

Minimizing Risk in Technology Agreements

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Types of Agreements and Key Considerations

- **Software License Agreements**
 - › Scope of granted rights, assignability, support, upgrades, limitations of liability, warranties.
- **OEM / Distribution Agreements**
 - › Financial considerations, field of distribution, exclusivity, geography, ease of termination, protection of revenue stream on transfer/assignment,
- **SaaS Agreements**
 - › Indemnities, security, access to source code, termination assistance
- **Development / Services Agreements**
 - › Risk and project management, IP ownership

License Grants – Key Considerations

- Scope
 - › Carefully consider addition and definition of “Affiliates”, as this may result in a much larger universe of licensees
 - › Field of Use and Geography limits
 - › Use of data (aggregated and anonymous)
 - › Permitted Purpose and Internal Use
- Perpetual versus Irrevocable
 - › Perpetual continues indefinitely *absent breach or other termination*
 - › Irrevocable continues indefinitely without ability to terminate
- License to use, copy, etc. versus “right to access and use” in SaaS agreements
 - › Bankruptcy ramifications

IP Ownership – Default Rules

- Copyrightable Subject Matter (e.g., content, software)
 - › Considered work for hire when employees are acting within the scope of employment (very fact specific).
 - › Considered owned by contractor when done by non-employee
- Patentable Subject Matter
 - › Owned by individual absent agreement or assignment otherwise
- Trade Secrets
 - › Maintained so long as reasonable practices maintained

IP Ownership Considerations

- Fulsome IP/Conf. Agreement for Employees with present tense assignment language (“and I hereby assign ...”)
- Detailed IP assignment provision for outside developers
- Clearly define IP “buckets” in development agreements
- Residual provisions
- Consider data resulting from use

Assignment / Change of Control

- What if the Agreement is silent on assignment?
 - › Agreements are freely transferable unless a statute or public policy provides otherwise, or there are material adverse consequences to the non-assigning party (e.g., a personal service contract).
 - › IP Licenses: Generally, freely assignable by licensor, but licensee's rights are presumed to be not assignable without licensor's consent, although in some instances, courts have found that a licensee may assign an exclusive license, under the reasoning that an exclusive license represents the grant of a property interest rather than a mere contractual right to use the IP.
- Understanding the transaction structure under state law:
 - › Typically, an agreement is considered "assigned" in an asset sale
 - › Typically, an agreement is not considered "assigned" in a stock sale or merger
- State law interpretations apply with respect to mergers as well:
 - › Forward mergers may be implicated by prohibitions on the assignment or transfer of an agreement "by operation of law or otherwise"
- Beware of effect on ongoing revenue streams for reseller agreements

Indemnification

- Limit to third party claims and assess risk profile of indemnification categories
 - › ABC hereby agrees to indemnify, defend and hold harmless the Customer and its affiliates employees, staff, officers, directors, agents and permitted successors and assigns from and against all damage, liability, cost or expense (including reasonable attorneys' fees) ("Liabilities") incurred **as a result of a third party claim** directly arising from: **(i) the gross negligence or intentional misconduct of ABC or its employees and or contactors; (ii) ABC's material breach of any provision, representation, warranty or other covenant in this Agreement; and (iii) allegations that the Software infringes the intellectual property rights of a third party.**
 - › Other potential categories:
 - Property damage and personal injury (including death) arising as a result of ABC's actions under this Agreement
 - ABC's failure to comply with applicable law

Indemnification

- Licensor-friendly exceptions from indemnification related to infringement
 - › modification of the Software by any party other than ABC without ABC's express consent;
 - › the combination, operation, or use of the Software with other product(s), data or services *where the Software would not by itself be infringing*; or
 - › unauthorized or improper use of the Software
- Self-Help for Licensor (Who selects?)
 - › procure the right to continue using the Software
 - › replace or modify the Software to make it non-infringing so long as the Software has at least equivalent functionality;
 - › substitute an equivalent for the Software or
 - › if options (i)-(iii) are not reasonably practicable, terminate this Agreement.
 - › Beware for requests for refunds!

Limitations of Liability

- Limits on types of damages
 - › EXCEPT AS EXPRESSLY PROVIDED HEREIN, IN NO EVENT SHALL ANY PARTY BE LIABLE TO THE OTHER PARTY OR ANY THIRD PARTY ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, REGARDLESS OF THE FORM OF ACTION OR THEORY OF RECOVER, FOR ANY: **(A) INDIRECT, SPECIAL, EXEMPLARY, CONSEQUENTIAL, INCIDENTAL OR PUNITIVE DAMAGES, EVEN IF THAT PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES OR LOST PROFITS, LOST REVENUES, LOST BUSINESS EXPECTANCY, BUSINESS INTERRUPTION OR LOST DATA;** AND/OR (B) DIRECT DAMAGES IN AN AMOUNT IN EXCESS OF ALL AMOUNTS PAID BETWEEN THE PARTIES UNDER THIS AGREEMENT DURING THE TWELVE (12) MONTH PERIOD IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO THE CLAIM.

Limitations of Liability

- Limits on amount of damages
 - › EXCEPT AS EXPRESSLY PROVIDED HEREIN, IN NO EVENT SHALL ANY PARTY BE LIABLE TO THE OTHER PARTY OR ANY THIRD PARTY ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, REGARDLESS OF THE FORM OF ACTION OR THEORY OF RECOVER, FOR ANY: (A) INDIRECT, SPECIAL, EXEMPLARY, CONSEQUENTIAL, INCIDENTAL OR PUNITIVE DAMAGES, EVEN IF THAT PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES OR LOST PROFITS, LOST REVENUES, LOST BUSINESS EXPECTANCY, BUSINESS INTERRUPTION OR LOST DATA; AND/OR **(B) DIRECT DAMAGES IN AN AMOUNT IN EXCESS OF ALL AMOUNTS PAID BETWEEN THE PARTIES UNDER THIS AGREEMENT DURING THE TWELVE (12) MONTH PERIOD IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO THE CLAIM.**
- Could also cap the amount of damages based on a number (e.g., no more than \$1,000,000)

Termination Issues

- Licensors beware of arbitration provisions that limit ability to immediately terminate
- For SaaS-based arrangements, Licensees need to consider business continuity issues
 - › Access to data
 - › Access to functionality
 - › Traditional software escrow may not be appropriate
 - *Image Escrow. [x] shall make a machine image of the {x} products in use by [Y] in [Y]'s Amazon Web Services account. [Y] shall have access in perpetuity to such images for use in the event that: [X] ceases to produce, license and/or maintain the products; Material Breach by [X] of the maintenance terms and conditions that [X] fails to cure within fifteen (15) days of written notice of such Material Breach; a filing for bankruptcy, dissolution, liquidation, or other cessation of operations of [X] ; or termination of this Agreement by [Y] for cause.*