

Analyzing AI Vendor Contracts

AI tools entering enterprise workflows with novel legal risks

Most agreements one-sided, AI Vendor focused

Law is evolving slowly, risks are coming in fast

AC by Alex Chizhik, Esq.





You Should Know That:

over 90%

of AI vendors contracts grant them very broad data usage rights

less than 1/3

of AI Vendor contracts provide protections from 3rd Party IP claims

under 20%

of AI Vendor Contracts commit to regulatory compliance

(Stanford Law School Article "Navigating AI Vendor Contracts and the Future of Law: A Guide for Legal Tech Innovators")

Contract Clauses in the Spotlight:

Use and Ownership of Inputs & Outputs

Make sure you maintain control over your data and your intellectual property.

1

Compliance with Privacy and Other Regulations

Get the assurances you need on compliance with applicable laws and regulations.

3

Warranties and SLA

What if it goes down or hallucinates?

5

2

3rd Party IP Infringement

Indemnification for AI Vendor's misuse of 3rd party data, patents, copyrights, or trademarks.

4

Liabilities & Limits

Understand the limits on AI Vendor's exposure to you and protect your business from uncapped exposure to others.

6

Regulatory Audit Compliance

Does the AI Vendor policies and practice meet regulatory requirements that apply to your business?



Use of Inputs & Ownership of Outputs:



Input Risks

- Disclosure to third parties
- Loss of confidentiality
- Privacy violations



Input Solutions

- Prohibit training use
- Full privacy protections
- Allow only anonymized data



Output Ownership

- Clear IP assignment language
- Strong IP infringement indemnity

IP Indemnification & Compliance:

Standard Indemnification
Typical for IT Software Contracts

Regulatory Compliance
HIPAA, GLBA, CCPA, FISMA, EU
GDPR, EU AI Act, etc. What about
future regulations?



Limited Indemnification
Copyrights but not Patents

No Indemnification
Well... You are on your own

Other Critical Protections:

1 Data Deletion (Inputs and Outputs)

What regulations apply to your business?

Consider: Data deletion after contract ends or after outputs are delivered

2 Warranties

Will the Vendor comply with deliverable specifications?

Can hallucinations be prevented or minimized?

3 Security & Privacy

What exists v. what you need?

4 SLA & Liability

Will downtime impact your business?

Demand SLA of 99.9%+

What are the consequences for SLA failures?



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