I Accepted a Bad Clause: Should I Resign?

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Learning Objectives

- Identify troublesome clauses, and why they are characterized as such
- Strategize using proven methods to collaborate with Sponsor to eliminate or reduce problematic contract terms

Goals in Negotiating Critical Clauses

- Protect the PI's interests (e.g., publication rights, intellectual property rights).

- Protect institutional against unreasonable, unmanageable or harmful requirements – e.g., financial management and indemnification.

TROUBLESOME TOPICS

- Indemnification
- Governing Law
- SOW
- Publication
- Termination
- Intellectual Property
- Patent Infringement
- Liquidated Damages
- Remedies
- FAR
- Confidentiality
- Project Period

Indemnification and Liability Clauses

- Clearly delineates who is responsible for negligence and losses that result in performance of sponsored activity

- Contractual obligation by one party to pay or compensate for the losses or damages or liabilities incurred by another party
- Functions as a means of allocating or shifting risk—financial responsibility--between parties in a contract
- May not be applicable or allowed by your institution

Indemnification and Liabilities Clauses

- RISKS:

- lack of indemnification clause
- Indemnification not mutual or proportionate
- Broad and far-reaching (everything but the kitchen sink) – this is why proportionality is ideal

Indemnification and Liabilities Clause

- SOLUTIONS

-limit responsibility to the ***portion*** of negligence, loss, liability that is caused by Contractor – no more, no less (proportionate indemnification)

-persuade Sponsor to add mutuality – each party responsible for its own negligence

-keep separate from Patent Infringement– do not combine in the same clause – different topics

Governing Law

- Specifies which laws will govern the interpretation and enforcement of the contract.

- Also referred to as Jurisdiction and/or Choice of Law.

Governing Law

RISKS:

- Law pertains to a state OR country other than the Contractor's – very risky because we cannot guarantee adherence to a law with which we are not familiar – i.e. U.S. state laws not uniform

GOAL:

- Make sure governing law is state where your organization is located
- If cannot negotiate above, remain silent (risk – unclear litigation jurisdiction)

Statement of Work - SOW

- Imperative
- Should be included as an Exhibit to the agreement
- Clearly describes the work that will be accomplished by key personnel

RISKS

- No SOW = confusion and possible nonpayment
- Example: 1) unclear SOW and deliverables – nonpayment; 2) lack of SOW- nonpayment

Federal Acquisition Regulations (FAR)

- RISKS

- inapplicable to your organization type, or the type of work that is being done (i.e. commercial clauseS for R & D)

- SOLUTIONS

- Use FAR matrix or other helpful tools to identify which clauses are and are not applicable
- Advocate for removal of clauses that do not apply, or addition of Alternates as applicable

- RED FLAG FAR CLAUSES: **52.222-54- EVERIFY, 52.227-3-Patent Indemnity, 52.227-17- Rights in Data-Special Works; DFAR 252.207-7000 Disclosure of Information**

Invoices, Reports and Deliverables

- Establish a method of payment and reporting requirements clear to all parties
- Should establish accountability and transparency
- Ensure documentation requirements are reasonable, manageable and not burdensome
- Reports and deliverables may be tied to payment conditions

Invoices, Reports and Deliverables

- RISKS AND CHALLENGES

-Payment provisions missing or not clear – how will Contractor be paid? Invoicing? Invoice type (milestone, etc.)? Auto payment?

-report type and frequency not specified (i.e. technical, financial, monthly, quarterly)

-due dates not reasonable (i.e. reports or invoices due prior to end date, not enough time provided to Contractor to produce deliverable – i.e. financial system incompatibility)

Invoices, Reports and Deliverables

- SOLUTIONS

-be sure the provisions are identified

-request ample time is provided to Contractor to produce report

- EXAMPLE: Templeton Foundation (invoice due 15 days after project end date)

Publication

- Should promote academic freedom to interpret and publish research methods and results
- Ensure a commitment to and academic progress of students
- Provisions for sponsor review and comment (not approval) should be limited to
    - Identifying and removing confidential information
    - For patent protection

Publication

- RISKS AND CHALLENGES

- Sponsor requires prior review ***<u>and approval</u>*** of publications
- Sponsor requests unreasonable amount of time to delay publication to accommodate their desire to review publication

*SOLUTION

-REMOVE “approval” language! Must preserve fundamental right to publish non-confidential results without restriction

-ensure time allotted to Sponsor is reasonable (i.e. 60 days) to avoid undue publication delay

Termination

- Defines the conditions under which either party may end its legal relationship and specifies the rights each party has when the termination of the contract occurs.
- Protects both parties in the event of unforeseen or unexpected circumstances.
- Termination clauses address final recovery of costs.

Termination

- RISKS

- no provisions for reimbursement of non-cancellable obligations

- no termination clause

*SOLUTIONS

-be sure to add language that ensures project costs that could not be cancelled will be paid (i.e. nonrefundable materials or equipment ordered and not yet received)

-ensure termination clause exists – otherwise, NO WAY OUT! ***Force majeure*** works, too!

Termination

- ***Force Majeure*** –provision allows termination of agreement by either party due to unforeseen, unavoidable circumstances which prevent completion of work under the agreement (i.e. natural disasters, strikes, accidents, etc.)

Intellectual Property/Ownership

- Bayh-Dole

-allows University, small business and non-profits opportunity to pursue ownership of intellectual property created by said entities using federal funds

- Ownership vests in author

- RISKS AND CHALLENGES

-work-for-hire

-Sponsor owns everything

-Sublicensing

Intellectual Property/Ownership

- SOLUTION

-ensure ownership **vests with Contractor**; offer to grant a future ("shall grant", not "grants" or "hereby grants") non-exclusive, royalty-free (NERF) license to Sponsor

-remove *work-for-hire* language and *sublicensing* language

-*work-for-hire* – Contractor viewed as a supplier; Sponsor is buying something from us; HOWEVER, Contractor not selling anything, but providing services, which, in most cases, is to advance scientific mission

-Sub-licensing– Sponsor does not have authority to give third parties rights to use Contractor's IP

Intellectual Property/Ownership

<u>PATENT INFRINGEMENT</u>

- Occasionally included as part of indemnification clause
- Patent is a type of intellectual property and infringement happens when permission isn't granted to use the patent
    - Defines what you can or can't do with a patented 'item'
- It's important to know if researchers are using a patented work to avoid infringement and liability, especially accidental

Intellectual Property/Ownership

PATENT INFRINGEMENT (cont.)

SOLUTION: If you see patent infringement clause or language, REMOVE IT.

-justification for removal: research performed on best-efforts basis, results not guaranteed to be suitable for any specific purpose – analysis will take place upon conclusion of project to review whether results include patentable info

EXAMPLE- inadvertent acceptance (SUNY)

- Reminder: consult with your Intellectual Property Office, when in doubt

International Agreements

- Language barriers
- misinterpretation of terms
- conflicting/unclear/non-existent laws

EXAMPLE – creative problem solving

International Agreements

- Currency type should be specified, ideally in Contractor's preferred currency

- RISKS AND CHALLENGES

-Sponsor insists on its own currency

-conversion results in possible under-recovery of funding

- SOLUTIONS

-explain conversion issue and ask for Contractor's currency

-notify P.I./dept. about reduced funding possibility due to currency conversion

Liquidated Damages

- Predetermined compensation for failure to perform (i.e. late performance, unsatisfactory results)

- RISK AND CHALLENGES

-financial loss to Contractor

*SOLUTION

-REMOVE this language-use “best efforts” argument

Confidentiality

- GOAL is protection of proprietary information
- RISK: Clause can be overreaching ("all information under this agreement will be considered Confidential")

-this is problematic-all info cannot be considered confidential – would be considered classified, which most nonprofit entities do not perform

- Affects ability to publish, open access to research

SOLUTION

- Limit protection of information to that which is marked "Confidential"
- Example – post-negotiation modification (Asian Health Services)

Remedies

- Also known as “Cure” clause
- Purpose of clause: addresses unsatisfactory work- provides Contractor opportunity to correct issues
- Make sure time allotted to Contractor is specified and reasonable (i.e. 5 days)

RISK of accepting unfavorable Remedies clause

- Unfunded liability - Situation that arises when Sponsor is not satisfied with Contractor’s work, and expects Contractor to pay for costs associated with Sponsor securing another party to complete work originally expected of Contractor = financial loss to Contractor

Remedies

- SOLUTION: remove bad language; Contractor’s completed work offered on a best-efforts basis – results not guaranteed; contrarily, if work <u>*not*</u> completed as a result of Contractor’s negligence, indemnification clause covers loss

Project Period

- Project period – the start and end date of the award
- Pay attention! The effective date of award is not always the start date as indicated in the "Term" clause of agreement. It may be date of last signature.
- RISK: disallowance of pre-award costs

Additional Examples

- Unknowing acceptance of award with unmodified terms – BEWARE!
- Termination of award (bad clause accepted by predecessor, delayed discovery)

The conclusion of the matter…

- Words matter
- It’s not the end of the world
- You will survive
- Learn from your oversights
- Keep learning
- Stay informed about policies and procedures – they are forever changing
- Reach out to the Sponsor. Most are helpful and amenable to changes. Perfect time to make changes is during Sponsor-initiated Amendment/Modification process. If not, initiate Amendment.