903 - The Art of the Strategic Alliance

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Faculty Biographies

Graham Allan

Graham Allan is vice president, legal and deputy general counsel of Cisco Systems, Inc. located in San Jose, California.

Graham joined Cisco as managing Attorney for the company's EMEA theater. He relocated to Cisco's San Jose, California headquarters and is now responsible for legal and contract support globally for Cisco's sales, services, and financing operations, as well as legal support to Cisco's Linksys, Webex and Ironport businesses. Graham's team is currently located in over 30 cities; in 23 countries.

Prior to joining Cisco, Graham was a partner in law firm Baker & McKenzie's London office. At Baker McKenzie, Graham specialized in all aspects of IT law (both contentious and non-contentious). Graham worked for Baker & McKenzie, spending two years in the firm's Palo Alto and San Francisco Offices.

Graham is a graduate of Manchester University and the College of law in Chester, UK.

Paul Vince

Paul W. Vince is associate general counsel of Deltek, Inc., the leading provider of enterprise management software for project-focused organizations, based in Herndon, Virginia. Mr. Vince leads Deltek's Contracts Group, drafting and negotiating customer, alliance and vendor/service provider agreements for worldwide application.

Prior to joining Deltek, Mr. Vince was associate general counsel for BearingPoint, Inc., a global management and technology consulting company, where he led the Alliance and Partner Sales programs.
Mr. Vince co-authored "International Distributorship Agreements; Legal and Business Considerations", published in the International Trade Reference Handbook by the Northern. VA International Trade Association, and has been issued two patents for biotechnology products. Mr. Vince is also an editorial advisor for corporate compliance advisor, a monthly periodical providing advice to businesses on a variety of compliance issues.

Mr. Vince received a B.A. from Adelphi University, an M.B.A. from Loyola College and is a graduate of the Golden Gate University School of Law.

Michael Whitener

Michael Whitener is the co-founder and general counsel of Software Strategies, Inc., a company dedicated to helping software companies establish effective business partnerships. He is the author of "Creating Software Alliances." Prior to co-founding Software Strategies, Mr. Whitener was associate general counsel for international operations at

BearingPoint, Inc., a global management and technology consulting firm. Mr. Whitener formerly served as a trade adviser to the International Trade Administration, U.S. Department of Commerce. He began his legal career with the law firms of Sidley Austin (Washington, D.C. and New York) and Hogan & Hartson (Washington, D.C.). Mr. Whitener received a B.A. from the College of William & Mary and his J.D. from the University of Virginia School of Law. He was the recipient of a Fulbright Fellowship to study Japanese law and language in Tokyo.

The phases of a successful alliance…

- Framing Success
- Negotiating Successfully
- A Successful Relationship
- Parting on good terms

Success?

- A definition of success….
  - *"The principle of all successful effort is to try to do not what is absolutely the best, but what is easily within our power, and suited for our temperament and condition…."* John Ruskin 1819-1900

Each party shall use all commercially reasonable efforts to undertake its obligations hereunder in order that the commercial objectives of this Strategic Alliance might be reasonably achieved, provided always, however that neither party shall incur any liability through any failure, in whole or in part, whether by act or omission or otherwise howsoever arising, of such party to use such commercially reasonable efforts, without prejudice to any rights prescribed elsewhere under this Agreement.

Before you Begin….

- Why are we Doing this deal?
  - Is it purely direct $$
  - Impact of "partnering"
  - Is there an underlying relationship?
  - Is it bilateral or just mutually beneficial?
  - Is it strategic, an alliance or simply convenience?
- Why is the other party doing this Deal?

Before You Begin….

- Success for Whom?
  - My/Your/Our Customers?
  - Shareholders?
  - Other Strategic Alliance Partners?
  - Other partners?
  - Employees?

During the Deal….

- It's about balance:
  - What's the core/unique value proposition?
  - Exhaustive pursuit of all issues?
    - Business plans
    - Specs
    - Roadmaps
    - GTM strategies
  - Use of MOU's/LOI's/LOA's/other ways of ducking the issues….
  - People argue about money…
    - Royalties
    - Rebates
  - People argue about IP (esp lawyers)
  - Negotiation Style as a leading indicator of Deal success?
  - Getting to closure

After the Deal is Done…

- Show me the money?
  - Market Share/top line growth/bottom line growth – was it all down to "us"?
- Small matter of people?
  - How talented is top talent?
- Shouting from the roof tops?
  - Publicity/marketing/internal drivers
- Development – services/IP/GTM?
  - Quality/testing/piloting
- Timetable for any of the foregoing?
- "Penalizing" failure – a double edged sword
- Recovery periods?

After The Deal is Done….

- How Can I Make Sure We're successful?
  - Audit Rights?
  - Committees?
  - Surveys
    - What are my/our customers saying?

After the Deal is Done…

- Dealing with New Opportunities and Bumps in the Road
  - Technology Development
  - Consolidation
    - suppliers/customers/partners
  - Competitive issues
    - Between Alliance partners/New relationships
  - New Markets

After the Deal is Done….

- What's the end point(s)?
  - Be Realistic – expiration v failures to use commercially reasonable efforts etc…..
  - Be Balanced – exhaustive triggers v general rights
  - Dealing with the tail/tale

Conclusion

- Ruskin was right?
- Anchor Core success metrics
- Think about the end customer and work backwards
- Don't dodge the hard issues
- Be nice – they're your partner!

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- ## Common Types of Alliances

  - ### Reseller - one or both "partners" resell the other's products/services

  - ### Marketing/Sales Cooperation

    - **Co-marketing** - Parties cooperate to promote each other' compatible products

    - **Teaming** - parties cooperate for specific opportunities

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- ## Common Types of Alliances (cont'd)

  - ### Services

    - **Subcontractor** – one-way or reciprocal

    - **Service Provider** – one partner independently provides services to the other's customers ("certified" service provider)

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Software-related Alliances

- **Independent Software Vendor** (ISV) – one or both parties independently market software modified for compatibility.

- **Outsourced Service Provider** – uses licensed software to provide services to third parties.

- **Software as a Service (SaaS) Provider** – hosting service for the other party's licensees.

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Alliance Contract Design

- Program Specifications (Business Terms)
- General Terms and Conditions (Universal)
- Alliance/Program-specific terms and conditions
- Attachments
  - Specifications (Software/Services/Training/Support)
  - Opportunity/Customer Tracking/Registration Form
  - End User Agreement (License/Services/Hosting)

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- **Program Specifications**
  - Identity/contact information for each party
  - Effective date
  - Applicable products/services
  - Geographical scope
  - Financial terms: pricing, discounts, quotas, etc.
  - Training/certification
  - Obligations (marketing, technical, educational, etc.)

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- **General Terms and Conditions** (Domestic/International)
  - Definitions
  - Ownership/proprietary rights
  - Payment terms
  - Confidentiality
  - Warranties/disclaimer
  - Limitation of Liability/Indemnification
  - Governing Law/Dispute resolution
  - Term and termination
  - Misc. (Assignment, Compliance with laws/regs, Counterparts, Independent Contractor, Insurance, Integration, Notice, Non-solicitation, Publicity, Severability, Waiver, etc.)

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- **Alliance/Program-specific terms and conditions**
  - Definitions (unique to relationship
  - Relationship description and scope
  - Applicable license rights (Demo/Training License)
  - Ordering Information
  - Order of precedence (Program Specs, Specific Terms, General Terms, URLs)
  - Requirements regarding other agreements
    - Reseller must obtain EULA
    - SaaS can only service licensed OSPs
    - Subcontractors must accept prime contract "flow downs"

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- **Attachments**
  - Specifications (Software/Services/Training/Support)
  - Opportunity/Customer Tracking/Registration Form
    - Deal-specific customer/opportunity/contact info
    - May require "approval" to mitigate channel conflict
  - End User Agreement
    - End User License and Services Agreement
    - Subcontractor Services Agreement

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- **Tips**
  - A good "strategic alliance" agreement is an interactive effort between legal, alliance sales, management, and other business groups who will provide or receive services or benefits.
  - Disclaim the "legal" definition of "partner".
  - Incorporate URLs by reference but have negotiated terms govern conflicts.
  - Be sensitive to revenue recognition issues (acceptance, roadmaps).
  - Be sure to address "prime contract" flowdowns in every subcontract.
  - Consider unexpected legal risks of "common" business practices:
    - Alliance Program Fees – may invoke state franchise laws affecting termination
    - "Referral" Fees – may be illegal kickbacks under federal (FAR) and state laws
  - NEVER "add" international subsidiaries to domestic alliance agreements without review by local counsel for tax and legal consequences
  - When presented with international alliance opportunities, particularly resellers, confirm:
    - Your EULA/contract is enforceable in the end-user's country
    - Your trademarks/copyrights/IP are or can be protected

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- ## General Disclaimers
  - These slides are intended as guidelines rather than as a specific or all-inclusive checklist
  - There is rarely one "best" way to do anything

Nine Secrets of Successful Alliances

Michael L. Whitener

General Counsel
Software Strategies, Inc.

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"Same Bed, Different Dreams"

- Ancient Chinese proverb that aptly describes many strategic alliances
- This presentation will focus on alliance practices – contractual and otherwise – that will help either to:
  - Get dreams aligned, or
  - Change sleeping partners

1. Look Before You Leap: Vetting Potential Alliance Partners

- Because of ease of signing new alliance contracts, often little effort is expended to determine strategic fit
- SAP practice: Every potential partner must submit detailed "Partnership and Certification Application"
- Value proposition, market differentiators, competitive positioning must be clear from outset

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2. Two Heads Are Better: Preparing Joint Business Plans

- Yogi Berra: "You've got to be careful if you don't know where you're going, because you might not get there."
- Alliance agreement should require that parties prepare joint business plan
- Elements to include:
  - Strategic goals
  - Sales & marketing plan
  - Support plan
  - Monthly reports

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3. Reward and Punishment: Putting Teeth Into Alliance Targets

- Not enough for partners to promise "good faith" or even "best efforts" to achieve particular alliance goals
- Obligations should be clear and specific, with consequences for failure to achieve
- Specific performance obligations:
  - Quotas – may be based on revenue generation, new accounts, qualified leads, etc.
  - Conducting marketing/advertising
  - Completing training courses

4. Drawing the White Lines: Avoiding Channel Conflicts

- "Channel conflict" occurs when multiple alliance partners are going after the same opportunity
- May be avoided by defining scope of alliance:
  - Geographic
  - Product
  - Market
- Granting exclusivity to alliance partner

5. Keeping the Faith: Strategies for Managing Alliance Relationships

- As alliances account for an increasing percentage of corporate revenue, makes sense to take holistic approach to alliance management
- Factors to be addressed include:
  - Dedication of corporate resources
  - Criteria for selection of alliance partners
  - Tracking of alliance partner performance
  - Structuring of alliance programs

6. First, Do No Harm: Limiting Potential Liability

- Determining limitations of liability in alliance context can be difficult, because agreement value may be undeterminable
- Common components to liability limit:
  - Dollar limitation – perhaps based on amounts paid under alliance agreement
  - Exclusion of consequential/indirect damages
  - Exceptions to limitation for indemnity obligations

7. Guarding the Crown Jewels: How to Protect IP

- Alliance may require licensing of IP rights from one partner to the other
- Scope of that license must address:
  - Ownership rights
  - Exclusivity
  - Limitations of use
  - Right to sublicense
  - Derivative rights
- Liability for infringement

8. Sailing Foreign Waters: Rewards and Risks of Overseas Alliances

- Rewards include:
  - Partner intimately familiar with local market conditions and business practices
  - Local law may require using locally registered agents
  - Partner may have already obtained all required government approvals/registrations
- Risks include:
  - Difficulty enforcing rights overseas
  - Potential violations of either local (e.g., currency controls) or U.S. (e.g., FCPA) laws

9. This Too Must Pass: Tips for Terminating Alliances

- Alliance exit strategy must be considered at the outset
- "Termination for cause" vs. "termination for convenience"
- Consequences of termination:
  - Ongoing payment obligations
  - Confidentiality
  - Use of IP
  - Return of materials

GOING INTERNATIONAL WITH STRATEGIC ALLIANCES

Alliances are complicated beasts. The complications multiply when the alliance relationships cross national borders.

The following list, while far from exhaustive, highlights issues that can't be overlooked when venturing abroad:

- **Intellectual Property Protection.** Protection of IP rights under U.S. law stops at the U.S. border. Even among countries that have committed to the IP protections afforded by the World Trade Organization, local enforcement may be less than vigorous. Be sure you know what IP is entitled to protection locally, what procedures must be followed to qualify for protection, and what enforcement mechanisms are available.

- **U.S. Foreign Corrupt Practices Act.** The FCPA, which penalizes bribery of foreign officials by U.S. companies and individuals, has been vigorously enforced in recent years. The FCPA is of particular concern when alliance partners are making sales overseas, because a U.S. software vendor can be held liable for bribes paid by its foreign distributors. And note that even a gift or meal that is customary in the foreign country may constitute a "bribe" under U.S. law. Therefore it's critical that any U.S. software vendor using a foreign seller (1) thoroughly investigate the background and credentials of the reseller, and (2) require contractual commitments of the reseller to abide by the FCPA.

- **Compliance with Export Controls.** Exports of computer software are subject to licensing by the U.S. Department of Commerce's Bureau of Industry and Security (formerly the Bureau of Export Administration). Some types of software qualify for a license exception for exports to most destinations; other software, such as encryption software, requires a validated license. U.S. software exporters may be held responsible for unauthorized re-exports of software.

- **Tax Issues.** The software vendor must be aware of how software sales are treated under all foreign jurisdictions in which the reseller is operating. Tax consequences may directly affect the reseller's compensation and ultimately the vendor's profits.

- **Antitrust Issues.** Many foreign jurisdictions have antitrust laws that may limit the types of restrictions a U.S. software vendor can impose on its overseas alliance partners. For example, certain so-called "vertical" arrangements—such as exclusive distribution agreements, territorial and customer restrictions, tying, and resale price maintenance— that might be permitted in the United States are subject to strict regulation and restriction in the European Community and Japan, among other countries.

- **Termination Restrictions.** Perhaps the trickiest aspect of foreign laws regarding alliance relationships, and the area that exposes U.S. suppliers to the greatest potential liability, concerns how and when an alliance partner may be terminated. Many countries have legislation designed to protect distribution partners against unfair termination, with the scope of the meaning of "unfair" varying dramatically from country to country.

> *Prepared by:*
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> Software Strategies, Inc.
> *For:* ACC Annual Meeting: 29-31 Oct 2007

SOFTWARE ALLIANCE AGREEMENT CHECKLIST

The following are some of the issues that should be addressed in drafting or reviewing a software alliance agreement:

✓ Is the scope of the alliance -- geographic, product and market – appropriate?

✓ Are pricing and compensation terms clear-cut and balanced? What about related issues such as taxes, delivery schedule, payment terms and credit, returns, record-keeping and audits, price protection, bonuses and rebates?

✓ Is the discount program reasonably structured, with appropriate incentives for alliance partners to expand marketing efforts and increase sales?

✓ Is the alliance exclusive or non-exclusive?

✓ Is the license grant from software vendor to alliance partner narrowly tailored to the requirements of the relationship?

✓ Are the partner's sublicense rights and limitations clear and explicit?

✓ Is the alliance partner required to meet specific quotas within a specified period of time?

✓ Does the alliance partner have obligations to conduct marketing and advertising on behalf of the software vendor?

✓ Are the parties required to jointly draft a business plan? What elements must the business plan contain, in terms of achieving strategic goals, meeting quarterly targets, preparing monthly reports, etc.?

✓ What training courses must the alliance partner complete, and for which employees?

✓ Which party is responsible for handling import and export license requirements?

✓ Is the alliance partner required to enforce the end user license?

✓ Is the alliance partner prohibited from making false representations regarding software performance?

✓ Is the alliance partner restricted from promising customers that the software vendor will provide any free or discounted services, training or products?

✓ Is the alliance partner required to provide feedback regarding customer complaints, requests for services and product modifications?

✓ Are software vendor obligations appropriately limited – to licensing, discounts payment of referral fees, technical updates, and perhaps training?

✓ Do the "three horsemen" clauses of warranty, indemnity and limitation of liability do their job to protect the software vendor's interests?

✓ How are maintenance and support obligations allocated? Can the software vendor step in and replace the alliance partner as the M&S provider?

✓ Does the confidentiality clause adequately do its job of protecting the software vendor's "crown jewels"?

✓ Under what circumstances may the alliance be terminated, and what is the exit strategy?

✓ Have the often-overlooked "boilerplate provisions" – regarding, for example, independence of parties, trademark usage, governing law, dispute resolution, and no assurances – been adequately vetted?

✓ If the alliance crosses national boundaries, does the agreement address the special considerations that arise when going international?