



Are You Protecting Your Clients in Your Information Technology Contracts?



Presented by

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Topics

- ◆ Conflicting Goals of Vendors and Customers
- ◆ Types of Information Technology Contracts
- ◆ General Contract Clauses
- ◆ IT Related Contract Clauses
- ◆ Improving Your Drafting and Negotiating Styles

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Mr. Wiemerslage's I.T. Background

- ◆ Information Technology Attorney, Fortune 100 Company, 1998 – Oct. 2003
- ◆ Information Technology Attorney, Private Practice, Fort Collins and Denver metro area, CO, Nov. 2003 - Present

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I.T. Experience

- ◆ Negotiations of master contract with SAP for \$.5 Billion project
- ◆ Purchase agreement with Dell – 12,000 PC's
- ◆ Multi-million dollar contracts with IBM, Microsoft, PwC, etc.
- ◆ Software licenses, software development contracts, hardware purchases and leases, non-disclosure agreements, etc.

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Conflicting Contract Goals for Vendor and Customer

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Contract Goals

Vendor wants:	Customer wants:
Largest Payment at Signing, balance on completion of work	• Down payment at signing, payment per milestones and final payment upon successful completion
• Provide only object code (& escrow of source code)	Get object code plus source code

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Contract Terms (cont.)

Vendor wants:	Customer wants:
• Infringement Protection for Customer but Exclusions Protecting Vendor	Infringement Protections for Customer
• No warranties	Warranties for performance, virus
• Maintenance agreement for bug fixes	Maintenance agreement for bug fixes and feature upgrades

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Contract Terms (cont.)

Vendor wants to avoid:	Customer wants:
<ul style="list-style-type: none"> Assignment of ownership of IP to Customer 	Assignment of Ownership of IP Authored by Vendor for Customer
<ul style="list-style-type: none"> Restrictions on Assignment or Subcontracting 	Right to Prohibit Assignment or Subcontracting to Third Party
<ul style="list-style-type: none"> Liability insurance 	Insurance on onsite injuries and damages caused by Vendor

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Contract Terms (cont.)

Vendor wants to avoid:	Customer wants:
<ul style="list-style-type: none"> Customer policies on harassment, drugs, alcohol 	Vendor to comply with Customer's policies while on-site
<ul style="list-style-type: none"> Prohibition on hiring customer's employees 	Right to hire Vendor's employees and avoid losing Customer's employees
<ul style="list-style-type: none"> Customer approval of press releases 	Customer Approval of all press releases

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Contract Terms (cont.)

Vendor wants to avoid:	Customer wants:
<ul style="list-style-type: none"> Maintenance of old (-2) versions of software 	Maintenance required regardless of Customer's failure to upgrade software versions
Extending rights to affiliates and subsidiaries	Contract covers customer, subsidiaries and affiliates under original price
<ul style="list-style-type: none"> Right to cure breach 	If breach by vendor, right to terminate contract

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Business Suggestions for Vendors

- ◆ Seek multiple revenue streams:
 - ◆ Software license fees
 - ◆ Support and Maintenance Fees
 - ◆ Different fees for different services or levels
 - ◆ Upgrade fees for feature upgrades, e.g., 2.0 to 3.0
 - ◆ Customer participation or payment of Customer fees for development for Customer
 - ◆ Write “once”, license to many Customers

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Types of Information Technology Contracts

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Types of Information Technology Contracts

- ◆ Confidentiality
- ◆ Evaluation
- ◆ Purchase of Software or Hardware
- ◆ License
 - ◆ End User License Agreement (EULA)
 - ◆ Enterprise License Agreement
- ◆ Services
 - ◆ Consulting, Support, Hosting, Software Development, Web site Design, Disaster Recovery

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Protect Your Client's Business with Key General Contract Clauses

(clauses not unique to I.T.)

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Protect Your Client's Business with Key General Contract Clauses

- ◆ Parties – who are included?
- ◆ Can Customer's affiliates take advantage of pricing and services?
- ◆ Assignment – is consent required?
 - ◆ Issue if Vendor or Customer is acquired by another company
 - ◆ Issue if Customer assigns contract with entire payment obligation

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Protect Your Client's Business with Key General Contract Clauses (cont)

- ◆ Arbitration
- ◆ Breach - material, notice, cure
- ◆ Choice of Law and Forum

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Protect Your Client's Business with
Key General Contract Clauses (cont)

- ◆ Confidentiality
 - ◆ What information is covered?
 - ◆ Only if marked "Confidential"?
 - ◆ Writing or also oral?
 - ◆ Share with others? With whom?

Protect Your Client's Business with
Key General Contract Clauses (cont)

- ◆ Confidentiality (cont)
 - ◆ Common exclusions:
 - ◆ Public domain
 - ◆ Already known, or
 - ◆ Independently developed

Protect Your Client's Business with
Key General Contract Clauses (cont)

- ◆ Confidentiality (cont)
 - ◆ Not commonly excluded but important to Vendor
 - ◆ Residual information of Vendor about Customer
 - ◆ Remembered, not written down
 - ◆ Not patent violation
 - ◆ Why important? Vendor's workers help multiple customers and forget where ideas came from

Protect Your Client's Business with Key General Contract Clauses (cont)

- ◆ *Force Majeure* (Acts of God)
 - ◆ More Important for Vendor than Customer
 - ◆ Excuse for non-performance (therefore not breach of contract or subject to damages)
 - ◆ Issues for Customer:
 - ◆ Time Limit on Paying Vendor for non-performance?
 - ◆ Right to Terminate after certain period of non-performance?

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Protect Your Client's Business with Key General Contract Clauses (cont)

- ◆ Indemnification of third party claims – valuable to both sides
 - ◆ Limit to Third Party Claims (exclude other party)
 - ◆ Require Legal Defense, not just indemnification of damages
 - ◆ Is prompt notice a **condition** to indemnification or merely contract obligation?
 - ◆ Procedure: What if tender of defense refused and indemitee wants to handle its defense?

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Protect Your Client's Business with Key General Contract Clauses (cont)

- ◆ Indemnification Protection for Vendor:
 - ◆ Have right to refund Customer's money or alter product to make non-infringing or get license to resolve infringement
 - ◆ Vendor need not indemnify Customer if Vendor has followed specifications of Customer & Vendor did not know infringement would result
 - ◆ Customer indemnifies for claims arising from Customer's actions and sales contrary to license

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Protect Your Client's Business with
Key General Contract Clauses (cont)

◆ Limitation of Liability

- ◆ Limit on payment by Vendor of Customer's direct damages
 - ◆ Value of contract versus value of job order
- ◆ Some contracts provide for no direct damages!
- ◆ No liability for either side for indirect, consequential, special
- ◆ But no limit for breach of Confidentiality, Indemnification for Third Party Claims, Infringement Claims, Personal Injuries, Property Damage

Protect Your Client's Business with
Key General Contract Clauses (cont)

- ◆ Termination Clause
 - ◆ Terminate for Cause or At Will?
 - ◆ Continue job order if terminate master contract?
 - ◆ Refund of Customer's Pre-Paid Payments?

*Issues Involving
IT Related Contract Clauses*

Contracts for Evaluation of Software/Hardware

- ◆ What, how long, where?
- ◆ Pilot testing?
- ◆ Confidentiality – Customer consultant involved who is competitor to vendor?
- ◆ Results confidential?
- ◆ Must Customer buy or just return at conclusion?

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Enterprise Software License

- ◆ Purpose – commonly entire company or certain departments
- ◆ Right to make copies
- ◆ Warranties – performance, virus
- ◆ Remedy – correct, replace, refund
- ◆ Short time coverage – 30 days

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Enterprise Software License (cont)

- ◆ Major upgrades covered?
- ◆ Vendor may refuse to maintain older than last two versions
- ◆ Maintenance and support?
- ◆ Escrow –
 - ◆ where code kept and what are release conditions?
- ◆ Disaster recovery at third party site

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End User License Agreement

- ◆ Difficult to negotiate if for single user or if under \$30,000 for all users; little or no warranty or indemnification
- ◆ Click wrap license
- ◆ Browse wrap or web wrap license – click on website

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Software Support and Maintenance Agreements

- ◆ Effective during or after warranty period for annual renewable terms
- ◆ “Substantially perform” vs “in all material respects”
- ◆ Type of support provided
 - ◆ Response time based on impact on business
- ◆ Major feature upgrades?
- ◆ Vendor terminate support for breach of contract?
- ◆ No support if customer fails to upgrade?

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Software Development

- ◆ Intellectual Property Rights
 - ◆ Owned by author (commonly the vendor) if no **written** assignment of ownership clause to customer
- ◆ Joint Development
 - ◆ Who controls and who is responsible for what portions?
 - ◆ Who owns intellectual property during work and when finished?
 - ◆ Develop and commercialize on a per-module basis?

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Software Development (cont)

- ◆ Non-Joint Development
 - ◆ Customer owns developed software only if expressly assigned to Customer in writing
 - ◆ Approval process
 - ◆ Milestones for customer approval
 - ◆ Once approved, future revisions require extra payments as change order
 - ◆ Periodic payment for milestones completed

Software Development (cont)

- ◆ Indemnification and Legal Defense to Customer for IP Claims of Infringement of patent, copyright, trademark or other IP
- ◆ Customer should want coverage for infringement claims:
 - ◆ Arising from Customer's license, possession or use of software developed or modified by contractor
 - ◆ Applies to work product as delivered to Customer or as modified with approval of contractor and used per agreement

Software Development (cont)

- ◆ Vendor should want exclusions to indemnification for Customer for:
 - ◆ Modifications to source code not authorized by Vendor
 - ◆ Use of software in violation of license or contract
 - ◆ Use in combination with other items for which the software was not designed
 - ◆ Software written per Customer's specifications

***IP Indemnification -
Protection for Vendor***

- ◆ If software subject to IP claim, Vendor wants right to resolve claim by:
 - ◆ A. Obtaining right to continue use without loss of material functionality (or lesser standard);
 - ◆ B. Replacing or modifying software without loss of material functionality; or
 - ◆ C. Refunding to Customer on a pro rata basis of 5 years
- ◆ Vendor wants right to choose option of A, B **or** C
- ◆ Customer wants: "Vendor must do A or B **before** C."

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Open Source Software

- ◆ Advantage: very low cost or free software
 - ◆ Vendor can create software using open source tools
- ◆ Disadvantage to some open source licenses:
 - ◆ Can't sell or license your software that includes open source code without letting others use all the code in your software, including the non-open source software.
 - ◆ If Customer pays developer for software for customer to license at a profit, customer would be very upset if open source code is used within the product that has a license that restricts sales.

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Open Source Software (cont)

- ◆ If software is mission critical to Customer's business and licensor is out of business, and fixes or revisions needed, Customer wants access to source code
- ◆ Customer pays for and wants source code; vendor says no; solution: third party escrow
- ◆ Licensee gets object code but not source code unless a listed contingency occurs
- ◆ Vendor can compile web pages with Microsoft's .net

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Source Code Escrow

- ◆ Source Code Escrow in Third Party - possible terms:
 - ◆ Licensor must continuously provide current version to escrow agent
 - ◆ Release to Licensee conditions:
 - ◆ Bankruptcy or assignment to creditors; or
 - ◆ Licensor incapable or unwilling to perform warranty, support or modifications; or
 - ◆ Ceases to do business.

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Hardware Purchases

- ◆ If multiyear purchases, Customer may want yearly price reductions, Vendor does not
- ◆ Handle change orders – price control
- ◆ Service level objectives
- ◆ Excessive failure rates
- ◆ Who owns intellectual property developed during invention process?
- ◆ Continuity of vendor personnel?

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Service Level Agreements

- ◆ E.g. software support, hosting, telecommunications
- ◆ Customer wants:
 - ◆ availability
 - ◆ ways to prove availability
 - ◆ what are exclusions to guarantee
 - ◆ downtime-what hours for maintenance
 - ◆ penalty for violation of guarantee
- ◆ Customer may terminate without penalty

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Consulting Services Agreement

- ◆ Master Contract - legal issues
- ◆ Job Order
 - ◆ Statement of Work
 - ◆ Assumptions
 - ◆ Responsibilities
 - ◆ Deliverables
 - ◆ Schedule
 - ◆ Open source software

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Hosting of Software, Data, Hardware

- ◆ Service levels, downtime, backup, penalties
- ◆ Who controls software application?
- ◆ Upgrades to software and hardware
 - ◆ What if customer doesn't want to?
 - ◆ What if host doesn't want to?

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Hosting of Software, Data, Hardware (cont)

- ◆ Cost of additional services
- ◆ Transition plan
- ◆ Customer assign licenses to host? Save \$
- ◆ Termination issues:
 - ◆ notice, damages

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Web Site Design Agreements

- ◆ Design proposal, including software
- ◆ Right of parties to place content
- ◆ Ownership of content
- ◆ Assignment of IP?
- ◆ Schedule and change orders
- ◆ Testing
- ◆ Who operates site, host?

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Web Site Hosting Agreement

- ◆ Guaranteed up-time
- ◆ Reductions in cost if violate up-time guarantee
- ◆ Right to terminate AND get refund
- ◆ Who is responsible for third party copyright infringement?
 - ◆ Subsection 512(c) of the copyright law provides limitations on service provider liability if the service provider has designated an agent for notification of claimed infringement

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Web Use Agreement

- ◆ Vendor agreements often allow Vendor to amend terms without actual notice to customers (merely posted on website)
- ◆ Customer Negotiate Agreement favorable to Customer:
 - ◆ Vendor amendment applicable only if customer gets actual notice
 - ◆ Customer has 30 days to terminate without penalty plus refund of service not yet provided

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Third Party Dispute Management

- ◆ All communications, such as e-mails, need to be written as though they will be public or revealed in court
- ◆ All documents, including electronically stored information such as e-mails, may be discoverable in litigation
- ◆ Preserve electronically stored information or other documents if **reasonably anticipate** litigation
- ◆ Federal Rules since December 1, 2006
- ◆ Write documentation to establish facts and support your company for possible later use in court

Recommendations for Improving Your Contract Drafting and Negotiating Styles

Recommendations for Improving Your Contract Drafting and Negotiating Styles

- ◆ Have your own model contracts.
- ◆ Capitalize defined terms; put in bold "**Name**" means....
- ◆ Use active tense, not passive tense:
 - ◆ Not "A review of X **will** be made." but "Customer will review X." or "Vendor will review X."
- ◆ Indent and sub-indent paragraphs.
- ◆ Use line numbering in drafts.
- ◆ Know the substitute language for contract terms if you don't get the most desired contract terms

Recommendations for Improving Your Contract Drafting and Negotiating Styles

- ◆ Use Microsoft Word or Adobe Acrobat Professional to track changes for various versions and avoid undisclosed changes by other party
- ◆ Maintain document/version control
- ◆ Identify draft number and date within document and keep them current
- ◆ Don't share internal review within metadata
- ◆ Make sure you don't inadvertently use open source software

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Recommendations for Improving Your Contract Drafting and Negotiating Styles

- ◆ Understand what is behind other side's requests and attempt to meet needs of both sides
- ◆ Align interests of Customer and Vendor
- ◆ Bonus and penalties
- ◆ Customer and Vendor both rewarded by successful implementation
- ◆ Maintain credibility and truthfulness
- ◆ Have negotiations leader
- ◆ No secret negotiations w/o telling team leader

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Topics Covered Today

- ◆ Conflicting Goals of Vendors and Customers
- ◆ Types of Information Technology Contracts
- ◆ General Contract Clauses
- ◆ Issues Involving IT Related Contract Clauses
- ◆ Improving Your Drafting and Negotiating Styles

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Additional Questions?

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