

# LEGAL CORNER



SECURITY SYSTEM  
CONTRACT ISSUES

## **Automatic Extension Clauses: Are They Enforceable?**

Clients often ask me a variety of questions regarding what they refer to as the "boilerplate clauses" in security system contracts. "Boilerplate" is a term often used to describe the standard, general terms in any legal agreement that don't relate to the business deal itself. I, personally, don't like to use the term, because it implies that these clauses are not subject to modification and are somehow "standard" or non-negotiable. Many times that is not the case.

Take, for example, the automatic extension clause included in most monitoring contracts. I have seen many contracts that provide for automatic extension (unless one party or the other notifies the other within a certain period of time before expiration) with a follow-on term that is equal to the original term. In other words, if the original term is one year, then the extension(s) would be for one year, and likewise for a five year initial term - five year extensions.

There is no hard and fast answer about the enforceability of such a clause, in that there is no direct statute that governs automatic extensions. All contracts are subject to an overall test of "reasonableness," however. In my opinion, an automatic extension of one year is almost certainly reasonable. I would question automatic extensions of, say, ten years. Anything in between is in a gray area.

My advice is certainly to have an automatic extension clause in your agreements. I would not necessarily have them follow the initial term, however, if it is for a period of longer than one year. Then, it would, better to specify a fixed extension of one or two years.

Mr. Gottlieb is a legal specialist in the security and fire protection industry. He provides contracts and other legal forms, and advises on legal compliance matters.

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