

Critical Issues in Software Licensing

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Key Factors for Successful Software Agreements

- Clear description of services to be provided by the software
- Meaningful acceptance criteria
- Accurate, well-defined "metrics"
- Meaningful service levels
- Meaningful service level credits
- Maintenance and support levels; response time

Key Factors – 2

- Require continuation of maintenance during pendency of dispute
 - For injunction proceeding, characterize maintenance as maintenance of status quo rather than affirmative relief
- Avoid too much shared responsibility
- Avoid uncoordinated amendments
- Users should avoid paying too much money upfront

Key Factors – 3

- User should have right to terminate for convenience
- Shared expectations
 - Problem of gold/silver problem
- Run good negotiation and contract process
- Ease of contract administration by non-lawyers

Service Level Agreements

- Establishing base levels
- Careful definitions: “availability” as an example
- Care in selecting measurement periods
- Care in selecting what is excluded from period

Drafting Issues and Litigation

- User has reason to have New York law govern
- “Best efforts”
- Cause of action for “negligent misrepresentation” under N.Y. law
- Cause of action for failure to “diligently perform”
- Breach of covenant to negotiation in good faith

List of Phases in Software Development Agreement

1. Analysis
2. Design Phase
3. Development Phase
4. System Testing
5. Acceptance Testing
6. Stress Testing
7. Implementation

List of Phases – 2

8. Post-implementation

9. Warranty Period

10. Ongoing Maintenance and Support, Upgrades

11. Subsequent SOWs for new projects

Separate Confidentiality Agreement

- Easier to enforce
- Comprehensive and covers disclosures before final agreement is signed
- Correct legal team involved
- Prevents against confidentiality being undercut in subsequent Statement of Work, other amendments
- FRP responses

Coverage of Confidentiality Agreement

- Both parties' proprietary information
- Assessments made by vendor of customer's system
 - Includes written reports of weaknesses
- Other reports made during term of software development or other agreement
- Intellectual property
 - Include improvements made during contract

PII and Confidentiality

- Standard exceptions to confidentiality obligations cover publicly available information
- Customer may have obligation to keep personally identifiable information ("PII") confidential even though publicly available
- Standard exceptions would allow vendor to disclose PII

PII and Confidentiality – 2

- Solution: obligation to keep PII confidential notwithstanding exceptions
- Possible vendor objection: it already has same PII, and free to disclose it because of consent
- Solution: exception to exception for PII independently disclosed to vendor
- Caution: different business units of large vendors or customers

Published IP and Confidentiality

- Confidentiality agreements cover IP but some IP may be publicly available
- Some parties will want exception for issued patents even though are arguably in public domain
- Consider requiring maintaining confidentiality of patent applications that are published under new laws

Relationship between Master Agreement and SOWs

- Problem: potential to lose advantages negotiated in master
- Why? Non-lawyers may draft subsequent documents; vendor (or user) forms used
- Solution: have master agreement control in event of a conflict
- Provisions of concern: representations and warranties, service levels, credits, confidentiality, indemnity, IP ownership

Litigation Caution

- Litigations arise over perceived difference between what was delivered vs. what was promised, generally involving:
 - Scope
 - Functionality
 - When delivered
 - Price
- Disputes are fact intensive; implicate SOW
- Constitute reason for lawyers to draft SOW

RFPs

- Problem: vendor “agreement” to key business and legal terms becomes watered down in final contract
- Require response from proposed vendors to actual terms and conditions, service level requirements, service level credits; representations and warranties
- Risk to vendor: disclosure of confidential information and pricing to competitors

Intellectual Property Definition

- Use broad, technically accurate definition of each type of IP right – see course book page 474 for definition
- Include right to sue for past infringement if needed
- Database status under different legal regimes
- Include nontraditional items: Javascripts, domain names, materials in HTML or XML; design documents, testing scripts

IP Problems of Improvements and Joint Developments

- Improvements – do improvements swallow the customer’s underlying work?
 - Need contractual provision
- Copyright work made for hire rules
- Joint development – difference between authorship and inventorship
 - Idea/expression dichotomy
 - Inventorship/mechanics’ “pair of hands”
 - Different copyright and patent results

Problem of Joint Ownership of Patent Rights

- Practicalities of joint ownership undercut joint ownership as a solution
- One party can control prosecution, and thus determine content of patent claims to disadvantage of the other party

Licensing of Jointly-Owned IP

- A joint owner could license the patent to a competitor of the other joint owner, when the latter party would not do so if it were the sole owner of the patent
- License restrictions must be negotiated up front
- Similar issue with copyright
- But authorship and inventorship are different

Technology – Neutral Deliverables

- Problem: being locked into outsource provider
- Customer objective: flexibility to take function inhouse or transfer to new vendor
- Solution: data in technology-neutral format
 - Alternative: in customer's specialized format
- Similar problem with vendor's proprietary software
- Reports should also be in standard format

Timing of Upgrades and Maintenance

- Problem: impact on customer business; service levels
- Solution: schedule for off-hours
- Cap duration during those hours
- Problem of global operations of customer

Technology Escrow

- Source code, design documents, protocols, maintenance tools, test programs; what is required to continue maintenance
- Update code; periodic data dumps
- Names of programmers
- Modify no-hire provisions
- Provide full IP license upon release
- Trigger release on pre-bankruptcy failures
- But not always need escrow (e.g. web tracking)

Right to “Use”

- “Use” means the right under Vendor’s Intellectual Property Rights to use, make, install, operate, compile, run, reproduce, deploy, distribute, transmit, display, perform, create derivative works of, make available on servers and otherwise, integrate with software and make a reasonable number of backup copies, and use, install and reproduce the same as necessary for temporary use at a backup or disaster recovery location during the pendency of, or a limited period as part of contingency planning or testing of, a disaster or emergency.

Definition of Internet Services

- Customer will want to capture all interactive technology, including wireless, cell phone, future technology
- Vendor will want to limit to avoid loss of future contracts and obligation to develop advanced technology

Internet Services Definition

- “the Internet, Internet 2, intranets, extranets, websites, portals and services and platforms thereon, cable, cellular, wireless and two-way networks, interactive platforms and services, and other technologies, means and modes for or of dissemination and receiving content [assuming defined] whether now known or hereafter developed”

Intellectual Property

- Assignment and cooperation obligations
 - Timely cooperation
- Exclude IP disputes from arbitration to preserve right to injunctive relief
- Highlights general importance of post-signing contract administration

Post 9/11

- Background checks on employees
 - Credit card information
 - Confidential information of customer's customers
- Screening of code before use to avoid sabotage
 - Supervisor review
 - Third party outsourcer to review
 - Employee to test
- Force majeure – make part of disaster recovery

Termination and Transition Services

- Terminate for cause and convenience
- Need transition services
- Coordinate with end of agreement provisions
 - Continuing license, for example
- Pay higher rates

Customer's Computer Security

- Vendor's connection to customer system presents risk of
 - Unauthorized access by vendor, subcontractors, third parties
 - Virus
 - Misuse of customer information by vendor's employees
 - Unauthorized access to part of customer's system by vendor

Security Solutions

- Passwords – owned, issued and revoked by customer
- “Least Privilege” principle
- Authorized gateways only
- Require specified “access controls”

Contractual Solutions

- Security Schedule that specifies
 - security issue
 - customer's standards for each issue
 - what technology vendor will use
 - what practices vendor will follow
 - implementation timing
- Rights, remedies, escalation steps
- Importance of change management procedures

Customer's Right to Audit

- Audit each function
- In person audit
- Electronic audit, self-hacking
- Shared server vs. unannounced audits
- Cooperation required from vendor:
 - Assistance of supervisors
 - Availability of logs, records

Types of Audits

- Security audits
- Service charge audits
- Service level audits
- Infrastructure audits
- Confidentiality of audit results
- Logs
- Backup materials

Knowledge Base

- Knowledge base to capture lessons learned during performance of contract
- Allow customer to take service inhouse or transfer to another vendor

Customer Materials

- Protect ownership (call center scripts, proprietary software, methodologies, training materials, guidelines)
- IP vehicle = license
- Also materials created for customer by vendor
- Problem of residual rights
- Confidential vs. private

Small Providers – Risks

- Risk of bankruptcy
- Undisclosed ownership
- Competitor = another customer
- Dedicated team = “B” team
- Undisclosed subcontractors, partners
- Assignment to rejected provider
- IP ownership

Small Providers – Solutions

- Require identification of key investors, owners
 - Notice of changes; including change of name
- Require notice of competitor becoming customer
 - Option to terminate
 - Agreement not to work for competitor
- Customer has right to match investment
- First look right; priority customer

Contractual Dispute Resolution

- Contract to provide dispute escalation for problem resolution
- Goal is to get dispute elevated high enough, quickly enough in executive ranks to reach person who is not emotionally involved and has authority
- To encourage settlement, require meetings for 30-45 days before arbitration can be commenced

What Vendors Dislike About Arbitration

- Limited discovery – need time to develop facts
- Limited time – need time to develop story and raise legal defenses
- Limited right of appeal – wild card of arbitration

Key Help Desk Issues

- Severity level schema for problems
- Different support level groups (Level 1, Level 2)
- Escalation rules
- Right of user to escalate to Level 2 regardless of rules
- Staffing hours vs. phone access for different levels
- Customer remedies

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Questions and Discussion