

**“It’s a Trap!”
Tools and Tips to Avoid
Mistakes in Commercial
Contracts**

November 7, 2019

Presented by
Elliot Hinds & Dan Glassman
Crowell & Moring LLP

Presenters



Elliot Hinds
213.433.5543
ehinds@crowell.com

Elliot Hinds is a partner in Crowell & Moring's Los Angeles office and focuses his practice on corporate and energy matters. While he is deeply engaged in energy transactions, Elliot also works with clients in a variety of other capital-intensive industries, including manufacturing, health care, and technology. Elliot works extensively on mergers and acquisitions, debt financings, project development and finance, and joint ventures.

Areas of Practice

Transactions & Corporate
Energy
Corporate
Mergers & Acquisitions
Joint Ventures & Strategic
Alliances
Commercial Finance & Lending
Private Equity



Daniel Glassman
949.798.1320
dglassman@crowell.com

Dan Glassman is a counsel in Crowell & Moring's Orange County office. Dan has over 23 years of experience as a trial attorney in private practice and as in-house counsel for a 23,000 employee health system. His experience includes complex commercial litigation in the areas of health care, hospitality and leisure, commercial class actions, real estate, insurance/reinsurance, and business torts.

Areas of Practice

Litigation & Trial
Commercial Litigation
Health Care Litigation
Class Actions

Program Outline

- **Choice of Forum & Choice of Law**
- **Representations and Warranties**
- **Indemnification**
- **Dispute Resolution**
- **Term and Termination**
- **Assignment and Change of Control**



Choice of Forum & Choice of Law



*"We would like to request a change of venue to
an entirely different legal system."*

Forum Selection Clause

- Designates a particular country, state or court as the jurisdiction in which the parties will litigate disputes arising out of the contract and their contractual relationship.
 - *“In the event of a dispute, the parties, regardless of their residence, will be subject to the jurisdiction of the courts of the State of California.”*
- Clause is presumed valid.
 - Exceptions for fraud, undue influence, serious inconvenience or hardship, or public policy considerations.
- Reasonable relationship required between the forum and the parties/dispute.
- Usually determines applicable procedural rules.
- Courts apply the forum's analysis for choice of law questions.

Venue Selection Clause

Do not confuse venue clauses with forum clauses.

- **Forum:** jurisdiction in a particular country, state or court system
- **Venue:** county in which a case may be heard
- Venue selection clauses are generally permissible in California, New York and Delaware
 - California courts uphold venue selection clauses when the selected venue is one of the statutorily permissible counties under Cal. Code Civ. Proc. section 395.5. *Battaglia Enterprises, Inc. v. Superior Court of San Diego Cty.*, 215 Cal. App. 4th 309, 317 (2013), *as modified* (Apr. 29, 2013).
 - New York courts generally enforce venue selection clauses even when they designate forums in another state. *See, e.g., Tatko Stone Products, Inc. v. Davis-Giovinzazzo Const. Co., Inc.*, 65 A.D.3d 778, 779 (3d Dep't 2009) (forum selection clause designating New Jersey enforced).
 - In Delaware, Plaintiff bears the burden of convincing the Court that enforcement of the venue selection clause would deprive Plaintiff of his day in court or would seriously impair Plaintiff's ability to pursue his cause of action. *Meli v. Rembrandt IP Mgmt., LLC*, No. CIV.A. 09C-09-108WCC, 2010 WL 2681853, at *5 (Del. Super. Ct. June 28, 2010).
- Of course, a mandatory alternative dispute resolution provision eliminates any dispute over issues of jurisdiction or venue.

Key Case Examples



Bremen v. Zapata Off-Shore Co., 407 U.S. 1 (1972)

- **Facts:** Parties agreed that Petitioner would tow Respondent's drilling rig from Louisiana to Italy.
- **Held:** Reversed. Forum selection clause binding unless respondent can meet the heavy burden of showing that its enforcement would be unreasonable, unfair, or unjust.

Bremen is instructive in resolving parties' disputes, but the first question for consideration in federal court is whether § 1404(a) controls a request to give effect to the contractual choice of venue. *Stewart Org., Inc. v. Ricoh Corp.*, 487 U.S. 22, 23 (1988).



Carnival Cruise Lines v. Shute, 499 U.S. 585 (1991)

- **Facts:** Washington couple purchased cruise tickets from L.A. to Puerto Vallarta.
- **Held:** Forum selection clause upheld.

Carnival Cruise Lines v. Shute, 499 U.S. 585 (1991)



- **Facts: Washington couple purchased cruise tickets from L.A. to Puerto Vallarta.**
 - Ticket face - “read the ticket contract on the last three pages.”
 - The contract had 25 small print clauses including forum selection clause designating suit in Florida.
 - Woman fell on the cruise and brought suit in federal district court in Washington.
 - Trial court upheld forum selection clause.
 - Appellate Court reversed and invalidated clause.
- **Held: Forum selection clause upheld.**
 - “Reasonableness of clause” under the circumstances.
 - “Fundamental fairness” of both the basis for the clause and its effect.
 - No claim of lack of notice.
 - “Realities of form passage contracts” and “special interest” a cruise line might have in limiting where it could be sued.
 - Plaintiff didn’t carry “heavy burden” of showing sufficient inconvenience.

Practice Tip

- **Draft a clause that clearly describes whether the forum selection is mandatory or permissive.**
 - Mandatory language: The courts of the State of California/New York/Delaware “shall have exclusive jurisdiction over any case or controversy arising under or in connection with this Agreement.”
 - Permissive language: “The company has expressly submitted to the jurisdiction of the State of California/New York/Delaware for the purpose of any suit...arising out of this Agreement.”
 - Enforceability: Mandatory clauses will be given effect without analysis of convenience as long as it is reasonable; Permissive clauses analyzed under forum non conveniens analysis.



"I didn't realize, Your Honor. I assumed the law here was the same as in New Jersey. As you may know, dog eat dog is permissible there."

Choice of Forum and Law

Forum



**Applicable
Law**

Selects Law to Govern Contract

- Valid choice of law clause encompasses all causes of action arising from or related to the agreement, regardless of how they are characterized.
- Choice of law upheld for any issue the parties could have resolved by explicit provision in their agreement.
- Choice of law for other issues upheld unless:
 - No substantial relationship to the parties or the transaction and no other reasonable basis for the parties' choice.
 - Application of the chosen law is contrary to a fundamental policy of the default state.

Restatement (2d) of Conflict of Laws §187

- Does chosen state law have a substantial relationship to the parties or their transaction?
-or-
- Reasonable basis for choice of law?
- Is there any conflict with fundamental state policy?
- Materially greater interest than the chosen state in the determination of the issue?
- If yes, choice of law clause not enforced.
- If no, choice of law clause enforced.

Strong policy favoring enforcement.

What is a Substantial Relationship?

New York and California

- Place of incorporation for one party.
- Principal place of business.
- Location of project or real property.
- Place of execution of contract?
- Place of negotiation of contract?

Alternative: a “reasonable basis” for the chosen state can be established where one party contracts with numerous counter-parties in many states.

Delaware

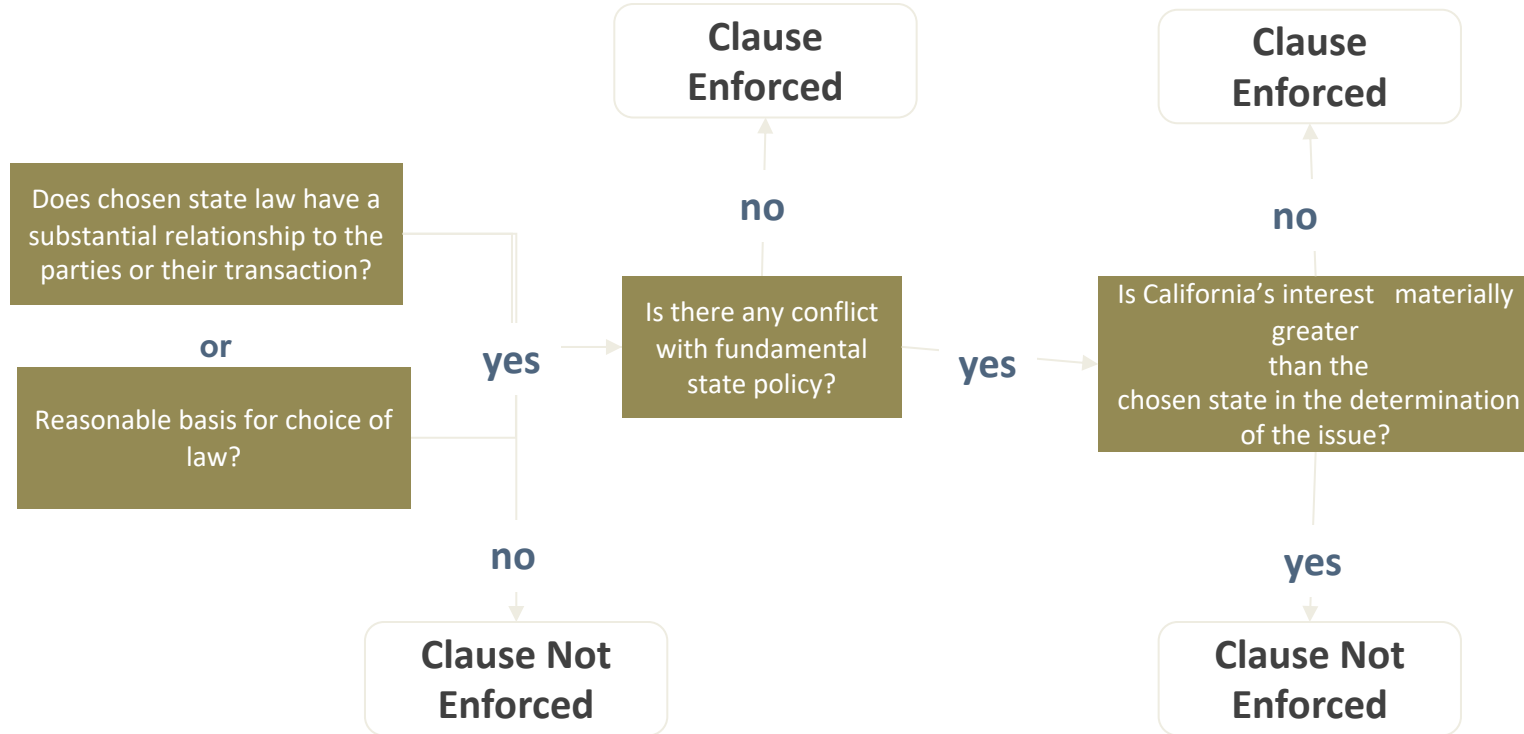
- The Delaware statute requires any court to enforce a Delaware choice-of-law agreement even if the clause itself is the only connection the parties and transaction have with Delaware. 6 Del. C. § 2708(a)

Nedlloyd Lines B.V. v. Superior Court, 3 Cal. 4th 459 (1992)

- **Facts:** Shipping company brought action against shareholders for breach of contract, tortious breach of good faith and fair dealing and breach of fiduciary duties.
 - Contract contained Hong Kong choice of law clause.
 - Plaintiff incorporated in Hong Kong with principal place of business in Redwood City, CA.
 - Nedlloyd incorporated in the Netherlands with principal place of business in Rotterdam.
 - Other parties were incorporated in or resided in Oregon, California or Singapore.
- **Held:** Choice of law clause fully enforceable and applicable to contract and tort claims.
 - Articulated proper test for enforceability of choice of law clauses. Rest. (2d) of Conflict of Laws §187.
 - Found substantial relationship with Hong Kong and a reasonable basis for selection of Hong Kong law.
 - Language “governed by and construed in accordance with” encompassed tort and breach of contract claims.
 - No fundamental policy of California threatened.
- *Brack v. Omni Loan Co., Ltd.*, 164 Cal. App. 4th 1312 (2008)
 - Nevada law clause between Nevada lender and military borrowers stationed in California not enforced.
 - Court held California’s interests were materially greater than Nevada’s:
 - Requirements of the California Finance Lenders Law were matters of fundamental public policy of California such that parties could not waive the requirements by agreeing to use Nevada law.

Nedlloyd Test for Enforcement

Nedlloyd Lines B.V. v. Superior Ct., 3 Cal. 4th 459 (1992)



Practice Tip

- You must know the laws of each forum prior to executing a choice of law clause.
 - Covenants not to compete are not enforceable in California. In most other states, covenants not to compete are enforceable if reasonably limited in time and geographic scope. *See* Rest. 2d Contracts § 188.

Practice Tip

- Clearly define the scope of the clause.
- The language “*governed by and construed in accordance with..*” encompassed:
 - all causes of action arising from and relating to the agreement, including torts;
 - the interpretation of the contract; and
 - the interpretation of the choice of law clause itself.



Representations and Warranties

Consequences of Breach

- **Falsity of Representation =**
 - Breach of contract.
 - Contract may be voidable if fact was material to the risk and false representation was knowingly made.
 - Could support a fraud claim.
- **Breach of Warranty =**
 - Breach of contract.
 - Implies indemnification.
- **Breach of Covenant =**
 - Breach of contract.

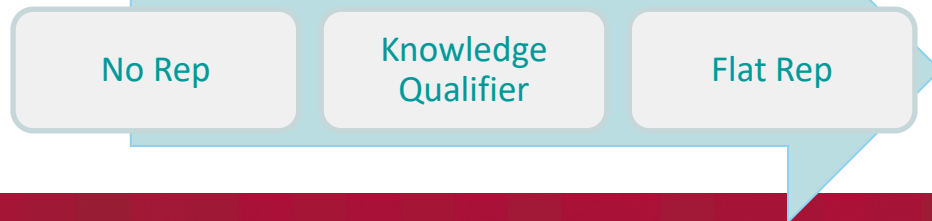
Significance and Purpose

- **Useful Diligence Tool**

- Smoke out underlying facts BEFORE signing the contract

- **Allocation of Risk**

- It is irrelevant whether or not the party giving the representation can know if the fact is or is not true
 - “Critical question” is whether buyer believed it was purchasing the seller’s promise as to representation’s truth.
 - CBS Inc. v. Ziff-Davis Pub. Co., 553 N.E.2d 997 (N.Y. 1990)
 - Buyer must rely on representation.
 - Park-Kim v. Daikin Indus., Ltd, No. 215CV09523CASKKX, 2016 WL 5958251 (C.D. Cal. Aug. 3, 2016)
 - “[A] representation must be true at the time it is made to avoid a breach, regardless of who knew whether the representation was true or not.”
 - Ivize of Milwaukee, LLC v. Compex Litig. Support, LLC, No. CIV.A. 3158-VCL, 2009 WL 1111179 (Del. Ch. Apr. 27, 2009)
- Including a “knowledge qualifier” shifts the risk profile
 - If included, sellers only liable for breaches they had knowledge of.
 - DCV Holdings, Inc. v. Conagra, Inc., No. 98C-06-301-JEB, 2005 WL 698133 (Del. Super. Ct. Mar. 24, 2005), aff’d, 889 A.2d 954 (Del. 2005)
 - GemCap Lending, LLC v. Quarles & Brady, LLP, 269 F. Supp. 3d 1007, 1037 (C.D. Cal. 2017)



Fundamental Representations

- **Representations as to the Contract Itself**
 - Commonly called “Fundamental” representations
 - Purpose is to provide assurance that the counterparty has the contractual capacity and authority to enter into the contract and that the contract is legally enforceable
 - Rarely negotiated in any significant respect
 - Usually mutual

Subject Matter

- **Subject Matter Representations**
 - Relate to the subject matter of the contract
 - Made to ensure that a party is getting what it bargained for
 - May cover facts that are outside the control of the party making the representation
 - **Example:** An FCPA representation is likely to cover actions not only of the performing party, but also of its employees and agents.

Party Representations

- **Representations About the Parties**

- Required where particular facts about a party are relevant to either that party's ability to perform or the expectations of the counterparty
 - Reputational risk
 - Credit risk

Survival

- A survival clause means only that the recipient of the representation will continue to have the benefit of that representation during the survival period.
- It does NOT mean that the representation must be continuously true during that period.
- Statute of limitations issues
 - **DE:** Survival clause can shorten the statute of limitations.
 - GRT, Inc. v. Marathon GTF Tech., Ltd., No. CIV.A. 5571-CS, 2011 WL 2682898 (Del. Ch. July 11, 2011).
 - **NY/CA:** Survival clauses that shorten the statute of limitations must be “clear and explicit” and are construed strictly against the party invoking the provision.
 - W. Filter Corp. v. Argan, Inc., 540 F.3d 947 (9th Cir. 2008); Uncas Int'l LLC v. Crimson Rose, Inc., No. 16 CIV. 9610 (JSR), 2017 WL 2839668 (S.D.N.Y. June 26, 2017).

Survival Clause Example

- **Survival**. Subject to the limitations and other provisions of this Agreement: (a) the representations and warranties of the seller contained herein will survive the expiration or earlier termination of this Agreement for a period of 12 months after such expiration or termination; and (b) Section 2 of this Agreement, as well as any other provision that, in order to give proper effect to its intent, should survive such expiration or termination, will survive the expiration or earlier termination of this Agreement for the period specified therein. All other provisions of this Agreement will not survive the expiration or earlier termination of this Agreement.

Practice Tips

- Include warranties / covenants to cover any facts that must remain true during the term of the contract.
- Parties can limit the scope and effect of their representations and warranties by including:
 - Survival Clauses;
 - Knowledge Qualifiers;
 - Liability Limitations.
- Be mindful that sellers generally draft narrow and limited representations and warranties.
 - This works to shifts responsibility to the buyer.

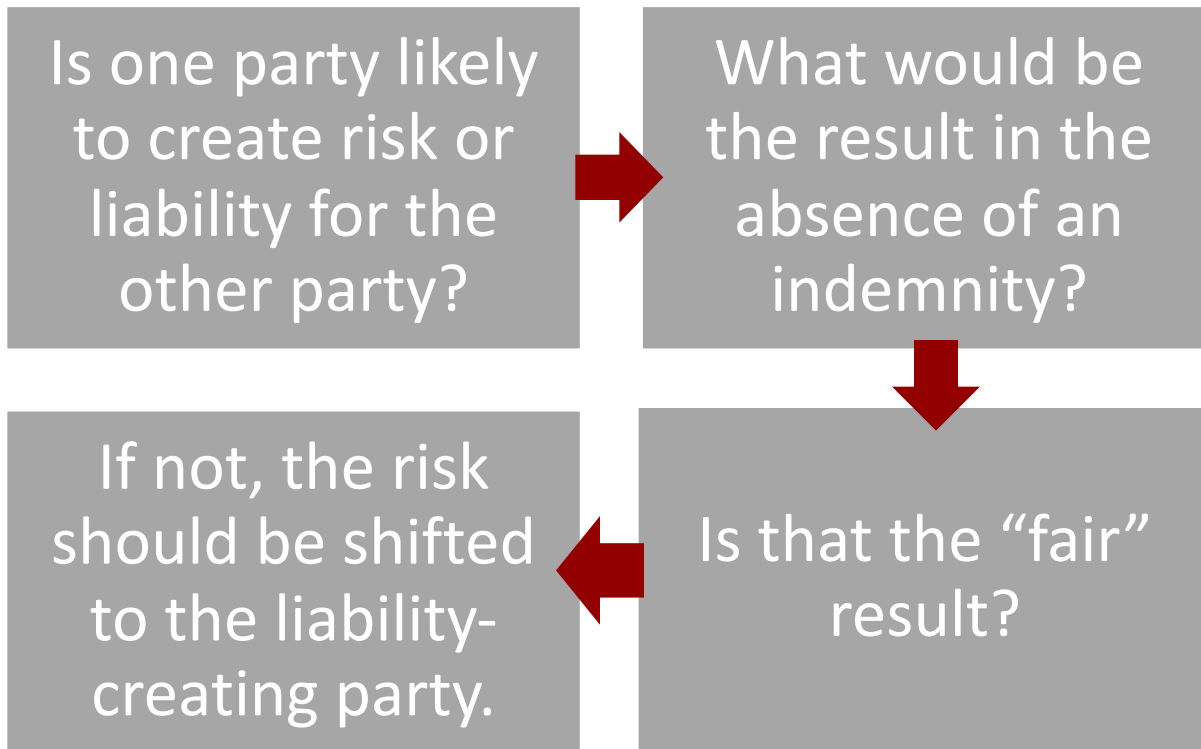


Indemnification

California

Indemnity refers to “the obligation resting on one party to make good a loss or damage another party has incurred.” *Prince v. Pacific Gas & Electric Co.*, 45 Cal. 4th 1151, 1157 (2009). California courts have held that there are two basic types of indemnity: express indemnity and equitable indemnity. *Id.*

Decision Path



Common Negotiation Points

- Third party claims only or all losses?
- What losses are covered?
- Indemnify v. defend
- Indemnification procedures
- Effect of indemnification on other provisions
- Is indemnity an exclusive remedy?
- Liability caps and other limitations

Indemnify v. Defend

- **Indemnify –**
 - *To reimburse someone for a loss suffered and paid by that person after-the-fact.*
- **Defend –**
 - *To take actions to protect someone against a loss.*
- **Hold Harmless –**
 - *A court may construe a “hold harmless” obligation to be more broadly defined than intended.*

Indemnification Procedures

- Notice and remedies for untimely notice
- Conflicts of interest
- Cooperation and assistance
 - Internal costs / out-of-pocket costs
- Reporting to (and participation of) the other party
 - Approval rights or notice only?
- Approval of settlements
 - Indemnified Party should have right to approve any settlement that involves anything other than a payment of money by the Indemnifying Party.

Control of Defense



What Is a Claim?

- First Party Claims v. Third Party Claims Only
 - Does the indemnity cover losses incurred by the counterparty?
 - Consider limiting indemnification obligations to third party claims only.
 - Counterparty may still be able to sue for breach of contract – if there is a representation or covenant breached.
 - Practice Tip: Include both a representation AND an indemnity obligation.
 - Caution: Breach of representation may not be available if it is qualified by knowledge or if indemnity is the exclusive remedy.

Scope of Losses

- What losses are covered?
 - Costs of internal investigations?
 - Taxes or similar charges, interest or penalties?
 - Costs of attorneys' fees and expert witnesses?
 - Losses incurred by customers or end users?
 - Arbitration fees? Court costs?
- Practice Tip: Indemnifying Party may want to try to limit losses to finally adjudicated or settled amounts payable to third parties only:
 - indemnify the Indemnified Party against any Losses finally awarded against such party to a third party making such Claim, by a court of competent jurisdiction or agreed to in settlement and actually paid to such third party.

Limitations

- Time Limitations
 - Consider including time limitations for the indemnitee to bring a claim.
- Cap
 - Consider including an overall limit of liability.
 - Consider excluding certain types of damages.
- Consider making indemnity the sole and exclusive remedy.

Drafting Considerations

- First Party v. Third Party Claims
- Time limitations (e.g., duration of rep and warranty survival)
- Dollar limitations (caps, baskets and offsets)
- Indemnity as the sole and exclusive remedy
- Control and ability of indemnifying party to participate in defense of claims



Dispute Resolution

Confidentiality

- **Uniform Mediation Act:** provides a mediation privilege.
 - Only adopted in 12 states.
- **New York:** courts have refused to treat statements during mediation as privileged or confidential as a matter of public policy.
 - *Hauzinger v. Hauzinger*, 43 A.D.3d 1289, 1290 (N.Y. App. Div. 2007), aff'd, 10 N.Y.3d 923 (2008)
- **California:** provides a privilege applicable in noncriminal proceedings without categorical exceptions to permit use of information where the public need is likely to be great.
 - Cal. Evid. Code § 1119
- **Federal Courts:** declined opportunities to decide on this issue.

Mandatory Provisions

- **California:** generally enforced as condition precedent to litigation.
 - *Delamater v. Anytime Fitness, Inc.*, 722 F. Supp. 2d 1168, 1180 (E.D. Cal. 2010) (“[f]ailure to mediate a dispute pursuant to a contract that makes mediation a condition precedent to filing a lawsuit warrants dismissal.”)

Negotiating Provision Language

- Considerations when drafting a mediation provision include:
 - The identity of the mediator;
 - The process for selecting the mediator;
 - The timing of the process; and
 - The schedule for, and scope of permissible discovery.

§ 6:8.Strategic issues, 1 Mediation: Law, Policy and Practice § 6:8

Identity of the Mediator

- **Where to find:** private alternative dispute resolution forums such as the AAA, CPR and JAMS maintain rosters of mediators and can assist with the selection of a mediator.
- **Considerations:**
 - **Professional Background**—look at subject matter of dispute.
 - Parties may want to select a former judge if the dispute focuses on complicated areas of law.
 - Parties may want to select a technical expert in cases with complicated technical disputes.
 - In commercial deal disputes, parties may want a mediator with industry or contract-drafting experience.

Identity of the Mediator (cont.)

- **Considerations (cont.):**
 - **Experience:** look at amount of mediation experience, find out the subject matter and amounts in dispute of those mediations.
 - **Style:** evaluative mediation vs. facilitative mediation.
 - ***Evaluative mediation:*** evaluates the parties' arguments and provides opinions on the merits and the settlement amount.
 - ***Facilitative mediation:*** helps parties reach their own conclusions without expression an opinion.

Drafting Arbitration Clause Considerations

- **Governing Law:** defines potential claims, defenses, etc.
- **Seat of Arbitration:** impacts review, timing;
- **Scope of Arbitrator Discretion;**
- **Arbitration Rules:** review options carefully;
- **Attorney Fees;**
- **Confidentiality:** clearly state because arbitration rules may not provide sufficient protection.

Parties may contract for alternative dispute resolution

- **No Standard Clause:** in most cases, standard boilerplate language is insufficient to address the scope of issues raised by arbitration.
- **Make it Binding in Scope and Application:** must be drafted with sufficient foresight and breadth to avoid future disputes, but without imposing unnecessary restrictions.
- **Consider Supplementing Rights:** parties are generally free to supplement or restrict the rights articulated by governing law.

Arbitrator Options

- **Single** Arbitrator
- **Panel** of three
- **Retired** judge v. lawyer or industry expert
- **Note:** if parties cannot decide on an arbitrator or method for deciding an arbitrator, their only option will be to seek the assistance of a court.
 - 9 U.S.C. § 5; UAA § 3; RUAA § 11; Cal. Civ. Proc. Code § 1281.6; CPLR § 7504



Arbitrator Selection

- Be specific about the type of arbitrator and how selection will occur.
- Consider. . .
 - Number
 - Expertise
 - Scope of authority
 - Time taken to select arbitrator

Arbitration: Pre-Dispute Jury Waivers

- Pre-dispute jury trial waivers are unenforceable under California Law.
 - *See Grafton Partners L.P. v. Superior Court*, 26 Cal.4th 944 (2005).
- Pre-dispute jury trial waivers are enforceable under New York law if waived “knowingly and intentionally.”
 - *See Russell-Stanley Holdings, Inc. v. Buonanno*, 327 F. Supp. 2d 252, 257 (S.D.N.Y. 2002).
- **Practice Tip:** If you have selected arbitration pursuant to California law, consider deleting any reference to jury trial waiver.

Examples of Arbitration Bodies

- AAA
- JAMS
- ADR
- ICC
- AHILA

Arbitration: Governing Law

- **Be aware that different arbitration schemes may govern the agreement.**
 - **Federal Arbitration Act:** 9 U.S.C. § 1 et seq.
 - **California Arbitration Act:** Cal Civ. Proc. Code § 1280 et seq.
 - **New York:** CPLR Article 75
 - **Delaware**
 - **Delaware Uniform Arbitration Act:** Del.C. § 5701 et seq.
 - **Delaware Rapid Arbitration Act:** Del.C. § 5801 et seq.
 - **Private ADR Rules**
 - **Ex:** JAMS, AAA, or ICC
 - Not mutually exclusive of FAA or State Rules.

Example of Impact--Discovery

Federal Arbitration Act

- Generally no right to discovery absent an agreement by the parties.
- Arbitrators have power to subpoena nonparties to appear before them at arbitration, but do not have authority to compel appearance at deposition.
- Where not right to discovery exists, use the arbitrator's subpoena power as leverage to obtain documents voluntarily from parties, or to subpoena parties.

Private ADR

- AAA's Commercial Dispute Resolution Procedures give the arbitrator power to order production of documents and the identification of witnesses to be called.
- Obligates parties to disclose documents intended to be offered at the hearing.
- Arbitrator has authority to allow discovery and to resolve discovery disputes.

Example of Impact—Discovery (cont.)

• California Arbitration Act

- Parties to a general commercial dispute have no right to discovery unless they incorporate the discovery provisions of the CCP, or the arbitration:
 - Concerns wrongful death or personal injury; or
 - Is necessary to preserve certain statutory rights (e.g. FEHA).
- If the parties agree, and incorporate the CAA and the CCP for discovery, they are entitled to the entire range of discovery in a civil action.
- Arbitrator has discretion to enforce discovery.

• Delaware Uniform Arbitration Act

- The arbitrators may compel the attendance of witnesses and the production of books, records, contracts, papers, accounts, and all other documents and evidence, and shall have the power to administer oaths

• Delaware Rapid Arbitration Act

- Unless otherwise provided in an agreement, an arbitrator has the power to administer oaths and may compel the attendance of witnesses and the production of books, records, contracts, papers, accounts, and all other documents and evidence
- Only if provided in an agreement, an arbitrator has the power to issue subpoenas

• New York

- The subpoena power conferred by CPLR 7505 is limited to the procuring of evidence for the hearing or trial of the dispute.
- Under the CPLR, arbiters do not have the power to direct the parties to engage in disclosure proceedings

Arbitration: Scope

- **Clearly identify the issues to be arbitrated**
 - Arising out of or relating to
 - *“All controversies and claims arising out of or relating to this agreement or the breach thereof shall be settled by arbitration.”*
 - “Relating to” language will encompass broader claims.
 - Carve out subjects not to be arbitrated.
 - Example: provisional relief such as injunctions or attachments.
 - The authority to issue enforceable provisional relief rests with the court. The arbitrator does not have contempt or enforcement power. If the parties so provide in the arbitration clause, an arbitrator can issue injunctive relief, but a party may have to go to court to enforce the arbitrator's injunction if the other party refuses to abide by the injunction.

Arbitration: Judicial Review

- Arbitrator's ruling generally not reviewable unless:
 - Procured by corruption, fraud or undue means;
 - Issued by corrupt arbitrators;
 - Affected by prejudicial misconduct on part of the arbitrators; or
 - In excess of the arbitrator's powers.
 - Cal. Civ. Proc. Code § 1286.2; CPLR § 7511(a); Del.C. § 5714.
- Delaware Rapid Arbitration Act: agreement may provide for **no appellate review** of a final award.
 - Del.C. § 5809.
- If not limited by the agreement, arbitrator may base the decision on broad principals of justice and equity.
- Parties can expand the scope of judicial review of the arbitration award in the contract if they state that errors of applying law are in excess of arbitral authority.
 - *Cable Connection Inc., v. DirectTV Inc.*, 44 Cal.4th 1344 (2008).



Term/Termination

Do You Need a Term or Termination Provision?

- **The default/“classroom” rule is:**
 - 1) No defined term, and
 - 2) Termination only by consent of the parties.
- **Consider whether it is advisable to rely on the default rule.**

Term and Termination Options

OPTIONS

Fixed Term v. Indefinite Term

Auto-Renew / Evergreen

**Termination upon Occurrence of Event /
Condition**

For Cause v. For Convenience

Basic Questions

- **How long will the contract last?**
 - What is the purpose of the contract? To achieve a discrete goal? Or to manage an ongoing relationship?
- **Do you need an escape hatch?**
 - Are you worried about being able to walk away? Or are you worried that your counterparty is going to leave you in the lurch?

Effects of Termination

- **What happens to the relationship of the parties upon termination?**
 - Which rights and obligations will end and which will survive termination?
- **IP considerations.**
 - To ensure protection of your IP, the contract must include:
 - Required return of IP to its owner.
 - Non-competition provisions that survive termination.
 - But what if you can't just give it back?

Auto-Renew

- **Avoid ambiguities.**

- How can a party interrupt/reject renewal?
 - Consider setting a notice period to cancel the auto-renewal to avoid “accidental” renewal.
- What is the term of renewal?

- **Mechanism to terminate.**

- These contracts may continue beyond what the parties intended.
- Consider designing a mechanism to terminate the contract when it is no longer in use.

Termination for Breach

- **What does a “breach” mean?**
 - Do you want to specify breaches of specific provisions or "material" breaches of any provision?
- **When does a breach occur?**
 - Consider requiring notice and a cure period.
- **What are the consequences of a breach?**



Assignment/ Change of Control

Basic Questions

- Figure out how would the other party's assignment of its rights and obligations under the contract impact you.
- Is assignment a concern?
 - Is your counterparty uniquely suited to comply with its obligations?
 - Or could a substitute party perform just as well?
- How will you limit assignability?
 - Completely prohibit it?
 - Only with consent?
 - Only under certain circumstances?
 - Should the assigning party remain on the hook if the assignee fails to comply with its obligations under the agreement?

Assignment/Change of Control

OPTIONS

Freedom to Assign
(No Limitation on Assignment)

No Assignment Under Any Circumstances

No Assignment Without Consent

No Assignment...With Certain Enumerated Carveouts

Presumption v. Reality on Assignability

- Contract treatises describe that the presumption in any contract is that rights may be assigned and obligations may be assumed, unless the contract specifically states otherwise.
- From a drafting perspective, start with the opposite conclusion—that there will be no assignability—and modify from that position.
- Every contract should have an assignment provision, even if the parties want free assignability. This reduces/eliminates confusion or misinterpretation.

Consent

- It's a two-way street—if you ask for a consent right, your counter-party will ask for the same.
 - Consider whether notice, rather than consent, would be sufficient.
- What does consent look like?
 - Written v. oral and timing.
- “Reasonable” consent? Parties often ask that consent “not be unreasonably withheld, delayed or conditioned.”
 - These qualifiers may provide some satisfaction during negotiations, but consider whether they have real value.
 - If there is a dispute, would you incur litigation costs for a court to determine whether consent was “unreasonably” withheld, delayed, or conditioned?
 - BUT, language drives conduct!

Exceptions to Consent Requirement

- Parties may want to forego a consent requirement for mere changes of the legal form/domicile or where a parent/affiliate takes over a party's operations.
- Where such changes are anticipated or expected to be frequent.
 - Design a solution that reduces costs of negotiation/enforcement.

Assignment in a Change of Control Context

- First, consider if the structure of the change of control necessitates assignment.
 - If the party in a contract is the surviving entity, then there actually is no assignment.
 - If the party is not the surviving entity, then there would be an assignment of the contract.
- Second, consider the impact of the assignment provision.
 - Is consent required?
 - What if consent is withheld?
 - Does the consent requirement offer the counterparty the opportunity to extract concessions in exchange for its consent?

Other Drafting Considerations

- Should the original counterparty remain liable for performance following assignment?
- What is the consequence of a violation of the assignment clause?
 - Is the contract void? Right to damages?
 - If the agreement contains express language that any assignment would be void, the subsequent assignment is void.
 - Conversely, if the agreement does not indicate that violations of the anti-assignment provision will be void, the wronged party may seek damages for breach of an obligation not to assign.
- IP or Confidential Information
 - If you are licensing or sharing IP or confidential information, you should always define assignment to include any change of control (regardless of structure) and require your consent to any assignment.
 - Otherwise, it is possible for a competitor to acquire your counterparty and then have access to the shared IP/confidential Information.

A large graphic on the left side of the slide. It features a hand holding a large, stylized question mark. The question mark is white with a blue outline, and the hand is shown from the wrist up, with fingers slightly curled around the base of the question mark. The background of the graphic is a dark blue gradient.

Questions?

crowell.com

Crowell & Moring LLP is an international law firm with more than 500 lawyers representing clients in litigation and arbitration, regulatory, and transactional matters. The firm is internationally recognized for its representation of Fortune 500 companies in high-stakes litigation, as well as its ongoing commitment to *pro bono* service and diversity. The firm has offices in Washington, D.C., New York, Los Angeles, San Francisco, Orange County, London, and Brussels.

© Crowell & Moring LLP 2018

Attorney advertising. The contents of this briefing are not intended to serve as legal advice related to any individual situation. This material is made available by Crowell & Moring LLP for information purposes only.