



## Negotiation Success for the In-House Lawyer

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October 9, 2018



**GOODWIN**

# Introduction

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- This panel will focus on negotiation skills for in-house counsel.
- A successful negotiation requires awareness of the negotiating process, attention to the shifting dynamics and subject matter expertise.
- Our panel will discuss how to prepare for and execute a successful negotiation of commercial contracts.
  - We will discuss in-house counsel’s and outside counsel’s roles in the negotiating process.
  - We will use as examples certain contract provisions that are common to many commercial contracts, regardless of your particular business sector.
  - Our goal is to identify the real-life implications of those provisions and strategies for reaching acceptable outcomes that work for both parties while balancing associated risks.

# Objective

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- Objective:
  - Your business team has reached an agreement in principal. As counsel, you will help negotiate an agreement while: (1) protecting the business terms; (2) balancing the benefit to the Company vs. the associated risks; and (3) protecting interests of the Company the business team may not be focused on.
- Legal Preparation and Business Preparation

# Business Preparation – Essential to Success

- Business Preparation includes:
  - With the business team, evaluate the negotiating dynamic and leverage:
    - Who is the counterparty and why were they selected?
    - Are you in a position of strength or weakness?
    - Are there particular time constraints for either side?
  - Consider whether there are any essential “walk away” terms in the contract.
  - RFIs/RFPs.
  - Get on the same page as business team up front.

## Legal Preparation – Essential to Success

- Legal Preparation includes:
  - Identify the key contract provisions related to the needs of the Company.
  - Identify contract terms subject to “default” legal treatment.
  - Keep up to date with legal trends.
  - Try to identify the needs of the other party, and what they may insist on.
  - Marshal arguments in favor of your positions.
  - Think strategically for the Company; could there be unintended consequences buried in the contract?

# Role of Outside Counsel

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- When and how to use outside counsel
- Help with preparation
- Market check
- Blame the lawyers
- Subject matter expertise
- International provisions/counterparties/deals
- Drafting of form contracts or guidelines

# Negotiating Dynamics

- **Every negotiation is different**
  - Leverage, timing, personalities, counterparty's experience/background/negotiation style, culture and underlying law play a role.
- **Who makes the first move at negotiation sessions?**

Speaking First	Listening First
<p>Pros:</p> <ul style="list-style-type: none"><li>• Influence the agenda by presenting issues in favorable manner</li><li>• Your positions become the starting point</li></ul>	<p>Pros:</p> <ul style="list-style-type: none"><li>• Glean important information from the initial presentation</li><li>• Ability to react</li><li>• May give impression of leverage</li></ul>
<p>Cons:</p> <ul style="list-style-type: none"><li>• Don't know what other party expects, and may open too low</li></ul>	<p>Cons:</p> <ul style="list-style-type: none"><li>• Cede some control over the agenda</li><li>• Additional information may not be helpful</li></ul>

# Negotiating Dynamics Continued

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- **Calibrating the “asks”**
  - Ask for what you need. Quickest way to “yes”, but risk:
    - Leaving no bargaining room.
    - Other party assuming you asked above what you need.
    - Miss out on upside if party would accept less.
  - Ask for more than you need.
    - Leaves room to make concessions.
    - Risk offending (or losing) the other party.



# Negotiations are a Process

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- **Expect to take several passes through the Agreement**
  - Walk through the agreement the first time to identify the issues and clean out underbrush – possibly skipping entire sections that require specialist input or are known to be contentious.
    - Balance (1) trying to make initial progress and resolving items you don't want to take back to the business team vs. (2) keeping some negotiating chips that are not so important to you.
- **Progress in Turning Drafts**
  - Reducing the oral agreement of the parties to writing gives the drafter flexibility in presenting the agreement or addressing ambiguities.
  - There is a benefit in reducing the verbal agreement to writing; but weigh the benefit of negotiating off of your own draft. Are you better explaining why you made changes in a redlined copy, or defending what was already there?

## Negotiations are a Process Continued

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- **Don't accept or reject positions on spot**
  - Hold your positions until you have the full list of issues.
  - Recognize a grand compromise may ultimately be required.
- **Don't lose sight of the pressures on *each* party.**
  - Business teams have requirements that put pressure on finalizing negotiations.
  - Try to avoid the creation of artificial deadlines that harm your position – for example, internal commitments to announce at an industry conference.
  - Don't give up the leverage of knowing the other party is under similar pressures.

# Negotiating Techniques and Tools

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- **Communications are Critical**
  - Know your strengths and weaknesses as a negotiator.
  - Silence can be useful because it will help squeeze additional information from the other party, more than they maybe intended to say.
  - Asking lots of questions yields information.
  - Know your audience, if the business team is present, taking the lead in framing legal issues can make your position sound reasonable – and yield concessions.
- **Incorporating the Business Team**
  - “Blaming” the executives/signatories for why you have to take a certain position.
  - Avoid getting on calls with only business folks from the other side (professional responsibility obligations).
- **Don't Let it become personal, no matter how aggressive the other side becomes**

# Negotiating Techniques and Tools Continued

- **Avoid entrenchment, when possible**
  - Utilize “market” or objective reference points. If possible, try referring to “what’s market” or industry standards. Then the other party has to justify moving off of market terms, and may have to yield concessions to do so.
  - Avoid ultimatums – instead of “we could never accept that” try “why do you think we should accept that?”
  - If the other party digs in with ultimatums or only minor concessions, consider the alternatives. Do you hang in or walk away?
- **Get Something In Return for Concessions**
  - Use concessions strategically (e.g., to keep up momentum; give on one point to get something more important).
- **Be Sensitive to Personalities and Cultural Differences**
  - Aggressive negotiators may be trying to hide weaknesses; soft spoken negotiators may have unyielding resolve.
  - Some cultures rely on the personal connection much more than the contract, and can be insulted by protracted negotiation or inclusion of terms they feel impugn their integrity.
- **Continue to Focus on Motivation**
  - Understanding why a point is important to the other party may help you identify alternatives.

## Standard Clause – “Affiliate” Definition, Opening Position

- **"Affiliate"** of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, the term "control" (including the terms "controlled by" and "under common control with") means the direct or indirect power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise.

## Standard Clause – “Affiliate” Definition, Response

- **"Affiliate"** of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, the term "control" (including the terms "controlled by" and "under common control with") means the direct or indirect power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. **Notwithstanding the foregoing, [Party #2] acknowledges that the controlling equity owners of Company are [private equity funds managed by a fund sponsor,] and the term “Affiliate” does not include any portfolio company of such investment funds managed by such fund sponsor (other than Company and its subsidiaries) or any successors and assigns of the foregoing.**

## Standard Clause – “Affiliate” Definition, Compromise

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## Standard Clause – Assignment, Opening Position

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Assignment. Neither Party may assign any of its rights or delegate any of its obligations under this Agreement without the prior consent of the other Party.



## Standard Clause – Assignment, Response

Assignment. Neither Party may assign any of its rights or delegate any of its obligations under this Agreement without the prior **written** consent of the other Party, in each case whether voluntarily, involuntarily, by operation of law or otherwise; except that [Party #1] shall have the right, without [Party #2's] consent, to assign any of its rights, or delegate any of its obligations, under this Agreement:

- to any of its Affiliates; or
- in connection with any merger, consolidation or reorganization involving [Party #1] (regardless of whether [Party #1] is a surviving or disappearing entity), or a sale of all or substantially all of [Party #1's] business or assets relating to this Agreement to an unaffiliated third party [of good financial standing].

Any purported assignment or delegation in violation of this Section is null and void.

# Standard Clause – Assignment, Compromise

Assignment. Neither Party may assign any of its rights or delegate any of its obligations under this Agreement without the prior **written** consent of the other Party **[not to be unreasonably withheld, conditioned or delayed]**, **in each case whether voluntarily, involuntarily, by operation of law or otherwise; except that [Party #1] shall have the right, without [Party #2's] consent, to assign any of its rights, or delegate any of its obligations, under this Agreement:**

- **to any of its Affiliates, provided that all such rights, obligations and performance hereunder shall revert to [Party #1] automatically and immediately at such, if any, time as such affiliated entity ceases to be an Affiliate of [Party #1], and provided further that [Party #1] shall remain responsible for all acts and omissions of such Affiliate in the performance of this Agreement; or**
- **in connection with any merger, consolidation or reorganization involving [Party #1] (regardless of whether [Party #1] is a surviving or disappearing entity), or a sale of all or substantially all of [Party #1's] business or assets relating to this Agreement to an unaffiliated third party [of good financial standing].**

**Any purported assignment or delegation in violation of this Section is null and void.**

# Standard Clause – Software IP Rights, Opening Position

## 13 Ownership Rights in Software.

### 13.1 Intellectual Property Ownership.

(a) Subject to the express rights and licenses granted by Licensor in this Agreement, and the provisions of Section 13.1(a)(ii):

(i) Licensor reserves and retains its entire right, title and interest in and to all Intellectual Property Rights arising out of or relating to the Software; and

(ii) none of the Licensee or Authorized Users acquire any ownership of Intellectual Property Rights in or to the Software or Documentation as a result of this Agreement.

(b) As between Licensee, on the one hand, and Licensor, on the other hand, Licensee has, reserves and retains, sole and exclusive ownership of all right, title and interest in and to the Licensee Data and Licensee Modifications, including all Intellectual Property Rights arising therefrom or relating thereto. The Licensee Data and Licensee Modifications are the Confidential Information of Licensee, and neither Licensor nor any third party (other than a Licensee Affiliate) has or will:

(i) have, acquire, or claim any right, title, or interest in or to any Licensee Data or Licensee Modifications as a result of this Agreement or any interest in the Software; or

(ii) have any right or license to, and shall not, use any Licensee Data or Licensee Modifications except solely as and to the extent necessary to perform the Services hereunder.

# Standard Clause – Software IP Rights, Response

## 13 Ownership Rights in Software.

13.1 Intellectual Property Ownership. ~~(a) Subject to the express rights and licenses granted by Licensor in this Agreement and the provisions of Section 43.1(a)(ii);~~ Licensee acknowledges and agrees that:

(a) the Software and Documentation are licensed, not sold, to Licensee by Licensor and Licensee does not have under or in connection with this Agreement any ownership interest in the Software or Documentation, or in any related Intellectual Property Rights;

~~(a)~~(b) Licensor ~~reserves and retains its entire~~ is the sole and exclusive owner of all right, title and interest in and to the Software and Documentation, including all Intellectual Property Rights ~~arising out of or relating to the Software~~-relating thereto, subject only to the limited license granted to Licensee under this Agreement; and

~~(ii) none of the Licensee[, Licensee Affiliates] or Authorized Users acquire any ownership of Intellectual Property Rights in or to the Software or Documentation as a result of this Agreement.~~

(ii) As between Licensee, on the one hand, and Licensor, on the other hand, Licensee has, reserves and retains, sole and exclusive ownership of all right, title and interest in and to the Licensee Data and Licensee Modifications, including all Intellectual Property Rights arising therefrom or relating thereto. The Licensee Data and Licensee Modifications are the Confidential Information of Licensee, and neither Licensor nor any third party (other than a Licensee Affiliate) has or will:

— have, acquire, or claim any right, title, or interest in or to any Licensee Data or Licensee Modifications as a result of this Agreement or any interest in the Software or any Open Source Components; or

— have any right or license to, and shall not, use any Licensee Data or Licensee Modifications except solely as and to the extent necessary to perform the Services hereunder.

(c) Licensee hereby unconditionally and irrevocably assigns to Licensor or Licensor's designee, its entire right, title and interest in and to any Intellectual Property Rights that Licensee may now or hereafter have in *or relating to the Software or Documentation* (including any rights in derivative works or patent improvements relating to either of them), whether held or acquired by operation of law, contract, assignment or otherwise.

13.2 Licensee Cooperation and Notice of Infringement. Licensee shall, during the Term: *[(1) safeguard against infringement or unauthorized access, (2) at Licensor's expense, assist in maintaining the validity, etc. of the IP, (3) notify Licensor of infringement or unauthorized access and (4)[at Licensor's sole expense, ] cooperate with Licensor in connection with any legal action related to infringement or unauthorized access.]*

13.3 No Implied Rights. Except for the limited rights and licenses expressly granted under this Agreement, nothing in this Agreement grants, by implication, waiver, estoppel or otherwise, to Licensee or any third party any Intellectual Property Rights or other right, title, or interest in or to any of the Software or Documentation.

# Standard Clause – Software IP Rights, Compromise

## 13 Ownership Rights in Software.

### 13.1 Intellectual Property Ownership. Licensee acknowledges and agrees that:

(a) the Software and Documentation are licensed, not sold, to Licensee by Licensor and Licensee does not have under or in connection with this Agreement any ownership interest in the Software or Documentation, ~~or in any related Intellectual Property Rights;~~

(b) Licensor is the sole and exclusive owner of all right, title and interest in and to the Software and Documentation, including all Intellectual Property Rights relating thereto, subject only to the limited license granted to Licensee under this Agreement ~~and Section 13.4; and.~~

For the avoidance of doubt, as between Licensee, on the one hand, and Licensor, on the other hand, Licensee has, reserves and retains, sole and exclusive ownership of all right, title and interest in and to the Licensee Data.

13.2 Licensee Cooperation and Notice of Infringement. Licensee shall, during the Term: *[(1) safeguard against infringement or unauthorized access, (2) at Licensor's expense, assist in maintaining the validity, etc. of the IP, (3) notify Licensor of infringement or unauthorized access and (4)[at Licensor's sole expense,] cooperate with Licensor in connection with any legal action related to infringement or unauthorized access.] [This would likely be negotiated]*

13.3 Modifications and Improvements. *[This will be drafted to provide that (1) Licensee has the rights to use any modifications developed by Licensor separate from the Software (but not rights arising from other third party licenses held by Licensee)., (2) Licensor has the right to commercialize any modifications to the Software, possibly subject to limitations if the modification provides a competitive advantage to Licensee, (3) Licensor gets a royalty free, fully paid up and perpetual license to improvements (or not) and (4) if Licensor commercializes the improvement as a stand-alone product or service, then royalty back to Licensor and (5) if Licensor incorporates the improvement into any other product or service, then a royalty back to Licensee.]*

13.34 No Implied Rights. Except for the limited rights and licenses expressly granted under this Agreement, nothing in this Agreement grants, by implication, waiver, estoppel or otherwise:

(a) to Licensee or any third party any Intellectual Property Rights or other right, title, or interest in or to any of the Software or Documentation; or

(b) to Licensor or any third party any Intellectual Property Rights or other right, title, or interest in or to any of the Licensee Data and Licensee Modifications.

## Standard Clause – Return of Confidential Information, Opening

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**Return of Confidential Information.** The Disclosing Party may elect at any time by notice to the Receiving Party to terminate further access to and review of the Confidential Information. In any such case, upon request, each Receiving Party and its Representatives will promptly return all Confidential Information furnished by or on behalf of the Disclosing Party or otherwise obtained by the Receiving Party and its Representatives, in each case without retaining any copies, extracts or other reproductions thereof.

# Standard Clause – Return of Confidential Information, Response

**Return of Confidential Information.** The Disclosing Party may elect at any time by notice to the Receiving Party to terminate further access to and review of the Confidential Information. In any such case, upon request, each Receiving Party shall, and it shall instruct its Representatives to, ~~will~~ promptly either return or destroy all Confidential Information furnished by or on behalf of the Disclosing Party or otherwise obtained by the Receiving Party and its Representatives, in each case without retaining any copies, extracts or other reproductions thereof. Notwithstanding the foregoing provisions of this paragraph to the contrary, the Receiving Party and its Representatives may retain such copies of Confidential Information solely to the extent (a) necessary to meet legal or regulatory document-retention policies requirements or (b) such copies as are created pursuant to automatic archiving and back up procedures.

# Standard Clause – Return of Confidential Information, Compromise

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# Standard Clause - Limit on Liability, Opening

## 16 Limitations of Liability.

16.1 EXCLUSION OF INDIRECT DAMAGES. Except as otherwise provided in Section 16.3, in no event will either party be liable under this Agreement for any exemplary or punitive damages.

16.2 CAP ON MONETARY LIABILITY. Except as otherwise provided in Section 16.3, in no event will the aggregate liability of either party under or in connection with this Agreement or its subject matter, under any legal or equitable theory, including breach of contract, tort (including negligence), strict liability or otherwise, exceed [\${amount / formula}]. The foregoing limitation applies notwithstanding the failure of any agreed or other remedy of its essential purpose.

16.3 Exceptions. The exclusions and limitations in Section 16.1 and Section 16.2 do not apply to:

- Losses arising out of or relating to a Party's failure to comply with its obligations under Section 13 (Intellectual Property Rights) or Section 12 (Confidentiality).
- A Party's indemnification obligations under Section 15 (Indemnification).
- Losses arising out of or relating to a Party's gross negligence or more culpable conduct, including any willful misconduct or intentionally wrongful acts.
- Losses for death, bodily injury, or damage to real or tangible personal property.
- Losses to the extent covered by a Party's insurance.
- A Party's obligation to pay attorneys' fees and court costs in accordance with Section 18.18 [*being a "loser pays" provision*].

# Standard Clause - Limit on Liability, Response

## 16 Limitations of Liability.

16.1 EXCLUSION OF INDIRECT DAMAGES. ~~Except as otherwise provided in Section 16.3, i~~n no event will ~~either party be liable under this Agreement for any exemplary or punitive damages.~~ Licensor, or any of its licensors, service providers or suppliers be liable under or in connection with this Agreement or its subject matter under any legal or equitable theory, including breach of contract, tort (including negligence), strict liability, and otherwise, for any (a) increased costs, diminution in value or lost business, production, revenues or profits, (b) loss of goodwill or reputation, (c) use, inability to use, loss, interruption, delay or recovery of any Licensed Software, (d) loss, damage, corruption or recovery of Data or breach of Data, or breach of Data or system security, (e) cost of replacement goods or services, or (f) consequential, incidental, indirect, ~~exemplary, special, enhanced or punitive damages,~~ in each case regardless of whether such losses or damages were otherwise foreseeable, and notwithstanding the failure of any agreed or other remedy of its essential purpose.

16.2 CAP ON MONETARY LIABILITY. ~~Except as otherwise provided in Section 16.3, i~~n no event will the aggregate ~~collective~~ liability of ~~either party~~ Licensor and its Licensors, suppliers and service providers arising under or in connection with this Agreement or its subject matter, under any legal or equitable theory, including breach of contract, tort (including negligence), strict liability or otherwise, exceed [\$(amount / formula)]. The foregoing limitation applies notwithstanding the failure of any agreed or other remedy of its essential purpose.

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- A Party's indemnification obligations under Section 15 (Indemnification); or
- Losses arising out of or relating to a Party's gross negligence, including any willful misconduct or intentionally wrongful acts.

## Wrap Up; Questions

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- Key Takeaways
- Questions?

## Contact Information

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