210 Advanced Technology Licensing Issues: What the Future May Hold

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Faculty Biographies

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Douglas Hott

Douglas Hott is senior counsel at IBM in Somers, New York. His responsibilities include providing legal counsel to IBM's business consulting services division, including a broad range of activities in support of its business transformation outsourcing practice.

Mr. Hott came when IBM acquired the management consulting services business of PricewaterhouseCoopers LLP, where he was assistant general counsel. He worked at PricewaterhouseCoopers LLP and one of its predecessors, Price Waterhouse LLP until he joined the IBM legal department. Doug was an associate at Dechert Price & Rhoads in Philadelphia until joining Price Waterhouse LLP.

Mr. Hott received a B.A. from Haverford College and a J.D. from Columbia University School of Law.

Jason B. Wacha

Jason B. Wacha is vice president, corporate affairs, general counsel and corporate secretary of MontaVista Software, Inc. in Sunnyvale, California. He supervises the company's worldwide legal and corporate policies and practices and develops and implements the company's intellectual property strategy.

Mr. Wacha was previously a vice president and general counsel for Advanced Data Exchange, an electronic document exchange company, and also practiced law with Wilson Sonsini Goodrich & Rosati, where he focused on technology licensing, financings, and mergers and acquisitions for public and privately held clients concentrated in the high technology and biotechnology arenas.

Mr. Wacha has been recognized by the San Francisco Daily Journal as "one of the country's preeminent experts on open source software licensing." He speaks nationally and internationally, lectures at law schools, and is a published author on open source licensing and the GPL. He is a founder of Open Bar (www.open-bar.org), a not-for-profit organization founded to educate software developers, legal professionals, and users of software in the emerging arena of open source/free software. He is also a contributing columnist to the Enterprise Open Source Journal.

Mr. Wacha earned undergraduate degrees from Stanford University and has a J.D. from the University of California, Davis, where he was an editor of the U.C. Davis Law Review.

Advanced Technology Licensing Issues: Licensing Considerations In Outsourcing Transactions

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1. Length and complexity of outsourcing transactions increases licensing complexities in several key areas, including:
    a. Access to and use of third party software by outsourcer, its affiliates and subcontractors
    b. Use of materials and products owned or provided by outsourcer during and after outsourcing engagements
    c. Use of materials developed in the course of the outsourcing engagement
2. Third-party software
    a. Existing software
        i. Required consents (for outsourcer, affiliates and subcontractors to use third party software licensed by client) and similar issues
            1. Allocation of financial and administrative responsibility for use of software by outsourcer
                a. In accordance with pre-existing license scope
                b. For potentially expanded scope of services contemplated by outsourcing agreement
            2. Outsourcing agreements may include broad definitions of entities to be serviced, extending beyond affiliates to non-affiliated entities and to client businesses affected by corporate transactions (dispositions, spinoffs, newly acquired entities, etc.)
            3. Disconnect between outsourcing negotiations and software license negotiations can leave gaps in license terms
                a. Some licenses may be on vendor standard terms
                b. Vendor consents sometimes expressly required by license agreements for access/use by third parties; confidentiality provisions may have same effect
                c. Even scope of negotiated licenses may not encompass broader range of entities to be served under outsourcing agreements
            4. Outsourcer’s needs:

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a. Use by it and, where applicable, by its affiliates and subcontractors, to same extent as client
b. Use by it and, where applicable, by its affiliates and subcontractors, to service all entities contemplated by outsourcing agreement
c. Possible use on outsourcer equipment and at outsourcer locations, including possible use outside of US
   i. Parties need to address license restrictions on locations
   ii. Any export control issues must be addressed

ii. Migration to new equipment – license fees and other charges
   1. Machine-specific restrictions
   2. Processor- or capacity-based restrictions
   3. Operating system restrictions

iii. What counsel can do:
   1. Before entering into outsourcing transaction, assess impact of existing consent/use restrictions
   2. More actively seek outsourcing-related consents when negotiating licenses
   3. Actively address location and hardware restrictions during license negotiations
   4. Determine whether export or other restrictions would apply in circumstances contemplated by an outsourcing engagement
   5. Sensitize procurement department and others involved in the negotiation process to key outsourcing-related issues
   6. Implement a process to stay informed about planned license transactions in order to minimize potential outsourcing-related license issues
   7. Address existing restrictions during license expansions, renewals or renegotiations

b. Newly acquired Software

i. Outsourcing-related issues usually more easily addressed since scope of required license is better understood
   1. Client should ensure that licenses provide for necessary outsourcer access and use
   2. Client should ensure that licenses are broad enough to cover all entities to be outsourced and cover other potential license issues discussed in (a) above
   3. Client should have a process to keep counsel aware of all licensing transactions where outsourcer may need use or access so that outsourcing-related license issues can be addressed during license negotiations
   4. Outsourcer should be kept informed to make sure that activities affecting it are covered appropriately

3. Outsourcer-owned or provided materials

a. Scope of use by client and affiliates during engagement

i. Commercially available materials – governed by license agreements as modified by outsourcing agreement
   1. Outsourcer may assume licenses for outsourcer materials
   2. If outsourcer assumes licenses for outsourcer materials, post-transaction terms should be addressed

ii. Proprietary outsourcer materials
   1. Outsourcer may use competitively sensitive tools and products of its own that are enhanced versions of commercially available materials or may use competitively sensitive products that aren't commercially available in any form; outsourcer will want to limit use of these materials as much as possible by any party other than outsourcer
   2. Outsourcer may have concerns about client use of non-commercial materials because of training costs or other usability issues

iii. Shared services issues
   1. Outsourcer license must cover all entities that outsourcer is required to provide services to under outsourcing agreement
   2. Potentially greater sensitivity to use or access by third parties, especially competitors of providers of third-party software used by outsourcer in shared services environments
   3. Software currency issues – outsourcer may need greater flexibility on software currency and version control, levels of customization vs. standardization, and similar issues since multiple clients are serviced by same software
   4. Ownership issues for developed materials are sometimes more challenging in shared services environment

b. Scope of use by third parties during engagement

i. Commercially available materials – generally license terms as modified by outsourcing agreement will govern

ii. Proprietary materials – outsourcer won't generally be willing to let competitors use or access other than for specific materials, in clearly specified circumstances with clearly specified parameters

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iii. Shared services – outsourcer and its licensors will need appropriate protection – similar to proprietary materials issues in (b)(2) above

c. Scope of post-engagement use by client and affiliates

i. Internal use
1. Commercially available materials – in accordance with license terms
2. Shared services – exit/transition terms need to be addressed
3. Non-commercial materials – will depend on materials in question

ii. Use for others
1. Commercially available materials – in accordance with license terms
2. Noncommercial materials– outsourcer may be unwilling to leave certain items behind or may only be willing to permit only internal use by client or affiliates but not by unaffiliated third parties
3. Shared services – generally not beyond what was provided for outsourcing and for exit/transition period at longest, and limited to entities for which outsourcing services were provided

d. Scope of post-engagement use by parties other than client/affiliates

i. Transition purposes
1. Commercially available materials – in accordance with license terms
2. Noncommercial materials– outsourcer will seek to minimize use by third parties and limit to necessary transition period
3. Outsourcer may be unwilling to permit some noncommercial materials to be used by third parties even during transition; outsourcing agreement should specify

ii. Post-transition purposes
1. Commercially available materials – governed by license terms
2. Noncommercial materials:
   a. Outsourcer may agree to limited client use for specific materials
   b. Outsourcer will be reluctant to allow third parties continuing access to most noncommercial materials; successors likely have their own substitutes
3. Shared services environments: client will need to determine whether it wants to continue shared services through another party or transition to internal license for same software if possible

4. Materials developed during the course of the outsourcing engagement

a. Similar to consulting engagements in many respects but nature of services and length of engagement can increase challenges regarding ownership and use during and after outsourcing engagement; typically negotiated are rights to:

i. Derivative works/modifications of existing outsourcer materials

ii. Derivative works/modifications of existing client materials

iii. Derivative works/modifications of third-party materials

iv. Newly created materials
1. Specifically for client
2. Generally usable
3. Shared services materials

b. Some IP issues may be addressed through non-IP terms (e.g., restrictions on key employees)

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Session No. 210
Advanced Technology Licensing Issues: What the Future May Hold
** Open Source **

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ACC's 2005 Annual Meeting: Legal Underdog to Corporate Superhero—Using Compliance for a Competitive Advantage

October 17-19, Marriott Wardman Park Hotel

What is "open source"?

- Open Source
  - Generally: any computer program where the user is granted access to source code
    - May or may not meet OSI "definition"
  - Has been around for more than 30 years; predates "proprietary"
- Linux…
- … and the stuff you're running!

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What is the GPL?

- It's a license agreement
  - Actually less restrictive than most proprietary license agreements: covers only 3 rights (copy; modify; redistribute)
  - Originally written by the FSF (though that doesn't necessarily mean they can enforce it)
- There are lots of open source agreements
  - GPL; LGPL; Mozilla; Artistic; Apache; sendmail; BSD; etc.

Software is software

- It's computer code that's subject to copyright and other laws and usually a license agreement
- It's kind of like the food at "Max's"
  - Open source is exactly the same as proprietary; open source is different than proprietary
  - You need to read the license and understand its terms.
  - In both models you can offer warranties and indemnities. It depends on the particular (sub)licensor
  - Different: More likely to have no direct contact available with the original licensor.

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So: what should I be doing differently?

- Keep doing what you're doing
  - Your company probably has (ought to have!) policies in place now for managing the acquisition, use and (re)distribution of code
  - Software is software
- Of course, that doesn't mean "do nothing"
  - Pay attention to compliance issues
  - Understand distinction between manufacturer vs. retailer / back-end use vs. redistribution
  - All the same issues as with traditional proprietary

Proprietary Code and Open Source

- It is well-accepted that you can write programs to run on Linux… and keep them proprietary
  - Just as applications running on other operating systems (Windows; DOS; Unix; etc.) can remain proprietary
- To avoid GPL "derived work" claims, follow accepted norms:
  - Original code; no GPL libraries; run-time/loadable modules; etc.
- Respect the community

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Viral Schmiral

- When it comes to "viral" effects, open source is actually better and safer than proprietary.
- In both cases, you're only controlled by another licensor's terms ONLY IF you create code that is legally a "derived work" under U.S. copyright law.
- So what's the main difference?
  - Typical open license allows derivative works. Language says, essentially: "You want to make derivative works? That's fine! But normally you should license those works under this same license."
  - Conversely, a typical proprietary license prohibits derivative works. Language says, essentially: "You want to make derivative works? No way!"

OSS in the M&A context

- You should already have a due diligence policy in place: follow it!
- Due Diligence
  - Identify: back end/internal uses; modifications; (re)distributions; interaction with proprietary IP
  - Check for policies, procedures
    - Spot check compliance with procedures; with licenses
      - Legal challenges have tended to focus on compliance
- M&A Agreement
  - FOSS schedule; warranties re compliance and policies; identification of indemnities/warranties given and received
- Use engineers and others to assist

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But what about the litigation risk?

- In the long history of open source, and in 14 years of Linux, there has been no real lawsuit challenging the open development model
  - Keep in mind the hurdles
- Conversely, in the last 14 years in the proprietary embedded software space there have been hundreds of lawsuits with thousands of claims
  - The claims include everything that everyone is (supposedly) afraid of in open source: illegal derivation, copyright and patent infringement, antitrust, trade secret and more

Want to avoid litigation? Get out of proprietary!

Looking forward…

- Deeper, wider, faster adoption
- Infringement risks
  - Out with: copyright
  - In with: patent
- Vendor distinctions
  - Single source; QA'd code; support; IP protections
- Knowledge is power
  - Growing adoption – and legal chicanery – lead to greater understanding and reduced fear
- License proliferation
  - Who cares? (OK, standardization can be good)

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Some suggestions for best practices

- Read the licenses
- Understand the community
  - What are people saying? What are commercial companies actually doing?
- Understand your company and implement policies
  - Audit what open source programs your employees are downloading, running, using, writing, (re)distributing … and start tracking
  - Educate your employees about open source
  - M&A: understand how to manage risk and respond to schedules of exception
- Stay abreast!
  - The open source “legal” world is always in flux. Find a couple of sources/contacts you trust.

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