INSIDE THE MINDS

Understanding the Legal Aspects of E-Commerce

Leading Lawyers on Defending Intellectual Property, Navigating Privacy Concerns, and Negotiating Contracts

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The More Things Change, the More They Stay the Same: Legal Issues in Technology Contracts

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Constantly evolving and new technologies can seem legally daunting. Many readers of this chapter will remember the sound of typewriters in law offices or the look of carbon paper and White-Out. Development in the computer world has come a long way from the often-quoted 1949 *Popular Mechanics* prediction: "Computers in the future may have only 1,000 vacuum tubes and perhaps weigh 1.5 tons." Microsoft's 1975 goal seemed unlikely: "A computer on every desk and in every home." Today, we cannot imagine our world without technology.

Businesses of all sizes now use technology for some or all processes and functions. Lawyers who practice in this area review contracts covering many types of technology, such as information technology software contracts, web-based software and service contracts, and business transactions involving technology and e-commerce. As technology and new media evolve, so does the terminology. We once had a new term, "application service provider," and I was asked what that meant. Now we have "cloud computing" and "software as a service." Lawyers may struggle with how to address legal issues in the evolving world of technology and terminology, but a closer look at these issues will reveal that traditional legal principles apply.

In juxtaposing legal principles and developments in technology, ultimately courts will interpret and apply the law as it has existed for many years. It may take a while to receive these court rulings as the law catches up with developments. Sometimes the laws will change as new technology develops, such as the enactment by Congress of the Digital Millennium Copyright Act in 1998. Pub. L. No. 105-304, 112 Stat. 2860 (Oct. 28, 1998). This is a significant piece of legislation that amended the US Copyright Act to limit the liability of online service providers for copyright infringement. Online service providers were unheard of when the Copyright Act was enacted. The Digital Millennium Copyright Act also prohibits circumventing technological measures that control access to copyrighted works and manufacturing or trafficking technological circumvention devices. Further, the act provided that, as long as certain actions are taken, it is not copyright infringement to make copies of a computer program in the course of maintenance or repair of a computer. See 17 U.S.C. §§ 512, 1201-1205 (2010). But the important thing to remember in analyzing even the newest technology contracts is that traditional legal principles apply.

Basic Pointers

Before looking at some of the legal principles that apply, consider some basic practical pointers to arriving at a sound technology contract.

First Things First

The essence of negotiating a technology contract is to understand what the technology solution is going to accomplish, how it fits into the business, the best licensing model, and the risks if it fails. One cannot possibly negotiate important contract terms such as performance standards, service level agreements, indemnification, and insurance without such an understanding. Make sure you have people on the team who can fully explain the technology and understand technical meanings, and work with them to get the right provisions in the contract.

Pay Attention to Detail

Technology contract negotiations, if approached thoroughly and with particular attention to issues such as the scope of the license grant, business expectations, specifications, and service descriptions, are useful to the parties in accomplishing a meeting of the minds and avoiding disastrous implementations. During properly conducted negotiations, the parties will come to a better understanding of what they wish to accomplish, where there are barriers to performance, and how to get to a win-win implementation. It is best to be extremely thorough up front, before a contract is signed. Use of checklists and preferred language is particularly helpful in reviewing all technology contracts and thus delivering value to the client. Surprises down the line are generally not a good thing.

Start at the End

In starting down the path of a new business solution, the last thing parties often wish to deal with is what happens at termination of the contract. However, it is not a bad omen or pessimistic to address termination up front; it simply makes good business sense to do so. For example, what if a company is outsourcing a significant portion of its business operations, spending much in time, resources, and dollars, and paying for significant

customizing of the software? A technology relationship will not last forever, for a variety of reasons, not the least of which is changing technology. The parties should have a plan set forth at the beginning and work the terms of termination and transition into the contract. Technology contracts are unlike many other business contracts, such as acquisitions or divestitures, where the parties come together for a transaction and then mostly part ways. Technology ventures can last a long time, but sooner or later, the end will come.

Highlights of Legal Issues

Below I have described in more detail some of the important issues that apply in technology contracts. Many of these principles apply in just about any business contract. As new technologies, media, and implementations are developed, think about these same issues in every context. Appendix A contains a sample of a more complete checklist that outlines issues to be considered in every technology contract.

Understand the Definitions

As in any contract, there is much to be reviewed within the definitions section. I find that people often gloss over the definitions section of a contract, thinking they are somehow boilerplate. (See below for more on this topic.) Definitions are critical, especially in technology contracts. They typically form the basis of nearly every promise or undertaking under the contract. For example, it is common to see language in the warranty section that the "software will perform in accordance with the specifications." If either the definition of the software being licensed or the performance specifications are not detailed and specific, the warranty may not be clearly understood, resulting in a potential future dispute.

One example of this occurred in a negotiation for transaction processing of retail sales. The vendor's specifications stated certain availability criteria for transaction processing that might be sufficient for many types of retail sales, and the contract was priced accordingly. During negotiations, the parties had a detailed discussion of the software's ability to handle certain peak times. The vendor responded with special capabilities for the holiday shopping season. However, the retailer was in the children's clothing

business, so it had other peak times, such as the back-to-school season. Thus, the parties negotiated and discussed this requirement up front during negotiations and came up with a solution that satisfied both parties' needs. An example of the specificity of the language is contained in Appendix B. While this may seem like an obvious example, each transaction should be examined in light of the industry-specific parameters.

In a technology contract, it is important to understand that the "technology" is a very different subject matter from the "intellectual property." Intellectual property refers to legal rights arising out of the technology, so defining intellectual property concepts is also critical. The basics of intellectual property legal rights would include defining patent, copyright, trademark, and trade secret rights. It must be clear what each party owns with respect to intellectual property. What is owned at the outset by each party, who owns intellectual property developed during the course of the relationship, and accounting for third-party intellectual property contained in the licensed technology are all extremely important concepts.

Copyright Ownership

I often see contracts that describe software that is being written by an independent contractor as a "work made for hire," with the intention that this is sufficient to assign ownership of the software to the person or entity who hired the independent contractor. It is not. Under the definition of a work made for hire in 17 USC §101, a work will be considered a work made for hire in one of two ways:

1. The work is prepared by an employee within the scope of his or her employment (in which event the employer will be considered the author); or
2. The work qualifies in one of the categories of specially ordered or commissioned works, and the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. The nine categories in one of which the work must fall to be considered a work made for hire are the following categories of specially ordered or commissioned works:

- A contribution to a collective work
- A part of a motion picture or other audio/visual work
- A translation
- A supplementary work
- A compilation
- An instructional text
- A test
- Answer for a test
- An atlas

Thus, if a party hires an independent contractor, that party will not own the work unless an express assignment is made in writing and the work falls into one of the nine categories above. If a work does not fall within one of the qualifying categories, then even if the work has been prepared by a person upon the special order or commission of another, it will not qualify as a work made for hire. Software is generally not within one of the nine enumerated categories in the statute of what constitutes a work made for hire, although one must always review the definitions in the copyright law to be sure. Software would generally only be a work made for hire if created by a party's own employee. To generally solve this problem, it is common to use language stating that "to the extent allowable under applicable law, the works shall be considered works made for hire, but to the extent any works are not considered works made for hire, [independent contractor] hereby irrevocably transfers, assigns, and conveys all rights in and to such works, on a worldwide basis…"

The misunderstanding can occur for many reasons, but it underscores the need to involve competent intellectual property counsel in negotiating technology contracts. The copyright statute defines the elements of the definition cited above, and the subject matter of every technology contract must be analyzed accordingly.

Open-Source Code

Entire chapters can be devoted to the use of open-source code in technology implementations. In recent years, open-source software has become widely used in the software industry, and by major corporations,

not just by startup companies. Open-source software can perform many functions, from managing small file servers to large, complex databases.

One of the most well-known open-source code operating systems is Linux. Apache, an open-source web server that hosts websites, has also been popular. Using open-source software can be a cost-effective way to develop and distribute software.

However, every software technology agreement must consider whether open-source is used (and this includes agreements for acquisition of technology companies, as well as acquisition or licensing of software). Depending on the open-source license used and how the open-source code is used (for example, whether there is dynamic linking or static linking, and whether there is distribution of the software), there could be an extremely damaging viral effect resulting from incorporating open-source software into proprietary code that is protected as a trade secret.

If a programmer incorporates open-source code into a company's proprietary software program, that programmer may have "infected" the proprietary software with open-source code, thus the common term "viral" effect. The company is then obligated to freely distribute all of the company's proprietary code, essentially compelling a company to give away trade secrets to competitors, thereby diminishing the value of the company's assets and the value of the company in the acquisition marketplace.

As with traditionally available commercial software that is paid for through a license, analysis of the use of open-source and risks starts with analysis of the particular license that governs the particular software code. There are many forms of such licenses, and some have multiple versions. Examination of the license must be of the version that is cited by the open-source license under consideration. More than sixty licenses have been approved by the Open Source Initiative alone. See www.opensource.org /Licenses/alphabetical. These licenses describe the licensee's obligations with respect to use, creating derivative works, modification, distribution, aggregation, and other matters involving the source code. Obligations depend in large part upon whether the software used or modified is intended for only internal company use, or whether it will be distributed.

One of the most widely used forms is the GNU General Public License, which is published by the Free Software Foundation. The General Public License may trigger source code disclosure and distribution obligations when there is static or dynamic linking of open-source code to proprietary code, or modification of the open-source depending on whether version two or three of the General Public License is the license in question. Another license published by the Free Software Foundation is the GNU Lesser/Library General Public License. The Lesser/Library General Public License allows dynamic linking and does not trigger any source code disclosure obligations, but modification of the source code requires distribution of the source code. Licenses such as Apache and PHP permit static and dynamic linking and do not require distribution of modified source code. A well-drafted clause regarding open-source code in a technology contract will at least elicit the discussions and make sure each party is aware and accepting of the use of open-source code. See Appendix C.

There Is No Such Thing as Boilerplate

One of the most often spoken misconceptions is, "You don't have to read that part. It's just the boilerplate," or this is "standard in the industry." Here are some of the headings that may appear at the end of a contract that may be thought of by some as boilerplate: Entire Agreement, Amendment, Assignment, Waiver of Breach, Severability, Governing Law, Notices, No Third-Party Beneficiary, and Force Majeure. In a technology contract, not paying attention to these clauses could have unexpected and unsatisfactory results. By way of an example, a common assignment provision might read:

> Assignment. Neither party may assign its rights or delegate its duties under this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld, provided that a sale of substantially all of the assets of a party or the merger, consolidation, or other business combination shall not be deemed to be an assignment of this Agreement.

This provision might look harmless, but consider, as a licensor of technology, whether you would want your technology to be able to be used by a competitor of yours in the event that your licensee would be acquired

by a competitor. Or, if you are a licensee of technology, what if your licensor sells its assets to a company that simply does not have the ability to deliver your technology solution in a manner satisfactory to you? You may want, in either scenario, to have the ability to consent or to get out of the contract without having to pay a huge damage award for breach of contract if you try to terminate the contract before the expiration of its term.

Or consider the following clause:

> Waiver. The failure by a party to exercise or enforce any of the terms or conditions of this Agreement will not constitute or be deemed a waiver of that party's rights hereunder to enforce each and every term of this Agreement. The failure by a party to insist upon strict performance of any of the terms and provisions herein will not be deemed a waiver of any subsequent breach or default in the terms or provisions herein.

Without such a provision, a licensee of technology may unknowingly waive an important functional requirement of a technology implementation if it has not actively documented and communicated its dissatisfaction with the functionality, under the objection that "You knew about this for months and didn't say anything, so we had no reason to know there was a problem, and now that we are this far along the cost to do this will be $X."

Or, consider a "governing law" clause that requires not only that the law of a particular state will govern (which is generally a good idea so the parties don't have to fight over which state's laws govern in the event of a dispute, with the caveat to be aware of a certain state's laws in the extreme, such as California), but that also requires exclusive jurisdiction in a particular state's court. The latter (exclusive jurisdiction) clauses are not required by any law, but if you agree to this up front in the contract, you may wind up having to litigate in your adversary's forum and lose your ability to contest this forum.

There Is No Such Thing as Customary Representations and Warranties in a Technology Contract

Anyone preparing a technology contract or joint venture agreement, or a letter of intent for such a contract or agreement (and beware of the letter of

intent), must understand the nuances of a particular technology application. Beware of statements such as "This is standard in the industry." Not only must the technology be understood, but you must also understand what type of intellectual property rights (which are legal rights) are at issue. Businesspeople negotiating deal terms should involve competent intellectual property counsel at the beginning of the deal. For example, one party might ask for the same representation with respect to copyright and patent; that the "technology" does not infringe the intellectual property rights of any third party. This would be plausible to give with respect to copyright if in fact it is an original work of authorship. Ask the code developer, "Did you write all of this code?" If the answer is yes (and true), it is complete defense to a claim of copyright infringement, and it indicates that the software is independently developed. Not so with patent rights, since even with an exhaustive patent search, it may not be legally possible to make the representation, and at a minimum, there should be a knowledge qualifier accompanying such representation.

Privacy and Data Security

With the expansion of cloud computing and software as a service (which is the twenty-first century version of application service providers), every contract must anticipate what type of data will be used, transmitted, stored, or otherwise accessible through the solution, and encryption must be examined in detail. If there is any personally identifiable information, or unprotected health information, at a minimum, the parties must address security provisions in the contract, data retention provisions, and allocation of risk (in dollars) for data breach. Extreme due diligence is called for in this circumstance. Remedies for disclosure of personally identifiable information are presently covered in general under state law in the United States, and definitions of personally identifiable information typically include a person's name (or first initial and last name) and a Social Security number, driver's license number, state identification card number, or financial/credit/debit account number with access code (if applicable), but not if the information in question was encrypted, redacted, or unreadable.

Individual health information is generally defined as information collected from an individual that is created or received by a health care provider, health plan, employer, or health care clearinghouse, and relates to the past,

present, or future physical or mental health or condition of an individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual, and that identifies the individual, or with respect to which there is a reasonable basis to believe the information can be used to identify the individual, and protected health information (in electronic media generally) is further defined in the Code of Federal Regulations. See 42 U.S.C. §1320d (2010); 45 CFR 160.103.

International Issues/Venue and Jurisdiction

As the world becomes a global marketplace, resolving disputes on an international level becomes more commonplace. I have seen many contracts that involve both a US party and an offshore party. The US attorney may simply insert a clause in the contract that states something like:

> Governing Law, Venue, and Jurisdiction. The validity, construction, and interpretation of this Agreement and the rights and duties of the parties will be governed by the laws of the state of _____ without reference to _____'s choice of law rules. Any action relating to this Agreement or any breach thereof shall be brought only in the _____ in and for _____ County, _____, or in the United States District Court for the _____.

The intent is that the US party will get a judgment in the United States, and have it enforced in the other party's country where the assets are located. The trouble is, this can be difficult, if not impossible, with no timely or predictable outcome. While there are many pros and cons to the use of arbitration, consider a specially tailored clause such as the one in Appendix D.

Conclusion

Issues in the realm of privacy and data security, as well as use of open-source code without detailed and thoughtful analysis, loom in the horizon. Very little court precedent currently exists with respect to open-source licensing, enforceability, and potential for damage awards, but this area

merits careful monitoring. On the other hand, privacy and data security problems are growing, along with the award of damages allowed for by statute. Data and privacy concerns require close scrutiny by corporate executives and legal counsel.

Key Takeaways

- Understand a technology solution's goals, model, and risk, and how it fits into the rest of the business, before constructing a contract.
- Pay attention to detail, particularly issues such as the scope of the license grant, business expectations, specifications, and service descriptions. Use checklists and preferred language to ensure thoroughness.
- Start at the end. Addressing termination up front simply makes good business sense. The parties should have a plan set forth at the beginning and work the terms of termination and transition into the contract.
- The important issues that apply in technology issues are: (1) understanding the definitions, (2) copyright ownership, (3) open-source code, (4) there is no such thing as boilerplate, (5) there is no such thing as customary representations and warranties in a technology contract, (6) privacy and data security, and (7) international issues/venue and jurisdiction.

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Ms. Ruscitti writes and speaks frequently on topics including technology licensing, e-commerce, conducting business through the Internet, website development and hosting, and protection of intellectual property. Clients rely on her extensive experience in Internet law and regulation and the constantly evolving models of technology implementations. She also counsels clients concerning responding to data breach incidents and compliance with

privacy laws. She is recognized in The Best Lawyers in America *in the areas of intellectual property law and technology law. She chairs the firm's Technology Practice Group and the Information Privacy and Data Security Practice Group.*

Dedication: *To Margaret M. Ruscitti.*

APPENDIX A

TECHNOLOGY CONTRACT REVIEW CHECKLIST

Functionality. What is the functionality of the software? Is it "off-the-shelf" or customized?

Specifications/Documentation. Are they detailed enough to adequately describe how the software is to function, e.g., response time, percent error rate permitted, etc.?

Service Level Agreements (SLAs). What are the standards for measuring system reliability, uptime, response time and data integrity?

Volume Requirements. Requires close attention for high volume businesses. Where volume is critical, specify the performance metrics, and the remedy for failure to meet.

Development and Customization.

> Specifications. Detailed functional specifications are critical.
>
> Date of Delivery and Time for Performance. Make sure these are specified and acceptable.
>
> Acceptance Testing. What are the procedures and criteria for acceptance testing: (i) pre-live testing; and (ii) post-live testing? What type of tests will be performed/protocol?
>
> Acceptance Date. Date of acceptance and how acceptance is defined. Specify period to review and specify how much time developer has to correct errors.

Defining Defects and Correction. Should include (i) deviation between the system and its documentation; (ii) deviation between operation in licensee's test environment and licensee's production environment; and (iii) deviation between any operation in licensee's production environment before and after any upgrade, fix, correction, or other change.

Ownership. Copyright ownership arises in an independent contractor relationship by a written assignment. Review the written assignment. Conduct due diligence to make sure that the independent contractor uses employees. If not the independent contractor must obtain a written assignment.

Source Code. Obtain for portions owned.

Regular reporting on status of development. Time frames and what is to be in reports.

Transition. If developer is unable to complete the project, define what happens.

Remedies. Refund if it doesn't perform as specified. Other remedies?

Cost. What is the dollar investment? Look for hidden costs and evaluate change management process.

Fee Structure. Make sure fees are clear. What is included in license fee? Cap fee increases. What is the payment schedule: e.g. milestones; contract effective date or execution; delivery; installation; pre-live/post-live acceptance; live date? How are travel (and other out-of-pocket) expenses accounted for and is a travel and expense policy referenced? Does the agreement contain a cap on such expenses?

Payment Terms. Phased payment to allow testing. Consider option not to pay if not delivered by a certain date (if it is important to be up and running by a certain date). Also, need to consider refund if software does not function or if unable to use any longer due to infringement claims.

License Grant. Does the license include updates, enhancements, new releases and platform changes? Make sure license is perpetual. Licensor should only be able to terminate licenses in limited circumstances, even if the agreement is terminated. Best to limit termination of license to non-payment (and then only for portion of licenses not paid for) or certain breaches of intellectual property rights or confidentiality, and then only

upon determination by court order that there has been a violation or non-payment and licensor is entitled to terminate licenses.

User License/Restrictions. Contract must completely and accurately describe use allowances and restrictions -- *e.g.,* number of users, where used, any restrictions on locations. Does the license run to affiliates, outsourcers, consultants and other service providers? How does the license change with acquisitions/divestures? Is the license restricted to specific hardware, operating system(s), locations, number of users or concurrent users, or level or type of usage? Is the license transferable or nontransferable? Consider need to sublicense. Consider use on home computers.

Audit Rights. Examine vendor/licensor audit rights. Pay attention to this up front and agree on auditing (timing, who does, what is counted), and develop specific audit language for the contract.

Services and Personnel. Does the agreement identify the vendor's personnel who will be involved in the implementation? What are the qualification requirements for such personnel? Who are the vendor's key personnel? Are there limits to the vendor's ability to change personnel? Is the vendor required to conduct background and security checks on all personnel involved in the relationship? What rights does the licensee have to replace the vendor's personnel? How quickly will such personnel be replaced?

Warranty. What is length of warranty period? No maintenance fee paid during warranty period. Warranty must be linked to meaningful, specific Documentation and Specifications.

Open Source. Obtain representation and warranty regarding use of open source software to avoid claims of copyright infringement and to avoid viral effect on proprietary code.

Source Code. Most licenses give object code only. Inquire whether source code is needed to if licensee is doing some of its own customization.

Source Code Escrow. Consider source code escrow and whether source code is necessary if licensor is no longer available to provide maintenance or updates.

Maintenance. What are the terms of maintenance, updates? Is there a separate contract? Must have enough detail to determine severity level of a problem (*e.g.,* major operating difficulty vs. minor problem) and response time to investigate the problem and escalation procedures if a fix cannot be accomplished in a specified period of time.

Modifications. If licensee is going to modify, need representation from licensor that it owns all rights and will grant license to modify.

Risk Analysis. What is the risk to the company if the software does not perform as specified? How long can the company go without use of the software before suffering substantial loss?

Limitation on Damages. Are there limitations on damages to license fees paid? If risk is substantial, change to actual damages or as a compromise, cap actual damages. Consider specifying a list of what is recoverable, such as the following:

> Actual/Direct Damages include the following and developer shall not assert that any of these losses are indirect, incidental, collateral, consequential, or special damages or lost profits:
>
> - Reasonable costs and expenses of recreating or reloading any lost, stolen, or damaged customer data;
> - Reasonable costs and expenses of implementing a work-around to a failure to perform in accordance with this agreement;
> - Reasonable costs and expenses of replacing lost, stolen, or damaged equipment or software;
> - Reasonable costs and expenses incurred to procure the services from an alternate source as a result of developer's/licensor's breach of this agreement;
> - Straight time, overtime, or related expenses incurred, including overhead allocations for employees, wages and salaries of additional employees, travel expenses, overtime expenses, telecommunication charges, and similar charges, due to a breach of agreement; and

- Payments or penalties imposed by a governmental body or regulatory agency for failure to comply with requirements or deadlines.

Insurance. Does other party have insurance to cover liability/indemnity? Require insurance certificates and proof of insurance. May request to be an additional insured.

Infringement. Need representation as to ownership or right to license. Need complete indemnity from third party claims.

Third Party Rights. Does licensor obtain any of its licenses to run the software, or is part of the software program, derived from a third party? Need representations and warranty regarding rights. Infringement considerations for hiring a replacement maintenance contractor in the event licensor is unable to support.

Consultants. Licensee's consultants may modify as long as there is an agreement to preserve confidentiality of licensor's proprietary material, if applicable.

Moving Locations. Evaluate where software is installed, location use restrictions, and ability to move from one site to another without extra license charges.

Governing Law. Determine and evaluate exclusive venue/jurisdiction provisions.

Disaster Recovery. Software should be permitted to be loaded onto a disaster recovery system. Unlimited disaster recovery, backup and archival copies?

Confidentiality. What confidential information will licensor/developer/vendor learn? What is risk? Consider using separate Confidentiality Agreement as well as a way to actually block access to the confidential information and/or dial in confidentiality agreement. Does the agreement protect the owner's/licensee's own intellectual property (patent, copyright, trademark, trade secrets)? Are there any special regulatory requirements applicable to

the confidential information (such as HIPAA, HITECH or GLB requirements in the U.S. or the Data Privacy Directive in the European Union or elsewhere)?

Term and Termination Provisions. Are there termination for default provisions? Evaluate. Should licensee get a refund? Evaluate notice and cure provisions. What are the agreement's renewal terms (mutual consent, evergreen)? What are the effects of termination (transition assistance)? What is the migration plan, roles, costs, portability, etc.

Termination for Convenience. If licensee just does not want to continue the project, evaluate clause permitting termination for any reason, with licensee paying a negotiated amount.

Early termination. Evaluate notice provisions and penalties to terminate early.

Change in Control/Assignment. Does licensee want to add language that the agreement continues in the event of sale of substantially all assets or merger? What if the value of the enterprise increases and the license is an enterprise license? In significant licenses, these clauses are highly negotiated. Does licensee want the ability to terminate if there is a change in control in licensor?

Force Majeure. Make sure there is a specific definition. Consider right to terminate if delay will be in excess of a certain time or if costs will increase. Licensee must approve additional time and costs.

Survival Clauses. Make sure necessary sections survive termination of the agreement; *e.g.,* certain representations and warranties and indemnifications.

Tax Issues. Software – State sales tax. Services – May need language to avoid state employment taxes. Significant in large implementations. Consider off shore tax issues.

Representations and Warranties.

Title and Design Warranties
Warranty of Title

Third Party Software
Right to License
No Encumbrances
No Viruses or Disabling Devices
Copyright and Patent Notices
Treatment of License in Bankruptcy
Software Lockup

Hardware. What are the hardware requirements or recommendations? Do they include a description of price, type (manufacturer, brand, model, etc.), quantity, new or used? Who is responsible for purchasing the hardware? Will the licensee pay for hardware purchased by the third party and is there any premium? What warranties and indemnities pass through from the hardware manufacturer? Who services the hardware? Consider interoperability with other hardware and software.

Integrity of software and data. Security controls, disaster recovery, frequency of backup and restoration.

Information Privacy and Data Security. What PII is a part of the hosted solution? Analyze completely in light of system security, PCI standards, SAS 70 standards, and the like. Indemnification should cover responsibility for breach of PII or UPHI.

Non-solicitation/non-competition. Consider restrictions to competitors.

Use of Name Restrictions. Evaluate whether parties should be prohibited from advertising or publicizing use of the other's name, marks, and disclosure of the agreement.

APPENDIX B

SAMPLE SERVICE LEVEL STANDARDS

Service Level Standards Defined:

1. "Availability of Services". The Services will be available for transaction authorization requests initiated through Customer's system 99.9% of the time during each calendar month. However, during the periods of the second week in July through the second week in September [the Back to School Campaign] and the third Thursday in November through the last day of December [the Holiday Campaign], the Services will be available as stated in the foregoing sentence and additionally, the Services for transaction authorization requests initiated through Customer's system will not unavailable for five (5) minutes or more during any day between the hours of 8:00 a.m. and 2:00 a.m. ET.
2. "Authorization Response Rate". The Services will respond to 99.5% of all transaction authorization requests initiated through Customer's system during each calendar month in less than three (3) seconds after receipt by the Services. The response rate will be measured from the time that the transaction authorization request enters Processor owned or managed equipment to the time that the response exits Processor owned or managed equipment.

Evaluation and Reporting of Service Level Standards:

1. The Service Level Standards will be measured one time at the end of each calendar month (except during the period of December 22 through January 2 [the High Holiday Season], which will be measured on a daily basis during such period). All of the Service Level Standards will be measured based upon a 24 hour per day, 7 day per week operating period (except during the period of December 22 through January 2 [the High Holiday Season], which will be measured between the hours of 8:00 a.m. and 2:00 a.m. ET only).

2. Processor will provide to Customer, within fifteen (15) days following the failure to meet any Service Level Standard, a written action plan describing in reasonable detail the cause for the failure, steps being taken to cure the failure in the immediate or near immediate future, and steps being taken to prevent the reoccurrence of such failure during the remainder of the term of this Agreement.
3. The escalation procedures attached will be initiated in the event of any unscheduled downtime in the Services. Until further written notice from Customer, notice of any unscheduled downtime shall be provided as soon as reasonably practical upon the occurrence of such event to _____ by calling pager _____ or, if the page is not answered, by calling _____. If _____ is not reached at either of these numbers, Processor shall contact Customer security at _____. During any unscheduled downtime that is not corrected within thirty (30) minutes, Processor will also report the nature of the problem to Customer within four (4) hours and provide hourly updates during store hours (8:00 a.m. to 2:00 a.m. ET) on steps being taken to cure the problem. For clarification, "downtime" means that Customer is unable to process transactions due to an outage or other problem in the Services (not including, telecommunications lines).
4. Customer acknowledges that from time to time that the Services, including all redundant and back up databases, may be unavailable due to scheduled maintenance or other scheduled downtime. Processor agrees that, during the months of January through November, any scheduled downtime will be restricted to the hours of 2:00 a.m. and 8:00 a.m. ET, and during December scheduled downtime will be restricted to the hours of 4:00 a.m. and 8:00 a.m. ET. Processor will provide Customer with at least 48 hours notice prior to any scheduled downtime. Until further written notice from Customer, notice of scheduled downtime shall be provided by e mail to _____

Failure to Meet Service Level Standards:

1. If Processor fails to meet the Service Level Standards for "Availability of Services" or "Authorization Response Rate,"

above, two (2) months during any consecutive twelve (12) month period, then Customer may terminate this Agreement without payment of any early termination fee upon thirty (30) days' written notice, provided such written notice of termination is given to Processor within sixty (60) days following the second month.

2. If Processor fails to meet the Service Level Standard for "Availability of Services" during the period of December 22 through January 2, then Customer may terminate this Agreement without payment of any early termination fee upon written notice to Processor, provided such written notice of termination is given to Processor within sixty (60) days following such event.

APPENDIX C

SAMPLE OPEN-SOURCE CODE SOFTWARE CLAUSES

Definition

"Open Source Software" means any software code that contains, or is derived in any manner (in whole or in part) from, any software that is distributed under, but not limited to, any of the following licenses or licenses similar to any of the following: (i) GNU General Public License ("GPL"), (ii) GNU Lesser/Library General Public License ("LGPL"), (iii) the Perl Artistic License ("PERL"), (iv) the Mozilla Public License ("Mozilla"), (v) the Netscape Public License ("Netscape"), (vi) the Berkeley Software Design license ("BSD"), (vii) the Sun Community Source License ("SCSL"), (viii) an Open Source Foundation license ("OSF"), (ix) a Free Software Foundation license ("FSF"), (x) the Apache license ("Apache"), (xi) the GNU Affero Public License ("AGPL") and (xii) any and all other freeware, open source, shareware, non-proprietary, community, or collaborative licensing model.

Open Source Software. Provider must specifically identify all Open Source Software on the applicable SOW (or give written notice to Company prior to delivery of such) that (i) is associated with or incorporated into any of the Software or the Deliverables, or (ii) used in connection with Provider's provision of Services to Company. Provider shall not use any Open Source Software without Company's prior written authorization. Company shall have the right to restrict, in Company's absolute discretion, Provider's use of Open Source Software. (This can also be presented in the representations and warranties section, and breach of the clause should be covered by the indemnification clause).

APPENDIX D

SAMPLE INTERNATIONAL ARBITRATION CLAUSE

a. Governing Law. The validity, interpretation, and construction of this Agreement shall be governed by Ohio law, without reference to Ohio's choice of law rules, and without regard to the United Nations Convention on the International Sale of Goods. In any event, however, consideration shall be given to those specific mandatory provisions of the law of the Provider's country of organization, if any, which would be applicable even if this Agreement is governed by foreign law. Any such provisions will be taken into account to the extent that they embody principles which are universally recognized and provided that their application appears reasonable in the context of international trade.

b. Disputes. With respect to any dispute involving the interpretation or application of this Agreement, the parties will use their reasonable best efforts to resolve such dispute. All communications made in connection with the attempted resolution shall be treated as settlement negotiations and shall be inadmissible in any litigation or other proceeding.

c. Arbitration. If the dispute is not resolved through negotiation, except as otherwise specifically provided in clause (d) below, the dispute shall be exclusively and finally settled by arbitration through the American Arbitration Association/International Center for Dispute Resolution in accordance with the International Commercial Arbitration rules by a single arbitrator appointed in accordance with such rules. The arbitration hearing shall take place in Chicago, Illinois U.S.A., and shall be conducted in the English language. The award of the arbitrator shall be final and binding and may be enforced in any court pursuant to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

d. Judicial Enforcement, Injunction and Specific Performance. Notwithstanding the provisions of clause (c) above and without prejudice to the status of arbitration as the exclusive legal procedure for resolving disputes under this Agreement, in the event of any alleged infringement or other violation of the

Intellectual Property rights of any party, or to enforce any party's obligations under Sections [ ] or [ ] of this Agreement, each party shall be entitled to seek interim protection, including, without limitation, immediate restraining orders or other injunctive relief, in any court of competent jurisdiction. A request for interim measures of protection addressed by a party to a judicial authority shall not be deemed incompatible with the agreement to arbitrate or a waiver of the right to arbitrate. It is understood and agreed by the parties that the costs of obtaining such interim protection shall be considered by the arbitrator as part of the total costs incurred in resolving the dispute. Such costs shall be included in the final award of the arbitrator and shall be paid by the party charged with such payment.

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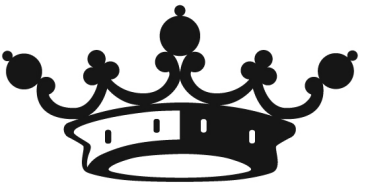

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