



202 Take It or Leave It: Contract Negotiation from a Small Company Perspective

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Eunice Lin Bumgardner is vice president and general counsel for BNA in Washington DC.

Prior to coming to BNA, Ms. Bumgardner practiced law at LeBoeuf, Lamb, Greene & MacRae.

She graduated from Emory University and received her law degree from Georgetown University.

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Jack O'Neil is the general counsel and secretary for The Western Group, Inc. Western operates a specialty contracting business nationwide through subsidiaries with branch offices in 36 cities. Western's work involves many aspects of masonry and concrete restoration and waterproofing of commercial, public, and institutional structures. He started the legal department at Western 12 years ago, after 15 years of private practice and teaching experience.

Prior to joining Western, Mr. O'Neil was affiliated with the law firm of Armstrong Teasdale Schlafly & Davis in St. Louis. He has served as an instructor and adjunct assistant professor at the Saint Louis University School of Law.

Mr. O'Neil is a member of the ABA's Forum on the Construction Industry. He is an ACCA member and has served as president of ACCA's St. Louis Chapter and currently serves as program chair for ACCA's Small Law Department Committee.

Mr O'Neil has a BA from DePauw University and a JD cum laude from Saint Louis University School of Law.

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Prior to joining Pitney Bowes, Inc. Ms. Travis conducted transactional duties for procurement contracts for a \$40 billion global Fortune 100 pharmaceutical corporation. She has also handled the general counsel, litigation management, and contractual negotiations for companies selling goods and services in a wide range of markets and channels for consumer, photographic, and graphic arts products, medical equipment and consumables, gas and chemical delivery systems, and office products.

Ms. Travis is a former faculty member of the Pace University School of Law, litigation associate at a firm in White Plains, NY, and labor counsel for a New York labor union. She has written various articles and treatise chapters, and is a lifelong member of PSU Alumni Association, elected to Education Alumni Board, past president, and member of Town of Somers Zoning Board.

Ms. Travis received her BS cum laude from Pennsylvania State University and her JD from Syracuse University.

A PRIMER ON NEGOTIATIONS WITH GOLIATH (FROM DAVID'S POINT OF VIEW)

(or some thoughts on how to get what you want without
whining or throwing stones)

Eunice Lin Bumgardner
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A Have one or more *alternatives* to fall back on. Is there another way to achieve what your client wants? For example, if the software developer insists on owning everything it develops, ask your client whether there's any real value to owning it. You may want to try getting a royalty free license to use it in any manner, as opposed to owning it outright.

B *Boilerplate language* is not set in stone. Inevitably, your client will come in with a boilerplate contract in miniature type and tell you that this is the other party's standard agreement and it's not negotiable. You don't need to accept this no matter how small the print is.

C In 99.99% of negotiations, *compromise* is the key. Your client is not interested in how tough you are at negotiating, or how many legal terms you can spew out. They are interested in securing the best deal within reason.

D Identify the *deal killers*.

E If a contract is unacceptable, immediately ask for the *electronic version* of the document. In this day and age, it's always available.

F *Fairness* is the key to all good contractual relationships. With few exceptions, the other party is not looking to take advantage of your client.

G Keep in mind your client's ultimate *goal*. Is it to obtain software with a minimum of restrictions? Does your client need the ability to modify it? Is it to purchase services or a work product?

H Do your *homework*. Know the general rules of the other party's industry. Know what their hot buttons are.

- I** Don't be *intimidated* by megacorporations.
- J** Sometimes you have to "Just say *No.*" Learn how to say this with a straight face.
- K** *Keep* a stash of fall-back provisions that have been accepted by other megacorporations.
- L** Make a *list* of what your client needs to have when the deal is signed. Before I even begin reading a contract, I often prepare a list of what needs to be in it. This helps me focus on what is necessary without the distraction of boilerplate.
- M** Related to above, make sure you know what your *must-haves* are. If you can't get it from the megacorporation then you probably shouldn't be entering into a deal with them.
- N** Everything is *negotiable*. (OK, maybe not everything but there is no downside to taking that approach at the start.)
- O** Avoid *overlawyering* (this suggestion is probably better directed at outside counsel).
- P** *Pick* and choose your battles. Don't spend all your negotiating capital on a provision that is likely never to come into play (see O above).
- Q** *Question* your clients before you say anything about the contract that has just been dumped on your desk. What are we doing? How badly do we need it? How soon? If the deal falls through, can we go elsewhere? Really understand the deal before you read the contract.
- R** Be *reasonable*. Megacorporations often have strict (and often unreasonable) policies on everything; nevertheless, they still do have limits on what they can do and the risk they can assume.
- S** Have a *strategy* planned out with your business people before you begin negotiations. Know the role you each will play.

T *Train* your client to be part of the team. Explain why you want a specific change. Rather than having your client blame the legal department for delaying the process, have them understand why you want a particular change or provision. Make your client alert to potential issues early in the game.

U Make the other party *understand* why you want a particular change or cannot accept specific language. I find it helps to be prepared to give reasons or justifications (without revealing strategy or confidential information). It's easier for even megacorporations to back down if you have a rational basis for a particular change.

V *Vet* your recommendations by all relevant people in your company. For example, you may be outraged by a payment provision, but your accounting department may be able to live with it. This can then be dropped off your list of changes.

W Find the other party's *weak points*. For example, even megacorporation sales reps are required to meet quotas. How far is the rep from the end of a sales period? A vendor may be much more flexible when trying to finalize a contract and it's two days away from period close.

X Superman has *X-ray* vision (OK, it's hard to find something that begins with X).

Y Be careful about saying *Yes* without clearly explaining all the conditions to both your client and the other side. Otherwise, your client will hear only *Yes*, and that can get you into hot water.

Z See X above.

RULES OF THE GAME

Dealing with “Take It Or Leave It” Contract Terms

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Lawyers, particularly in house counsel, are often presented with lengthy contracts to review with nothing more than “is this OK? Then as soon as the lawyer raises a question, he or she is accused of being negative, and always finding reasons to say “no”. Of course the way the contract and accompanying question is presented really begs for a negative answer. Of course not answering the question literally may help. Say “yes, except”, “yes, if you...” or “yes, but” rather than “no”. Of course if you are asked to review one of those boilerplate contracts that people are expected to sign without questioning and often without even reading, you will be more likely to find more than a single “except” or “but’.

Forms are often handed down to the sales or operations people as the only form that can be used. No authority is given to negotiate changes, and none are expected. When someone on the other side questions something, the stock answers are often: “this is standard” or “we have to have this”.

Another often heard reason is “our lawyer says we have to have this.” Well that means the lawyer probably drafted it, on instructions to give the most protection possible. The lawyer is not making business decisions, he or she is just thinking up all the things that could go wrong, and adding language to protect the client. A question that is often never asked is: “If I draft this as strong as possible, can you sell it?”

There is then a game of legal “chicken” when one side says OK I will get it somewhere else, or we will give the business to a more “cooperative” customer. What is bluff and what is reality is a tough call for the business person, who is usually reluctant to give up a sale, or a good price.

At this point the question becomes who is making the decisions about what deals are done and which are not? Does the legal department have the authority to quash any deal that does not toe the line on the contract language? If not, how much input does the lawyer really have? There is the ever popular, "I would do this deal in a minute, but our lawyers won't let us." A recently overheard conversation at a phone bank in an airport waiting area contained the phrase: "In our company the lawyers have the last word." Truth or just hard bargaining excuse?

If you really don't have the last word, but want to retain the ability to at least have some influence, you need to do more than "review and comment." Wouldn't it help if your people had a better understanding of the risks, injected into the transaction by the language used. The Rules of The Game approach may help to break down the lengthy verbiage into manageable concepts that business people can put to good use in negotiations with customers or suppliers, or even in discussions with the Legal Department. Once the rules are better understood, and the sales marketing or purchasing people can be given some training on the things to be expected. They can take some of these points into consideration at the beginning of the deal, rather than waiting to hear about them from the lawyer, as pens are poised to sign.

1. Learn the Rules. If you have reviewed the same stuff over and over again, you have seen these rules. You just need to get them organized. Identify the important issues that the party who drafted the contract has. What are they really concerned about? These concerns may be different for depending on your industry, but probably recur in the course of any business. Often it is not the concept that is so hard to summarize, it is just that some issues get covered many different ways in a single contract.

- ✓ Is time really of the essence?

- ✓ What about the confidentiality of exchanges information?

- ✓ Is this an agreement for a course of dealing over a period of time? Term, termination, changes in assumptions, circumstances?
- ✓ Are there some common terms in your industry for the particular provisions? Does everyone understand them the same way?
- ✓ Are there certain terms that have gone unchallenged for so long, that they are viewed by one side as inalienable rights, and the other as necessary evils?
- ✓ What has been the experience of the business people with this particular contracting party. Are their terms tough, but their behavior fair?
- ✓ Do these folks have a reputation for ducking responsibility?
- ✓ Is this a deal where price drives everything?

2. Make it user friendly. Write it down in a form that is easy to use. Put these main concerns in as short a phrase as you can? If you have more than five or six main concerns, you may want to look for overlaps and try to simplify it even more.

- ✓ Try to summarize all of the points on one page? People will refer to stuff on one page more often than they will pull the book off the shelf.
- ✓ List the major concerns from the point of view of the party who drafted the contract.
- ✓ Under each of those aims list, in a checklist fashion, the places in the contract that this concern is addressed. Use language that is familiar where possible. The operator often knows the terminology, but not all the details.

The following example takes on of the concerns a property owner has in a typical construction contract.

FINISH ON TIME.

- ✓ *Liquidated Damages.*
- ✓ *No Damage for Delay.*
- ✓ *No excuses for ordinary bad weather.*
- ✓ *No work stoppage.*
- ✓ *Supply sufficient men and equipment to do the job on time.*

The heading “Finish on Time” is the main concern, which finds its way into several provisions, briefly described in the check marks. While this does not get into the fine points of the language used, it gives the user a good overview of what needs to be expected and planned for, especially if the contract is not likely to be changed. The five items listed each may be the subject of a paragraph or more in the Contract.

3. Talk about it. Set up some training programs. Get some time at sales meetings, contribute to newsletters, set up informational e-mails. Explore some of these issues:

- ✓ What really is “standard in the industry”?
- ✓ Is there a standard?
- ✓ Does the person you are dealing with have authority to negotiate?
- ✓ Is the person even willing to discuss it?
- ✓ Does the person understand the issue?
- ✓ Who does have the understanding and authority?
- ✓ Is this really being presented as a take it or leave it deal?

4. How to make changes. Remember, you never get changes if you don't ask for them.

- ✓ Don't scratch things out. People get very sensitive if you just scratch things out.
- ✓ Try to "clarify" rather than "qualify". This can be the same thing, but the approach is different.
- ✓ Put in exceptions for important issues to cover the points that are really important to you, without completely stepping on the concern of the other party.
- ✓ Add the "provided however," clause to cover the items that are important to you.
- ✓ Write an addendum with your changes, don't just mark up the other parties contract. Mark-ups often get rejected out of hand, while the addendum may get read by someone with the authority to think.

5. Be proactive. How about a preemptive strike? Best defense is a good offense?

- ✓ Put together the qualifications you want in a form that can go to the supplier or customer with the price list or before they send their "standard" contract which "everyone has to sign"
- ✓ If your people send out proposals try to get some of these issues in the proposals, rather than waiting for the Contract. If you want special insurance get the issue out up front, don't stick it in the contract after most of the negotiation is done.

- ✓ Put those terms in the RFP, or the inquiry so when you get the price back, and send a contract you don't have to re-negotiate all over again because what you ask for in the contract changes the pricing.

6. Evaluate the importance of the issue to you. What about those really heavy handed provisions, that make you mad but really don't matter. Why fight over principle, if you really don't care. (e.g. you won't hire any of our people) If you have no intention of hiring any of their people, don't make it a deal breaker.

Look at Some Other Important Questions.

How much do they need you? Is this a job that anyone can do, and if you do not sign their form, they will just go to the next competitor who has no legal department to get in the way?

How much do you need them? Is this project vital to the business unit? Is it a foot in the door for a substantial amount of work down the road? (see No. 4 below) Does it have a good profit potential? These questions must be balanced against the contractually assumed risk.

Who is really bluffing? Are there really competitors lined up behind you ready to grab this deal? Or are they assuming that if they just say no, you will sign whatever they put in front of you?

Can you call the bluff once in a while? Can you afford to say no, once in a while, so you don't become known as a company that will agree to anything just to get the work? If you give in on the small project, how are you going to negotiate better on the bigger ones?

Living with the Tough Language.

There will be many times when you do not have any leverage, and the tough language will have to stay, if you want the deal. In such situations, the business folks will often just ignore it, and say, it's just for the lawyers anyway. However, these are still the operating rules. Following an old woodsman's rule, that it is the snake you don't see that bites you, the knowledge of what is in the contract is the best defense against getting surprised. Looking for ways to live with the language, and perhaps turn it to your own advantage depends on knowing it is there, and having some appreciation of why it's there and what the attendant risks are. You may even get some advantage by knowing more about the other parties' contract than they do. Just because you are looking beyond the "legal stuff" doesn't mean everyone is.

For example, the legal "gotchas" that often appear, require you to give notice or respond quickly or waive your rights. These kinds of rules should always be brought to the attention of the operator who will be in charge of the transaction. If not there is a good chance that before they realize they need legal help, and send you the contract, the time period is up. It is not unusual for these requirements to be 24 hours or 2 days.

Try to find ways to make this easy. Develop some letter formats that can be parked in the word processor to make giving this notice as painless as possible. Then you have to tell people they are their, and train them on their use, but this can easily be included in other training that you should be doing anyway.

Is it worth the effort? If you can recall any matter that went to litigation, arbitration, or just negotiation where a change in someone's boilerplate made a difference, make that a feature of your training program. This may be just using it in discussion of a particular contract when someone says why do we care about that? If you can point to that one a couple of years ago, where this same little change in language saved \$135,000.00 use it early and often. Then remember, that the first step in getting a change is understanding why you want it.

DANGER ZONES
(CONTRACT AREAS TO BEWARE)

- ◆ INDEMNITIES (HOLD HARMLESS)
- ◆ WARRANTIES
- ◆ MOST FAVORED NATIONS
- ◆ AUTOMATIC RENEWALS
- ◆ LIABILITY EXPOSURES
- ◆ CONFIDENTIALITY & INEVITABLE DISCLOSURE
- ◆ SOFTWARE LICENSES
- ◆ INTELLECTUAL PROPERTY OWNERSHIP
- ◆ CHOICE OF LAW
- ◆ DISPUTE RESOLUTION
 - TYPE
 - FORUM
- ◆ STATEMENTS OF WORK
- ◆ SIGNATORY AUTHORITY
- ◆ EXHIBITS & ADDENDUMS
- ◆ GUARANTEES
- ◆ PRICING vs. VOLUME COMMITMENTS
- ◆ SERVICE OBLIGATIONS
- ◆ CANCELLATION OPTIONS
- ◆ RECIPROCAL PROVISIONS

Negotiating a “Good” Deal!

Susan T. Travis, Senior Corporate Counsel, **Pitney Bowes Inc.**, Shelton, Connecticut

The size of your legal department, or for that matter, the size of your company rarely relates to whether or not your company negotiates a “good” deal. In this context, a “good” deal is a fair deal, a balanced sharing of risk and reward that ultimately accomplishes the business goals and objectives identified when entering into the relationship. If the end result of the transaction accurately reflects the reasonable expectations and concludes as anticipated, you probably have negotiated a “good” deal.

To evaluate and achieve a “good” deal, many factors come into play. The key is to understand the business objectives and exposures. Emphasize the important elements and minimize the less critical elements. Try to negotiate the best balance possible under the circumstances. Negotiating leverage is extremely fact sensitive and driven by circumstances case by case.

You conducted your contract training for non-lawyers last year using your ACCA materials as a guide. Contracts 101 was a success. Now, the proposals and deals start to roll in. Have the lessons been learned and can you get the business agreement your clients want without giving away the store? Don't be shy and just take the paperwork and shut the door with a sign that says “Do Not Disturb...Atty. Reviewing CONTRACTS.” Help them spot issues, determine relevance and anticipate outcomes. This communication is critical to your achieving the company's business goals.

Beware of the business client who walks into your office and asks, “Can you OK this contract... all the terms have been agreed to by the parties. We are about to sign! We just need your review. And, by the way, they are waiting in the next room!” Take a deep breath and then do what needs to be done. Some transactions consummate quickly, either due to business necessity or simplicity. Others, as we all know, can be excruciatingly slow, and a painful process. One thing is for sure, if both parties truly

want a deal, a deal will get done. If one party is intransigent for whatever reason, and the stumbling block issue is critical, someone must relent or the deal will not be done.

ASK QUESTIONS!

Engage your business client in a conversation. Ask him or her to explain the business objectives and his or her view of the arrangement. Ask for the details of the transaction. Some sample questions are attached to help assess risk and evaluate your bargaining position.

You are a service function. To provide good service and get a "good deal", take the time you need - Haste makes waste. Be responsive and available to your clients and the other party. Explain your concerns and solicit creative options. Be firm and reasonable. Remember, the goal is a balanced, equitable sharing of risk and reward. Many factors influence those risks and rewards. Take it or leave it is rarely an absolute or even an appropriate bargaining stance. If your business client came to you with the "opportunity", evaluate the situation and make the best of it – he or she will then decide if it is a "take it or leave it" - after you explain the options, risks and rewards.

Using a checklist is often a good working tool for you and your business client to solicit this information and organize your thoughts. **Some samples are attached for several contract situations.**

If you utilize a checklist for contracts, get that document filled out and then meet with your client or fill it out together, if time permits. Try to focus on the key contract provisions and Danger Zone provisions. Ask about critical provisions such as warranties, indemnities, and intellectual property ownership. For example, Work for Hire- Development- Modifications- Enhancements- Derivatives -- how do you handle these items?

√ Is the software off the shelf, a customized development, or a combination?

- √ Is the software critical to your business operation, a part of a core product or core business model or simply a tool for internal purposes?
- √ If it is a software license, does the “right to use” grant in the license provide sufficient flexibility?

Try to think ahead and anticipate alternative scenarios—can you negotiate those alternatives now?

- √ Are there other products that might be substitutes?
- √ Are there other vendors available?
- √ Are the products and/or services available or doable internally?
- √ How critical is this transaction to the company, to this particular business unit or client?
- √ Is it core to your business operations?
- √ Is the magnitude of the transaction significant?

Understand how this transaction will affect your company's operations and of the operations of the other side. The lines may be hard to draw. The answers will affect your negotiations and help determine what is critical and what is not.

WATCH FOR HIDDEN COSTS AND OBLIGATIONS.

It is also imperative that you review and evaluate the business arrangement to identify “affirmative obligations”. Discuss these with your business client. Do the obligations fit within your standard business practices or do they require “special” handling? What costs can be identified and quantified for compliance with these obligations?

Does the proposed Confidential Disclosure Agreement require special marking of documents or reduction of oral information to writing within a set period of time to assure protection?

- √ Who will be responsible for this compliance issue?
- √ How will it be accomplished, monitored and audited?

If the record keeping provisions require procedures that are different from your normal business practice, how will that be addressed?

- √ How much will that cost?
- √ Who within your organization will be responsible for assuring compliance?
- √ What are the consequences of changing the record keeping for only one project?

BEWARE OF SCHEDULES, EXHIBITS AND ADDENDUMS

Does the master or main body of the Agreement control the relationship? Or, can an individual Schedule, Statements of Work, Exhibit or Addendum override and change the agreement. If Schedules, Statements of Work, Exhibits or Addendums control, will counsel review them BEFORE they are attached and made part of the Agreement? Will there be changes during the course of the transaction?

EMPHASIZE ACCEPTANCE AND TESTING CRITERIA

Ask probing questions of your business client with practical examples to make your point and solicit the information you require.

- √ Can you live with 90% quality or is 99% required?
- √ Do you realize you have to complete your inspection within two days of receipt?
- √ Can that be done? .
- √ Is a 30-day warranty enough?

- √ Is this product to be resold? If so, does the warranty go with the product for the end-user's benefit?

Also query your business client on what provisions are less important. For example, is there flexibility in ordering procedures, delivery method or location? Are there other company projects and deadlines dependent on this contract's successful completion?

Once you have the information you need, or in the real world, as much as you could get given the time constraints and availability of your clients, then you should contact your counterpart and commence negotiations. Ultimately, you need to understand where you have room to compromise. You can then leverage your strengths and limit your weaknesses in the negotiations.

NEGOTIATING TACTICS

Consider these negotiating tactics. Most companies prefer to use their own forms. If you perceive your company as "needing" the transaction more than "being needed" by the other side, strongly consider using their paperwork.

Addendums are often more palatable than extensive redlining. It may be cosmetic but it matters!

Pick your fights! Try to stay firm and hold your ground on things that really matter and concede on areas that are less important to your company. Some of these "give away" items may be important to the other side. They may pay crucial dividends later on in the negotiation or even later in the relationship.

While the factual investigation described above may sound onerous and time-consuming, it need not be so. As you work with your business clients and develop relationships, the "training" process matures and the information flows naturally. A

relatively brief conversation will solicit the initial information necessary for you to negotiate a “good” deal! Use the tools and samples attached to help you and your client customize the most efficient methods to solicit the facts, evaluate the key provisions and focus on the critical goals of each transaction. Each negotiation is different, yet the process can be somewhat standardized to improve communication and thereby improve negotiation results.

Attached are the following Sample Tools:

1. Key Sales Contract Provisions
2. Questions to ask your clients
3. Generic Terms and Conditions Checklist
4. Sample OEM Agreement Checklist/Questions
5. Checklist/Questions for a Confidential Disclosure Agreement
6. Licensing Checklist
7. List of Potential Danger Zones

KEY QUESTIONS TO HELP SPOT ISSUES AND EVALUATE OBJECTIVES

1. What is the deal? Please briefly describe.
2. What are each party's rights and duties?
3. What guarantees are offered?
4. What are the consequences for non-performance?
5. Are there any alternative vendors?
6. How do the alternative vendors' products and/or services compare?
7. What is the timing to start and finish the project or transaction?
8. Are there other relationships between the parties?
9. If so, what are they and how have they proceeded?
10. Any problems with those other transactions?
11. Are they related to this transaction?
12. If so, how?
13. How large or critical a transaction is this to us?
14. To them?
15. What are the most critical elements of the transaction from the business perspective? (ex. Timing, quality, volume, IP ownership, etc.)
16. Are we using their document or ours?
17. How was that decision made and by whom, or has it been made yet?
18. What is to be accomplished from this transaction?
19. What are we expecting from this transaction?
20. What do we think they are expecting from this transaction?
21. If things go wrong, what alternatives are available?
22. Can these products and/or services be provided in-house?

23. If so, do we need documentation or confidential information from the other party?
24. What preparation and ramp up time would be involved to bring the project in-house?
25. How costly?
26. What are the relative sizes of the parties?
27. Does the main body of the Agreement control or can individual Schedules, Statements of Work, Exhibits or Addendums negate or change the main text of the Agreement?
28. If schedules control, will counsel review the schedules before they are attached to the Agreement?
29. Will there be changes during the course of the transaction?
30. How are intellectual property ownership issues handled in this transaction?
31. Is there any software involved?
32. Is it off the shelf, a customized development, or some combination?
33. Is the software critical to your business operation?
34. Is the software part of a core product or core business model?
35. Is the software a tool for internal purposes only?
36. Do the "right to use" grants, if any, provide sufficient flexibility?
37. If not, why not?

ATTORNEY – CLIENT PRIVILEGE; WORK – PRODUCT.
DO NOT DISCLOSE OUTSIDE OF ABC COMPANY

Checklist/Questions
For a
Confidential Disclosure Agreement

- (1) What are the names of the parties?**

- (2) Which ABC COMPANY business unit is responsible? Who is the procurement individual for ABC COMPANY?**

- (3) What is the full business address of each party?**

- (4) What is the “Effective Date” of the agreement?**

- (5) Why is “Confidential Information” being exchanged between the parties? For instance, is this to accomplish product development? Co-marketing? Licensing a product or patent? To explore a business relationship of some kind? Describe the nature of the potential transaction for which disclosures are made.**

- (6) Who is the individual in each party who will be receiving, or responsible for, confidential information? What is his or her title?**

- (7) For what period of time should the nondisclosure agreement remain effective (i.e., when should it terminate)?**

(8) What type of “Confidential Information” is being exchanged? (Identify)

**(9) Have any disclosures been made prior to this request? ___Y ___N.
If so, date: _____**

(10) Are there any other terms, conditions, or definitions that should be included in the Agreement or that may be important to the transaction?

(11) Over how many days, weeks, months after execution of CDA do you expect discussion to take place? ___days ___weeks ___months.

(12) Are you aware of any prior agreements (including other CDA's) between ABC COMPANY and the other party that include confidentiality provisions? ___Y ___N. If so, identify.

(13) Does any ABC COMPANY business unit have an existing business relationship with the other party ___Y ___N? If so, describe.

Sample Checklist for an Original Equipment Manufacturer (OEM) Agreement

What are the names of the parties?

What is the full business address of each party?

What is the "Effective Date" of the agreement?

What is the nature of the relationship? For instance, is this to accomplish development or supply of a product or component?

Who is the individual in each party who will be receiving, or responsible for, confidential information? What is their title?

For the purpose of receiving notice under this Agreement, what are the names, titles and full business addresses (no P.O. boxes) of the persons at each party who should receive "notice" under the terms of the agreement?

What state and/or country law is to be used in interpreting the agreement?

What state and/or country law is to be used as the venue for the agreement?

What is the initial term of this Agreement? How are subsequent terms defined?

(1) **DEFINITIONS** (As used in this Agreement): In this section should go all terms that you want clearly defined so that they do not become a point of controversy later.

1.1 Product.

1.2 Software.

1.3 Territory. [If so, how defined?]; Worldwide, the United States, etc.

(2) GRANT

2.1 OTHER CO. grants to YOUR COMPANY the right to purchase what products? Is this right exclusive?

(3) TERMS OF SALE AND LICENSE

3.1 Forecasts and Orders - Is a forecast to be submitted? If so, when? Is it binding? How will orders be submitted?

3.1.1 Are there any acceptance terms that pertain to the P.O.?

3.1.2 What are the terms that pertain to increasing or decreasing orders?

3.2 Prices and Payment - YOUR COMPANY shall pay OTHER CO. what price?

3.2.1 Does YOUR COMPANY agree to discuss/review the net price of any Product on a [yearly/quarterly] basis ... any other conditions?

3.2.2 Are there any tax provisions that need to be spelled out? Who pays sales taxes? Are tax exemption certificates required? Etc.

3.2.3 When will OTHER CO. invoice YOUR COMPANY? When will YOUR COMPANY pay the invoice and how? If an invoice amount is in dispute, what happens?

3.3 Rescheduling and Canceling Orders - Under what terms may YOUR COMPANY reschedule delivery of Products?

3.3.1 What happens if YOUR COMPANY cancels all or any portion of an order for Products?

3.3.2 Are liquidated damages addressed in the Agreement? Liquidated damages are a reasonable estimate of the OTHER CO. actual damages resulting from a cancellation. Proof of the OTHER CO.'s actual damages may be difficult to ascertain.

3.3.3 If YOUR COMPANY cancels an order for a Product that requires the OTHER CO. to produce or secure custom materials or supplies designed to meet YOUR COMPANY's unique specifications, what will YOUR COMPANY do or pay? How are the custom materials to be identified for purposes of this Agreement?

3.4 Delivery - OTHER CO. shall ship Products where? F.O.B.? Or, is YOUR COMPANY picking up the Product? When does risk of loss pass?

- 3.4.1 Who is paying for all shipping, handling, and other costs, if any, related to the delivery of Products done at YOUR COMPANY's request, as far as these costs are not covered by the FOB definition?
- 3.5 Product Modifications - Under what terms can modifications be made to the product?
- 3.6 Product Discontinuance - Under what terms or conditions can OTHER CO. discontinue a product?
- 3.7 Spare Parts
 - 3.7.1 Are spare parts to be sold under this Agreement? The applicable Spare Parts can be listed in an Appendix.
 - 3.7.2 How long will OTHER CO. maintain spare parts and under what conditions?
- 3.8 International Terms - Are there any? What countries are to be supported?

(4) SOFTWARE

- 4.1 Is software included in this Agreement? Will YOUR COMPANY have any rights in the software? Does this include any right to use, reproduction, transfer, or disclosure?
 - 4.1.1 Is YOUR COMPANY granted a license to transfer possession of a copy to a third party and to sublicense to that third party the right to use that copy? Any conditions?
- 4.2 If a "shrink-wrap license" Agreement, are there any terms?

(5) WARRANTIES AND LIMITATIONS OF LIABILITY

- 5.1 Is there a warranty? If so, how long?
- 5.2 What is being warranted? Are there any exclusions to the warranty?
- 5.3 What are the conditions?
- 5.4 In the event of a warranty claim, what happens?

(6) YOUR COMPANY'S PRODUCT TRANSFER OBLIGATIONS

- 6.1 Who is responsible for removing the manufacturer's marks, if anyone?
- 6.2 Does YOUR COMPANY have to make a warranty of any kind to its customers on behalf of the OTHER CO.?

6.3 Does YOUR COMPANY, for warranty service confirmation or product safety purposes, have to maintain any records of the Equipment which YOUR COMPANY has inventoried, sold, leased, rented, or distributed to its customers? If so, in what form?

6.4 Can YOUR COMPANY remarket the Products at the prices it chooses?

(7) CONFIDENTIAL MATERIALS

7.1 What is to be considered Confidential? YOUR COMPANY shall take all reasonable precautions to maintain the confidentiality of OTHER CO.'s Confidential Materials except to the extent (i) OTHER CO. authorizes YOUR COMPANY in writing to disclose them; (ii) OTHER CO. releases them to the public; (iii) a court or government agency lawfully orders YOUR COMPANY to disclose them, and YOUR COMPANY has given OTHER CO. reasonably prompt notice of the order; (iv) YOUR COMPANY already knows the information they contain or has independently developed it; or (v) they are disclosed to the public other than by YOUR COMPANY.

7.2 Any other restrictions on what is confidential?

7.3 YOUR COMPANY's obligation with respect to OTHER CO. Confidential materials shall expire [how many years?] after the termination of this Agreement.

(8) TRADEMARKS

8.1 Without OTHER CO.'s prior written consent, which OTHER CO. may give or withhold in its discretion, YOUR COMPANY may not use any OTHER CO. Mark for any purpose, including without limitation placing any OTHER CO. Mark on any Product YOUR COMPANY acquires, and using any OTHER CO. in any advertising or promotional materials, as part of YOUR COMPANY's corporate or other legal name, or as part of the name under which YOUR COMPANY conducts business.

8.2 Will OTHER CO. be applying YOUR COMPANY's name, trademarks, and logo to all products sold hereunder? If so, to what? - All packaging, printed materials, labels, tags, and nameplates, etc. - how will OTHER CO. get these Marks from YOUR COMPANY? YOUR COMPANY warrants that the application of its name, trademarks, and logo to the Products pursuant to this Agreement shall not infringe upon any rights of other parties, and indemnifies and holds OTHER CO. harmless from any liability, loss, cost, expense or damage which OTHER CO. may incur as a result of YOUR COMPANY's breach of this warranty.

Unless expressly approved by YOUR COMPANY in advance in writing, OTHER CO. shall not use the name, trademark, or logo of YOUR COMPANY on any item, or any sales, advertising or service literature given to any person or entity other than the Products sold hereunder to YOUR COMPANY, either during or after the term of this Agreement.

OTHER CO. shall not acquire in anyway right, title, license or other interest in any YOUR COMPANY name, trademark or logo, or any name, trademark or logo which is substantially similar to those of YOUR COMPANY, as a result of any use thereof by OTHER CO. as provided for in this Agreement.

(9) PATENT, COPYRIGHT, AND TRADE SECRET INFRINGEMENT

9.1 OTHER CO. shall defend, at its expense, and shall pay the cost and damages of a settlement or award resulting from any claim brought against YOUR COMPANY or YOUR COMPANY's customers alleging that any Product furnished under this Agreement infringes any EEC, United States or other patent, copyright, or trade secret if YOUR COMPANY or YOUR COMPANY's customer, as applicable: (i) promptly notifies OTHER CO. in writing of the claim; (ii) gives OTHER CO. all requested information which it has concerning the claim; (iii) reasonably cooperates with and assists OTHER CO. in defending the claim; and (iv) gives OTHER CO. sole authority to defend or settle the claim.

9.2 If an injunction is issued against YOUR COMPANY's use or marketing of a Product, or if in OTHER CO. opinion that Product is likely to become the subject of an infringement claim, OTHER CO. shall, at its option and at its expense: (i) obtain for YOUR COMPANY the right to continue that use or marketing, (ii) replace or modify that Product so that it becomes noninfringing, or (iii) if OTHER CO. reasonably determines after exerting all commercially reasonable efforts to accomplish (i) or (ii) that (i) and (ii) are not feasible, terminate the license for, or purchase, that Product. If OTHER CO. terminates the license for or purchases any Product, OTHER CO. shall grant YOUR COMPANY a credit for or, at YOUR COMPANY's option, a refund equal to, a portion of the corresponding one-time license fee (if any) or purchase price that YOUR COMPANY paid to OTHER CO. OTHER CO. shall not have any liability under this §9.2 (i) if any infringement or allegation thereof is based upon the use of any Product in combination with any item not furnished directly by OTHER CO. or is based upon modification of any Product, (ii) if any Product is used in a manner for which it was not designed, or (iii) for products manufactured or developed by third parties, including products bearing a third party's trademark or copyright notice.

(10) DEFAULT AND TERMINATION

10.1 Can termination take place? If so, when? What happens in the event of a breach?

10.2 What happens to outstanding orders? What happens to outstanding inventory, if any? Is YOUR COMPANY required to repurchase any custom materials or inventory?

(11) DISPUTES

11.1 In the case of a dispute, does YOUR COMPANY want arbitration?

(12) GENERAL

12.1 Technical support; what form will it take?

12.2 Advertising or publicity; mutually supporting; prior notice; or, no involvement at all?

12.3 Upon what conditions, and how, will Notices be given?

(13) Are there any other terms, conditions, or definitions that the drafter should be aware of?

SAMPLE CHECKLIST
FOR
FREQUENTLY USED TERMS and CONDITIONS

Did you include the following information in your Agreement?

- 1) Full Names and addresses of the contracting entities
- 2) Purpose of contract
- 3) Duration or Term
- 4) Identify the products and/or service offered – detailed descriptions; performance criteria if applicable
- 5) Prices and Payment terms
- 6) Shipping / Delivery / Inspection / Risk of Loss
- 7) Who pays taxes, if any?
- 8) Who pays import / export duties, if any?
- 9) Who secures applicable permits?
- 10) What service or support for purchased products is provided?
- 11) Are Warranties, Disclaimers and Limits of Warranty clearly defined? Are they different for consumables, software or hardware?
- 12) What liability limits or waivers of liability are included? What remedies are provided? Are they exclusive?
- 13) Is there a right of setoff?
- 14) Any Indemnities? General, for personal injury or property damages only; or intellectual property / patent also?
- 15) When is the product or service “accepted”? What are the consequences of acceptance?
- 16) When does the warranty start and end?
- 17) What costs are associated with warranty or non-warranty service, parts and/or labor?

- 18) What consequences, if any, for order cancellation?
- 19) What consequences / remedies for breach of contract or default?
- 20) Is there a severability clause? Each term or condition treated as severable in case a court declares one unenforceable or invalid.
- 21) Is there a Choice of Law / Jurisdiction / Venue provision?
- 22) Do you want Alternative Dispute Resolution? If desired, is it Mediation, Arbitration, binding or non-binding options?
- 23) Is there a time in which to state a claim; a limit on the statute of limitations?
- 24) Is a Software License necessary or applicable?
- 25) Is there a right to make copies?
- 26) Are there limitations to the "right to use"? If so, are they too restrictive?
- 27) Are there termination notices and rights?
- 28) Is there a drafting provision? For example, each party participated in the preparation of the document, and ambiguity is not attributable to either party.
- 29) Is there a waiver of any right to a jury trial?
- 30) Does either party have authority to bind the other party to other contractual obligations, settlements, etc.? If not, say so.
- 31) Does each party have authority to enter into the Agreement?
- 32) Are they prepared to represent they do not violate any other contractual or legal obligation by entering into this Agreement?
- 33) Is the Agreement assignable; if so, by whom and when; is permission required?
- 34) Is there a non-waiver provision? A statement that indicates that any delays or failure to enforce a provision by one party is not a waiver of that party's right to do so.
- 35) Is this the entire Agreement? A statement that the document being executed is the entire agreement, and there are no other provisions, verbal or written, no other representations or promises.

- 36) Are amendments only valid if in writing and signed by both parties?
- 37) Is a provision to limit "Apparent Authority" included? A statement that the Agreement is not binding on a party unless signed by an appropriate officer or with some other specified corporate acknowledgement.
- 38) Are notices to be served in a certain way? Is the method in writing, to whom addressed, how sent?
- 39) Is there a statement of who owns intellectual property rights in each contemplated circumstance?
- 40) Are there any other actions required by either party to make the Agreement work properly?
- 41) Are there any other statements to reflect what happens if one side or the other does not do what is stated?

REVIEW PARAGRAPH BY PARAGRAPH TO ANSWER THESE LAST 2 QUESTIONS!

SAMPLE LICENSING AGREEMENT CHECKLIST

1. Parties

a. Business Unit _____ ABC COMPANY

Contact _____

b. Other party - - Name _____

Street Address _____

Executive _____

Title _____

Country (State, Province) of Incorporation _____

c. Which party is Licensor: _____

2. Other Relationships between Parties (equity participation, representation, distribution, supply, customer, other)

3. Licensed Products:

4. Territory

a. Manufacturing -
Exclusive _____

-Non-Exclusive _____

b. -Sales -Exclusive _____

-Non—Exclusive _____

c. If exclusive manufacturing or sales territory, does Licensor retain the right for itself to compete in the territory? _____

5. License Grant

- a. Patents _____
- b. Trademarks (list) _____
- c. Know—how (list types of materials) _____

- d. Initial Technical Assistance at Licensee's Facilities (describe number of man—days, schedule, reimbursement for salary or expenses or both, other factors) _____

- e. Initial Technical Assistance at Licensor's Facilities (describe) _____
- f. Later Technical Assistance (describe) _____
- g. Right of Licensee to Sublicense? _____ to Subcontract? _____

6. Option for Improvements & Other Products

- a. Minor Improvements to Existing Products? _____
- b. Additional Existing Products? (specify) _____
- c. Major Improvements to Existing Products? (specify) _____
- d. Newly-Developed Future Products? (specify fields) _____
- e. License Back for Licensee—Developed Improvements? _____

- f. License Back for Licensee's Unrelated Products? _____

7. Supply of Products or Parts by Licensor

- a. Will Licensee also distribute complete Products manufactured by Licensor? _____
If so, specify pricing (discounts), terms of sale, warranties, service requirements, stocking requirements, order procedures, sales volumes and other related factors _____

- b. Will Licensee also be a representative (sales agent) for Products manufactured by Licensor? _____ If so, specify details _____

- c. Will Licensor supply parts for use by Licensee? _____
If so, specify _____

8. Payments

- a. Initial payment _____
- b. Are running royalties the same for all Products? _____
What percentage? _____ Otherwise, define royalties by Product lines _____
- c. Are royalties sealed to volume in a given period or over a period of time (e.g., lower as annual volume increases? or as cumulative volume increases?)

- d. Minimum Royalties? _____ Starting when? _____
Fixed annual minimums? _____ or increasing over time? _____
Describe _____
- e. If minimum royalties are not reached, may licensee make up the difference to avoid penalty? If so, what is the penalty if Licensee does not make up the difference?

- f. Is the license paid-up at any point? (if so, describe) _____

g. Should escalation based on inflation or other factors be applied to any of the above? _____ If so, describe _____

h. If another license is granted in same territory at more favorable terms, is Licensee entitled to such terms? _____

i. Are running royalties based on "net sales"? _____ if so, which costs are deductible by Licensee from gross sales to obtain net sales?

discounts _____	normal packaging _____
returns _____	special packaging _____
transportation _____	duties _____
commissions _____	sales taxes _____
other _____	

j. If not based on net sales, what is the basis of running royalties?

k. Payments due: calendar quarterly? _____ within _____ days
 calendar semi—annually? _____ within _____ days
 calendar annually? _____ within _____ days
 other (describe) _____

l. Reports due: concurrent with royalty payments?

Other (describe) _____

m. Data to be included in royalty report

(define) _____

n. Currency of payment _____ Directly to Licensor? _____

To Licensor's Bank?(specify) _____

o. Right to audit by Licensor? _____

p. If Licensee has right to sublicense, under what terms? _____

Does Licensor receive remuneration? _____ What amount? _____

9. Trademarks and Labelling

a. Are Licensor's trademarks to be on Products? _____

If so, alone or in combination with Licensee's trademarks? (details)

- _____
- b. Will Licensee's company name include Licensor's trademark or name? _____
 - c. Will Products bear a licensing notice (e.g., "Manufactured Under License From _____")? _____ If so, specify _____

10. Litigation

- a. Defensive (if Licensee is accused of infringing patents of a third party): does Licensor contribute to cost of defense? _____
 what portion? _____ up to any limit (e.g., 1/2 of royalties)? _____
 who controls defense? _____ can Licensee settle? _____
 can Licensor settle? _____ Any other terms? _____
 If so, specify: _____
- b. Offensive (if third party infringes a licensed patent): must Licensor litigate? _____ may Licensee litigate if Licensor refuses? _____
 are expenses shared? _____ how? _____
 who controls litigation? _____ can Licensor settle? _____
 can Licensee settle? _____ other terms _____
 If so, specify: _____

11. Duration

- a. Effective Date _____
- b. Initial Duration _____
- c. Automatically renewed if not terminated by either party? _____ If so, for how long? _____
- d. Unilateral right to extend by Licensee? _____ If so, for how long? _____
- e. Grounds for termination:

	by Licensor	by Licensee
-bankruptcy of other party	_____	_____
-any breach by the other party	_____	_____
-breach uncured after __ days	_____	_____
-gov't. restriction on payments	_____	_____
-ether (describe) _____	_____	_____
_____	_____	_____

12. Miscellaneous

- a. Is Licensee permitted to lease or use Products, instead of selling? _____
- b. Does either party have an option to an equity participation in other party? ____
If so, describe _____
- c. Is arbitration preferable to litigation of disputes? _____
- d. May Licensor assign rights? _____ to anyone _____ only to assignee of
Licensor's entire business? _____ to a competitor of licensee?
other conditions? (describe) _____
- e. May Licensee assign rights? _____ to anyone? _____ only to assignee of
Licensee's entire business? _____ to a competitor of
Licensor? _____ other conditions? (describe) _____
- f. Do you need a current listing of Licensed Patents? _____
- g. Will assistance in negotiations be requested? _____
If so, approximately when? _____ where? _____

KEY SALES CONTRACT PROVISIONS

PRICE

WARRANTY

SERVICE / SUPPORT

**INDEMNITY
GENERAL AND PATENT**

LIMITS OF LIABILITY

INSURANCE

CUSTOMER RIGHT TO CANCEL

CONFIDENTIALITY