

ROBERTO SCALESE: Good Afternoon. The Association of Corporate Counsel and SmartPros Legal and Ethics welcome you to today's webcast "Developing and Using Effective Technology: Contract Templates for In-house Counsel."

Please check your audio settings. If you're calling in using a telephone, please check the "Use telephone" option on the control panel located to the right of your screen. If you're calling in using the microphone and speakers, please check "Use Mic and Speakers".

[The instructions provided here were intended for attendees of the live webcast when it was originally broadcast.]

Our presentation today will be moderated by Ann Nolan, Associate General Counsel, Idexx Laboratories Incorporated. And now I'll turn it over to Ann.

ANN NOLAN: Thank you, Roberto. Welcome again to the Association of Corporate Counsel New to In-House webcast entitled "Developing and Using Effective Technology: Contract Templates for In-house Counsel." Again, my name is Ann Nolan and I'll be the moderator for today's presentation. I am the Associate General Counsel for Idexx Laboratories, as Roberto mentioned. We're based in Westbrook, Maine. I also serve as the annual meeting chair of the New to In-House Committee of the ACC.

Our presenters today are Todd Harris and Sanjay Beri. Both are members of the law firm Womble Carlyle. That firm is based in North Carolina with 11 offices in the mid-Atlantic and Southeast. Our presenters are located in the northern Virginia office. Womble Carlyle is a 2009 sponsor of the ACC New to In-house Committee.

Just a little introduction about both of our presenters, Mr. Harris focuses his practice on software and the Internet, technology transfers, intellectual property, digital media, international outsourcing, and supply chain agreements. He advises clients on monetizing their proprietary technologies, structuring and negotiating corporate and commercial transactions, financings, and mergers. Mr. Harris is also an Adjunct Professor at Georgetown University Law Center, where he teaches the law of licensing and technology commercialization. He is a frequent speaker on technology matters, having addressed such organizations as the American Bar Association, the American Law Institute, and the Licensing Executives Society.

Mr. Beri's practice focuses primarily on technology licensing, specifically monetizing clients' intellectual property assets in the high tech and software industries. He counsels clients in high tech, software, medical device, health care and Internet industries regarding their structuring and negotiation of their technology related field and commercial exploitation of their intellectual property assets. Mr. Beri also spent some time in-house at Microsoft, supporting the business units of Windows Embedded and Windows Mobile.

This webcast is being presented through ACC's updated webcast page. If your questions are not answered at the end, they will be posted on the ACC Web site at a later date. During the course of the [webcast], you may see a satisfaction survey on your screen. Please take a moment or two to respond to this survey. It's a very useful tool for ACC to organize and present webcasts that are interesting and informative to ACC members.

[The CLE code and instructions provided here were for use only by attendees of the live webcast.]

ANN NOLAN: Thank you, Roberto. And now, let me turn the presentation over to Mr. Beri.

SANJAY BERI: Thanks Ann, I appreciate it. Well folks, thank you Ann for that introduction. As she mentioned we're going to go over the topic of developing and using effective technology contract templates for in-house counsel. Again, I'm Sanjay Beri, Ann was moderating, and my colleague, Todd Harris, will be joining as well.

We have a few goals that we'd like to go over. I think one of the goals that we want to get across is showing you the benefits of technology contract templates and forms. We want to go over the process for developing technology agreement templates. We also want to review common template categories, particularly as they relate to technology focused companies, the procedures for implementing these templates in your organization, reviewing allocations of risk that are common to these contracts, going over strategic decisions in contract implementation, and utilizing outside counsel to create, improve and negotiate your contract templates.

I think an overarching goal that we have for this presentation is: we want to make sure you're an instrument of commerce as opposed to an obstacle of commerce. I think we've all been part of discussions with sales teams, procurement teams, saying, "Why can you just get this done?" Our goal here is to help folks become part of the process, create a process within their organization where you have templates that are easy to use, easy to change, flexible in nature and allow you to really serve as a value-add to the organizations to which you're a part.

TODD HARRIS: I'll jump in right there. This is Todd Harris, thanks for joining us today. Sanjay and I work largely in the IT industries, and software and digital media in particular. And in northern Virginia, in the tech corridor here, there's a very large venture backed community, so we work very commonly with private companies that are supported by venture finance firms. And one of the mantras that we operate under when we're working with them is that there's no such thing as a legal question; everything is a business issue. But as lawyers for companies in high-risk enterprises, we see our jobs often as pointing out what the risks are for them and pointing out opportunities to mitigate or manage those risks. And so, what we try to do through contract forms is help them to, sort of, sort through categories of risks that they're willing to accept, or so that they can properly conceptualize them so that they can make informed business decisions.

And when we're talking to companies—and this is toward that overarching goal—often what we like to think is the contract is the product. In the software world, when you're purchasing or when you're selling, you're selling a contract; you're selling a set of rights, and those rights are defined by the contract along with some services that are under those or adjunct contracts. So, as we talk today, we want to bear in mind that what we are selling are contracts; it is the product. Oftentimes we see, for example, that sales folks will set pricing before a deal is actually struck on paper, and a price includes all of the rights, all of the promises that come with the relationship. And only after that price is agreed and certain business terms are agreed, we get to a contract where additional rights are requested by the purchaser; rights that the seller may or may not be willing to offer. And so, the value of the price which was previously determined goes up

or goes down for both companies based upon this contract as a product. So, this is what we want to focus on today. We're talking about lawyers adding value to their companies by creating good products.

SANJAY BERI: I think that's a great point to bring up, because one of the things that people often forget is that the contract forms as much of a basis of the rights that folks are getting, and when you set the price before you negotiate the contract, you're often giving up an awful lot of value. Or you could potentially be leaving an awful lot of value on the table. So, for example: Perpetual warranty terms—that's a topic we're going to get to later—might be worth it if you're getting paid several million dollars to make it worth your while to provide that sort of risk allocation. So, these are some of the things we're going to be talking about.

Some of the things we wanted to go over are: some of the advantages of using properly implemented templates, predictability of terms, streamlining the sales process, cutting your costs of legal review, controlling the economic risks of the transaction, simplifying contract administration. All of these things are benefits that you can gain by properly implementing your templates and properly rolling out good processes around those templates.

TODD HARRIS: So, let's point to some examples that are real life. We're talking about economic benefits here. We really want to underscore: As outside counsel to companies we see a lot of this same story, the same thing, repeat itself. I'm thinking of a venture-backed company here in the northern Virginia area, which was an IT company selling to banks. And the company had a very complex business model, very complex licensing model, very complex payment model, and over time it had accumulated a set of contracts that it used as forms, or at least the starting place for negotiations, and the sales cycle had become muddled and took an average of four months to close any given deal.

The company came to us struggling and said, "How can we shorten the sales cycle? Our contracts seem to be bogging us down." And really, what we found is that the company could reconceive what it was that it was selling. So, it was in some manner a way of reeducating their sales force about how to describe the kinds of rights that it was giving to the company, and then, on a contract that told that story. And as a result, in just a few weeks time and recreating those basic forms, they cut their sales cycle from an average of four months to an average of two weeks. That's real value to a company, all based upon having forms that are more predictable [and] that are easier to get through.

Now, there are some issues that we ought to point out as economic benefits to forms that we're not going to get to today; for example, having good forms in place assists with revenue recognition. This is an accounting matter and certainly a matter that your CFO's are interested in talking about, but you might make a note of that as sort of off the table for today. When we talk about contract administration, we're thinking about the kinds of things that you as the lawyer may not be involved in, but which you can facilitate for other departments in your companies. For example, knowing when to pay [and] knowing when to renew, those kinds of things, and when you have predictable contract forms you can make that administration easier. Another thing that we commonly see in the venture-backed space, but this applies almost equally to larger companies, is in the M & A space. When it comes time to perform due diligence on a company, having properly implemented consistent forms makes the process easier. So much easier, in fact,

that sometimes we see an impact on pricing at the time of a deal.

SANJAY BERI: Yeah, I think that's definitely true. I think that's definitely true. Let's jump into some of the steps that, I think, Todd and I have seen work particularly well as you're moving into the process of developing your own templates for your company. And some of the things to be thinking about as you're working in this process.

First, you want to take a moment and identify the purpose of the template agreement. One common approach that folks take is they review records as to the regular transactions in which the company organization engages. So, for example, a company that's a software company will likely have many licensees of its software, and therefore developing a standard end-user license agreement is probably a desirable thing to do.

Looking at the regular transactions that you undertake is also important because you can also gather information on what are the recurring pain points in your negotiations. So, I know many companies—particularly in the space that Todd and I operate—will often start by working with paper provided to them by the other side. They may not necessarily develop their own contract terms; they may be negotiating terms of their customers or clients. And in those cases, they can go through the process, look at the pain points they're facing, and come up with templates and come up with ideas for streamlining the process, and getting out ahead of issues in order to simplify the contracting process and speed their sales cycle, as Todd was mentioning.

You also—tied in with that—you also want to be considering whether your client/customer base would accept prepackaged templates. You know, Todd was mentioning a client that sells largely to banks, I think folks in that space will often find that banks will often rely on many of their own templates and forms when pushing down terms. And there are many large institutions that, particularly in the IT space, when they're procuring products, will insist on their own procurement terms.

TODD HARRIS: Yeah, and that sort of goes back to the contract is the product issue, too. So, thinking about this particular client that Sanjay mentioned, it's a software vendor, and so it licenses its software to banks, but it also provides professional services to implement that software. Well, services around implementation are similar each and every time. The particular details of software and its needs for integration may differ, but the kinds of warranties that one gives for general services—things around its employees, things around security, HR issues, and so forth—are going to be consistent. So, this client has a form for its software license, but it doesn't bother to offer up a form for its professional services because the banks predictably do. Now, the banks also offer up software licensing terms, because they're default if we don't otherwise have terms and they request some, but we find in that kind of a relationship that the banks understand the product that they are purchasing varies from vendor to vendor, or the product is the contract, the license. And so, even in a single transaction or a single relationship, there may be one party's form and the other party's form as well.

SANJAY BERI: I think one of the things we wanted to be talking about, too, were some of the pitfalls to avoid when implementing a contract template. I can think of a client I had who came to me and he said, "You know, I really want to develop a template for an OEM agreement; I plan on taking my product and providing it to others and linking it."

TODD HARRIS: What's an OEM agreement?

SANJAY BERI: It would be where his product forms an input of another product, so to speak. So, for example, his software was going to form an input of a Web service. Unfortunately, he didn't realize that the other side had their own terms that they wanted to push down and he came to me and said he wanted me to develop his terms for him, and I said, "Well, how many of these deals are you going to be doing? He said, "Well, exactly one." And so, you know, in that case it doesn't necessarily make sense to expend the time or energy to go through developing that type of form when you're only going to be using it for one-off transactions. And so, some of the pitfalls to be thinking about are, you don't want to be spending energy where you don't need to.

TODD HARRIS: The flip side of that is equally true. In your position as in-house counsel you'll often be asked to serve up a document for your business counterparts, your clients inside the company. They say, "We have a one-off deal, and we need you to get us a document yesterday." And either you'll have that internally or you'll phone up your outside counsel and say, "Can you just toss me an off-the-shelf form, I've got to get a deal done quickly." There's great temptation to do that, but we really do emphasize, and not just because it gets outside counsel business, but it is the case that there's no such thing as an off-the-shelf form in technology procurement.

SANJAY BERI: Yeah.

TODD HARRIS: And in describing what I said a moment ago, some things maybe commoditizable or certain kinds of services may look the same in every contract, but when we're talking about a particular technology—again, back to that theme: The contract is the product and so it needs to be specific, the contract needs to be specific—and that may mean that you take the off-the-shelf form and customize that internally, but we do want to resist the temptation to think of generic things as sufficient for any company.

SANJAY BERI: Sure, sure. I think that along a little bit of a different line is I've often seen folks think of their business holistically and try to do too much in one agreement, particularly where you may have a business that's in several different product lines and have several different types of offerings. Attempting to do too much, attempting to combine too many offerings into one agreement can often slow down the negotiation process. I think of a company, for instance, that hosted, they had their software that they were licensing out but they also had a hosted version. They tried to combine both offerings in one agreement, and did it in a way that really created a lot of unnecessary terms that their customers were seeing duplicative terms at times, and that would sometimes slow down the sales process. So, one thing you want to do is you want to focus on: What is this agreement for? Making sure that you're doing one thing in this agreement and you're doing it well, or just doing a couple of things and that you're doing them well. You don't want to combine too much.

TODD HARRIS: And you know, of course, one of the key goals here is economic again. We're trying to avoid spending too many dollars on outside counsel. That's a good reason for the forms. We're trying to speed sales process, and if the forms are more than they need to be, and address more issues than they need to address, or are overly inflexible, we do just the opposite, right? We slow the process; we end up increasing transaction costs and time and certainly making the sales folks unhappy. So, flexibility is a hallmark of a good form. Sanjay?

SANJAY BERI: Yeah, I think along the same lines you also want to make sure that you're keeping your forms updated. And we'll touch on this a little later as well, but the idea is that you want to make sure that your forms are always reflective of your business. You want to make sure that your business model hasn't changed. You want to make sure that applicable regulatory considerations haven't changed over time. So, you want to make sure that your forms are up-to-date.

So, let's go over some of the process of getting the nuts and bolts in place. First, one of the key points you want to concern yourself with is identifying the stakeholders and the necessary contributors. Is this a form that's going to be used by your sales team? Is this going to be a form used by your procurement team? Who's going to be administering that form is very important, because you want to make sure that it's tailored to their interest. You want to make sure also that you've sought their input. You understand their pain points; that you are getting their buy-in into the process. I know for in-house counsel that's new, I recall that when I was in-house it was important that in order to get buy-off from relevant stakeholders when I was implementing a template, I'd sometimes have to borrow what's called the street cred: The credibility of the executives of the company. Sometimes, it helps to get the executives on your side, to sell them on the ideas of why it's important to implement these forms, how it will make their life easier and then you can use that sort of street cred in order to get forms in place that will make your life easier, and hopefully make the company's life easier as it moves forward and you roll this out.

TODD HARRIS: Yeah, identifying the stakeholders is not always intuitive either. If you are in-house counsel in a very large organization, there are myriad inputs that no doubt need to flow down to sort of master procurement agreements. For example, your HR department may have a number of policies or regulatory requirements that need to be included in the forms. If you do sales to the government or receive funds from the government, there may be necessary flow downs that either come through HR or come from the techies, or other stakeholders in the process. So, certainly, input from not just sales teams or procurement teams but also from HR, accounting, and other strategic level inputs are equally necessary.

SANJAY BERI: Yeah, I think along these lines, you also want to be thinking about: What is that team going to be expecting from the form? What is it going to be accomplishing for that team? I mean, if you ask a salesperson, often they'll tell you, "I just want a short form. Give me something short."

TODD HARRIS: All salespeople want short forms.

SANJAY BERI: Yeah, "Give me something short. Give me something that's to the point." And so, keep in mind, things like optics matter, and we'll show a couple of examples here, but things like optics matter, things like where you're placing the variable terms, such as pricing, all these things matter, and you want to make this easy to use and you want to make sure that the stakeholders are buying into the process, and that they get the template.

TODD HARRIS: Yeah, and likewise, the process that the users of the form take when they're going through a transaction process should be facilitated by the form. Salespeople, for example, may be presenting the form at the end of the day or they may be serving that right up front. They may expect that software license is going to be quick though; they may expect that it's going to

be a master kind of form. So, understanding the process that they will go through in purchasing or selling is important input.

SANJAY BERI: I think this next slide really touches on keeping your forms current and some of the things you ought to be thinking about after you've implemented a form, some of the processes you ought to be putting in place. One would be—and I see companies fail to do this, and I think they miss an opportunity when they don't—maintain a record and regularly review the pain points that you're facing in your current forms. For example, if you see a point constantly negotiated, you know, maybe it's time to think about having a different default position in the current form.

You also want to be looking at, periodically, checking with the parties administrating the form, and who are using the forms on a day-in, day-out basis, to determine what is and isn't working in the form. If they're constantly telling you, "Look, I'm having to go back and escalate this particular point every single time it comes in," maybe it's time to revisit that provision.

The other thing to be thinking about is: You want to be keeping track of legal changes. And this is where outside counsel can really come in and help is [in] keeping track of changes, legal changes, keeping track of regulatory changes, changes in contract terms and the market. You want to be thinking about these things and how they might impact your forms going forward.

TODD HARRIS: We want to mention just a couple of types of forms where we emphasize a few observations. In particular, the most common form, certainly, is the non-disclosure agreement. And this, the observation, falls under the heading, "One Size Fits All Is Not an Accurate Statement." As in-house counsel, you'll be serving up NDAs, you'll be receiving NDAs, business people are very tempted to sign NDAs before they give a lot of attention to them and there really are key issues that need to be considered. We find that a well-crafted NDA on your behalf is always worth the investment. There may be issues of the kinds of things that are covered, the process that must be involved to secure them, the rights involved in using the information, whether the obligations survive, and if so, for how long, residual rights, those sorts of things. So, we really want to emphasize that as not only the most common form, but a critical thing not to overlook or just gloss over.

SANJAY BERI: Yeah, I think many people do gloss over it, and I think we've all seen many a company get stuck on NDA terms that weren't what they expected; perhaps feedback clauses in which the other party providing the information actually owns any feedback that's provided, act residual clauses, the ability to use information that's retained. These sorts of things can come into play and frankly, you may want to implement them yourself in your own agreements, depending on the nature of your technology, the nature of your company. I think these are important things to be thinking about.

TODD HARRIS: So, as we'll reflect in a minute, we're IT lawyers largely, licensing and media lawyers, and we'll talk about forms that are important there, but it's an important point to step back just a bit and talk about the difference between a pure IP license and a business contract, which is where we're focused here. The distinction we want to make is between a thing and a right. Things are batches of software code to which rights attach. It's copyrighted, it may be a trade secret, those sorts of things, and you can grant licenses under those rights with respect to

the thing. As opposed to a pure right, let's say a patent with which you have a right to use, make etc. Pure IP licenses are particularly difficult to convert into forms, unless that is the business. There are, of course, agencies that hold a number of patents and their entire business is licensing those out for the patent holders. But what we are talking about today are not pure patent licenses, or trademark licenses, or any other kind of pure IP licenses, but really licenses about rights given in things, like software code or digital media, and all of the business terms that are associated with those.

SANJAY BERI: Along those lines, you know some of the common templates we see on a regular basis—particularly in the IT space—are things like end-user license agreements (EULAs), software and service agreements (SAS agreements), service level agreements which are the promises made around things like uptime, response time and the like. And tied to these and really tied to software we will often see maintenance agreements. So, companies thinking in the IT space will often think of these as particular terms and conditions they may want to adopt fairly early on—and the companies may want to adopt these fairly early on in the lifecycle—to be able to dictate these sorts of terms to their end customers and to be able to really push out the terms they want to see and that they're comfortable signing up to.

A little bit of different terms, sort of flipping that around, comes on the procurement side. While you often see it for large organizations, all companies, I think, can benefit to one extent or another from having well thought through procurement terms, which are terms that apply to standard purchases that you make—off-the-shelf purchases you make—whether it be obtaining particular standard, reps and warranties, whether it pertains to the indemnification promises you'd like to see from your vendors; well-implemented procurement forms can often cut down on costs and speed the procurement process.

TODD HARRIS: If you're part of a large organization, there's always a temptation to throw in the kitchen sink in procurement forms, and it's really a philosophical question or strategic question in whether and how to do that. Some organizations make that strategic choice because it's practical; it's a pragmatic decision that they are so large it's difficult to police too many transactions, so they need to be able to cover themselves in every deal. But it does slow down the process very frequently, and so it may be wiser to tailor something.

One of the distinctions that's important in thinking about this, is the distinction between goods and software. In some states, the software transactions are treated as sales of goods and in some states, like Virginia where we sit, UCITA applies—the Uniform Computer Information Transactions Act—and so sales of software are not treated as sales of goods. We will see procurement forms coming from large organizations that are really geared towards purchasing widgets—purchasing equipment, tangibles, toilet paper—but not about procuring rights, not about procuring licenses. And so, they really are inappropriate and will describe deliverables in ways that are just inapplicable.

I just saw a university purchase order recently issued to a software vendor where it said, "Everything that you provide to us, every deliverable, we own all intellectual property rights in that." I don't know any vendor that would do that even if it were only selling tangibles, but certainly it was inappropriate for software procurement. And that slowed down the acquisition. In that particular university's case, it meant that the deal didn't go through before the fall

semester commenced, and they very badly needed the software before that semester commenced. So, their choice of putting that form out there undermined their mission, their goal, so on that side, that's important.

As a practical response to that, I'd offer for the vendors in that situation, you may, as a form, have available templates that are intended as riders to inappropriate procurement purchase order terms and so on. In that instance, what we ultimately did was accept the sort of overbearing terms, but attached a short purchase order, which overrode the nastiest provisions and got the deal accomplished.

I'd also point out that sometimes that is just the way that deals get done. We'll talk about how forms are implemented and just use as a practical matter in a moment, but oftentimes the procurement side will have non-lawyers managing the process who've been given instructions when to escalate to use in-house counsel but are incentivized not to do so, and so they see their jobs as getting this done without having to hassle you. And in those instances, they may have limited authority to make changes to the contract itself, but they may have authority to do things like insert riders into purchase orders, even if they override some of those terms. It's really a matter of form over substance, but nevertheless it's something that they're willing to do. So, as you prepare your library of forms, you might think about those sorts of things, the kinds of situations you'll need to respond to.

**SANJAY BERI:** Some other common template categories, just to run through them, are: distribution channel agreements, and these can take a variety of forms, whether they be form reseller agreements. We have a number of clients that we've seen who like to have their own standard forms that they use with their resellers who are reselling their technology, really taking title to that technology and providing it to others. That way, they can have a lot of control over the types of promises that get flowed down and get flowed through to the end customer.

Similar, but perhaps less hands on, would be the referral sales agent agreements, where you're allowing folks to resell the product [and] really market the product for a cut of the profit.

A little different model—and we touched on this earlier—was the OEM agreement in which your product becomes part of an input for another product, and package that product and put it out in the market in connection with another offering.

Often, particularly for earlier staged to mid-market companies, and, frankly, even for larger organizations, they'll often find themselves doing a lot of customization around the products that they provide, and so things like independent consultant agreements are often common for technology-focused companies, and you'll often find development agreements as well as very common approaches.

I'm going to put up on the screen here a couple of examples of an agreement, and this is just one example of how optics matter. On the left, you'll see what looks like a very standard agreement. We've probably all seen that sort of template form in which you have a single column, agreements, and a lot of "whereas" clauses, and "now therefore" clauses in it. And that agreement screams to you, "Send me to counsel. Negotiate me." I think it's been our experience. Sometimes, you may want to implement forms and think of the optics of this, more along the

lines of the template on the right, which sometimes, if you hand it to a procurement department they'll look at it and say, "Oh, these are preprinted terms, these are sort of off-the-shelf," and we like to think that it screams, "Don't touch me." And in that case, you might be able to push through, just based on the optics of the form that you're using, a bit of a better outcome, maybe even shorten the sales process a bit.

TODD HARRIS: I think this is really a good point to be emphasized. I just had a conversation with a GC just yesterday, who was complaining that his own forms were difficult to read because he has—he's graying at the temples as I am—but he had decided that, he's discovered, or his sales folks have discovered, that it is just easier to get the contracts done if they look like more like boilerplate.

We have discovered that in some instances the order of materials in the contract, or creating modular contracts, really does smooth the process. So, I'll just give you one example. We sometimes sign contracts on the front page. We've got an example coming up of that. In fact we'll have sets of terms that are consistent across the transactions; this is what Sanjay has got on the screen now. What appears is the entire contract, and it's signable. It might have a few business terms on the cover page, but you see no legalese anywhere on that document. And when it's signed it incorporates everything that's attached to it.

And what gets attached to it is modular. It's always a set of general standard terms and conditions, but it might be a software license that's also attached as an addendum. It might be maintenance, it might be hosting services, or equipment purchase, or things that are deal specific, and what we're able to do sometimes is present the legal terms to be sent off to in-house counsel and to keep business terms separate. What our sales folks respond to us, the feedback we get is, "We don't want the lawyers mucking with the business terms." So to the extent that we can keep those conversations separate, or we can do them sequentially where we focus on what we want as part of the sales process at the time, just makes things a bit easier. Psychology is important in how these are presented.

SANJAY BERI: So, some of the things to be thinking about as you are using contract forms—by sales or procurement teams—is you want to think about establishing guidelines for use of appropriate forms. I think Todd and I both cringe, we've see many a time where overzealous procurement teams or sales teams that stepped in and used a form that was perhaps inappropriate for the transaction, and I think this is probably a pretty common occurrence. So, one thing you want to make sure that you are communicating is that you're communicating with the team the conditions that must be present for using a particular form. You want to educate teams on the risks of utilizing inappropriate forms. So, for example, using an NDA for a technical evaluation agreement that may allow the party to retain certain things with respect to that evaluation that you didn't intend, and there could be a host of issues in not using appropriate forms.

So one of the things you want to be thinking about as you are implementing this is really educating your teams [and] coming up with conditions that should be present as they're deciding to use which forms and helping them walk through that.

TODD HARRIS: A part of that might be describing a gatekeeping function. You know, coming up with a list of items that are non-negotiable by the frontline business people using the forms.

But a big piece of this might be, in fact, authorizing them, empowering them with knowledge of those terms that can be negotiated, and if so, how they can be negotiated; what are the right fallback positions. We refer to these as “playbooks.” It’s an “if this, then that.” If you change this, what must you replace it with, what are your alternatives, what are the acceptable limits, those sorts of things and other items must be escalated somehow.

We’ll point out that playbooks are expensive. And so, if you are budgeting for the creation of forms, it’s not typically something that happens in the early stage of a company. Larger companies certainly have them as they educate their frontline contract negotiators, but they take awhile to produce and they are always business-goal specific. They are specific to every company. There is very little about a playbook which is repeatable from company to company, other than some general contract principles—we’ll talk about risk mitigation in a moment. But having that sort of playbook may be specific, it may be a document, but it may be a process of significant education.

One way to make sure that you stay compliant with the playbook and with the policies is putting into place economic incentives around adherence to them. I am thinking of a large defense contractor that has a process in place where its frontline non-lawyer negotiators—they are not the business owners of a particular transaction, but they are the first resource to which business persons turn—who have in place an arrangement where, if they stay within the budget—they have an internal accounting for their legal budget and their use of the internal lawyers—but if they stay within that, to the extent that they are below the threshold, they receive a bonus. So, they are disincentivized from moving items up the chain.

At the same time, though, they are empowered to make a range of negotiated changes to a contract, and the only time they need to move something up the ladder to the in-house counsel is if it goes beyond that. So, here’s a company that is large enough to sort of play the law of averages and say, “Let’s stay within these parameters for our procurement contracts, in this case. If it goes outside those parameters, we understand that from time to time, but let’s encourage the frontline—we’ll do so economically—to play by our playbook.”

SANJAY BERI: I think, you know, some of the things that you can think about doing is incentivizing your sales teams to avoid certain fall-back provision. So, for example, the key piece you want to make sure is that the fall-back positions that you have, perhaps a little riskier provisions that you have in the agreement, don’t become your standard forms if you’ve made the strategic decision as the in-house attorney not to have that risk be present in much of your contract base. We went over—and Todd mentioned a lot of these—you know, it helps to appoint champion in the sales procurement organization to drive adoption of the form, make sure that that person is well positioned and appointed with the power to really drive adoption of a form that often, if you hold someone up as a role model it can often do a lot to get adoption of the form, and show people the right way of implementing that form.

TODD HARRIS: It’s a balancing act, too, because you don’t want those champions or gatekeepers to become bottlenecks.

SANJAY BERI: That’s true.

TODD HARRIS: There are gatekeepers, but there should be enough of them, at least, to keep the flow of the transactions going. I'd also just say that a good strategy is, when preparing forms, when designing them, we do so with several fallbacks already in the contract. So if provision X is negotiated away—let's say it's just deleted, it was protective of you—you're already covered by provision Y as the fallback position. It's not something you need to negotiate in, so, you may have two or three ways of achieving the same objective or near to the same objective in the contract in its first draft, in its template form.

SANJAY BERI: Yeah. I think that's right. You know, going back to an issue that we talked about at the very beginning, is, you know, one thing that you want to be sure that you are doing is you want to be refining your forms as they go along. Use the input and experience of your sales team to be changing the form over time. You shouldn't think of these forms as a static document. You should be thinking of these forms as something that as your business models change, as perhaps the regulations applicable to your business change, perhaps the changes to the way in which you provide technical support or the way in which you price your product, these things should be reflected in your form, and you should be consistently soliciting advice, input, and thinking of these forms as really evolutionary documents that continue to change and evolve over time.

I think next we're going to move into the section talking about some default allocations of risk. I think, specifically, we are going to be talking about some of the things, some common provisions that you see in your agreements in which you can allocate risk. Some of the decisions you want to be making as far as the default provisions that you have in your agreements, so as you don't scare customers off, so that you don't scare clients off, so that you don't scare partners off. These are some of the things you want to be thinking about.

TODD HARRIS: I think we all know sort of the bucket, but just for clarity, we lump into this representations warranties, limitations of liability—both in the form of monetary caps and then exclusions of types of remedies like consequential damages—and then indemnity provisions. There are other less obvious provisions that we put in there—things like choice of law—being part of our risk allocation. So, we want to focus on those, because certainly these are things, which, without a doubt, with every form ought to be at the front of your thinking process. And these are probably precisely those kinds of provisions that should be escalated and you should have fallback positions ready to go, but should be escalated to in-house counsel.

SANJAY BERI: We just, are running through a couple of scenarios here; a couple examples in some of the ways you, as in-house counsel, want to be thinking about where you want to put the stake in the ground, so to speak, as far as your standard provisions go. Here's an example: Standard warranty and disclaimer terms, I think this largely focuses on—I think this was pulled from a software agreement—but some of the things you want to be thinking about are: What is the length of the warranty that you plan on providing as your default? What's the remedy for failing to meet that warranty? To what do you want to tie that warranty to? So, for example, do you want to tie it to your published specifications?

And then, so the, some of these things that you want to be thinking about, and as you think about these you want to be thinking about the expectations of your customers and clients. What are they going to be expecting from you? What are they going to view as extremely onerous or

noncommercial, nonstandard on your part if you push that down? This is really where I think the rubber meets the road. You don't want the lawyer or the form to be looked at as obstructionist, but at the same time you want this to be viewed as a protected document, one that the company can accept. So, coming out of the gate—it's doesn't always behoove you to come out of the gate with an extremely aggressive position on the things like warranty terms and the type of warranty support you are going to provide for your product. Those things can sometimes scare off customers and not endear you to the sales team.

**TODD HARRIS:** One of the questions we often hear from in-house counsel or their business counterparts, they call us, is: What is market, in terms of warranties for whatever the type of contract is? What's standard? What are people doing nowadays? I guess my usual answer is: There is no such thing. There really is such a wide variance there that, again, the contract is the product. It's easy to say, "Well, we'll give you whatever for the right price," and certainly that's the answer some companies go with, but again, oftentimes prices have been determined before these things get negotiated. It's good practice to have your position and policy in place before you go out to make offers to customers. But we certainly do see a wide variety here.

This is one of the places of contention often when we encounter opposing counsel who is not familiar with technology sales or technology procurement. For example, we often will work with someone who is familiar with tangibles procurement—goods procurement—but not software procurement, and the practices may be quite a bit different. And so, their expectations about: what is market—and there may be market provisions in their industry, but they don't necessarily translate. So, you should be thinking about the market to which you are selling and whether they may be porting their expectations to what you are selling, and you may be asking yourselves that question when you are on the procurement side as well. But we do want to free ourselves from that notion that there is really a standard here.

**SANJAY BERI:** Yeah, along the same lines as, I think we've all seen the intellectual property indemnity provision: What sort of intellectual property indemnity are you going to provide—if any—around your product? And this is a risk allocation issue. There are many ways you can toggle with this. Maybe limiting it to US patents, limiting it to copyrights, or trade secrets, limiting it to particular buckets of intellectual property rights.

One of the things you want to be thinking about is, again: What are your customers going to expect from you? If you come out of the gate and you're selling a product and you're not providing anything in the way of indemnity protection, is that really something that your customers are going to be expecting? Or is there a certain level of default risk that you'd be willing to take, as a company, in order to speed up the sales cycle and speed up the sales process?

**TODD HARRIS:** Sanjay, can I take this back for just one second? I really want to point out on the warranties, again, don't forget that your choice of law changes what the warranty provisions mean. Various states, particularly those states that treat some technology procurements as goods, by comparison to those that treat them as something other than—like Virginia versus New York, let's say—the implied warranties, by virtue of the choice of law, really does substantially change the document. And then just one other point: This is a perfect example of why you've got to seek input from all the stakeholders, because the warranty provisions certainly do impact revenue

recognition, and you'll want to seek the input from your CFO's and your accountants.

SANJAY BERI: So yeah, so you know, just again, toughing on intellectual property infringement. Think about some of the things: maybe you want to be subjected to a cap on liability, maybe you want to carve up the particular intellectual property rights that you are willing to indemnify for in the event of a claim of infringement or misappropriation. These are strategic decisions that you want to be making in your document as you move forward. And sort of the last bucket of items would be a default limitation of liability clause and talking through—and I've got a couple of examples here, one that's very one-sided, and one that's a little more balanced—that carves out particular things that if you are selling a particular product or offering you may want to consider carving out, but as phrased more in a mutual way, as opposed to a one-sided approach.

TODD HARRIS: This is a great example for thinking about playbooks. So oftentimes, on seller's behalf, when we will craft a form we'll have a one-sided limitation of liability. And oftentimes the seller will expect that, and it's going to be a request from the purchaser to make that mutual, and they go ahead and just anticipate that that's a chip they can trade at the time. But when the purchaser says, "Let's make this mutual," and, let's say I'm selling software, mutuality creates additional risks for me.

So if, for example, I am the provider of confidential information, substantial valuable confidential information, and I have put an absolute cap on monetary liability, will I be putting a price tag on that confidential information if those terms are breeched by the other side. So, there may be a playbook in place that says, "If we give on this request, what additional requests must we make?" Like in Sanjay's example, here, the carve outs which say, "Here's a cap, but it doesn't apply to breeches of confidentiality;" those sorts of playbooks.

SANJAY BERI: And I think, continuing on, we talked briefly before about this, but there are ways of optimizing your form structure to reduce transaction costs. You want to consider whether typical alternatives can be kicked to things like cover-pages, whether you implement optical means of sort of driving the eyes towards particular sections of the agreement to avoid people marking up your agreements aggressively, and we talked about the cover page example. I think, you know, we touched on it with respect to the three areas, but you want to identify acceptable trade-offs in your agreements. Consider ease of negotiating terms. You don't necessarily want to wrestle for every single point if it's going to slow down a sales cycle and not get you a deal. You also—and this is very important—it's important to train your team on establishing escalation procedures and walk-away positions in your agreements, particularly for agreements of low or minimal value to the company.

The last item we're going to touch on is: Using outside counsel in developing and utilizing forms. There's a lot of advantages to engaging with outside counsel, but some of the considerations you want to think about are: 1) Ensuring relevant expertise. You want to make sure that folks have worked with similar companies in similar positions; you want to avoid lawyers that are selling you on one-size fits all, off-the-shelf agreements.

TODD HARRIS: You know, in today's world where business is more complex than ever, one of the things that we see are the temptations to call up your colleague and say, "I've got a corporate

client who requires a software license,” I call up my software licensing colleague at the firm and I say, “Will you send me an off-the-shelf form and I’ll hand that over?” Folks who are not experts in the area are not the right ones to be providing the forms, and that’s an expensive thing to realize. But always make sure that you are getting the right information to the people who know the business, know the industry, know the issues, and let them—there may be an off-the-shelf form—but let them do the picking.

SANJAY BERI: Yeah, and I think one important point that, you always want to remain involved in the process when you’re in-house counsel. You want to be the primary liaison with your engineering and sales teams. You don’t necessarily want to let your outside counsel run the show for you. Some of the things to be thinking about are some of the value advantages provided by outside counsel: They can regularly stay on top of regulatory risks on your contracts. They can help you develop new arguments for defending strategic decisions that you make in your contracts, because they often see a lot of different types of agreements and help you to develop your own playbook, for instance. And also, it provides a good outside resource to review your contracts and help keep them up to date.

Some of the do’s to be thinking about when working with outside counsel are: Review the economic provisions and risk considerations with your outside counsel. If your counsel is unfamiliar with your playbook, take the time to review the playbook with them. Cover the typical economics of a transaction. Remember, different lawyers have different risk allocation default settings, so to speak, and so you want to make sure that you are calibrating your outside lawyers appropriately. If you are going to be working with them to negotiate your deals, you want to make sure that they understand what risk your company is willing to tolerate.

Also, seek input from the sales teams and others involved with working with outside counsel just to see how they like working with that party and making sure that you’re staying on top of that.

TODD HARRIS: So, we need to wrap up our part of this in a moment and solicit questions from you. But, you know, sort of from our part, I would summarize by saying the contract is the product, and that there are no legal issues, they’re all business issues, but you, as the counselor in-house, are helping to design that product and helping to protect the legal concerns of your client and the interests of its business. We do that very well by forms if they’re well crafted. With that, we want to turn this back over to Ann, and see if there are some questions that listeners are interested in discussing.

ANN NOLAN: Great. Thank you both very much. That was a fantastic presentation

[CLE verification procedures]

ANN NOLAN: While I’m waiting to see if we receive any questions, I thought I would just ask a question that our audience might like to hear more about. You talked briefly at the end about working with outside counsel. Can you give us some idea of what costs might look like when working with outside counsel, and I know that will depend primarily on the type of contract you’re talking about, but could you give us some thoughts or guidelines around that?

TODD HARRIS: Sure. Well, every form reflects the nuances and complexity of the business model of the client, and so it’s not an issue of taking something off-the-shelf, as we’ve

emphasized. But because outside counsel who do this every day—depending on what your industry is—because they’ve done it for lots of clients, there is usually some predictability, or a large amount of predictability, for them. They can give you a range of what it will cost to prepare this or that kind of document at least in the first instance, and we usually build into that the notion that there will be a couple of rounds back and forth.

Ordinarily when we are preparing forms and we are trying to estimate costs around that, we think through this process. We will meet with the company—oftentimes, we agree to do that on our nickel—to learn more about the model that the form is to reflect. And we’ll glean input from all the stakeholders at that point. Sometimes we’ll sit around a conference table and there’ll be representatives of HR and accounting, sales teams and legal and so on. Or that’ll happen as homework before we meet with in-house counsel to get that input. And then we will go back to our desks and try to leverage prior work-product that’s close enough to get started, and we’ll crank out a draft. And then we will expect that it goes back first for an in-house counsel review, and we try to make it as acceptable to the other stakeholders as we can predict. And then that in-house counsel will circulate it for input from the others, and then it’ll come back for another round of processing and finalization. So, you sort of build in those few processes and then apply whatever pricing metric that you are anticipating.

Now, I just raised that point because we increasingly are seeing—one of the things that we hear repeatedly from in-house counsel are complaints about the billable hour and that sort of thing, and we’ve tried to envision alternative arrangements, as many law firms and many of your vendors have, and forms production are a particularly ripe field for alternative billing arrangements, so you might think of that when you are talking to your law firms. It may be possible, for a well defined set of forms, to have a fixed price, for example, or budget to create those forms.

If I were ball parking something, let’s say, I was creating a software license, standard sort of single server license for use by all employees by a particular small software company sort of thing, we might be envisioning just, say, \$3,000–\$5,000 or something like that to put out a form, and it can range quite considerably. If it’s a bank, let’s say, that is putting together a master procurement form, they may spend multiples of that before they’re finished with a product. But in all cases, the decision about whether to do it or how to do it is whether it is going to save money in the end. And so, that’s the metric that the decision has got to be made on whether to go forward with it.

We’re thinking about those processes when we’re coming up with prices, and trying to leverage as much as possible prior work-product, prior resources, and again, our beginnings are more and more now are thinking about how to price these things as packages so that there is predictability to the client and cost containment.

ANN NOLAN: That’s great. Thanks very much for answering my question. We have a question from the audience. I am going to read it now. I have encountered situations where the other party wants to negotiate the limitation of liability clause. What is the best way to go about doing this? Are there certain provisions or categories of damages that must be included?

SANJAY BERI: Well, I think that varies from situation to situation. [With] the limitation of

liability clause, you can view that provision as correcting a lot of the risks in a contract. If you have a properly scoped limitation of liability clause, what I have found is that it often breaks down into two categories. One would be the exclusion from damages, so excluding incidental consequential special damages. That would constitute one portion. The other would be perhaps an overall cap on the potential liability from the transaction.

In those cases you can bucket different things into the different categories. So for example, a breach of confidentiality, you may want to carve that out from both sections of the agreement. So, if you were passing a fair amount of confidential information to the other party, the damages that you would truly care about would not be the direct damages that you suffer from merely breaching that confidentiality section, it would be the consequential damages that flow from a party taking that confidential information and passing it to a third party, and perhaps competing against you. In that case, an appropriate carve out to the limitation of liability clause may be the confidentiality, and you may want to carve it out of the overall cap on damages as well.

This varies from situation to situation, though it depends on which side of the equation you are sitting. Where you are procuring a product, many times a party will want to see in the limitation of liability clause carve outs for things like intellectual property infringement. So, if I am a large company and I am procuring some software through a license from a particular party, I don't want to hold the risk or the burden of infringement, and frankly, if I get sued because I am utilizing software that infringes somebody else's intellectual property rights, I don't want to have to deal with that or hold the risk as to what the potential damages from that suit might look like. In that case, I may insist on uncapped intellectual property indemnification coverage under that. And in that case, it would be appropriate to carve that out from the limitation of liability from the cap on liability to make clear in the agreement that that limitation of liability will not cap the damages there.

So, that said, a limitation of liability provision should be looked at as, I think, the last firewall, so to speak, of where you are going, what you're going to cap your damages at. And a properly scoped limitation of liability clause can go a long way into allocating the risks that you've undertaken under other portions of the contract or the obligations that you've pushed to the other side what you expect to recover from those cases.

**TODD HARRIS:** Every limitation of liability provision is interpreted in context. And every business model is unique, and every transaction is unique, and so, [it is] certainly something that is hard to generalize. But when we're thinking about forms, the question is: What do we put in there in the first place? And then: What playbooks are we willing to have, what fall back positions and so on?

I would say that taking a terribly aggressive stance in a limitation of liability runs the risk of sacrificing enforceability, right? Or preventing there being a possibility of meaningful recovery in the event of a breach or damages by one party, can undermine enforceability again. So, having a reasonable limitation of liability, even if it is heavily favorable to one side or the other, is always an important goal. Let's say, though, that it is one of those things that's hard in advance to come up with very specific fallbacks sometimes. Let's say I cap damages on this kind of contract at the outside at \$1 million, and I enter into negotiation and the other side says, "Well, we want it to be higher." Do you have a ready set fall back that says, "OK, I'll offer \$8 million?"

Those are things that are not thought about in advance because the value of a contract varies from one to another. So, it's hard to do that.

On the other hand you can have—this goes to the notion of multiple ways to attack the same problem—you can, for example, manage your risk or limitations of liability by insurance provisions or by how carefully you're communicating between parties to monitor and identify problems before they rise to a level where the maximum liability is even a concern. So, that you stop them before they start. So, there are a lot of ways to get to that point.

ANN NOLAN: Great. Well, I know that we've run over our allotted time, but we have one last question. What kind of tactics do you suggest when dealing with large organizations who try to impose their often generic and inappropriate standard agreements, and you are trying to impose your own agreements?

TODD HARRIS: Sanjay just laughs at them.

SANJAY BERI: Well, I think one of the things to keep in mind is to look at the contract as an allocation for risk, and I think that when you explain—this doesn't always work, I want to caveat that sometimes they'll put you down whatever they want and you have to take what you can get—when you push to the other side and you push on them [and say], “Look, I can't accept the obligations or risks that you are attempting to push down on me for the price that you're paying me.” At that time, and in those cases, you can sometimes get away with a lot. When you start to pull in the idea that changing the risk allocation in the contract, [and] showing how far it deviates from your standard form will affect the pricing of the contract, sometimes you get the business champion on the other side—whoever is championing the purchase or the acquisition of the product—you'll get them leaning on their lawyer, and getting them to move that way.

TODD HARRIS: I would just say it in brief, to be pragmatic. You may have just described half a dozen transactions I'm working on right now all for software vendors; on behalf of software vendors opposite very large purchasers, and we try to pick our battles. Every risk is a business risk. That was the mantra. And so, we try to identify the risks and we try to fix the most important ones, and in technology, that's around the IP rights, the licenses granted, and all these limitations of liability issues that we've just identified, and we may have to suffer through all of the risks as a business matter.

ANN NOLAN: Great. Well, that concludes today's webcast. Just a reminder, if your question was not answered during our session today, answers will be posted up by the ACC at a later date on the Web site. I would like to thank both Todd and Sanjay for their time and the great presentation they provided us with today. I also want to thank Womble Carlyle for sponsoring our webcast today. And also, I would like to thank the audience for attending. I would now like to turn it over to Roberto to close the webcast.

ROBERTO SCALESE: Thank you, Ann. On behalf of the Association of Corporate Counsel and SmartPros Legal and Ethics, thank you again for listening to today's program.

[The CLE code and instructions provided here were for use only by attendees of the live webcast.]

ROBERTO SCALESE: This program is now concluded. Thank you again, and have a great day.