine how, in later litigation, the parties might have to engage in extensive — and expensive — discovery about who has what management power⁶.

In many circumstances, it may be enough to state that certain specified companies will be deemed “affiliates” regardless of any lack of a *control relationship*; see [section 1.202](#) for language to that effect.

⁶ For an example of such a battle over who had “control” (in this case, of a vessel destroyed by fire), see *Offshore Drilling Co. v. Gulf Copper & Mfg. Corp.*, [No. 08-40885](#) (5th Cir. Apr. 20, 2010) (affirming summary judgment in relevant part).

1.3 Indemnity-related definitions

1.301 Indemnify

(a) IF: A provision of this Agreement obligates a party to indemnify another individual or organization against a third-party claim or other event but is not specific as to the types of harm to be indemnified; THEN: The obligated party will indemnify the individual or organization against all claims, liabilities, losses, damages, obligations, penalties, actions, judgments, execution, costs, expenses, and disbursements, of any kind or nature, arising out of the specified event(s). *Expenses* for this purpose includes, for example, reasonable attorneys' fees, expert witness fees, and other expenses of litigation or arbitration.

(b) Unless otherwise agreed, an obligation to indemnify against a claim includes the obligation to provide a defense against the claim, whether or not the defense obligation is separately stated.

PURPOSE: This section eliminates the need to repeatedly write (and read), the laundry list of things to be defended- and indemnified against.

CONTENTIOUS? Many indemnity clauses include laundry lists of this nature.

NOTE: This definition expressly requires the indemnifying party to *defend* against claims. Some courts have held that this obligation is implicitly part of an indemnity obligation; this language makes the obligation explicit.

NOTE: This definition does NOT include a “hold harmless” clause, in which the indemnifying party, in essence, not only (i) agrees to reimburse the Protected Party for whatever damage it might incur itself, but also (ii) gives the Protected Party a get-out-of-jail-free card, that is, the indemnifying party agrees to be responsible for all of the damage in question even if the Protected Party bears some responsibility for it.

COMMENT: For a very understandable introduction to indemnities, see [The Manager’s Guide to Understanding Indemnity Clauses](#), by attorney Frank Adoranti – a Google Books preview is at <http://bit.ly/Indemnity>.

1.302 Protected Party; Protected Person

(a) *Protected Party*, unless otherwise specified, refers to: (i) in connection with a third-party claim, a signatory party that is entitled to indemnity and/or defense by another signatory party; (ii) in connection with a limitation of remedies or other liability, the signatory party whose liability is so limited.

(b) *Protected Person* refers to (i) a Protected Party itself and (ii) the Protected Party's employees, officers, directors, shareholders, general- and limited partners, members, and managers.

COMMENT: This definition helps reduce the verbosity of indemnity provisions.

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2. Confidential information

COMMENT: For an excellent overview of confidential-information provisions, see the article "[What is important in a confidentiality agreement or non-disclosure agreement \(NDA\)?](#)" by Yoichiro ("Yokum") Taku, a partner at the Wilson Sonsini law firm.

2.1 Confidentiality definitions & requirements

2.101 Disclosing Party refers to [EACH PARTY]

(a) *Receiving Party* refers to any party to this Agreement that, pursuant to this Agreement, accesses Confidential Information owned or maintained by a Disclosing Party.

(b) For the avoidance of doubt, only Confidential Information owned or maintained by a Disclosing Party is protected by this Agreement.

WHO WANTS THIS, AND WHY? Both disclosing- and receiving parties have a keen interest in defining which party's or parties' information will be protected:

- A Disclosing Party will often want the confidentiality obligations to apply only to the other party, so that if the Receiving Party happens to disclose its own confidential information, the Disclosing Party will not have any obligation of confidence.

- Receiving parties, however, often object to a one-way agreement, and push for a two-way agreement.

HYPOTHETICAL NEGOTIATION EXAMPLE: Suppose that Parties A and B sign a confidentiality agreement that protects the information of Party A only. They do so because only Party A will be disclosing its confidential information — or so they think.

- ❖ It's entirely possible, however, that at a later date, the parties will decide that they also need to protect Party B's confidential information.
- ❖ In that case Party A, the original Disclosing Party, might find itself in the embarrassing position of asking to negotiate a new agreement: In the original negotiation, it played hardball by demanding that Party B agree to tough confidentiality obligations. But then, when it looks like the roles will be reversed, it doesn't want to have to live with those obligations itself as a Receiving Party.
- ❖ If the parties have to negotiate a new agreement, the business people are likely to ask pointed questions about why the agreement couldn't have been “done right” in the first place.

So as a general rule, it's often a good idea to insist that any confidentiality provisions be two-way in their effect

from the start, protecting the confidential information of both parties.

POSSIBLE ARGUMENTS FOR AND AGAINST A TWO-WAY AGREEMENT:

❖ *Receiving-party argument:* "We don't know for sure that we won't need to disclose our own information to you. If that happens, we need for our information to be treated as confidential, too. Besides, with a two-way agreement, it should take us less time to work out a mutually-agreeable set of terms and conditions. Each of us will have to live with the same rights and restrictions that it asks the other side to accept. That should make both of us more inclined to be reasonable in the negotiations."

❖ *Disclosing-party argument:* "We want it clear that only our information will be treated as confidential. If you happen to disclose your information to us, we're not necessarily going to use it or disclose it. But we don't want to be contractually obligated to treat your information as confidential — that's one more obligation we'd have to manage, and we don't want to have to do that."

COMMENT: Even in a two-way provision, a good drafter can slant the language in favor of the role he (or she) thinks his client will be playing.

2.102 Confidential Information definition

(a) “Confidential Information” refers to information that: (i) is shown to have been the subject of reasonable efforts by the Disclosing Party to preserve the information in confidence; (ii) is shown to have been initially disclosed or otherwise made available to the Receiving Party by, or on behalf of, the Disclosing Party (x) during the *term* of this Agreement, and (y) in compliance with any marking requirement imposed by this Agreement; and (iii) is not shown to be within one of this Agreement’s exclusions from Confidential Information status.

(b) For the avoidance of doubt, all confidentiality obligations of this Agreement apply to any copies, notes, summaries, etc., made by the Receiving Party to the extent they contain Confidential Information.

COMMENT: This definition of Confidential Information more or less tracks definitions typically found in state trade-secret statutes and case law.

COMMENT: In subparagraph (a), the definition of “Confidential Information” allocates the burden of proof in the usual way: Under subclause (i), the *Disclosing Party* must show that it made Reasonable Efforts to preserve the information in confidence. Assuming the Disclosing Party succeeds in doing so, then under subclause (ii) it is

up to the *Receiving Party* to show that the information is nevertheless within an exclusion.

COMMENT: Some lawyers for disclosing parties like to include long laundry lists of specific examples of confidential information; this can be done using [section 2.103](#).

NOTE: The definition of Confidential Information is not as strict as that of "trade secret" under typical state laws. To be a [trade secret](#), generally speaking, the information must give someone who knows it an economic advantage over someone who doesn't.

COMMENT: Subclause (a)(iii)(x) denies confidentiality status to information that was not initially disclosed during the *term* of the Agreement. Receiving parties often want language like this to avoid being surprised by claims of confidentiality longer after they thought their business with the disclosing party was over.

NOTE: Disclosing parties often want the avoidance-of-doubt language in subparagraph (b) to drive home the point that the Receiving Party must treat its notes, etc., as confidential information — and that those documents must be returned to the Disclosing Party or destroyed if so required by [section 2.301](#).

2.103 **Illustrative examples of Confidential Information: [NONE DEEMED NECESSARY]**

Confidential Information includes, for example, any stated categories of information, which are provided for purposes of illustration and not of limitation. The status of particular items of information is subject to the other requirements of this Agreement for information to be classified as Confidential Information.

WHO WANTS THIS, AND WHY? Disclosing parties' lawyers, out of an abundance of caution, sometimes want this language so as to be sure that *their* clients' confidential information is covered by the basic definition.

CONTENTIOUS? Unlikely. This type of definition is not uncommon in confidentiality provisions.

COMMENT: Personally, I'm skeptical that including this kind of laundry list of types of confidential information is likely to make any significant real-world difference.

2.104 Exclusions from confidentiality status

(a) The term Confidential Information does not include information that is shown to have been, at the relevant time: (i) published or otherwise generally known by relevant segments of the public; or (ii) known by the Receiving Party before obtaining access to it under this Agreement; or (iii) provided to the Receiving Party by a third party not under an obligation of confidence benefiting the Disclosing Party; or (iv) independently developed by the Receiving Party without use of the Disclosing Party's Confidential Information; or (v) disclosed to a third party, by the Disclosing Party or with its authorization, without confidentiality obligations comparable to those of this Agreement.

(b) For the avoidance of doubt, a specific selection or combination of information will NOT be excluded from Confidential-Information status solely by virtue of the fact that some or all of its component parts are themselves so excluded, UNLESS the selection or combination itself, along with its economic value and principles of operation, are themselves within such an exclusion.

WHO WANTS THIS, AND WHY? Receiving parties almost always want language like that of subparagraph (a) to nail down some specific ways by which they can try to disprove confidentiality.

CONTENTIOUS? Exclusions from confidentiality are almost universally seen in confidentiality provisions. They favor the Receiving Party (by making explicit what the law usually provides anyway), but they're almost always regarded as acceptable by disclosing parties.

COMMENT: Concerning subparagraph (a)(iv), a receiving party is likely to have a tough time convincing a judge or jury that it independently developed the information unless it can corroborate its oral testimony with lab notebooks or other evidence. I've observed first-hand how judges and juries can sometimes refuse to believe oral testimony about independent development, especially if the putatively-independent developers had access to confidential information.⁷

COMMENT: Some disclosing-party negotiators might try to object to subparagraph (a)(v), which excludes infor-

⁷ I was co-counsel for the defendant at the trial in *Celeritas Technologies, Ltd. v. Rockwell Int'l Corp.*, 150 F.3d 1354 (Fed. Cir. 1998), in which the appeals court affirmed judgment on a jury verdict that Rockwell had breached an NDA by using technology disclosed to it by Celeritas. The appeals court observed that “[s]ignificantly, Rockwell did not independently develop its own ... technology [sic], but instead assigned the same engineers who had learned of Celeritas's technology under the NDA to work on the ... development project” (emphasis added).

mation disclosed without restriction to third parties, but that's pretty much the way the law works.⁸

Concerning subparagraph (b): In litigation, receiving parties sometimes try to argue that (i) individual bits and pieces of confidential information are publicly known, and so therefore (ii) the combined bits and pieces supposedly cannot be confidential. The law is otherwise,⁹ but even so, disclosing parties sometimes ask for lan-

⁸ In April 2010, Lockheed Martin won a \$37 million verdict against a competitor for misappropriation of trade secret — but then the judge ordered a new trial because, he found, Lockheed Martin had withheld email evidence suggesting that the company had disclosed the trade secrets in question to a competitor without restrictions. See R. Robin McDonald, *Discovery Failure Sinks Lockheed's \$37 Million Win*, Apr. 6, 2010, at <http://goo.gl/MLsT>; see also a blog posting about the case by Todd Sullivan at <http://goo.gl/PpEW>.

⁹ *See, e.g.,* *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990) ("[A] trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectible secret"), *quoted in* *Waterville Investment, Inc. v. Homeland Security Network, Inc.*, No. 08-CV-3433 (E.D.N.Y. Jul. 2, 2010) (granting summary judgment dismissing trade-secret claim) (internal quotation marks and citation omitted).

guage like this in their agreements to give them summary-judgment ammunition. Experienced receiving-party lawyers are usually OK with this kind of language.

ALERT: Some badly-drafted confidentiality exclusion clauses categorically exclude information sought under subpoena, a search warrant, etc. Under such clauses, arguably even the mere issuance of a subpoena, etc., for confidential information would completely strip the information of its confidentiality status. This would normally be a big mistake, because it might deprive the Disclosing Party of the benefit of any confidentiality protections in the subpoena itself or in a protective order entered by the court. The better approach is to provide that the Receiving Party may disclose confidential information pursuant to a subpoena, etc., as long as it meets certain conditions, as in section 2.205.

2.105 Proof of an exclusion requires specific evidence.

Proof of an exclusion from confidentiality requires (i) documentary evidence and/or (ii) reasonably-corroborated oral evidence.

WHO WANTS THIS, AND WHY? Disclosing parties want to raise the bar for the Receiving Party in court.

CONTENTIOUS? The “documentary evidence” language is not uncommonly seen in forms proposed by disclosing parties, but receiving parties sometimes object to it.

COMMENT: The “reasonably-corroborated oral evidence” language represents a compromise position. It borrows from the patent-law requirement that an inventor who claims to have invented his invention earlier than the filing date of his patent application must provide evidence to corroborate that claim. "This rule addresses the concern that a party claiming inventorship might be tempted to describe his actions in an unjustifiably self-serving manner in order to obtain a patent or to maintain an existing patent." *Sandt Technology, Ltd. v. Resco Metal & Plastics Corp.*, 264 F.3d 1344, [No. 00-1449](#) (Fed. Cir. 2001) (affirming relevant part of summary judgment; as a matter of law, defendant’s inventor sufficiently corroborated his prior invention) (citation and internal quotation marks omitted).

COMMENT: Normally the burden of proof in a civil case is by a preponderance of the evidence. This is sometimes explained as meaning that the party asserting a fact must show that the asserted fact is more likely than not to be true. And judges and juries are allowed to take into account oral testimony, not just documentary evidence.

Disclosing-party argument to the Receiving Party: “If you’re going to claim that you supposedly knew our confidential information even before we gave it to you, you’re going to have to do better than just putting up a witness to say so. Everyone knows that witness testimony is tricky – memories can mutate, and employees can be inclined to shade their testimony so that it comes out the way their boss wants.”

Receiving-party argument to the Disclosing Party: “Why should we have a greater burden of proof than we would normally?”

[HISTORY: Edited 2010-08-15 to add explanation and citation of *Sandt Technology*.]

2.106 **Presumption of confidentiality applies [TO INFORMATION MARKED AS SUCH]**

This presumption (i) is rebuttable, and (ii) applies only to the Disclosing Party's burden of coming forward with evidence, without shifting the ultimate burden of proof, that is, the risk of non-persuasion.

WHO WANTS THIS, AND WHY? Disclosing parties often want a presumption of confidentiality to reverse the usual burden of proof in a lawsuit. This language represents a compromise.

CONTENTIOUS? A pure, burden-shifting presumption about Disclosing-Party information might well be objected to by receiving parties. Receiving parties often go along with the presumption if it applies only to suitably-marked information, as here.

BACKGROUND: Normally the burden of proof would be on the Disclosing Party to show that its information was confidential. (The Disclosing Party would usually prove this by offering evidence that it had made **reasonable efforts** to keep the information confidential.)

A burden-shifting presumption of confidentiality might technically reverse that burden of proof: It could make the Receiving Party bear the risk of failing to prove that the information came within an exclusion from confidentiality status.

(As a practical matter, though, the Receiving Party is going to put on whatever evidence it can anyway to show that the information was not confidential.)

For a useful summary of evidentiary presumptions, see Paul R. Rice, [E-mail, I presume: Authentication law needs updating for the e-commerce age](#), Legal Times, week of Jan. 22, 2001, accessed Oct. 17, 2008.)

2.107 **Marking of Confidential Information [IS REQUIRED].**

(a) Any marking required by this section 2.107 must include a reasonably prominent, visually-readable notice such as, for example, “Confidential information of [name]” or “Subject to NDA.”

(b) Confidential Information not marked in accordance with this section 2.107 is not subject to the confidentiality obligations of this Agreement (but see also section 2.108 concerning catch-up marking).

WHO WANTS THIS, AND WHY? Receiving parties very often ask for language like this for two reasons: 1) So their employees will know what information they have to treat as confidential; 2) to make it clear that unmarked information is fair game for the Receiving Party to use or disclose as it pleases.

CONTENTIOUS? Receiving parties often object if a marking requirement is omitted. Disclosing parties often agree to such a requirement, though, if catch-up marking language is included.

COMMENT: A marking requirement usually does not put much of an extra burden on the Disclosing Party, because the Disclosing Party already has a practical motivation for marking its protected information:

- In court, a Disclosing Party, seeking to show that its information is confidential, will usually tout the fact that it marked its information as indirect evidence of confidentiality.
- Conversely, courts can sometimes interpret a Disclosing Party's failure to mark information as indirect evidence that the Disclosing Party didn't really consider the information to be confidential.

Thus, a marking requirement really should not be that big a deal for a Disclosing Party.

POSSIBLE ARGUMENTS PRO AND CON:

- *Receiving-party argument:* "Look, you're going to be giving us information that's confidential, but also information that isn't. We don't want our employees to have to guess which is which, or what they can do with particular information. Suppose you gave us information that wasn't marked at all. Or suppose you let us see and copy unmarked information. We shouldn't have to worry about whether someday you might sue us for using the information. Also, we also like our people to get 'just-in-time training' reminding them of their confidentiality obligations. So if you consider information to be confidential, we need you to mark it as such before you give it to us. Otherwise, we don't want the information to be subject to any confidentiality obligations."

- *Disclosing-party argument:* "Look, we don't necessarily mark all our internal information as confidential. We don't want to have to take on the operational burden of making sure everything we give you is marked. This would be especially true if we were to let you look at and copy our internal files. So we need you to treat any information you get from us as confidential until you can prove it's not."

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2.108 The *catch-up marking period* is [10 BUSINESS DAYS] after an initial unmarked disclosure.

IF: Particular Confidential Information is initially disclosed without the marking required by section 2.107, for example in an unmarked writing or via a demonstration, oral presentation, or other manner not conducive to marking; THEN: The information in question will be deemed to comply with section 2.107 if the Disclosing Party (i) identifies the information as confidential at the time of or promptly after the initial disclosure, and (ii) within the stated *catch-up marking period* thereafter, causes a copy or written summary of the Confidential Information, marked as required by section 2.107, to be provided to the Receiving Party.

WHO WANTS THIS, AND WHY? Disclosing parties want language like this so that if, by some misfortune, the Disclosing Party doesn't have the chance (or simply forgets) to mark an important piece of information as "confidential," the information won't lose its protection under the Agreement.

CONTENTIOUS? Variations on this language are seen in many and even most confidentiality provisions. (The length of the catch-up marking period might be negotiated.)

COMMENT: What should the Disclosing Party's deadline be for doing catch-up marking — after which the unmarked information becomes fair game for the Receiving Party to use without restriction?

The bright-line approach: Some confidentiality provisions require catch-up marking to be completed within a stated time — typically five to ten business days, but often as much as 30 days. This is a bright-line approach that favors the Receiving Party, because if the Disclosing Party fails to mark it by the stated deadline, the information's confidentiality restrictions evaporate. (This assumes confidentiality isn't separately required by applicable law, for example by HIPAA or the Gramm-Leach-Bliley Act.)

Bright-line tests can be advantageous in business contracts. They make life easier on the people who actually have to do the work, and they promote predictability, which is prized in the business world.

But here a bright-line approach has the potential to damage the parties' business relationship (assuming one exists). And it's not clear how much good the approach will actually do for the Receiving Party.

Put yourself in the Disclosing Party's shoes: If you slip up and forget to mark particular information, the Receiving Party might claim that you've lost all right to control the

use of the information. It doesn't matter whether the Receiving Party would suffer any prejudice by belated marking – the Receiving Party asserts that the information is no longer confidential, period. If the parties' relationship is supposed to be a collaborative one, that wouldn't be a good thing.

The reasonable-time approach: For collaborative relationships, another approach is to allow catch-up marking within a reasonable time. Sure, that can lead to uncertainty about what “a reasonable time” might be. But that very uncertainty can usefully encourage the parties to try to work things out, which in turn can help them preserve their business relationship.

In any case, in a collaborative relationship it's not a bad thing for the Receiving Party to call up the Disclosing Party and ask: "Hey, you didn't mark Document X as confidential; did you intend to do that, or did it just slip through the crack? " The Disclosing Party gets a chance to protect its information, and the Receiving Party scores points for being a “good” business partner.

2.109 **Clearly-recognizable Confidential Information need not be marked as such.**

If so specified, any information that a reasonable person, in the position of the Receiving Party, would clearly recognize as Confidential Information, will be deemed such even if not so marked.

WHO WANTS THIS, AND WHY? Disclosing parties would like to dispense with a marking requirement so that they won't have to bother marking their confidential information as such (even though it'd be a good idea for them to do so anyway, as discussed in the commentary above).

CONTENTIOUS? Receiving parties often object to language of this kind, in part because it puts an extra burden on a Receiving Party's personnel, and in part because the language could easily create disputes about what is "clearly recognizable" as confidential.

COMMENT: It's understandable that disclosing parties don't want to lose their confidentiality rights if they forget to mark particular information as confidential. But a catch-up marking clause, of the kind included above, should be enough to address that problem.

2.110 Information of Disclosing-Party *affiliates* [CONSPICUOUSLY MARKED AS SUCH] can be Confidential Information if otherwise eligible.

For the avoidance of doubt, any marking requirement of this section is distinct from any marking requirement imposed by any other section of this Agreement.

WHO WANTS THIS, AND WHY? Disclosing parties sometimes want to be able to give the Receiving Party not just their own confidential information, but those of their Affiliates as well, without having to get their Affiliates to sign separate confidentiality agreements.

COMMENT: When negotiating a nondisclosure agreement (NDA), a Disclosing Party might plan on disclosing not only its own confidential information, but also that of its subsidiaries and other corporate Affiliates as well.

On the other hand, a Receiving Party will want to know in advance the specific companies to which it owes confidentiality obligations.

ALERT: It could be dangerous to make a blanket statement that confidential information of the Disclosing Party's Affiliates will be deemed confidential. Consider this hypothetical scenario:

- Completely separately from the transaction contemplated by the nondisclosure agreement, an individual in

the Affiliate organization gives information to an individual at the Receiving Party.

- Neither individual, knows anything about a nondisclosure agreement or has any sort of confidentiality obligations in mind.
- The Receiving Party makes use of the Affiliate's information in its business.
- Later, the Affiliate decides that it wants to claim that the information was confidential, and to prevent the Receiving Party from using or disclosing it.
- The Receiving Party might have valid defenses such as estoppel, but who wants the grief (and expense) of having to litigate the question?

A sledgehammer solution to this problem would be to categorically exclude Affiliate information from protected status. But that's probably not the best approach.

This section instead tries to balance the parties' interests by requiring Affiliate information to be conspicuously marked as confidential in order for it to be protected.

2.2 Protection of Confidential Information

2.201 Precautions

The Receiving Party shall take reasonable precautions to protect Confidential Information from unauthorized use or disclosure. Such precautions are to be not less than those the Receiving Party uses for its own information of comparable nature and value.

WHO WANTS THIS, AND WHY? Disclosing parties nearly always want language like this, in part so that they can demonstrate to a court that they themselves took reasonable precautions with their confidential information.

CONTENTIOUS? It shouldn't be.

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2.202 Use of Confidential Information

(a) The Receiving Party must obtain the Disclosing Party's prior written consent to any use by it of Confidential Information (each type of such use, a "*Permitted Use*").

(b) IF: As clearly shown by written evidence, the parties are entering into this Agreement in conjunction with any activity listed below in this subparagraph (b); THEN: The Disclosing Party consents to the Receiving Party's use of Confidential Information during the term of this Agreement to the extent reasonably necessary for the corresponding *Permitted Use*.

(1) PARTIES' ACTIVITY: Exploring and/or negotiating a potential business relationship between the parties. PERMITTED USE: Assessing the Receiving Party's interest in, and/or negotiating the terms of, such a relationship.

(2) PARTIES' ACTIVITY: Entering into another agreement between the parties. PERMITTED USE: The Receiving Party's (i) performance of its own obligations, and (ii) exercise of its right to require performance by the Disclosing Party, under such other agreement

WHO WANTS THIS, AND WHY? Both parties want to know the extent to which the Receiving Party is permitted to use the Disclosing Party's confidential information. Moreover, the Disclosing Party will want to show a court

that it did not allow unrestricted use of its Confidential Information.

CONTENTIOUS? Permitted-use clauses are practically universal in confidentiality agreements. The specific use(s) to be allowed will depend on the circumstances.

COMMENT: Unfortunately, some confidentiality provisions fail to distinguish between *Permitted Use* and *Permitted Disclosure* of confidential information.

COMMENT: Concerning subparagraph (b): Normally, drafters prefer that contracts be self-contained, and often include an [entire-agreement clause](#) to make sure of it. (The [Parol Evidence Rule](#) supports this principle.)

In an NDA, however, adhering to this principle would require the parties to draft – and perhaps negotiate – a statement of permitted use. This strikes me as very often being a time-wasting reinvention of the wheel.

So, this clause deliberately refers to evidence outside “the four corners” of the contract (note that the [entire-agreement clause](#) is drafted to take this into account).

My thinking is this:

- Certainly in theory this language will increase the uncertainty a bit: The parties might later get into a dispute about what should be deemed the “parties’ activity.”

And they can't be 100% certain what extrinsic written evidence might be adduced at trial.

- In most cases, I think, this will be a risk worth taking in exchange for the increased convenience to the parties, because:
 - I think the odds are that the parties' email exchanges (and perhaps other correspondence) will nicely establish what constituted the "parties' activity" associated with entering into the NDA;
 - This clause takes advantage of the likelihood that such written evidence will be available – it lets the parties simply sign the NDA, without making them negotiate an individualized statement of permitted use.

2.203 Disclosure of confidential information

(a) The Receiving Party may not disclose Confidential Information except (i) as specified in this Agreement or (ii) with the Disclosing Party's prior written consent. Each such disclosure is referred to as a "Permitted Disclosure."

(b) As one illustrative example of a disclosure of Confidential Information, the Receiving Party may not confirm, to any third party, any correlation or similarity between Confidential Information and information from any other source, except as otherwise permitted by this Agreement or with the Disclosing Party's prior written consent.

WHO WANTS THIS, AND WHY? Both parties want to know the extent to which the Receiving Party is permitted to re-disclose the Disclosing Party's confidential information.

CONTENTIOUS? Permitted-disclosure clauses are practically universal in confidentiality agreements.

2.204 **Need-to-know disclosures to Receiving-Party employees are permitted.**

For the avoidance of doubt, during the term of this Agreement the Receiving Party may disclose Confidential Information to those of its officers, directors, and employees who (i) have a need to know for a Permitted Use and (ii) either (x) have signed a confidentiality agreement with the Receiving Party, or (y) are otherwise bound by legally-enforceable confidentiality obligations to the Receiving Party, in either case sufficient to enable the Receiving Party to comply with the confidentiality obligations of this Agreement.

WHO WANTS THIS, AND WHY? The Receiving Party wants to be able to share confidential information internally, without having to go back to the Disclosing Party to get its approval of each new person who will be given access to the information.

CONTENTIOUS? Internal-disclosure clauses are practically universal in confidentiality agreements.

[HISTORY: Edited for clarity 2010-08-15]

2.205 Need-to-know disclosures to contractors are permitted, subject to certain restrictions.

If so specified, during the term of this Agreement the Receiving Party may disclose Confidential Information to those of its contractors that (i) have a need to know for a Permitted Use, and (ii) are bound by confidentiality obligations that are (x) set forth in a written agreement between the relevant contractor and the Receiving Party, and (y) are at least as protective of the Confidential Information as the Receiving Party's obligations under this Agreement.

WHO WANTS THIS, AND WHY? Receiving parties don't want to have to ask permission every time they want to provide Confidential Information to a contractor.

CONTENTIOUS? A Disclosing Party might well object to allowing the Receiving Party to disclose confidential information to ANY other entity (other than as required by law) without consent. For all the Disclosing Party knows, a Receiving-Party contractor might turn out to be a Disclosing-Party competitor.

COMMENT: This may not be that big a deal for a Disclosing Party – if a contractor is indeed a competitor, chances are that it won't want to come anywhere near Confidential Information, for fear of being tied up in litigation.

2.206 Disclosures compelled by law

The Receiving Party may disclose confidential information when compelled by law, for example in response to a subpoena or a search warrant, in a securities filing, **subject to** the conditions that the Receiving Party must: (i) advise the Disclosing Party as far in advance of such a disclosure as practicable; and (ii) provide reasonable cooperation with any efforts by the Disclosing Party, at the Disclosing Party's request and expense, to limit the disclosure and/or to obtain legal protection for the information to be disclosed.

WHO WANTS THIS, AND WHY? The Receiving Party doesn't want to be caught between a rock and a hard place: It doesn't want to be in breach of contract if it turns over the Disclosing Party's confidential information in response to a subpoena or search warrant. On the other hand, it doesn't want to find itself in contempt — or under arrest for obstruction of justice — if it declines to do so.

CONTENTIOUS? Compulsory-disclosure clauses are very often seen in confidentiality agreements.

ALERT: It's a very bad idea to say that subpoenaed information is categorically *excluded* from confidentiality status from then on, merely by virtue of having been within the scope of a subpoena. In the event of a subpoena, the

Disclosing Party likely would seek a court order that the subpoenaed information can only be used or disclosed in specified ways. That might well preserve the confidentiality of the information, in which case it'd be counter-productive to have the information categorically excluded from confidentiality.

2.207 **Compliance with law governing disclosures**

For the avoidance of doubt:

(a) Compliance with law is required for all Receiving-Party disclosures and uses of Confidential Information, including for example all applicable laws governing disclosures of export controls, personal financial information, or personal health information.

(b) This provision does not itself authorize any particular disclosure by the Receiving Party.

WHO WANTS THIS, AND WHY? Disclosing parties sometimes ask for language like this because they don't want the hassles and legal risk that can come with having their confidential information involved in prohibited exports of technical data.

CONTENTIOUS? If there is any chance of confidential information being sent to a foreign country or disclosed to a foreign national, the Receiving Party might have a hard time credibly objecting to this language.

2.208 Copying of Confidential Information

(a) Copying of Confidential Information is permitted only (i) as necessary for Permitted Disclosures and Permitted Uses, or (ii) with the Disclosing Party's prior written consent.

(b) For the avoidance of doubt, any copies of Confidential Information made by or with the authorization of the Receiving Party are subject to the confidentiality obligations of this Agreement.

WHO WANTS THIS, AND WHY? It's in both parties' interest to set out clear ground rules for the Receiving Party's reproduction of confidential information.

CONTENTIOUS? Permitted-copying clauses are frequently seen in confidentiality agreements, and are often deemed acceptable by receiving parties.

2.209 **Cooperation against third-party misappropriation is required.**

(a) If so requested by the Disclosing Party, the Receiving Party will provide reasonable cooperation against third-party misappropriation of Confidential Information.

(b) If so requested by the Receiving Party, the Disclosing Party will reimburse the Receiving Party for all reasonable expenses associated with such cooperation.

WHO WANTS THIS, AND WHY? Disclosing parties — or more precisely their litigation counsel, who have been known sometimes to try to ~~conscript~~ enlist anyone and everyone they think might be able to help them win. (Hence the clause about "at the Disclosing Party's request *and expense*").

CONTENTIOUS? Possibly — the Receiving Party might object along the following lines:

- If the possible third-party misappropriator were an employee, etc., of the Receiving Party, then the Receiving Party would already have an incentive to cooperate, namely to try to avoid being sued by the Disclosing Party, with the risk of punitive damages.
- If the potential misappropriator were not associated with the Receiving Party, then the Receiving Party might

legitimately not want the aggravation that can come with 'getting involved.'

- If the potential misappropriator were a business partner or other ally of the Receiving Party, the latter might well not want to get in the middle of its partner's dispute with the Disclosing Party.

2.210 Reporting of known- or suspected misappropriation is required.

(a) The Receiving Party will promptly report to the Disclosing Party any known- or suspected misappropriation of Confidential Information.

(b) For the avoidance of doubt, the Receiving Party need not so report to the Disclosing Party if doing so would be prohibited by law.

WHO WANTS THIS, AND WHY? Disclosing parties, for reasons that should be self-evident.

CONTENTIOUS? Possibly – see the commentary at section 2.209.

[HISTORY: Edited for style 2010-08-15]

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2.3 Post-termination confidentiality obligations

2.301 Return or destruction of copies of Confidential Information [IS REQUIRED UPON WRITTEN REQUEST] after termination or expiration.

If so stated, subject to the exceptions below (if any), upon any termination of this Agreement or expiration of its term, the Receiving Party will cause to be returned to the Disclosing Party, or destroyed, all copies of Confidential Information — including, for example, notes and summaries containing such information — that are in the possession, custody, or control of (i) the Receiving Party, or (ii) any individual or organization to which the Receiving Party provided such Confidential Information.

WHO WANTS THIS, AND WHY? Disclosing parties often ask for a return-or-destroy requirement on the theory that it reduces the risk of having confidential information leak out after termination of the Agreement.

CONTENTIOUS? A return-or-destroy provision is very often seen in confidentiality agreements — but maybe it shouldn't be, for reasons discussed below.

COMMENT: From a Receiving Party's perspective, a return-or-destroy obligation really does only two things: (1) It creates a compliance burden for the Receiving Party — especially if the Receiving Party's notes, emails, and

similar documents must also be returned or destroyed; and (2) it gives the Disclosing Party ammunition with which to brand the Receiving Party as unreliable or even a scofflaw — “Ladies and gentlemen of the jury, the Receiving Party obviously didn’t take its return-or-destroy obligations seriously; we have no reason to think they took their other obligations seriously either.”

When you think about it, the Receiving Party might not need to be contractually bound to return or destroy confidential information, because it likely has a purely-business motivation: it very well might not want the continuing ‘taint’ that can come with having the Disclosing Party’s information sitting in its files.

The parties might be equally served, therefore, by simply omitting a return-or-destroy obligation.

COMMENT: If the Receiving Party has re-disclosed confidential information to a third party, this return-or-destroy language would require the Receiving Party to retrieve and return or destroy the information.

2.302 Backup tapes, etc., [NEED NOT BE] returned or destroyed.

If so specified, the return-or-destroy obligation does not apply to copies of Confidential Information stored in system-type media, such as for example server system caches and backup tapes, PROVIDED THAT such media (i) are not readily accessible to users, and (ii) in the ordinary course of business are periodically, and systematically, overwritten.

WHO WANTS THIS, AND WHY? Receiving parties very often ask for this kind of carve-out from the return-or-destroy obligation. Without such a carve-out, a Receiving Party might be forced to retrieve, search, and purge its email backup tapes, system caches, etc. That likely would be very burdensome and expensive – as anyone can testify who has had to produce electronically-stored information (ESI) during litigation discovery.

2.303 The Receiving Party, upon written request, shall certify completion of return or destruction within [30 DAYS] after termination or expiration.

(a) Upon written request by the Disclosing Party, the Receiving Party shall certify completion of any required return or destruction of copies of Confidential Information within the stated time after the termination of this Agreement or expiration of its term.

(b) The certificate of return or destruction must (1) be sent to the Disclosing Party, and (2) note any known exceptions and, for each, whether or not the exception is authorized by this Agreement.

WHO WANTS THIS, AND WHY? Disclosing parties often want to require the receiving party to provide a certificate of return or destruction. The main motivation, as near as I can tell, is so that the Disclosing Party will have a document with which to bash the Receiving Party in court if 'remnant' confidential information were ever to turn up in the Receiving Party's possession.

CONTENTIOUS? It's not uncommon to see language like this in a confidentiality agreement, and it's often considered acceptable by receiving parties.

2.304 **Outside-counsel-only archival copies need not be returned or destroyed.**

(a) Any obligation of the Receiving Party to return or destroy copies of Confidential Information does not apply to a set of outside-counsel-only archival copies of Confidential Information, including reasonable backups for such copies, PROVIDED THAT (1) such copies are maintained, using responsible security measures, under the direct or indirect control of the Receiving Party's outside legal counsel (outside counsel), and (2) the archive copies are accessible only (i) by outside counsel and their employees, or (ii) as directed or permitted by a tribunal of competent jurisdiction, or (iii) with the Disclosing Party's consent.

(b) For the avoidance of doubt, indirect control of archival copies includes, for example, maintaining the archival copies in a commercial records-storage facility operated by an individual or organization that, directly or indirectly, is contractually obligated to outside counsel to maintain the copies in confidence.

WHO WANTS THIS, AND WHY? Receiving parties sometimes want their outside counsel to be able to preserve a set of outside-counsel-only archival copies. This is sometimes seen in confidentiality provisions relating to M&A deals

CONTENTIOUS? An outside-counsel-archive exception is often considered acceptable by disclosing parties.

COMMENT: In some situations, an exception for outside-counsel-only archival copies might not be especially useful:

- If the Receiving Party were scrupulous in giving archival copies of all the Disclosing Party protected information it received to its outside counsel, the archival copy could prove useful in arguing that it never had access to a particular piece of information.
- But doing this might not be worthwhile unless protected information were disclosed exclusively in suitably marked writings, or through narrow channels such as an M&A data room.
- For less-formal disclosures, the fact that particular information wasn't contained in the Receiving Party's outside counsel's archival copy might not mean much, and so allowing outside counsel to retain archival copies might not provide much benefit for the Receiving Party.

Incidentally, the phrase 'outside counsel only' is well understood to lawyers who work in litigation. See, for example, paragraph 11(c) of the [protective order](#) entered in an antitrust case brought by the [U.S.] Department of Justice.

2.305 **Confidentiality obligations continue after termination or expiration.**

For the avoidance of doubt, the confidentiality requirements of this Agreement will continue to apply, notwithstanding any termination of this Agreement or expiration of its term, until such time, if any, as the Confidential Information in question becomes subject to an exclusion from confidentiality stated in this Agreement.

PURPOSE:

(1) To reassure the Disclosing Party that termination or expiration of the Agreement will not automatically mean termination of the Receiving Party's confidentiality obligations; and

(2) By expressly stating the parties' intentions, to guard against a later argument that the Agreement violates the [rule against perpetuities](#) and therefore is terminable at will (which might or might not be fine with the parties); see Brett A. August and Andrew N. Downer, *Equitable Exceptions to the Rule Against Perpetual Contracts*, "Intellectual Property Litigation, Volume 21, No. 4 (ABA Section of Litigation, summer 2010) ([LINK](#) - requires ABA membership).

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2.306 Certain confidentiality obligations will expire [FIVE YEARS] after termination of this Agreement.

(a) No later than 30 days after any termination of this Agreement, the Receiving Party may give notice to the Disclosing Party that the Receiving Party's confidentiality obligations under this Agreement will expire automatically at the time specified in the title of this section.

(b) During the 30-day period after receiving such notice, the Disclosing Party may give notice to the Receiving Party that designates, with particularity, specific trade-secret information as exception to expiration; if the Disclosing Party does so, then the confidentiality obligations of this Agreement will not expire as to designated information for so long as that particular information remains a trade secret.

(c) For the avoidance of doubt, the Receiving Party's confidentiality obligations under this Agreement will not expire to the extent applicable law requires the information in question to be maintained in confidence.

WHO WANTS THIS, AND WHY? Receiving parties often seek to impose a 'sunset' on their confidentiality obligations, in part so that after the stated time:

- the Receiving Party's employees won't have to pay attention to whether or not particular disclosing-party information is confidential,
- because under this section, the Receiving Party will be free to use or disclose the information as it sees fit.

CONTENTIOUS? The Disclosing Party is likely to object to this language if its confidential information is likely to be of long-lasting value. (See also the exception below for information shown to be a trade secret.)

COMMENT: A Receiving Party might argue for such a time limit along the following lines: "We need a 'sunset' on our confidentiality obligations. The information you're going to be giving us seems likely to lose its value over time. After a certain time has passed, we shouldn't have to worry any more whether we need to treat the information as confidential. Besides, if applicable law like HIPAA or Gramm-Leach-Bliley requires continued confidentiality, then the information won't be subject to the confidentiality time limit regardless what this Agreement says. So you shouldn't have anything to worry about."

The Disclosing Party may well have a very different view, and might respond as follows: "We can't know in ad-

vance that any particular information will lose its value over time. For all we know, something we tell you might turn out to be the equivalent of the Coca-Cola® formula. And there's some case law indicating that if we agreed to a time limit, we might later be held not to have taken reasonable measures to protect our confidential information.¹⁰ So we need for your confidentiality obligations to remain in place unless and until the information in question falls within an exclusion category."

COMMENT: The "designating, *with particularity*" language should be familiar to litigators: It's based on similar language in [Rule 9\(b\)](#) of the Federal Rules of Civil Procedure.

COMMENT: Generally speaking, under the law in most U.S. jurisdictions, a 'trade secret' is information (i) that is not generally known or readily discoverable, and (ii) that gives someone who knows it an economic advantage over someone who doesn't – see generally the [Wikipedia article on trade secrets](#).

¹⁰ See Julianne M. Hartzell, [Time Limits in Confidentiality Agreements](#), in American Bar Association, Intellectual Property Litigation, Volume 20, Number 3, spring 2009 (accessed Aug. 12, 2009).

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2.307 **The Receiving Party will have ‘residuals’ rights in Confidential Information.**

(a) For purposes of this section, ‘residuals’ rights refers to the Receiving Party’s right, without obligation to the Disclosing Party, to use Confidential Information that may be retained in the unaided memory of the Receiving Party’s personnel, PROVIDED THAT those personnel (i) do not refer to any written, electronic, or other fixed form of the information and (ii) do not intentionally remember the information for that purpose.

(b) The Receiving Party’s right to use residuals is subject any applicable patent rights, copyrights, trademark rights, or mask work rights owned or assertable by the Disclosing Party.

WHO WANTS THIS, AND WHY? Receiving parties, for reasons that should be self-evident.

CONTENTIOUS? Disclosing parties usually object strenuously to residuals rights, because they have the potential to give the Receiving Party almost *carte blanche* to use confidential information outside the scope of the agreement.

COMMENT: A residuals clause *might* be appropriate in an agreement where the parties have a long relationship, with lots of everyday exchanges of confidential information, and where it might be difficult for people to keep

track of who owned what. In many situations, however, a Disclosing Party would likely react to a demand for residuals rights along the lines of, “are you out of your [expletive] *mind*?”

2.4 Other confidentiality provisions

2.401 Receiving Party's defense- and indemnity obligation

The Receiving Party will defend and indemnify the Disclosing Party against any third-party claim arising out of the Receiving Party's use of Confidential Information.

WHO WANTS THIS, AND WHY? The Disclosing Party might want this language, if the Receiving Party's use of the Disclosing Party's confidential information might put the Disclosing Party at risk from third-party claims.

CONTENTIOUS? Possibly.

EXAMPLE 1: Suppose that —

- The Disclosing Party is a doctor; the Receiving Party, a medical laboratory.
- The doctor orders a blood test for a patient who is a well-known Hollywood celebrity.
- A laboratory processes the blood test, but then a lab technician leaks the result to the tabloid press.
- The celebrity patient sues both the laboratory and the doctor for invasion of privacy.

Under this section, the laboratory is responsible for paying the doctor's defense costs *up front*, and also for any damage award that the celebrity patient might win.

EXAMPLE 2: Suppose that —

- A university discloses pre-publication research to a pharmaceutical company under a confidentiality agreement.
- The pharmaceutical company uses the research to prepare a new drug and begins clinical trials.
- Unfortunately, things go wrong in the trials because of errors by the university's researchers, and a patient sues both the pharmaceutical company and the university.

Under this section, the pharmaceutical company must pay for the university's defense costs as well as for any resulting damage award. And under the hold-harmless clause, the pharmaceutical company cannot try to shift any of the responsibility to the university, even though it was the university's error that caused the problems.

COMMENT: This is a comparatively-narrow indemnity obligation, in that it applies only to third-party claims "arising from" the Receiving Party's use of confidential information.

[HISTORY: Edited 2010-08-15]

2.402 **No implied warranties in Confidential Information.**

For the avoidance of doubt, all Confidential Information is provided AS-IS, WITH ALL FAULTS, WITH NO REPRESENTATIONS OR WARRANTIES, EXCEPT to the extent (if any) that the parties expressly agree otherwise in writing,

WHO WANTS THIS, AND WHY? Disclosing parties like to ask for this type of disclaimer to deter an ‘imaginative’ lawyer from later claiming that the Disclosing Party owed some kind of duty of care to the Receiving Party concerning its confidential information.

CONTENTIOUS? It shouldn’t be – note that it expressly allows other language in the Agreement to take precedence.

2.403 No implied ownership- or license rights in Confidential Information.

For the avoidance of doubt, the Receiving Party is not granted any license rights or ownership rights of any kind, in Confidential Information or other intellectual property of the Disclosing Party, EXCEPT to the extent (if any) that the parties expressly agree otherwise in writing,

WHO WANTS THIS, AND WHY? This is another lawyer-repellant clause, often requested by disclosing parties.

CONTENTIOUS? It shouldn't be, not least because it expressly allows other language in the Agreement to take precedence.

2.404 No implied restrictions on personnel job assignments.

For the avoidance of doubt, the Receiving Party is not required to limit the duties of any of its personnel who gain access to Confidential Information EXCEPT to the extent (if any) expressly agreed otherwise by the parties in writing.

WHO WANTS THIS, AND WHY? Receiving parties sometimes ask for this language, for reasons that should be self-evident.

CONTENTIOUS? This clause shouldn't be contentious, in part because it expressly allows other language in the Agreement to take precedence.

2.405 No implied restrictions on freedom of action.

For the avoidance of doubt, the Receiving Party is not restricted in its right to (i) develop, acquire, market, and/or sell technologies, products, or services similar to or competitive with those of the Disclosing Party without use of the Disclosing Party's confidential information, and/or (ii) to have one or more such things done for it by third parties, and/or (iii) to enter into business- and contractual relationships with third parties, EXCEPT to the extent (if any) that the parties expressly agree otherwise in writing.

WHO WANTS THIS, AND WHY? Receiving parties sometimes ask for this language, for reasons that should be self-evident.

CONTENTIOUS? This clause shouldn't be contentious, in part because it expressly allows other language in the Agreement to take precedence.

2.406 **No confidential disclosures to Receiving Party without its specific consent**

The Disclosing Party will not disclose any particular item of Confidential Information to the Receiving Party unless the Receiving Party first consents in writing to the specific disclosure. The Receiving Party will be under no obligation of confidence under this Agreement for any information disclosed in violation of the previous sentence.

WHO WANTS THIS, AND WHY? Suppose the receiving party and disclosing party are competitors. The receiving party might want to be sure that it was under a confidentiality obligation only for limited, specific confidential information — it might want to avoid becoming entangled in unwanted confidentiality obligations with respect to other information.

CONTENTIOUS? A disclosing party might regard this provision as imposing an unnecessary paperwork burden.

[HISTORY: Added 2010-08-15]

2.407 No implied disclosure obligation

For the avoidance of doubt, this Agreement does not obligate the Disclosing Party to disclose any particular Confidential Information to the Receiving Party EXCEPT to the extent (if any) that this Agreement expressly states otherwise.

WHO WANTS THIS, AND WHY? A disclosing party might want this clause as insurance against a claim that it was obligated to disclose particular information to the receiving party.

CONTENTIOUS? If this provision were in a contract, and the receiving party expected to be given particular items of information, then the receiving party would want to make sure the contract expressly required the disclosing party to disclose those items of information.

[HISTORY: Added 2010-08-15]

3. Site visits & network access

3.101 [EACH PARTY] will comply with reasonable, timely-communicated site rules & network policies of [THE OTHER PARTY] when visiting.

Personnel subject to the control of the stated visiting party who visit physical premises or access a computer system or network (collectively, site) of the visited party are to comply with such reasonable site rules and policies as the visited party may timely communicate to the visitors or to the visiting party.

WHO WANTS THIS, AND WHY? Companies that routinely have contractors coming on site often have clauses like these in their standard form agreements, sometimes in a very biased one-way form.

CONTENTIOUS? All the variations here have “reasonableness” qualifiers, so they shouldn’t cause too much heartburn.

3.102 [EACH PARTY] will make reasonable efforts to avoid interference in [THE OTHER PARTY]'s on-site work.

Each specified party will make reasonable efforts to avoid interfering with the activities of the other party at any site where the parties' personnel are simultaneously present.

WHO WANTS THIS, AND WHY? Companies that routinely have contractors coming on site often have *one-way* clauses like these in their standard form agreements.

3.103 **Evidence of employability is required upon request.**

Upon request by the visited party, a visiting party will provide the visited party with reasonable evidence that its personnel who go on-site at the visited party's physical premises are legally employable in the jurisdiction in which the premises are located.

WHO WANTS THIS, AND WHY? Some companies may feel compelled to verify employability (possibly as part of a non-prosecution agreement for past employment of undocumented workers).

CONTENTIOUS? This requirement shouldn't be too contentious, given that U.S. law requires all employers to verify that their employees have the right to work in this country.

3.104 Site access may not be denied in an illegally-discriminatory way.

For the avoidance of doubt, a visited party may not deny access to the visiting party's personnel for any reason prohibited by applicable law (for example, antidiscrimination or equal-opportunity law), but otherwise may do so in the visited party's *business discretion*.

3.105 Denial of site access, other than for good reason, may excuse the visiting party's nonperformance.

For the avoidance of doubt, IF: For other than good reason, the visited party denies access to one or more of the visiting party's personnel; THEN: That fact may be taken into account, to the extent reasonably appropriate, in determining whether the visiting party should be excused for failure to comply with its obligations under this Agreement.

COMMENT: In some jurisdictions a visiting party might not need this clause, because the general law would allow it to plead impossibility as a defense to an action for breach of contract — especially if the impossibility were due to the visited party's refusal to allow the visiting party on site.

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4. Assignment of Agreement

4.101 Assignment of this Agreement by [THE RECEIVING PARTY] requires the prior written consent of [THE DISCLOSING PARTY] except as otherwise provided in this Agreement.

Any putative such assignment made without such consent is of no effect.

ALERT: A party that agrees to a consent requirement could be giving the other side a big say in the agreeing party's long-term future.

COMMENT: Under U.S. law, most contract rights are **freely assignable**, and most contract duties are **freely delegable** (absent some special character of the duty) unless the agreement says otherwise.

The basic rationale is that commerce and therefore society are better off when parties are free to assign their business-contract rights and obligations.

(In the U.S., intellectual-property licenses are among the noteworthy exceptions: in general, a licensee may not assign its license rights nor delegate its license obligations without the licensor's consent.)

In some situations, however, the parties will not want their opposite numbers to be able to assign the agreement freely; contracts often include language to this effect.

For example, suppose an agreement says that one party must give its consent before another party can assign the agreement. That can give the non-assigning party quite a bit of leverage if the assigning party finds itself in an M&A- or corporate-reorganization situation.

EXAMPLE: In 2006, a Dubai company that operated several U.S. ports agreed to sell those operations. (The agreement came about because of publicity and political pressure about the alleged national-security implications of having Middle-Eastern companies in charge of U.S. port operations.)

A complication arose in the case of the Port of Newark: The Dubai company's lease agreement gave the Port Authority of New York and New Jersey the right to consent to any assignment of the agreement.

That agency initially demanded \$84 million for its consent. [[link to NY Times](#)] After harsh criticism from political leaders, the Port Authority backed down a bit: it gave consent in return for "only" a \$10 million consent fee, plus \$40 million investment commitment by the buyer. [[link to NY Times](#)]

An internal corporate reorganization can also be screwed up by an assignment-consent clause in a contract involving an intellectual-property license (for example, a software license). See the OTC blog post at <http://bit.ly/5CQDJB> about a case in which a software vendor successfully sued its customer to force it to re-buy its license, at a cost of almost \$500K, after the customer did an internal reorganization without consent. *Cincom Sys., Inc. v. Novelis Corp.*, No. 07-4142 (6th Cir. Sept. 25, 2009) (affirming summary judgment in favor of software vendor).

4.102 Assignment consent is not required for dispositions of substantially all assets of the Receiving Party's [BUSINESS TO WHICH THIS AGREEMENT SPECIFICALLY RELATES].

ALERT: If a contract includes restrictions on assignment, some companies regard the absence of an exception for an asset sale of the business as a deal-killer.

A prospective assigning party might argue for an asset-disposition carve-out along the following lines: *"We need to keep control of our strategic destiny. If we ever wanted to sell a product line or a division (or even the whole company) in an asset sale, we would need to be able to assign this agreement as part of the deal, without worrying about whether some executive at your company is going to get greedy and try to hold us up for a consent fee."*

The other side, however, might respond with something like this: *"What if you decided to sell a product line or a division to one of our competitors, or to someone we didn't like? We need to retain control over that possibility, and the only way to do that is for us to retain the absolute right to consent to any assignment you might make."*

COMMENT: The prospective assigning party's concern about being "held up" is a real one: See the commentary at section 4.101 concerning the 2006 Dubai port deal.

4.103 Assignment consent is not required for assignments to a Control-Relationship Affiliate [IF THE ASSIGNING PARTY UNCONDITIONALLY GUARANTEES THE AFFILIATE'S PERFORMANCE].

COMMENT: A prospective assigning party might argue for the right to assign to an Affiliate along the following lines: *"We sometimes routinely move assets around within our 'corporate family'; we want to be able to do so with this contract without having to take the trouble to get your approval."*

The other party might reasonably object: *"We have no idea whether your Affiliate would be in a position to fulfill your obligations under the contract, nor whether we'd be able to recover from you if there were a breach. If you're willing to unconditionally guarantee your Affiliate's performance, we might be able to go along with this. Otherwise, though, we have a problem with this section."*

COMMENT: Before approving a blanket Affiliate-assignment authorization, consider whether you and your client know enough about the other party's existing- or future Affiliates to be comfortable with where the agreement might end up.

Possible alternative: Termination in lieu of veto: It doesn't have to be all or nothing. Another approach might be to give the non-assigning party, instead of a veto over an

assignment, the right to terminate the contract for convenience as provided in section 4.106. (Of course, the legal- and business implications of termination would have to be carefully thought through.)

4.104 Withholding or delay of a required consent to assignment [MAY NOT BE DONE UNREASONABLY].

IF: This section specifies that such withholding or delay may not be done unreasonably; THEN: For the avoidance of doubt, any damages suffered by the party seeking such consent, resulting from a breach of this requirement, are not subject to any exclusion of remedies or other limitation of liability in this Agreement.

ALERT: As noted below, the law may imply a commercial-reasonableness requirement for assignment consents. But that can't guarantee that the non-assigning party will give its consent when the assigning party wants it. And by the time a court could resolve the matter, the assigning party's deal could have been blown.

Even so, an unreasonable-withholding clause will make the non-assigning party think twice about dragging its feet too much.

HYPOTHETICAL EXAMPLE: Suppose the assigning party's deal looked as though it were about to fall apart because of the non-assigning party's delay in giving consent. The assigning party's lawyers would doubtless start making ugly noises about breach of contract and a lawsuit for damages. *That* ought to get the other party's attention, because the damages for a busted deal could conceivably

be big — cf. *Pennzoil vs. Texaco* and its \$10.5 billion damage award for tortious interference with an M&A deal [[link to NY Times](#)].

The assigning party's damages for a busted M&A deal might be categorized as "consequential" damages — which the non-assigning party might not have to pay if the contract included a consequential-damages exclusion. This subsection allows the drafter to specify that the assigning party's damages are "direct" damages.

If a non-assigning party wants the absolute right to withhold consent to an assignment in its sole discretion, it would be a good idea to try to include that in the contract language. Otherwise, there's a risk that a court might hold that any withholding of consent must meet a commercial-reasonableness test.

In 2009, the Alabama Supreme Court rejected a claim that Shoney's restaurant chain breached a contract when it demanded a \$70,000 to \$90,000 payment as the price of its consent to a proposed sublease. The supreme court noted that the contract specifically gave Shoney's the right, *in its sole discretion*, to consent to any proposed assignment or sublease. Prior case law from Alabama was to the effect that a refusal to consent would indeed be judged by a commercial-reasonableness standard. But, the state's supreme court said, “[w]here the parties to a contract use language that is inconsistent with a

commercial-reasonableness standard, the terms of such contract will not be altered by an implied covenant of good faith. Therefore, an unqualified express standard such as 'sole discretion' is also to be construed as written." *Shoney's LLC v. MAC East, LLC*, [No. 1071465](#) (Ala. Jul. 31, 2009) (on certification by Eleventh Circuit), *cited in* *MAC East, LLC v. Shoney's [LLC]*, [No. 07-11534](#) (11th Cir. Aug. 11, 2009), *reversing* [No. 2:05-cv-1038-MEF \(WO\)](#) (M.D. Ala. Jan. 8, 2007) (granting partial summary judgment that Shoney's had breached the contract).

4.105 **Assignments through mergers, etc., likewise require consent.**

An assignment of this Agreement by operation of law, as a result of a merger, consolidation, amalgamation, or other transaction or series of transactions, requires consent to the same extent as would an assignment to the same assignee outside of such a transaction or series of transactions.

ALERT: This section could seriously hinder the restricted party's ability to control its own strategic destiny, so many parties will be exceedingly reluctant to agree such language.

COMMENT: Note that this section does NOT say that any merger, etc., entered into without consent will be void. (The legal effect of such a statement is unclear.) Instead, consummating such a transaction is a breach, and a material breach if specified below.

4.106 The non-assigning party may terminate this Agreement no later than [60 DAYS] after notice of assignment effectiveness.

The non-assigning party may terminate this Agreement, in its unfettered discretion, by giving notice to that effect no later than [60 DAYS] after receiving notice from either the assigning party or the assignee that an assignment of this Agreement has become effective.

COMMENT: This section can sometimes break an impasse between, say, a customer that insists on controlling with whom it does business, and a vendor that insists on controlling its strategic destiny.

4.107 Assignment-consent breaches are automatically material.

Any breach of this Agreement's assignment-consent requirements is a material breach.

COMMENT: One major effect of a "material" breach may be to give the non-breaching party the right to terminate and/or rescind the agreement.

4.108 Assignment also acts as a delegation.

For the avoidance of doubt, unless otherwise agreed, an assignment of this Agreement operates as a transfer of the assigning party's rights and a delegation of its duties under this Agreement, but it does not relieve the assigning party of its responsibility for performance of those duties.

COMMENT: This section is adapted from [UCC § 2-210\(4\)](#) (which applies only to the sale of goods). Drafters often assume this to be the case for other contracts, but it can't hurt to spell it out.

4.109 **Effect of assignment acceptance**

An assignee's acceptance of an assignment of this Agreement constitutes the assignee's promise to perform the assigning party's duties under the Agreement. That promise is enforceable by either the assigning party or by the non-assigning party.

COMMENT: This section is adapted from [UCC § 2-210\(4\)](#) (which applies only to the sale of goods). Drafters often assume this to be the case for other contracts, but it can't hurt to spell it out.

4.110 Assignment requires written assumption by the assignee upon request.

IF: The non-assigning party so requests; THEN: An assignee of this Agreement must provide the non-assigning party with a written assumption of the assignor's obligations, duly executed by or on behalf of the assignee; ELSE: The assignment will be of no effect.

PURPOSE: To provide the non-assigning party with a document it can brandish in case of contract trouble with the assignee.

4.111 Confidentiality of non-public assignment information

A non-assigning party will preserve in confidence any non-public information about an actual- or proposed assignment of this Agreement that may be disclosed to the non-assigning party a party participating in, or seeking consent for, the assignment.

COMMENT: This section is intended to help prevent leaks (intentional or otherwise), for example of M&A-related information, and the “complications” that can arise from insider trading.

5. Breach

5.101 Notice of breach

Notice of breach should be seasonably given by the non-breaching party. For the avoidance of doubt, however, the nonbreaching party will not be liable, for breach of contract or otherwise, for any failure to give seasonable notice of breach.

COMMENT: Subparagraph (b) gives the nonbreaching party an incentive to give timely notice of breach.

5.102 **Suspension of performance**

In cases of material breach, a nonbreaching party that has given notice of breach may suspend its own performance until the breach is substantially cured.

COMMENT: The notice condition gives the nonbreaching party an incentive to give timely notice of breach.

COMMENT: In many jurisdictions this clause may be superfluous, because at common law, in cases of material breach the nonbreaching party is allowed to suspend performance. The Restatement (Second) of the Law of Contracts, which is excerpted in a Wikipedia article at <http://bit.ly/8NMr0L>, offers suggestions about factors that can be “significant” in assessing materiality.

NOTE: Where the contract is primarily for the sale of goods, see also [UCC § 2-609](#) and [§ 703\(2\)](#), which address this and related issues.

5.103 Cure periods

Unless otherwise agreed, a breaching party has the following time periods to cure a breach, beginning upon the effective date of notice of breach from the nonbreaching party: *Nonpayment of an amount due:* 5 business days. *Failure to meet an agreed deadline:* 1 business day. *Other curable breaches:* 30 days. *Noncurable breaches:* No cure period.

ALERT: The parties, and especially their lawyers, should carefully consider the various cure periods listed here. With 20-20 hindsight, a non-breaching party's business people might be furious at their lawyer for agreeing to (what they now scorn as) 'such a long cure period,' or vice versa.

5.104 Mitigation efforts

The nonbreaching party will use [REASONABLE EFFORTS] to mitigate its damages from breach.

COMMENT: A nonbreaching party's attitude about mitigation might be, "it's not my job to mitigate the effects of your breach."

5.105 **Delay in notice of breach**

Any delay by the nonbreaching party in giving notice of breach may be given due weight in determining the relief (if any) to which that party is entitled.

COMMENT: A service provider might want this clause to give it “cover” if the customer waits around before giving a notice of breach.

5.106 **Waiver of breach from untimely notice**

Breaches are waived if notice is not given within [30 DAYS] after the nonbreaching party knows or, in the exercise of reasonable diligence, should have known of the breach.

COMMENT: For obvious reasons, drafters will want to think carefully before including this section.

5.107 **Multiple- or repeated breaches**

Multiple- or repeated breaches may, in appropriate circumstances, collectively constitute a material breach even if some or all individual breaches are cured.

COMMENT: This section anticipates the times when a non-breaching party decides, enough is enough.

5.108 **Cure-efforts status reports**

The breaching party will provide status reports concerning its efforts to cure the breach (if any) at the reasonable request of the nonbreaching party. Status reports are to include, as applicable, reasonable information about the breaching party's progress, problems, plans, and assumptions in its curative efforts.

COMMENT: This section is intended to help keep the parties' working relationship as intact as possible.

NOTE: Preparing and sending status reports could take up valuable time, especially if a lot of similar contracts are involved, but email- and Web-site updates might do the job.

6. Termination

6.101 **[EITHER PARTY] may terminate this Agreement for uncured material breach by the other party.**

(a) IF: A material breach of this Agreement is not cured within the cure period stated in this Agreement (or, if none is stated, a reasonable cure period); THEN: The specified nonbreaching party may terminate this Agreement by written notice to the breaching party.

(b) For the avoidance of doubt, termination for material breach is without prejudice to any other remedies available to the non-breaching party except as expressly agreed otherwise.

COMMENT: The Restatement (Second) of the Law of Contracts offers suggestions (<http://bit.ly/8NMr0L>) about factors that can be “significant” to assessing materiality.

NOTE: Some courts have taken the position that a notice of termination must be “clear and unequivocal.” See, e.g., *Cedar Rapids TV Co. v. MMC Iowa LLC*, No. 07-3899, at 10 (8th Cir. Apr. 3, 2009) (affirming judgment that language of letter did not suffice as notice of termination; citation and internal quotation marks omitted).

COMMENT: In many situations, there may be little practical benefit to being able to "terminate" an agreement per se, even for material breach.

6.102 Termination at discretion

[EITHER PARTY] may terminate this Agreement in its *business discretion* effective [FIVE BUSINESS DAYS] after notice of termination [BUT MAY NOT DO SO BEFORE <DATE>]

COMMENT: Ask a lawyer whether this clause is a good idea, and s/he'll likely give the classic lawyer answer: "It depends."

6.103 Termination for insolvency

[EITHER PARTY] may terminate this Agreement, effective [FIVE BUSINESS DAYS] after notice of termination, if the other party does any of the following: (1) ceases to do business in the normal course; (2) becomes insolvent; (3) admits in writing its inability to meet its debts or other obligations as they become due; (4) makes a general assignment for the benefit of creditors; (5) has a receiver appointed for its business or assets; (6) files a voluntary petition for protection under the bankruptcy laws; (7) becomes the subject of an involuntary petition under the bankruptcy laws that is not dismissed within 60 days.

NOTE: In the U.S., many such clauses will be unenforceable under 11 U.S.C. § 541(c) if the nonterminating party files a petition in bankruptcy. *See generally* Robert L. Eisenbach III, 'Are "Termination On Bankruptcy" Contract Clauses Enforceable?' at <http://bit.ly/8hQAKQ> (Sept. 16, 2007; accessed Mar. 30, 2009).

QUESTION: If a court held a clause like this to be unenforceable, would a **savings clause** deter the court from tossing out the entire agreement?

6.104 [EITHER PARTY] may terminate this Agreement, effective [FIVE BUSINESS DAYS] after notice of termination, if the other party creates business-reputation risk to the terminating party.

For purposes of this section, the other party creates “business-reputation risk” if it engages in conduct creating a substantial risk of damage to the terminating party's business reputation.

DISCUSSION: Termination for "bad behavior" may be a controversial point, but some customers want the ability to throw an errant supplier under the bus to avoid being tainted by the resulting bad publicity.

6.105 [EITHER PARTY] may terminate this Agreement if the other party becomes an *affiliate* of a competitor of the terminating party, effective [FIVE BUSINESS DAYS] after notice of termination.

COMMENT: This termination option could throw a wrench into a future acquisition, so it needs to be carefully considered.

6.106 [EITHER PARTY] may terminate this Agreement if the other party undergoes a change of *control*, effective [FIVE BUSINESS DAYS] after notice of termination.]

For purposes of this section, a “change” of *control* refers to (i) an individual or organization acquiring *control*, or (ii) an individual or organization ceasing to have *control*.

COMMENT: This termination option might be a compromise alternative to an out-and-out assignment-consent requirement, but it could still throw a wrench into a future acquisition, corporate restructuring, financing, etc., so it needs to be carefully considered.

NOTE: “Change of control” is often defined much more liberally in, say, executive employment agreements.

6.107 The deadline for any non-breach termination is [30 DAYS] after the right arises.

Any right to terminate this Agreement other than for breach is permanently and irrevocably waived unless the terminating party gives notice of termination no later than the specified deadline.

COMMENT: This section allows the parties to specify a time after which the nonterminating party can quit wondering whether the Agreement will be terminated.

6.108 Provisions surviving termination

The rights and obligations set forth in this Agreement (if any) concerning the following subjects will survive any termination of the Agreement (including for this purpose any expiration of the Agreement):

- Confidentiality.
- Indemnification and defense against third-party claims.
- Insurance requirements.
- Intellectual-property ownership.
- Warranty rights and –disclaimers.
- Remedy limitations and limitations of liability.
- Governing law / choice of law.
- Forum selection / choice of forum.
- Arbitration.
- Early neutral evaluation.
- Attorneys' fees.
- Expense-shifting after settlement-offer rejection.

NOTE: Drafters should be careful about what rights and obligations would survive termination – see "Night of the Living Dead Contracts," by Jeff Gordon, at <http://bit.ly/8Mqg3v>.

6.109 Alternative grounds for termination [ARE] to be given effect.

If so stated: IF: A party terminates this Agreement or a transaction under it for a stated reason; BUT: The stated reason later is found not to be applicable; THEN: The termination will be deemed to have been made for any other reason that could have been stated by the terminating party.

COMMENT: This clause is another “it depends” clause. It’s hard to know how its effect would be felt. It’s analogous to the principle, in U.S. appellate courts, that a trial court’s judgment should normally be affirmed even if the stated grounds for the judgment are invalid, as long as other, valid grounds exist.

6.110 [EACH PARTY] will take reasonably-required wrap-up actions after termination, at its own expense unless otherwise agreed.

COMMENT: I think I've used this clause just once, in an outsourcing agreement; drafters should consider whether it might be too open-ended for comfort.

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7. General provisions

7.101 **Additional or different terms have no effect except as expressly stated.**

(a) Except to the extent, if any, that this Agreement expressly states otherwise, neither party is obligated to give effect to additional or different terms (*new terms*) in any purchase order, confirmation, invoice, or similar document that may be provided by the other party in connection with a transaction pursuant to this Agreement (*new-terms document*) unless the new-terms document meets the requirements of this Agreement to amend it.

(b) For the avoidance of doubt, a party's performance of actions called for by *new terms*, without more, is not to be deemed that party's assent to the new terms.

WILL THIS BE CONTENTIOUS? If the parties are negotiating detailed terms and conditions for their transactions, neither side should have any reason to object to the default “no” language.

COMMENT: This section represents an attempt to head off a [Battle of the Forms](#) of the kind contemplated by [UCC § 2-207](#) and sometimes experienced in common law. For a readable overview of how the (U.S.) UCC works in this regard, see generally Marc S. Friedman and Eric D.

Wong, [TKO'ing The UCC's "Knock-Out Rule"](#), in *The Metropolitan Corporate Counsel*, Nov. 2008, at 47.

NOTE: If one party objects to including this section, the other party should ask itself whether the first party might later try to “re-trade the deal” through the use of its standard printed forms. For example, if the customer’s additional terms will be given effect, the provider may feel that, in each transaction, it will have to review the customer’s “boilerplate” – in which case there would seem to be little point in negotiating detailed terms and conditions now.

7.102 Additional or different terms in [PARTY NAME] documents will control.

Additional or different terms (“*new terms*”) in any document that may be provided by the specified party, in connection with a transaction pursuant to this Agreement (“*new-terms document*”), will take precedence over any inconsistent provision in this Agreement.

COMMENT: See the commentary to section 7.101.

7.103 Amendments must be in writing.

For an amendment to this Agreement to be effective, it must: (i) be in writing; (ii) expressly refer to this Agreement and state that it is being amended; (iii) set out the terms of the amendment; and (iv) be signed at least by the party sought to be bound.

COMMENT: Courts do not always give effect to written-amendment clauses— see the commentary to the entire-agreement clause.

NOTE: This language requires that amendments expressly refer to the agreement. The goal here is to make it difficult to claim that “stray” language constitutes an amendment.

For an example of why this might be needed, see *Stevens v. Publicis, S.A.*, [2008 NY Slip Op 02880](#) [50 AD3d 253]: A New York appellate court held that an exchange of emails, each of which included the typed name of the sender at the bottom of the message, was sufficient to modify an employment agreement. See also Alix R. Rubin, *Counsel Beware: A Few Keystrokes May Modify An Agreement*, at <http://bit.ly/56r6lx> (July 1, 2008) (accessed July 18, 2008).

7.104 Amendments: [PARTY NAME] may amend unilaterally on [30 DAYS] notice, subject to certain conditions.

(a) The specified party may unilaterally amend this Agreement, effective the stated time after giving notice to the other party, subject to the conditions of this section.

(b) A unilateral amendment will take effect at the specified time after the effective date of the amending party's notice UNLESS, after the notice and before the amendment becomes effective, the non-amending party terminates this Agreement by notice to the amending party.

(c) For the avoidance of doubt, a unilateral amendment will not retroactively modify any vested right of the non-amending party, nor any vested obligation of the amending party, under this Agreement.

(d) A unilateral amendment will not retroactively modify dispute-resolution provisions for any then-pending dispute unless expressly agreed otherwise.

(e) A unilateral amendment will apply only going forward, to new transactions and renewals, except as expressly agreed otherwise.

COMMENT: This section can give providers flexibility in managing Affiliate programs, reseller- and referral rela-

tionships, and the like, and give customers flexibility in managing their procurement processes. NOTE: In some situations, the parties might limit the unilateral-amendment right to amending a schedule of business-operations practices.

COMMENT: Subparagraph (c) is a so-called "Halliburton exception" — see *Harris v. Blockbuster, Inc.*, No. 3:09-cv-217-M (N.D. Tex. Apr. 15, 2009) (<http://bit.ly/8nNuc7>) (holding that "the arbitration provision of the Blockbuster contract is illusory and unenforceable"), discussed in a Pillsbury Winthrop client alert at <http://bit.ly/6Nz9m5>.

FURTHER BACKGROUND READING: See generally David Horton, *The Shadow Terms: Contract Procedure and Unilateral Amendments*, 57 UCLA L. REV. 605 (2010), at <http://goo.gl/vREl>.

7.105 Attorneys' fees [ARE] to be awarded to the prevailing party.

(a) IF: This section specifies that attorneys' fees are to be awarded to the prevailing party; THEN: In any action in any forum arising out of or relating to this Agreement or any transaction or relationship resulting from it, the prevailing party in the action is entitled to recover its expenses and costs, in addition to any other relief that may be granted; OTHERWISE: Each party will be responsible for its own attorneys' fees and expenses.

(b) For the avoidance of doubt, for purposes of this section: *Action* refers to any action or proceeding, whether judicial, administrative, arbitral, or other. *Costs* refers to costs of the action or proceeding, for example costs of court or of arbitration. *Expenses* refers to reasonable attorneys' fees and expenses incurred in the action, including for example expert-witness fees and expenses.

COMMENT – PREVAILING-PARTY RULE: Some people view a prevailing-party allocation (sometimes called the "loser pays" rule, or the everywhere-but-America rule) as fundamentally fair: If you lost a case, presumably you were responsible for the case having to be litigated, so you should pay the attorneys' fees and expenses that you made the winner spend. Big companies, however, sometimes regard legal fees in litigation as a cost of doing business — and once in a while, they might consciously

want to use their superior financial strength as a litigation advantage over adversaries with fewer resources.

COMMENT – AMERICAN RULE: The general rule in the U.S. is that each party must pay its own attorneys' fees. In Texas, however, absent an agreement otherwise, a party that successfully enforces a claim on an oral or written contract — but *not* a party that successfully defends against an enforcement action — is entitled to recover attorneys' fees. See [Tex. Civ. Prac. & Rem.](#)

[Code](#) § 38.001. Consequently, if a party negotiating a contract thinks it might be more likely to be the defendant in a dispute than the plaintiff, it might want to affirmatively include a “pay your own” provision in the contract, in the hope of cutting off the plaintiff's statutory right of recovery in such a jurisdiction.

NOTE: California Civil Code [§ 1717](#) provides, in essence, that any attorneys' fees provision is to be treated as a prevailing-party provision, and states that attorneys' fees under the section cannot be waived.

NOTE: In an arbitration proceeding, applicable law may override the parties' agreement that they can, or cannot, be awarded — see *Recovery of Attorneys' Fees in International Arbitration: the Dueling 'English' and 'American' Rules*, by John L Gardiner & Timothy G Nelson of Skadden Arps, at <http://bit.ly/bMF35d> (accessed Jan. 30, 2010).

7.106 Counsel: Each party has had the opportunity to be represented by counsel of its choice in deciding whether to enter into this Agreement.

PURPOSE: When judges are asked to invalidate an allegedly-onerous contract clause — for example, a limitation of liability, a choice-of-law or choice-of-forum clause, an arbitration requirement, a waiver of jury trial, etc. — they will sometimes take into account whether the parties were represented by counsel when they negotiated the contract.

NOTE: If the evidence shows that a factual statement like this isn't true, then a judge is likely to ignore it.¹¹ For that reason: • this clause says that the parties *have had the opportunity* to be represented by counsel, as opposed to, *have been* represented by counsel; and • the clause refers to *entering into* the Agreement, not to *negotiating* the Agreement, because as a factual matter there might not have been any negotiations.

¹¹ **ALERT:** If an untrue factual recital benefits a party that didn't draft the contract, the judge likely will *deem* the recital true, reasoning that the non-drafting party was entitled to rely on the recital.

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7.107 Early neutral evaluation (non-binding) of certain disputes [IS REQUIRED] at either party's request.

IF: A dispute between the parties, arising out of or relating to this Agreement or any transaction or relationship arising from it, becomes the subject of an actual or reasonably-anticipated lawsuit, arbitration, or other action before a tribunal of competent jurisdiction; THEN: At the request of either party, the parties will submit the dispute to (nonbinding) early neutral evaluation. If not otherwise agreed, the early neutral evaluation is to be conducted in accordance with the Early Neutral Evaluation procedures of the American Arbitration Association.

COMMENT: I'm becoming convinced that most business contracts should include an early-neutral-evaluation (ENE) clause that can be invoked **before** litigation begins, or at least before it gets seriously going. After the lawyers get into gear, ENE may well be too late to do any good, not least because the lawyers on both sides might have an economic incentive to keep litigating until just before trial.

When a contract dispute starts to get serious, an early, confidential, non-binding "sanity check" from a knowledgeable neutral can help the parties and lawyers get back onto a more-productive track, before positions harden and business relationships suffer, not to mention before the legal bills start to mount up.

For a useful exploration of the pros and cons of ENE, see the 1997 article, "Neutral Evaluation – An ADR Technique Whose Time Has Come," by John Blackman, at <http://bit.ly/4RprxK>.

The U.S. District Court for the Northern District of California — which encompasses Silicon Valley — points out (at <http://bit.ly/857QgY>) that the goals of early neutral evaluation include “provid[ing] a ‘reality check’ for clients and lawyers”; the court notes that in an ENE proceeding:

- “The evaluator has no power to impose settlement and does not attempt to coerce a party to accept any proposed terms.”
- “The parties’ formal discovery, disclosure and motion practice rights are fully preserved.”
- “The confidential evaluation is non-binding and is not shared with the trial judge.”
- “The parties may agree to a binding settlement.”
- “If no settlement is reached, the case remains on the litigation [or arbitration, if applicable] track.”

My Web research indicates that a number family-law courts are also using ENE procedures in contested divorce- and child-custody cases.

The American Arbitration Association's ENE procedures are available at <http://bit.ly/8znip6>. AAA involvement in a consultation with a neutral would entail an administration fee payable to the AAA (\$500 per party when last checked). The parties might prefer to avoid this expense by doing a self-administered ENE, but many practitioners have found that having a neutral administrator is often well worth the money.

The AAA procedures contain evidentiary provisions analogous to [Rule 408](#) of the Federal Rules of Evidence. The rule provides (with certain limited exceptions) that communications made in the course of settlement discussions are inadmissible in court. (So, too, do many counterpart state-law rules.) The rationale is that parties are likely to be more candid in settlement discussions if they don't have to worry about having a carelessly-worded comment quoted back to them by opposing counsel in front of a judge or jury.

For additional ENE reading, see, e.g.: • Sandy Gage, Early Neutral Evaluation – panacea or pitfall? (Jan. 2007), at <http://bit.ly/525KOb>; • the American Arbitration Association's Early Neutral Evaluation: Getting an Expert's Opinion (2005), at <http://bit.ly/7uK0HB>; • the Association for Conflict Resolution's list of ENE resources at <http://bit.ly/8i9GWy>.

7.108 Entire agreement

This Agreement sets forth the parties' final, complete, exclusive, and binding statement of the terms and conditions of their agreement concerning its subject matter. Except as stated in this Agreement, there are no promises, understandings, representations, or warranties of any kind between the parties concerning that subject matter.

COMMENT: This is what's known as an "integration" clause.

In some jurisdictions, a court might not enforce such a clause. For example, in a 2008 case, a group of Shell gasoline dealers claimed that Shell had *orally* represented that a rent subsidy would not be terminated except in situations such as a war or an oil embargo. When Shell's successor terminated the subsidy, the dealers successfully sued, on grounds that Shell's alleged oral representations amended the franchise agreement — this, even though the agreement purported to rule out oral promises. The appeals court affirmed the judgment against Shell. *Marcoux v. Shell Oil Prods. Co. LLC*, [524 F.3d 33](#) (1st Cir. 2008). The court quoted the Restatement (Second) of Contracts § 209 cmt. b (1981): "Written contracts, signed by both parties, may include an explicit declaration that there are no other agreements between the parties, *but such a declaration may not be conclusive.*" (Emphasis added.)

**7.109 Forum selection: [LOCATION, E.G., A CITY];
jurisdiction there is [NON-EXCLUSIVE].**

(a) To the extent so specified, any action arising out of this Agreement may be filed in a court having jurisdiction in the stated location. If so stated, the jurisdiction of such court(s) is exclusive.

(b) Subparagraph (a) is not intended as a waiver of any right a party may have under applicable law to seek transfer to another venue.

(c) Each party agrees to submit to the specific jurisdiction of the stated court(s) (if any), solely for actions as specified in this section.

(d) For the avoidance of doubt, nothing in this Agreement is to be construed as a submission by a party to the general jurisdiction of a specified court, nor as such a submission for any purpose except as specified in this section.

(e) IF: This Agreement contains provisions for the arbitration of disputes; THEN: This section applies only to actions not required to be resolved by such arbitration.

(f) Unless clearly stated otherwise, this section is not intended to negate or waive any right a party may have by law to remove an action from one court to another, for

example to remove an action filed in state court (in the United States) to federal court.

COMMENT: The above paragraphs of this section provide a plain-English version of what's often referred to as a "forum-selection clause."

ALERT: Some drafters like to say that the specified forum applies, not just to disputes "arising out of" the agreement, but also more broadly to disputes "relating to" the agreement. This broader language could be problematic, however, especially in an *exclusive*-jurisdiction clause.

As a hypothetical example, consider a software vendor entering into a license agreement with a customer. The vendor might be willing to agree to litigate actions *arising out of* the license agreement in the customer's home jurisdiction.

On the other hand, the vendor might not want to agree up front to litigate all possible *related* disputes in the customer's jurisdiction. For example, suppose that the customer were to help a competitor of the vendor to steal the vendor's trade secrets. In that situation, the vendor might want to be free to bring suit against both the competitor and the customer in the vendor's own home jurisdiction, and not to have to fight over whether the suit was required to be brought in the customer's home court.

ALERT: Drafters should think very carefully before approving an *exclusive*-jurisdiction forum selection clause. A party might not want to be forced to litigate in one particular place — not even in its home jurisdiction:

- Litigating in the other party’s home jurisdiction can significantly increase the expense of litigation for the “visiting team,” especially if the case ends up going to trial.
- Moreover, the visitors may have a legitimate concern about the other side’s home-court advantage.
- On the other hand, if a potential plaintiff expects it will want speedy relief (for example, a preliminary injunction), it might make sense to agree that it will bring suit exclusively in the defendant’s home jurisdiction. Several crucial litigation tasks are likely to go faster there, such as service of process on the defendant and subpoenas for local witnesses.
- (For the same reason, it might also make sense to agree to a governing-law clause stating that the law of the likely defendant’s home jurisdiction will apply — a judge in that jurisdiction will already be familiar with the local law, and proving up a ‘foreign’ law won’t be necessary.)

ALERT: Think carefully before editing this clause to say that exclusive jurisdiction will be in “the courts of

Virginia” or other state – it could constitute a waiver of the right to remove to federal court. See the comment to subparagraph (f) for a case citation.

COMMENT: Subparagraph (c) makes it clear that, just because a party agrees to litigate disputes arising out of the Agreement in a particular court, it is not necessarily agreeing to be subject to suit there for any other purpose. For additional information, see the [Wikipedia discussion](#) of the distinction between *general jurisdiction* and *specific jurisdiction*.

COMMENT: Subparagraph (f) is inspired by the Ninth Circuit decision in *Doe I v. AOL, LLC*, No. [07-15323](#), (9th Cir. Jan. 16, 2009). After AOL’s presumably-inadvertent disclosure of personal information, a group of class-action plaintiffs sued in California. The district court granted AOL’s motion to dismiss the case, without prejudice to plaintiffs refileing it in a state *or federal* court in Virginia. The court’s reasoning was that the forum-selection clause in AOL’s user agreement stated that all disputes would be heard in “the courts of Virginia.” The appeals court reversed, agreeing with other appellate courts that this kind of forum-selection clause required disputes to be litigated exclusively in the relevant *state* courts, not federal courts – presumably precluding AOL from removing the case to federal court. (The appeals court also ruled that the forum-selection clause was un-

enforceable as to California residents because of California's strong public policy favoring class-action relief, whereas such relief was not available in Virginia state courts.)

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7.110 Governing law is that of [LOCATION, E.G., A STATE].

The law applicable in the specified location will govern any dispute arising out of or relating to this Agreement or any transaction or relationship resulting from it, without regard to conflicts-of-law or choice-of-law rules.

COMMENT: See generally the Wikipedia article "Choice of law clause" at <http://bit.ly/7dPP31>.

NOTE: The phrase "arises out of this Agreement" is broadened by the phrase "or relates to this Agreement."

COMMENT: The "any transaction or relationship" language allows the parties to (try to) specify that a particular law will govern, not just their own disputes, but also any disputes between third parties that result from the agreement.

COMMENT: Choice-of-law rules are excluded from the governing-law selection. Suppose the parties agreed that State A's law would apply. But suppose also that, on the facts of the case, State A's choice-of-law rules would cause State B's law to apply. Presumably that would not be what the parties wanted. Hence, this language excludes choice-of-law rules.

NOTE: If a contract specifies "the laws of the United States" as the governing law, a court might deem the

parties to have agreed to the application of federal common law as well as federal statutory law. The First Circuit did this, albeit by agreement of the parties, in *Powershare, Inc. v. Syntel, Inc.*, [No. 09-1625](#), slip op. at 9 (1st Cir. Mar. 1, 2010) (reversing denial of motion to stay litigation pending arbitration).

7.111 Governing law: The UN CISG is excluded.

The parties expressly agree that the UN Convention on Contracts for the International Sale of Goods (CISG) will not govern this Agreement or any transaction or relationship arising out of it. (For the avoidance of doubt, the previous sentence is not intended and should not be interpreted as an admission by either party that the UN CISG would otherwise apply.)

COMMENT: See the Wikipedia article on the UN CISG convention at <http://bit.ly/4RGKAI>.

7.112 Governing law: UCITA is excluded.

The parties expressly agree that the Uniform Computer Information Transactions Act (UCITA) will not govern this Agreement or any transaction or relationship arising out of it. (For the avoidance of doubt, the previous sentence is not intended and should not be interpreted as an admission by either party that UCITA would otherwise apply.)

COMMENT: Section 104 of UCITA, a controversial proposed uniform law, allows parties to a contract to "opt out" of its applicability. (As of Nov. 2009, UCITA had been enacted only by Maryland and Virginia.) See the Wikipedia article at <http://bit.ly/7Zln8i>, as well as materials at <http://bit.ly/6ZW4hQ> on "bomb-shelter" legislation enacted by Iowa, North Carolina, Vermont, and West Virginia.

7.113 Governing law: ALI Software Contracts Principles are excluded.

The parties expressly agree that the American Law Institute (ALI) Principles of the Law of Software Contracts are not to be given effect in the interpretation or enforcement of this Agreement. (For the avoidance of doubt, the previous sentence is not intended and should not be interpreted as an admission by either party that those Principles would otherwise apply.)

COMMENT: The ALI Principles are new (as of mid-2009) and are disliked by many software vendors. For example, the Principles proclaim, out of thin air, a warranty — which cannot be disclaimed — that the software contains no known material hidden defects. Many vendors would regard this as ludicrous: in most cases, the cost of testing software, and of documenting the test results, to achieve that (vague) standard would make it inordinately expensive. See my blog posting at <http://bit.ly/5W2Vs8> for more information and links to further reading.

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7.114 **Independent contractors**

For the avoidance of doubt:

(a) Neither party will hold itself out as an employee, agent, partner, joint venturer, division, subsidiary, or branch of the other party, and nothing in this Agreement is to be interpreted as creating any such relationship between the parties.

(b) Neither party has, nor will it hold itself out as having, authority to make commitments or representations on behalf of the other party except to the extent, if any, that this Agreement expressly states otherwise.

(c) Neither party nor its employees are entitled to any compensation or benefits from the other party — including, for example, insurance coverage, stock options, or any other compensation or benefit — except to the extent, if any, expressly stated in this Agreement.

(d) No signatory party, in entering into this Agreement, intends to enter into a fiduciary relationship with, nor to commit to acting on behalf of or for the benefit of, any other individual or organization.

COMMENT: This type of clause is arguably becoming more important as companies increasingly outsource their work to contractors instead of keeping it in-house.

COMMENT: Subparagraph (d), disclaiming any fiduciary relationship, is a lawyer-repellant clause, intended to deter aggressive litigation counsel from arguing that one party (usually a vendor) allegedly had fiduciary obligations to another party (usually a customer).

NOTE: This clause (or any other like it) might not be enough to do the job – see generally: • [Is Your Independent Contractor Really Your Employee?](#), by Jeremy R. Sayre (2007; accessed Oct. 3, 2008); • [Employee or Independent Contractor? The Implications of Microsoft III](#), by Dennis D. Grant of Arter & Hadden LLP (2000; accessed Oct. 3, 2008); • the Fifth Circuit's "economic realities" analysis in, e.g., *Hopkins v. Cornerstone America*, [No. 07-10952](#) (Oct. 13, 2008) (affirming summary judgment of employee status); • the Ninth Circuit's refusal to apply a Texas choice-of-law clause in holding that a California truck driver was really an employee and not an independent contract, in *Narayan v. EGL Inc.*, [No. 07-16487](#) (9th Cir. July 13, 2010) (reversing summary judgment in favor of employer).

7.115 Independent-contractor indemnity obligation applies to [EACH PARTY].

The specified party (or parties) will defend and Indemnify the other against any third-party claim arising out of the defending party's actual or alleged breach of its obligations under the independent-contractor basic requirements of this Agreement.

COMMENT: This is essentially an insurance-policy clause, forcing the indemnifying party to pick up the tab if it ever violates the independent-contractor provisions, including providing a legal defense for the other party.

7.116 Interpretation: The *contra proferentem* principle [IS NOT] to be applied.

IF: This section states that the *contra proferentem* principle is not to be applied; THEN: Any ambiguity or inconsistency in this Agreement is to be resolved in accordance with the most reasonable construction and not strictly for or against either party.

COMMENT: The *contra proferentem* principle says that — other things being equal — ambiguities in the language of a contract should be resolved against the party that proffered the language, that is, against the drafter. See generally the [Wikipedia article](#) on the subject. The rationale is that the proffering party had the opportunity to make the language clear, one way or another, and so ambiguities should be resolved in favor of the other side.

COMMENT: The *contra proferentem* principle has always struck me as being like the old children's rule for cutting a piece of pie in half: If you do the cutting, then I get to choose which piece I want.

7.117 The limitation period for breach of this Agreement is [PER APPLICABLE LAW]; the discovery rule [APPLIES IF REQUIRED BY APPLICABLE LAW].

Any action or proceeding for breach of this Agreement (which for this purpose includes any action or proceeding for misrepresentation) must be commenced within the specified time after the party commencing the action knew – or, if the discovery rule is specified, in the exercise of reasonable diligence should have known – of the breach.

ALERT: Too-short a time for filing suit might invalidate this section – see, for example, UCC § 2-725, which requires a minimum limitation period of one year for sales of goods. Another, typical illustration comes from a holding by a California court of appeals: The court ruled that a contract clause requiring an employee to file suit against the employer within six months after termination was invalid "because plaintiffs' claims [for overtime pay] were based on unwaivable and fundamental statutory rights, and the [contract] provision ... violates section 219 and public policy, and is thus unenforceable." *Pelligrino v. Robert Half Int'l, Inc.*, No. G039985, slip op. at 11 (Cal. App. 4th Dist. Jan. 28, 2010) (affirming district court's award of damages to former employees for violation of wage and hour laws).

7.118 Mediation of disputes (non-binding) is required at either party's request.

Any dispute between the parties is to be submitted to (nonbinding) mediation , to be scheduled as soon as practicable, upon request by either party. If not otherwise agreed, the mediation will be administered by the American Arbitration Association under its Commercial Mediation Rules.

COMMENT: Personally I'm not a fan of mediation.¹² I've participated as counsel in four mediations, twice each on the plaintiffs' and defendants' sides. My impression from those experiences is that (1) mediators tend to be reluctant to grab a party by the lapels, so to speak, and say, "as I see it, you're very likely to lose, and here's why" (that's known as "[evaluative mediation](#)"); and (2) when a *defendant* agrees to mediate, that fact alone is often interpreted as a concession that the defendant should pay *something*, and the only question remaining is "how much." Of course, [YMMV](#).

The American Arbitration Association's Commercial Mediation Rules are at <http://bit.ly/7JCWqC>.

¹² Disclosure: My wife is an arbitrator-mediator in labor- and employment cases.

7.119 Notices

(a) All notices sent pursuant to this Agreement (i) must be in writing, and (ii) if addressed to an organization, must be marked for the attention of a specific individual, office, or position in the organization.

(b) Permissible addresses for notice include those stated in this Agreement and any other address reasonably communicated.

(c) Notices are effective upon receipt or refusal; notices addressed to an organization are effective upon receipt or refusal by an individual who is the organization's agent for purposes of receiving communications of the general type sent (for example, a mailroom clerk).

(d) Each party giving notice under this Agreement is encouraged, but not required, to send a copy of significant notices to the notified party's counsel by any reasonable means. A significant notice might be, for example, a notice of breach or of termination.

(e) Notices to a party that cannot be found are deemed effective after reasonable delivery efforts.

COMMENT: The "marked for the attention of " clause is included because in a corporate setting, hard-copy notices can sometimes go astray if the mailroom people don't know whom to send it to.

COMMENT: Subparagraph (c) makes notices effective upon receipt or refusal (which can be independently confirmed by delivery services), and NOT X days after being mailed. NOTE: A party that anticipates sending out many "routine" notices, e.g., to consumers, might indeed want language that notices are effective X days after being mailed.

COMMENT: Concerning subparagraph (d), in cases of breach or termination, it's usually better for a notified party's lawyers to be brought into the picture sooner rather later, if for no other reason than to try to get the dispute settled sooner.

7.120 Notices [MAY BE] sent by email, subject to specific requirements.

For the avoidance of doubt, a notice sent by email is deemed received when and only when any of the following three events has occurred:

(a) The notice is actually read by an individual who, for purposes of receiving communications concerning this Agreement, is the agent of the party to which notice is being sent; or

(b) (i) the notice is delivered to an email account that is exclusively assigned to such an individual, and (ii) the individual in question accesses that email account; or

(c) the notice is delivered to an email account whose address has been designated in writing, by the party being notified, as an address to which notices to that party under this Agreement may be sent.

COMMENT: For some agreements, email notices might not be reliable enough for comfort.

COMMENT: If the Agreement is silent, the effectiveness of notice sent by email might well be governed by section 15 of the Uniform Electronic Transactions Act (<http://bit.ly/7bsP10>). Cf. § 15(e) of the UETA, which states that "[a]n electronic record is received ... *even if no individual is aware of its receipt*" (emphasis added).

COMMENT: Subparagraph (b) says that a notice sent to a specific eligible individual is effective as soon as the person accesses his (or her) email account. This should preclude the individual from seeing an email in his in-box, concluding from the title that it is a notice under the Agreement, and then intentionally not reading the email.

ALERT: In subparagraph (c), note that an email notice is effective when the notice has been *delivered* to a permissible email inbox. (A party sending an email notice can use the request-delivery-receipt option available in many email systems to get confirmation of delivery.) If a party designates a particular email address for notice, it will have to check the inbox of that address regularly to see if any new notices have arrived. For that reason, the party might want to set up a special "notice" email address that automatically forwards to a specific individual — or, preferably, more than one — or to whoever is designated as having a specific role in the company. The forwarding might need to be changed if such an individual goes on vacation or sick leave, changes positions in the company, or leaves the company.

7.121 Prohibitions and restrictions apply to attempts, inducement, etc., as well as to actions.

The prohibitions and restrictions of this Agreement extend to (i) attempts to do, and (ii) inducing, soliciting, permitting, or knowingly assisting anyone else to do, the prohibited or restricted thing.

WHO WANTS THIS CLAUSE, AND WHY? This clause would give, say, a licensor a weapon to use against a licensee that tried to get around restrictions by having someone else do forbidden stuff.

CONTENTIOUS? Possibly – a licensee might be concerned that accusations of “attempted X” might be easy to make but difficult to fight.

7.122 **Publicity restrictions**

Neither party will issue any press release about, or otherwise publicly disclose the existence or terms of, (i) this Agreement, or (ii) the parties' business relationship contemplated by this Agreement, EXCEPT with the prior written consent of the other party.

WHO WANTS THIS CLAUSE, AND WHY? One or another party might want to keep the parties' relationship confidential, or at least not to have it broadcast. For example, a big company might want to forestall having a smaller company issue a press release trumpeting the fact that the smaller company has "made it to the big time."

CONTENTIOUS? Probably not – subclause (x) allows the parties to specify in advance what publicity is permitted, so that part can be negotiated.

7.123 Redlining representation

Each party represents that it or its counsel has 'redlined' or otherwise called attention to all changes that it made and sent to the other party in previously-sent drafts of this Agreement, including but not limited to drafts of any attachments, schedules, exhibits, addenda, etc.

COMMENT: Many and even most contracts get negotiated by emailing electronic drafts back and forth. If changes aren't "redlined," it's normally possible to run a document-comparison program to do the redlining after the fact. Eventually, though, the parties are likely to want a handwritten signature on a hard copy of the final contract (although this may be changing).

But suppose I send you a signed, original, hard-copy contract and ask you to countersign and return it. Do you do a word-for-word *manual* comparison, to make sure the hard copy matches the agreed electronic document? If you do, you're spending time that surely could be put to better use. For example, at the end of a fiscal quarter, when a lot of contracts are in negotiation at once, negotiator time is a scarce resource that has to be used economically. You want to provide as much legal protection for your client as practicable. As the clock runs down on the quarter, however, you also want to try to timely get the customer's ink on the signature line.

But if you don't do a word-for-word comparison, how do you know I didn't surreptitiously change something before printing the document for signature?

The overwhelming majority of lawyers would never try to pull something so underhanded. It's stupid — if you were to get caught, your reputation could be severely damaged. Other lawyers might start refusing to deal with you. Your negotiation partner (turned enemy) could well report you to the state bar.

But I know two other lawyers who, on different occasions decades ago, unwittingly let their clients sign “bogus” documents that way. Needless to say, their clients weren't pleased.¹³

A few years ago, as I started doing more and more contract negotiations electronically, I drafted the first version of the clause above to address the surreptitious-changes issue. In recent years I've had several lawyers tell me that they loved the language and intended to steal it.

¹³ A courts might well be unsympathetic to a party that didn't read what it signed — especially if the other party gave it reason to think changes were made. *See, e.g.*, the [Cambridge North Point](#) case, summarized in this Alston & Bird [blog posting](#) by Susan Wilson (accessed 2010-08-15).

At least with this clause, each side has an indisputably reasonable basis for assuming that the other side isn't playing dirty. They therefore shouldn't have to worry about re-reading the hard-copy document before signing it. (It might still make sense to re-read the hard copy anyway, just to make sure it says what you really want it to say.)

Why a representation, and not a warranty? Because the clause is designed for higher-volume, long term relationship work such as software license agreements. The customer's contract negotiator also has limited time, and might not be a lawyer. The last thing your sales people want is for the negotiator to get nervous about your language and, taking the path of least resistance, to put your deal aside until next quarter. In my experience, a representation clause comes across as "softer" than a warranty clause, and is less likely to trigger a visceral objection from the other side.

Theoretically, a representation has different legal consequences than a warranty. But in many vendor-customer situations the differences likely will be academic.

This will be particularly true in longer-term, high-dollar relationships such as some software license agreements. High-dollar vendors are keenly interested in preserving their customer relationships if at all possible — they gen-

erally don't want to file a lawsuit against a customer except as a last resort.

If a customer were unintentionally to make a material change in the contract without marking it, the odds are high that the vendor and customer would try to work things out amicably. In that situation, the mere existence of the representation clause would bestow a fair degree of moral- and bargaining leverage on the vendor. (It's something an in-house counsel could take to his or her counterpart and ask, "can't we do something about this?")

Whether the change in the contract was truly unintentional might well come down to the credibility of the customer's witnesses — not a comfortable situation for the customer to be in. If a jury were to conclude that a customer had deliberately sneaked in a material unmarked change in the contract, that likely would be fraud, giving rise among other things to the possibility of punitive damages. That likely would give the vendor even more bargaining power in negotiations to fix the contract wording.

So, on balance, for high-volume, high-dollar, long-term agreements, I prefer a simple representation that the customer is likely to accept readily, over a more-complete warranty-and-reformation clause that might require more time for legal review.

7.124 **Savings clause**

IF: A provision of this Agreement is held invalid, void, unenforceable, or otherwise defective by a tribunal of competent jurisdiction; THEN: (1) All other provisions of this Agreement will remain enforceable, and (2) the provision in question will be deemed modified, solely in the jurisdiction in question, to the minimum extent necessary to cure the defect.

PURPOSE: To reduce the chances that a judge might throw out the whole contract merely because of one problem clause.

7.125 A senior representative will be appointed by [EACH PARTY] upon request.

(a) If so requested by the other party, each specified party (or parties) will designate, by notice to the other party, a senior representative having the authority and duty to act as the designating party's primary representative and contact point for the other party under this Agreement.

(b) Any communication concerning this Agreement by such a senior representative to the other party is binding on the party that designated the senior representative.

COMMENT: This section can sometimes be useful in situations where one party is concerned that the other side is a faceless bureaucracy where no one is willing to make a decision or accept responsibility.

[HISTORY: Added 2010-08-15; subsequent provisions re-numbered accordingly.]

7.126 Settlement offers: If the final result of a *covered dispute* is not [AT LEAST 20 PERCENTAGE POINTS BETTER] than a *covered settlement offer*, then the party rejecting the offer is liable for the offering party's post-offer costs and expenses.

(a) IF: In a *covered dispute*, a party does not timely accept a *covered settlement offer*, each as defined below, but then finally fails to obtain a specified result in the dispute; THEN: that party must pay or reimburse the offeror's costs and expenses, including for example reasonable attorneys' fees, incurred in the dispute by the offeror after making the offer.

(b) A *covered dispute* is any action or proceeding before any tribunal, where the action or proceeding arises out of or relates to (i) this Agreement or (ii) any transaction or relationship arising from this Agreement.

(c) A *covered settlement offer* is a written offer that (i) expressly states that it is subject to this section, and (ii) offers to settle a covered dispute.

(d) Matters of timing and other procedural issues concerning the offer will be governed in the general manner provided for an offer of judgment under Rule 68 of the [U.S.] Federal Rules of Civil Procedure, any necessary change being made, to the extent the parties do not agree otherwise.

(e) Absent consent of the other party, each party shall preserve in strict confidence (i) the existence and details of any offer made by the other party pursuant to this section and (ii) any subsequent communications between the parties regarding the offer.

PURPOSE: The general intent of this section — modeled on Rule 68 of the Federal Rules of Civil Procedure — is to create meaningful incentives for parties to accept reasonable settlement offers.

The problem with Federal Rule 68, though, is that it's pretty much toothless: It shifts only subsequently-incurred court costs, which usually don't amount to a lot of money in the scheme of things, and it doesn't shift the burden of attorneys' fees, which can be huge.

As a result, many litigators don't regard Rule 68 as providing much incentive to settle.

A somewhat-better approach is New Jersey Court Rule 4:58, available at <http://bit.ly/XiDF0>, which shifts not just court costs but also attorneys' fees, but that rule applies only when exclusively-monetary relief is sought, which is not the case with this section.

COMMENT – “COVERED” SETTLEMENT OFFER: The class of disputes covered by this section is intentionally broad, encompassing what could be a wide variety of disputes even between non-parties. The express-identification

requirement is intended to prevent a winning party from ambushing the loser by claiming that one of its earlier communications was an unaccepted 'settlement offer.'

COMMENT - CONFIDENTIALITY: The rationale for the confidentiality requirement should be self-evident.

NOTE THAT a party making an offer is not required to keep its own offer confidential, but it *is* required keep confidential any subsequent communications, including its own, about the offer.

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7.127 Status review conferences

(a) Status review conferences will be held at either party's reasonable request, by phone or in any other manner agreed by the parties.

(b) The parties anticipate that agendas will typically include, as appropriate and without limitation, the following "GPPPA factors": (i) goals; (ii) progress made; (iii) problems encountered or anticipated; (iv) plans for future action; and (v) assumptions being made.

(c) Conference details will be arranged by the requesting party unless otherwise agreed.

(d) The requesting party will seasonably circulate draft minutes upon request; any participating party may object to the contents of draft minutes by seasonably so advising all other parties in writing.

PURPOSE: Regular scheduled status-review conferences can be an important tool in helping to avoid problems and disputes. (It's often extremely helpful to hold such a conference immediately after a missed deadline or other potential breach.)

NOTE: For a more-detailed discussion of the GPPPA agenda items, see [this blog posting](#).

COMMENT: Written minutes of status-review conferences, especially those containing specific to-do assign-

ments, can be an important project-management tool — and can also help litigation counsel reconstruct what-happened-when if things go wrong.

7.128 **Third-party beneficiaries**

The parties do not intend for this Agreement to create any right or benefit for any party except themselves, other than to the extent (if any) expressly stated in this Agreement.

COMMENT: For a third party to be able to claim rights as a beneficiary under a contract, the parties must have intended the beneficiary to have such rights. The disclaimer of this section should be enough to show that the parties did not have any such intent except to the extent that the Agreement expressly says so. See generally the Wikipedia article on [third-party beneficiaries](#).

7.129 Waivers by [EITHER PARTY] must be in signed writings.

The parties are aware of the management- and evidentiary issues that can arise when a party asserts that another party has waived a right, obligation, etc., in other than a written form. With a view to avoiding such issues, the parties expressly agree that no purported waiver by the specified party (or parties) of any right or obligation under this Agreement — including for example any purported waiver of this waivers provision — is to be given effect unless it is in a writing signed by that party.

PURPOSE: As stated.

CONTENTIOUS? Possibly – it depends on which side might want to claim an oral waiver by the other side.

COMMENT: Courts in some jurisdictions don't always give effect to no-oral-waiver clauses, reasoning that the parties can orally waive the no-oral-waiver clause itself. In this clause, the “parties are aware” language and the “including, for example” phrase represent an attempt to convince the court to give effect to the provision.

7.130 [NEITHER PARTY] is relying on any representation outside this Agreement.

Each specified party represents and warrants that, in entering into this Agreement, it is not relying on any representation by the other party, other than (i) those set forth in this Agreement, including for example the Agreement's exhibits, schedules, etc., and (ii) those expressly incorporated into this Agreement by reference. THE PARTIES HAVE AGREED TO THIS PROVISION AS PART OF THEIR OVERALL ALLOCATION OF THE RISKS AND BENEFITS OF THIS AGREEMENT.

COMMENT: This no-reliance clause tries to preclude claims by a party that it was fraudulently induced into signing a contract by misrepresentation, and that it should therefore be allowed to undo (rescind) the contract and/or seek punitive damages. Courts have been known to give effect to no-reliance clauses, especially when the parties are sophisticated.¹⁴

COMMENT: If EDS had included a no-reliance clause in its software-system development agreement with British Sky Broadcasting, it might not have had to pay some

¹⁴ See, e.g., *One Communications Corp. v. JP Morgan SBIC LLC*, Nos. 09-1815-cv, 09-2324-cv, slip op. at 4-5 (2d Cir. June 17, 2010) (affirming summary judgment dismissing misrepresentation claim).

\$ 460 million to settle Sky's successful claim for fraudulent inducement – see this [February 2010 blog posting](#) that I wrote about the case.

NOTE: Listing specific subjects for which reliance on representations is disclaimed might help persuade a court to enforce the no-other-representations disclaimer – see James W. Hutchison, *Getting Burned by Boilerplate ...*, at <http://bit.ly/87H7tG> (accessed Dec. 8, 2009).

7.131 Signers have signature authority.

Each individual signing this Agreement on behalf of an organization personally represents that, to the best of his (or her) knowledge, his signature has been duly authorized by that organization.

PURPOSE: To make signers stop and think — because they are making a personal representation — as to whether they have signature authority, so as to reduce the odds of later problems in that area.

BACKGROUND: A corporation or other organization might try to get out of a contract by claiming that its signer did not in fact have signature authority (known as *actual authority*). The other side can repel such an effort by showing that the signer had *apparent authority* — that is, that it was reasonable for the other side to have concluded that the signer did indeed have signature authority. An explicit representation by the signer can help the other side make its case on that score.

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About the author

I've been an intellectual-property lawyer for more than 25 years; I'm based in Houston and am licensed in both Texas and California.

I was formerly a partner and member of the management committee at one of the largest IP-boutique law firms in the United States. I left the firm to become vice-president and general counsel of one of my clients, a software company that I had represented since its start-up, which had gone public not long before. I served in that position until the company's successful "exit" (we were acquired by our field's global leader). Since then, I've had my own law practice. For many years I've held an "AV" (highest) rating in Martindale-Hubbell's peer-review survey.

I teach a course in advanced contract drafting as an adjunct law professor at the University of Houston. I've been a frequent invited speaker at national and regional continuing-legal-education (CLE) conferences. I've long been active in professional associations, and was formerly a member of the governing council of the American Bar Association's Section of Intellectual Property Law.

I've published a fair number of legal articles over the years; [here's a partial list](#). I was lead author of the first edition of a legal treatise, THE LAW AND BUSINESS OF COMPUTER SOFTWARE, published by West, and did its annual updates for more than 10 years. My professional blog is [On Technology Law](#).

I earned my law degree at the University of Texas at Austin, where I was on law review. My undergraduate degree is also from UT Austin; I majored in math and was graduated with high honors. In between college and law school I served my ROTC scholarship payback time as a U.S. Navy nuclear engineering officer, including three years of sea duty.

My email address is dc ahtt toedt dahtt cahm; it's spelled out that way to try to fool [spambots](#) that crawl the Web looking for email targets.