



40 Indemnification Clause Review Tips

INDEMNIFICATION IS A PROMISE, USUALLY AS A CONTRACT provision, protecting one party from financial loss.¹ Indemnification is a very big word. Primarily, an indemnification clause in a contract addresses which party will be liable in the event a problem arises. Indemnification clauses in a contract are very important. The most bewildering clause in a contract can often be the indemnification clause. Many times, due to the complexity of an indemnification clause, it is not thoroughly reviewed and properly analyzed.

There are many types of indemnification provisions that may appear in a contract, such as an indemnity for (1) breach of contract, (2) breach of fiduciary duties, (3) violation of law, (4) conflict of interest, (5) improper lobbying, (6) confidentiality violations, (7) privacy violations, (8) general liability, and (9) intellectual property infringement. However, the most common two indemnifications in a contract are indemnifications for (a) general liability and (b) intellectual property infringement.

A general liability indemnification clause is used in a contract because it

- (1) **Provides** a contract remedy to supplement the tort/common law remedy;
- (2) **Allows** for the recovery of reasonable attorneys' fees, defense costs, investigation expenses, discovery costs, and court costs;
- (3) **Can be used** to shift the risks; and
- (4) **Solves** the problem of applying the state law of pure and modified contributory negligence type states (such as Alabama, Maryland, North Carolina, and Virginia).

An intellectual property infringement indemnification clause is used in a contract because it (1) provides a contract remedy to supplement the other remedies; (2) allows for the recovery of reasonable attorneys' fees, defense costs, investigation expenses, discovery costs, and court costs; and (3) can be used to shift the risks.

During my 30-year contracts career, I have gradually developed an indemnification checklist of 40 tips that I routinely refer to before I either review or draft a general liability indemnification clause or an intellectual property infringement indemnification clause. Such a checklist aids in not overlooking important issues.

The contractual position that one takes on indemnification issues often depends whether one is the "indemnitor" (the one giving the indemnification) or the "indemnitee" (the one receiving the indemnification). There are many aspects to consider—the most helpful of which are listed below.

General Liability Indemnification

1. Is it a first-party indemnification (loss suffered directly by indemnitee) or third-party indemnification (loss suffered by indemnitee resulting from a third-party claim against indemnitee)? Which indemnification is the most appropriate?
2. Is it (a) limited indemnification (indemnitor indemnifies indemnitee from any loss resulting from the indemnitor's acts or omissions but only to the proportional extent arising out of indemnitor's negligence); (b) intermediate indemnification (indemnitor indemnifies indemnitee from any loss resulting from the indemnitor's acts or omissions unless caused by indemnitee's sole negligence or indemnitor indemnifies indemnitee from any loss resulting in whole or in part from indemnitor's acts or omissions) or (c) full/broad form indemnification (indemnitor indemnifies indemnitee from any loss, even to the extent caused by indemnitee)? Which indemnification (limited, intermediate, or full) is the most appropriate?
3. Who are all the parties (indemnitees) being indemnified? Is it a specific indemnitee or broad classes of entities?
4. Does the indemnification only apply to "finally awarded" matters?
5. Has a proper notice process been established to allow the indemnitee to give the indemnitor timely notice of a claim or liability so that the indemnitor can properly defend against the claim or liability?
6. Is it stated that the indemnitee will cooperate with the indemnitor in the indemnitor's defense efforts?
7. Does the limitation of liability clause of the contract contain a carve-out for the indemnification provision?
8. Should the indemnification be bilateral or unilateral?
9. Does the indemnification contain "hold harmless and defend" language?
10. Are bodily injury, illness, death, property damage, and property destruction damages indemnified?
11. Does the indemnification allow the indemnitee to recover reasonable attorneys' fees, defense costs, investigation expenses, discovery costs, and court costs?
12. Are the indemnification provisions located in a single con-

tract clause or are they nested throughout the contract?

13. Does the indemnification cover both actual and alleged claims?
14. Can the indemnitee undertake its own defense if the indemnitor fails to do so?
15. How does the indemnitor's indemnification interact with the indemnitor's required insurance coverage under the contract (such as contractual liability coverage, additional insured endorsements, and waivers of subrogation)?
16. How does a contractual waiver of indirect damages (i.e., consequential damages) affect the indemnification?
17. Is the indemnification enforceable in the applicable jurisdiction(s)?
18. What is missing? Don't assume.

Intellectual Property (IP) Infringement Indemnification

19. Who are all the parties (indemnitees) being indemnified? Is it the specific licensee/indemnitee or broad classes of entities?
20. Is the indemnification limited to "existing" IP?
21. Is the indemnification limited to "United States" IP?
22. For foreign transactions, is the indemnification limited to only the countries where the IP will be used?
23. For foreign transactions, is the indemnification IP composed of more than patents and copyrights?
24. Does the indemnification only apply to "finally awarded" matters?
25. Is the indemnification voided if the licensee/indemnitee improperly modifies the IP-protected item and such indemnitee modification causes the IP infringement?
26. Is the indemnification voided if the licensee/indemnitee requires the indemnitor to modify the IP-protected item and such indemnitee directed modification causes the IP infringement?
27. Has a proper notice process been established to allow the indemnitee to give the indemnitor timely notice of a claim/liability so that the indemnitor can properly defend against the claim/liability?
28. Is it stated that the indemnitee will cooperate with the indemnitor in the indemnitor's defense efforts?
29. On notice to the indemnitor by indemnitee of an IP infringement claim against the indemnitee, will the indemnitor (a) make the IP-protected item non-infringing; (b) obtain a suitable license for the indemnitee to continue to use the IP-protected item; (c) provide indemnitee with a functionally

equivalent IP-protected item; or (d) return to the licensee/indemnitee either the full or prorated license fees?

30. Does the limitation of liability clause of the contract contain a carve-out for the indemnification provision?
31. Should the indemnification be bilateral or unilateral?
32. Does the indemnification contain "hold harmless and defend" language?
33. Does the indemnification allow for indemnitee's recovery of losses, damages, expenses, and liabilities? Does the indemnification allow the indemnitee's recovery of reasonable attorneys' fees, defense costs, investigation expenses, discovery costs, and court costs?
34. Are the indemnification provisions located in a single contract clause or are they nested throughout the contract?
35. Does the indemnification cover both actual and alleged claims?
36. Can the indemnitee undertake its own defense if the indemnitor fails to do so?
37. How does the indemnitor's indemnification interact with the indemnitor's required insurance coverage under the contract (such as contractual liability coverage, additional insured endorsements, and waivers of subrogation)?
38. How does a contractual waiver of indirect damages (i.e. consequential damages) affect the indemnification?
39. Is the indemnification enforceable in the applicable jurisdiction(s)?
40. What is missing? Don't assume.

The next time you draft or review a general indemnification clause or an intellectual property infringement indemnification clause, use this checklist to brainstorm the applicable issues. You will be surprised how many important issues it will generate for internal and external discussion and resolution. **CM**

Endnote

1. Wikipedia contributors, "Indemnity," Wikipedia, The Free Encyclopedia, <http://en.wikipedia.org/wiki/Indemnity> (accessed September 20, 2006).

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