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Leveraging CLM Systems for

Contract Obligation & Risk Management

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Obligations Defined

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The Cost (& Opportunity) Relationship With Obligations

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Obligations Deconstructed

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How Does AI Help With Obligations?

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Contracts 365 Intro And Demonstration

Introductions

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Obligations Defined

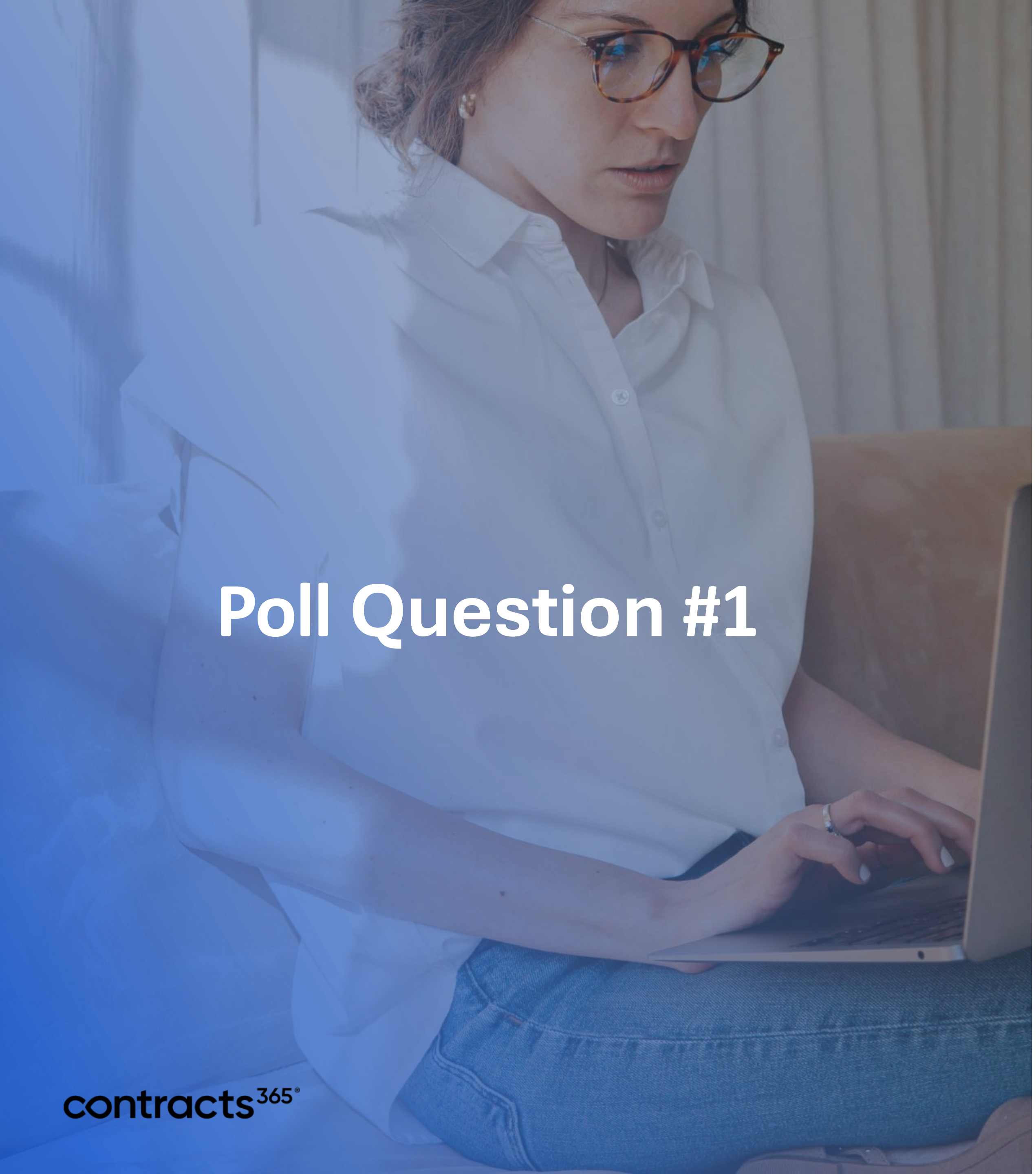
OpenAI

Source

A **contract obligation** is a **duty or responsibility that a party is legally required to perform under a contract**. These obligations are created when two or more parties enter into an agreement and outline **what each party must do—or refrain from doing—in order for the contract to be fulfilled**.

Key Points:

- **Legally binding:** Once a contract is executed, obligations become enforceable by law.
- **Mutual responsibilities:** Each party typically has specific performance requirements (e.g., deliver goods, pay money, provide services).
- **Defined in the contract:** Obligations come from the terms, conditions, and clauses written into the contract.
- **Failure to perform:** Not meeting a contract obligation may result in a **breach of contract**, which can trigger remedies such as damages or termination.



How Do You Currently Manage Your Obligations?

- I don’t manage them
- Spreadsheet
- Database
- Optimized Obligation Management
- Other

Industry Data Point

58%

Percentage of respondents who rely on manual tracking systems for monitoring and measuring—and this group is significantly less likely to enforce terms.

World Commerce & Contracting

Source

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The Cost of Missed Obligations

Company	**Johnson & Johnson**
Counterparty	**Emergent BioSolutions**
Obligation Missed	Early termination / failure to meet manufacturing agreement obligations
Amount Paid	$50,000,000
Notes	Settlement paid to Emergent over COVID-19 vaccine manufacturing contract issues

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The Cost of Missed Obligations

Company	**Fluor Corp.**
Counterparty	**Santos & Partners**
Obligation Missed	Overpayment dispute / failure to meet engineering & construction obligations
Amount Paid	$692,000,000
Notes	Court ordered repayment related to Gladstone LNG project

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The Opportunity of Missed Obligations

Company	**Mercer (US) LLC**
Counterparty	**Defense Health Agency**
Obligation Missed	Billing staff at incorrect labor categories under contract
Amount Paid	$456,796
Notes	Self-reported; settled under Contract Disputes Act

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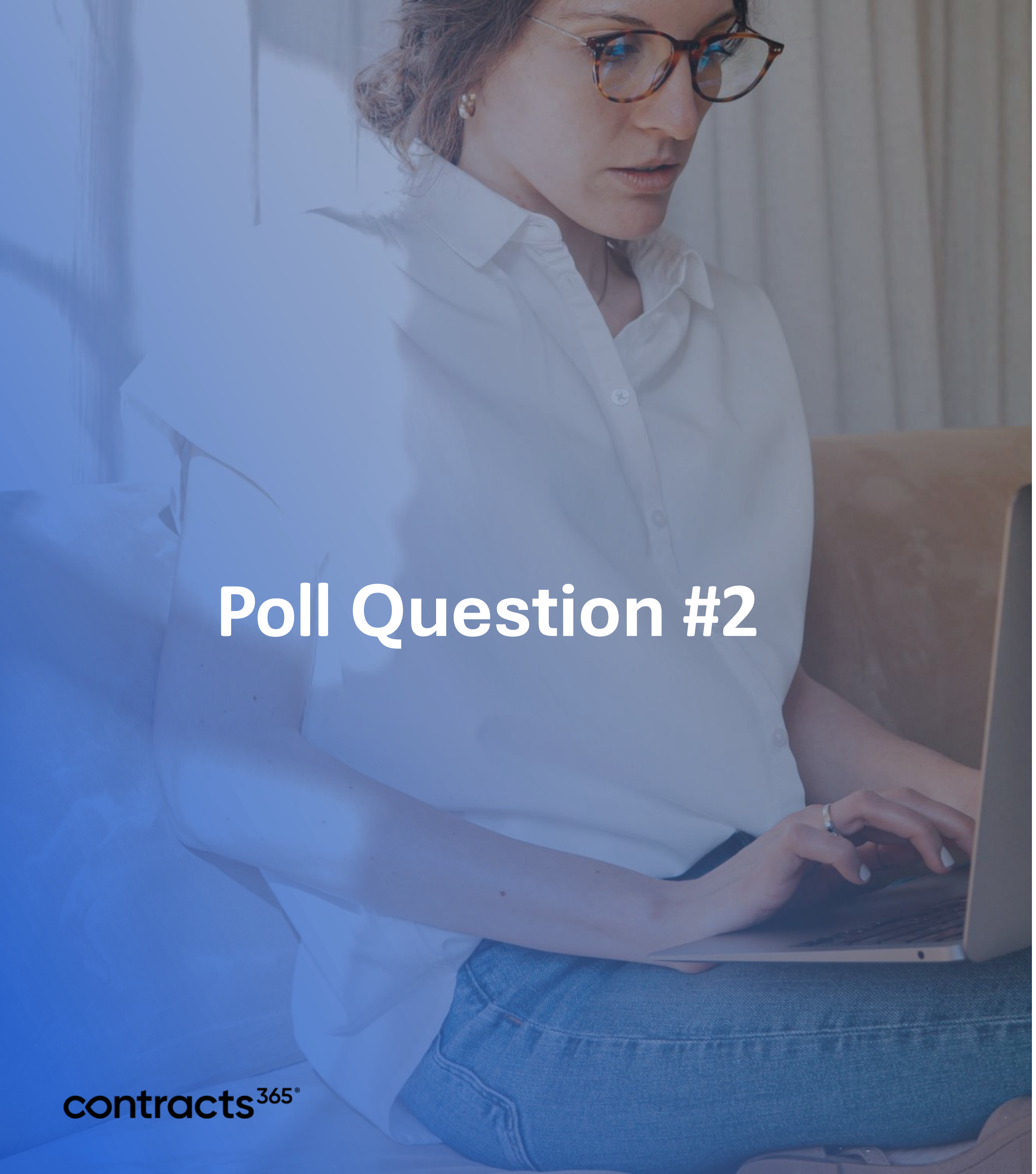

Poll Question #2

Who Is Responsible For Addressing Your Obligations?

- Contract Managers
- Requestors
- Project Managers
- Account Managers/Sales Members
- Other

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Obligation Data

Creating Obligations

Obligation Automation

Obligations Disrupted

The Impact of Obligations

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Obligation Data

What type of data is typically associated with Obligations and how this can materially influence contract compliance?

Common Obligation Data

- **Who** – Responsible person for obligation compliance
- **Escalation** – Escalation timing/process/person for non-compliance
- **What** – What is involved in satisfying the obligation
- **When** – When is obligation completion due
- **Status** – What is the status of the obligation
- **Risk Level** – Identify risk level to manage and track and report
- **Affected Contract(s)** – Identification of Affected Contracts

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Creating Obligations

Obligations can be created using a variety of methods. We have found that these three “Levels” best represent the key creation approaches.

Level	Description
3	**Level 3 Obligation Management is event-based.** The concept of an “event” can generally come in two forms: • “State Change” – When a contract record (or supporting document) has changed to a certain status or • “Event Initiation”– When a “Key Event” is created. In either case, L1 or L2 obligations would then be automatically generated from Obligation Templates.
2	**Level 2 Obligation Management allows for recurring series to be defined** and for obligations to be scheduled out over a period of time without having to manually enter each obligation.
1	**Level 1 Obligation Management** allows organizations to: • Manually enter obligations • Evidence the obligations by providing documentation • Provide an automated notification / alert for obligations • Make the obligations available for reporting

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Level 3 | Examples

Contract "State-Change" Events

Contract Moves to **Active** State

- Customer Checkpoint
- Monthly or Quarterly Financial Reports
- Facility Inspections

Contract **Expiring** In 30 Days

- Exit Interviews 15 Days Prior to Expiration
- Collection or Destruction of Confidential Information

Key Events

Business Events

- Strategic Acquisition
- Key Supplier Acquired
- New Office Opened

1. Initiate Confidentiality Agreement
2. Due Diligence
3. Term Sheet Drafted
4. . . .

Crisis Events

- Security Breach
- Hostage Situation
- Pandemic

1. In-Person Office Policy Updated & Released
2. Communications to Suppliers & Customers
3. . . .

Obligation Automation

The Automation of Obligations is closely linked to Level 2 and 3 Obligation Creation.

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Automation Factors

- **Automated Alerting & Escalation** – Standardized approach for automatically generating email notifications, escalations, obligation status changing and risk adjustments to reflect the state of obligations
- **Evidence** – Obligations may need some type of documented proof to demonstrate or "evidence" that the obligation has been satisfied
- **Skip Date Logic** – Sophisticated Day/Date logic is important when automatically generated Obligation which fall on weekends and or holidays
- **Master Definitions** – When employing Level 3 Obligations, "Master Definitions" are needed to establish standard sets of obligations and obligation series
- **Beyond "The Obligation"** – Event-Based Obligation Management can often introduce other data elements that require management and inclusion in the overall obligation strategy

Obligation Disrupted

Obligations are typically established when a contract is executed. However, the dynamic nature of supplemental documents (SoWs, Amendments, Exhibits, etc.) can impact Obligations at any level.

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What Happens When…

- **Extensions** – Extend the Term of a Contract and thus, the number of Obligations to be satisfied
- **Termination** – Similar to the Extension, a Termination should automatically cancel designated obligations in-flight
- **Amendments/Exhibits/SoW, etc.** – New adjustments to the contract may alter the composition of the obligations
- **Ownership Adjustments** – Accommodating personnel changes for ownership of obligations

The Impact Of Obligations

The "**Angry**" Path May lead to **liability** and **exposure**…

Obligation Not Satisfied → **Risk Is Established** → **Impacts P&L & BS Negatively**

The "**Happy**" Path may lead to **increased revenue** and **reduced risk**

Obligation Processed On A Timely Basis → **Risk Avoided** (Potential Revenue Increase) → **Impacts P&L & BS Positively**

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AI & Obligations

How can AI be used to optimize
the management of obligations now
and into the future?

Today…

- **Automated Obligation Extraction –** AI can now be successfully used to extract obligations and save them into your CLM repository. This is especially beneficial for third party contracts where obligations may be buried in the prose of a contract.
- **Once Saved –** CLM Obligation Processing functions should automatically initiate for proper notifications and alerting.

Tomorrow…(Literally)

- **Obligation Summary –** Let AI provide summaries of Obligations as a supplement.
- **Outcome Predictions –** AI is used to predict potential exposure when Obligations are not satisfied with automated links into reporting and notifications.

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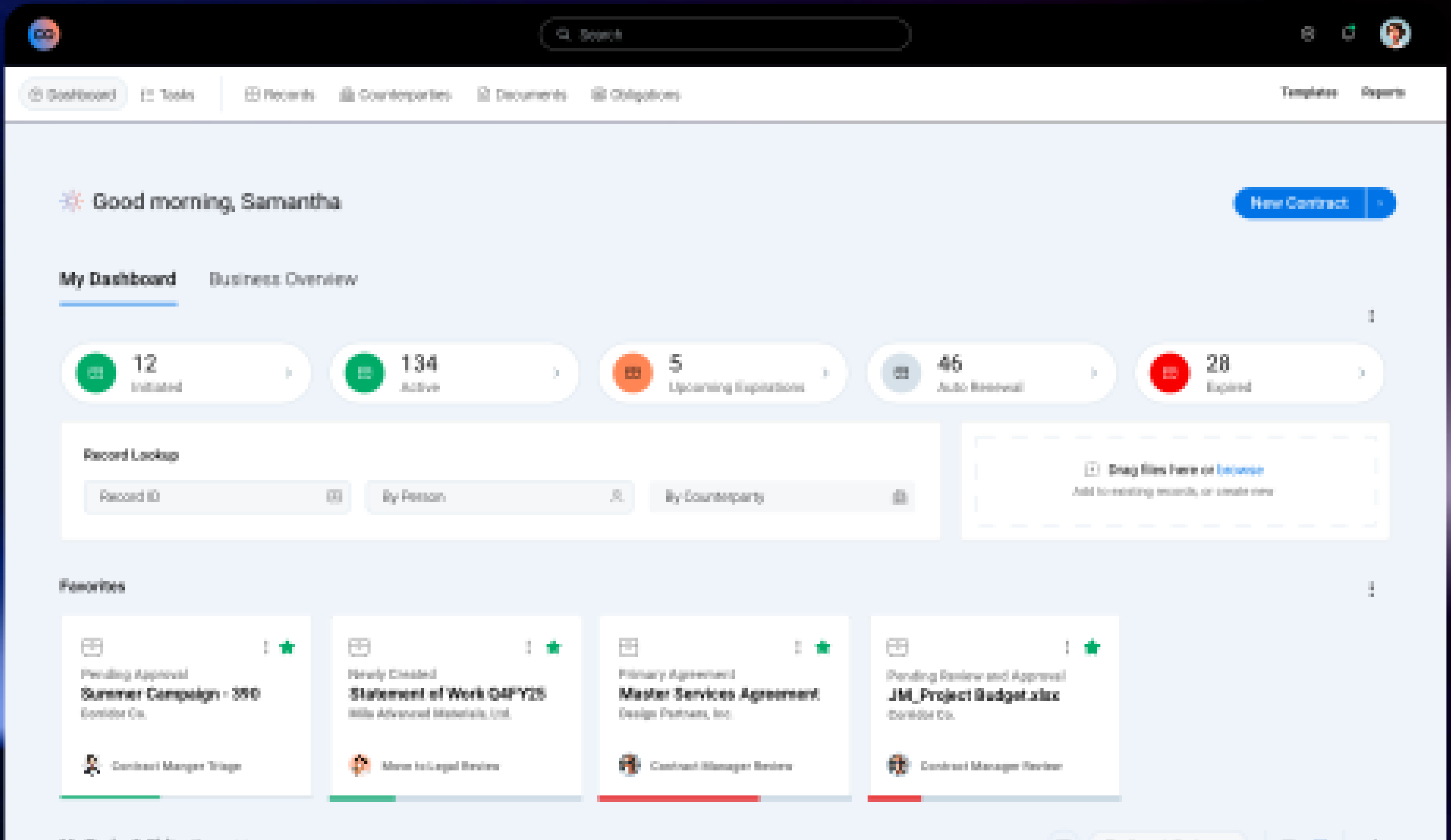
Powerful contract management software for businesses that run Microsoft 365.



After 20 years in business supporting a variety of global brands, we have arrived at one fundamental truth:

Technical success <u>does not equal</u> business success

That’s why we built Contracts 365 differently, from the ground up.

PLATFORM

Microsoft 365®

PEOPLE

User Experience

PROCESS

Customer Success Journey

NO CODE

Ready-To-Use Solution

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SAAS USER EXPERIENCE

Architected for organizations that have embraced the Microsoft vision.

- Purpose-built for contract management
- Modern user experience & extremely easy to use
- Highly configurable for most use cases

Microsoft 365

CONTRACT REPOSITORY

Contract storage in your Microsoft 365 cloud.

- Retain ownership of your contracts & data
- Increased security, visibility, control
- Vetted by your IT & Sec leaders
- Rapid adoption of data governance policies

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Works in all Microsoft cloud environments

Dynamics 365 | Power Platform | Microsoft 365 | Microsoft Entra ID | Microsoft Azure

Leverages apps people use every day

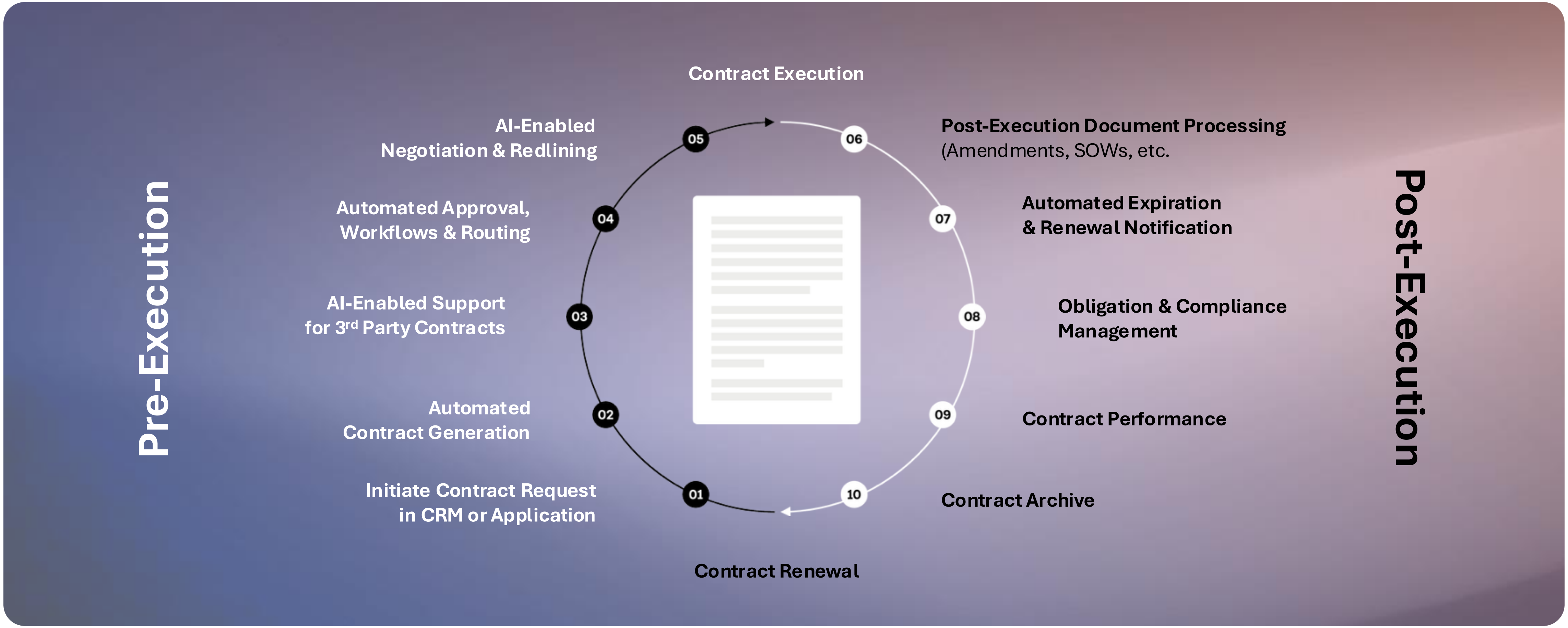
Key integrations make contract workflow easier

salesforce | Adobe Sign | DocuSign

Advanced AI, data and security services

OpenAI | Microsoft | Microsoft Defender | Microsoft Sentinel

Delivers greater efficiency for all contract lifecycle activities



Centralized & Secured Repository	Dynamic Reporting	Role-Based Dashboards	Integration With Other Systems

Easily handles any type of contract.

Buy Side

Agency Agreements
Business Associate Agreement
Clinical Trial Agreement
Confidentiality (Non-Disclosure) Agreement
Consulting Agreement
Equipment Purchase Agreement

Sell Side

Confidentiality (Non-Disclosure) Agreement
Customer Master Services Agreement
Equipment Sales Agreement
Framework Agreement
Settlement Agreement

Employment

Employment Agreement
Employment Services
Separation Agreement

Distribution & Partnerships

Distribution Agreement
Partnership Agreement
Resell Agreement

Real Estate

Construction Agreement
Facilities Agreement Investor
Side Letter Lease Agreement
Property Mgmt. Agreement
Property Services Agreement

Corporate

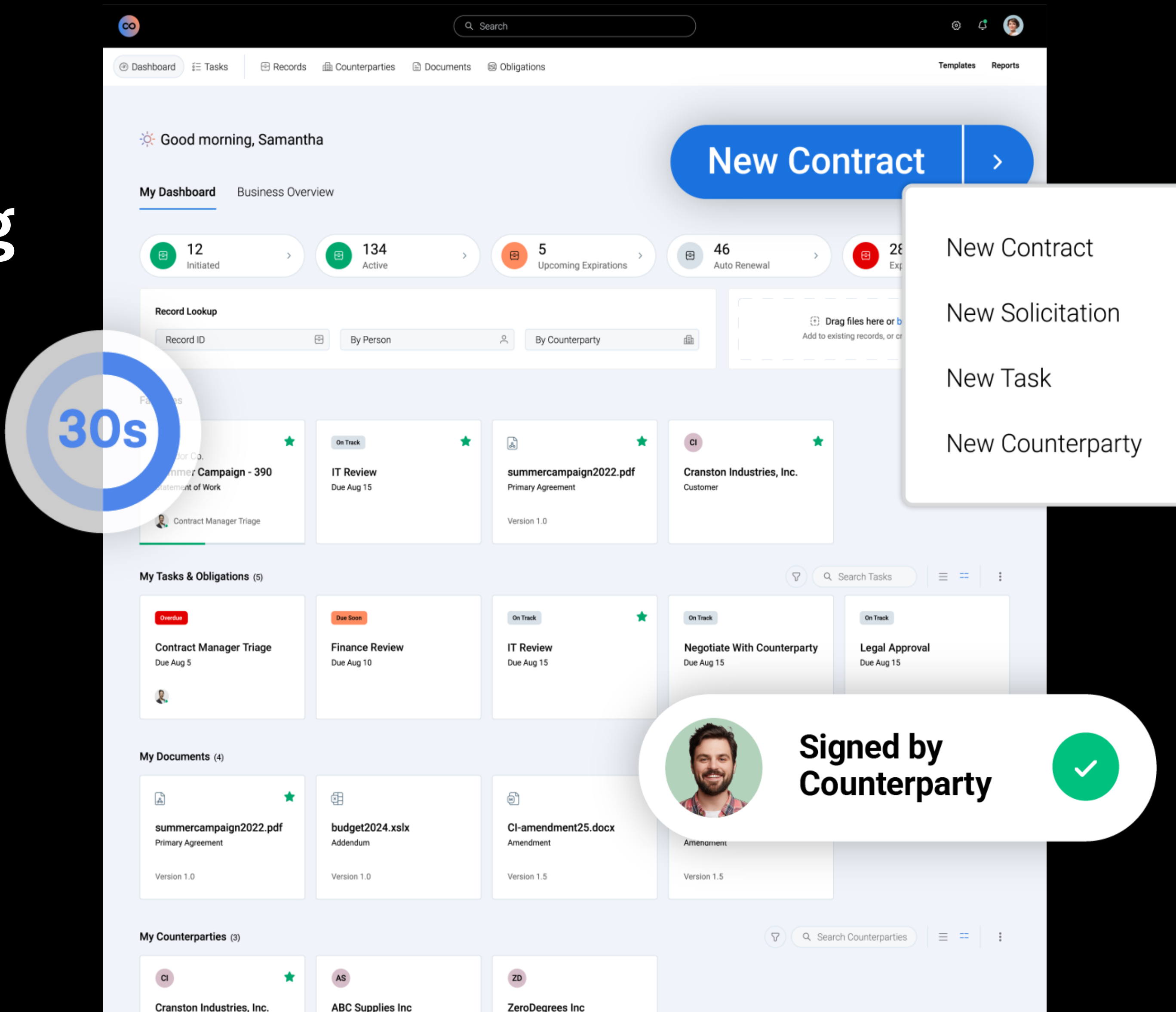
Banking Services Capital
Investment Agreement Joint
Venture Agreement

Our Next Webinar

Practical, Role-Based Reporting & Dashboarding for Contract Management

December 18th • 11:00am EST

Reserve Your Spot



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How Can We Help?

Questions?

Drop us an email: info@contracts365.com

Contracts 365 Obligation Demonstration

DEMO

L1 & L2 Obligations

- Intro To C365 Dashboards
- C365 Detail Page & Obligations
- Exploring Contract Specific Obligations

DEMO

L3 Obligations & More

- Master Obligation Templates
- Obligation Dashboards
- Obligation Reporting
- When Obligations > Risks

DEMO

AI For Obligations

- How AI Companions Find Obligations
- Saving Obligations To Contracts
- Viewing Contract Details

Thank you!

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