509 Advanced Licensing Issues on the Net

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Faculty Biographies

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Carl B. Horton

Carl B. Horton is senior counsel, intellectual property for GE's Industrial Systems Division in Plainville, Connecticut. He is responsible for all intellectual property issues for Industrial System's global operations across more than manufacturing sites in over 20 countries. His primary areas of practice include: IP licensing; IP due diligence and associated agreements relating to acquisitions, divestitures, and joint ventures; patent and trademark right-to-practice opinions; identification, protection, and enforcement of all IP assets; copyright and internet law; software licensing; franchising and export regulations.

Prior to GE's Industrial Systems Division, Mr. Horton was senior counsel for GE's Electrical Distribution and Control Division, and, before that, he was lead counsel for several businesses within GE's Plastics Division. Prior to GE, he was an associate with the law firm of Burns, Doane, Swecker & Mathis in Alexandria, VA, specializing in infringement and validity opinions, IP negotiations and related agreements, and patent preparation and prosecution.

For the past seven years Mr. Horton has been actively involved in GE's Elfun Society, the designated volunteer organization within GE, including a one-year tenure as chair for the Greater Hartford Elfun Chapter.

After obtaining a BS *cum laude* from the University of Utah, Mr. Horton received his JD with honors from the National Law Center at George Washington University.

Mark S. Walker

Mark S. Walker is group counsel, intellectual property law for Gateway, Inc. in San Diego. He has worldwide responsibility for patent, trademark, copyright, and trade secret acquisition and exploitation, as well as domain name management and fair trade compliance. He supervises intellectual property law professionals working at three of the company's facilities responsible for product engineering and development and for the sale and licensing of content and products using the internet.

Before joining Gateway, Mr. Walker spent over 10 years as an attorney for IBM, responsible for patent and licensing activities in the graphics, operating system, and microkernel technologies.

He is a member of the ABA, American Intellectual Property Law Association, San Diego Intellectual Property Law Association, and the Licensing Executives Society.

Mr. Walker received his BS and MS in Industrial Engineering from Purdue University and his JD from George Washington University National Law Center.

Checklist for Drafting Third Party Supplier Contracts

1.   Scope of Distribution Rights.

p   Exclusive

p   Non-exclusive

p   Reproduction of Disks for distribution

p   Right to private label

p   Right to market, grant licenses, maintain first line-customer support

p   Right to use and incorporate Supplier's documentation

p   No charge for limited number of in-house copies

2.   Territory:

p   United States and Canada

p   Worldwide

p   Selected countries: _____

3.   Markets:

p   Distributor's activities limited to a narrow vertical market

p   Distributor's activities allowed in a broader marketplace

p   Further definition: _____

4.   Products:

p   Only products listed on Exhibits

p   All of Supplier's products

5.   Buy or build?

p   Distributor buys the physical disks for each resale from the Supplier

p   Distributor creates the disks ourselves from a master disk

p   Delivery and Installation

p   Acceptance testing

p   Ownership of Intellectual Property

6.   Payment basis.

p   Royalty calculated on each sale and Distributor make the disks

p   Direct payment to Supplier in exchange for the physical disks

p   If on a master disk/send royalties basis, audit provisions included in contract

7.   Payment terms

p   Payment upon completion of a project

p   Payment upon shipment of the Software, i.e. when ship to a customer

p   Pay quarterly, showing numbers of sales and money collected

8.   Volume requirements, if exclusivity desired

p   Minimum number of units per year to retain exclusivity

p   In lieu of minimum number of copies, pay a minimum amount to retain

p   No volume requirements = non exclusivity

9.   Term

p   Right to the products for five years

p   Longer: _____

p   Shorter: _____

p   Right for End-Users to continue using the license in event of termination

10.   Specifications/documentation

p   Standard product,

     p   need for testing for compatibility with Distributor's applications

     p   Need for acceptance procedures

p   Custom product

     p   need for testing for compatibility with Distributor's applications

     p   Need for acceptance procedures

p   Creation of Specification for Distributor

p   Specification and testing documents become part of the contract

11.   Source Code

p   Copy put into escrow for Distributor and customers

p   Location of escrow _____

p   Supplier pays for the escrow

p   No source code because product is standard or easily replaceable

p   Representations

p   Ownership and right to license (base software and third party software)

p   No conflicts

p   Non-infringement

12.   Warranty and Warranty Service

p   Supplier's product warranty: ___ months from installation, per customer

p   First line warranty service for Distributor's customers

     p   Performed by Distributor

     p   Performed by Supplier

p   Specific functionality (if requested and designed)

p   Service warranty / response time / fixes / reliability / documentation

p   No hidden costs

13.   Post-Warranty Software Support and Maintenance

p   Supplier needs to understand the needs of the newspaper marketplace, mission-critical publishing system, needs continual uptime. Publication-threatening problems need to be resolved in a minimum amount of time

14.   Indemnification:

p   IP indemnification

p   Property damage

p   Personal injury

15.   Training

p   Training included at no additional charge to Distributor

p   Place for training: _____

p   Number of training days included: _____

p   Cost for training beyond the basics:_____

16.   License Language

p   Same as Distributor uses with its customers

17.   Year 2000 Warranty

p   No date-related processing errors

18.   Confidentiality

p   Agreement to keep Distributor's information confidential

p   Agreement to keep Supplier information confidential

p   Export obligation

p   Enforcement; Injunctive relief

19.   Noncompetition

p   Agreement to not compete in Distributor's marketplace

p   Agreement to not license Products to Distributor's competitors

p   Most Favored Customer

20.   Miscellaneous Provisions

p   Privacy

p   Dispute Resolution

p   Force Majeure

p   Governing Law

p   Survival

p   Notice

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SELECTED MODEL CLAUSES FOR
SOFTWARE LICENSE AGREEMENTS
(Reflects the Buyers Perspective)

</div>

DEFINITIONS:

"Software" is defined as any and all computer programs supplied under this Agreement, and any and all modifications thereof or upgrades thereto which perform the functions and/or achieve the objectives set forth in the Product Specification set forth in Schedule A.

"Hardware" is defined as any computer, server, person digital assistant or other such device which performs computer functions and/or sends or receives data, including all related equipment on which the Software is run.

"Network" is defined as an aggregation or interconnection of computers or Hardware, or any other devices which may perform the functions of data communication, computation or storage, where such interconnection is by cable, wireless communication or any other means which permits the passage of machine-readable information among two or more such devices; Network shall include without limitation any publicly accessible communications systems capable of digital and/or analog communications, which systems may be generally known as the Internet, the World Wide Web, or other designation.

LICENSE GRANT:

Scope. This Agreement shall apply to all PURCHASER's employees anywhere in the world as well as any individual engaged in work on behalf of PURCHASER such as contractors, contingent workers, consultants and the like. This Agreement shall also apply to Third Parties provided such Third Parties' access or utilize the Software for activities related to business between PURCHASER and such Third Party and/or in conjunction with services being provided to PURCHASER by such Third Party for PURCHASER's benefit. Notwithstanding the foregoing, Software may be used by any end user for purposes of supporting products or obtaining services provided by PURCHASER to such End User.

Grant. SELLER hereby grants and agrees to grant to PURCHASER a non-exclusive, irrevocable, perpetual, [unlimited,] transferable, fully paid-up, royalty-free, [worldwide] license(s) to use, [sub-license,] maintain, modify and/or reproduce Product on Computers and Networks pursuant to the scope of use and as otherwise defined under the terms of this Agreement and the Schedules.

License Grant Checklist:
- perpetual or for a defined term period
- irrevocable or revocable
- exclusive or non-exclusive
- paid-up and royalty-free or periodic payments

- transferable or non-transferable
- worldwide or restricted to a particular geography
- sub-licensable or non-sublicensable
- "purchased", leased or subscription service
- lease or rental period

Limitation of Cost and Obligation. *(Applicable only to orders placed on an estimated cost basis.)*

A. It is estimated that the total cost to the PURCHASER, including any fee or profit, for the performance of this order will not exceed the estimated cost set forth in the order, and the SELLER agrees to use its best efforts to perform the work specified in the order or work statement and all obligations under this order within such estimated cost.

B. The PURCHASER shall not be obligated to pay the SELLER for costs incurred in excess of the estimated cost set forth in the order, and the SELLER shall not be obligated to continue performance under this order or to incur costs in excess of the estimated cost set forth in the order, unless and until the PURCHASER shall have notified the SELLER in writing that such estimated cost has been increased and shall have specified in such notice a revised estimated cost which shall thereupon constitute the estimated cost of performance of this order. When and to the extent that the estimated cost set forth in the order has been increased, any costs incurred by the SELLER in excess of such estimated cost prior to the increase in estimated cost shall be allowable to the same extent as if such costs have been incurred after such increase in estimated cost.

C. If the sum presently available for payment and allotted to this order is less than estimated cost, the amount of funds so allotted shall be stated in the order. In any event, it is anticipated that from time to time the PURCHASER will notify the SELLER in writing when additional funds have been allotted to this order. The SELLER agrees to perform or have performed work in this order up to the point at which, in the event of termination of this order for convenience pursuant to the Article entitled "Termination," the total amount paid and payable by the PURCHASER pursuant to any settlement including cost and fixed fee would in the exercise of reasonable judgment by the SELLER, approximate the total amount at the time allotted to this order. The SELLER shall not be obligated to continue performance of the work beyond such point and the PURCHASER shall not be obligated to pay the SELLER any amount which ' although otherwise payable, exceeds, when combined with amounts previously paid, the total amount from time to time allotted to this order. However, when and to the extent that the total amount allotted to this order has been increased, any costs incurred by the SELLER to which the SELLER would have been entitled but for the provisions of this paragraph, shall be allowable to the same extent as if such costs had been incurred and earned after such increase in amount allotted. For the purpose of this paragraph the allotment or allotments made pursuant to this paragraph shall not be decreased

without the consent of the SELLER, provided however, that nothing in this paragraph shall affect the right of the PURCHASER to terminate this order pursuant to the Article entitled "Termination".

D. If at any time the SELLER has reason to believe that the costs which it expects to incur in the performance of this order in the next succeeding sixty (60) days, when added to all costs previously incurred, will exceed seventy-five percent (75%) of the amount then allotted to this order, or if at any time the SELLER has reason to believe that the total cost to the PURCHASER, including any fee or profit, for the performance of this order will be substantially greater or less than the estimated cost thereof, the SELLER shall notify the PURCHASER in writing to that effect, giving its revised estimate of such total cost for the performance of this order, and its estimate of the costs which will be incurred in the next six (6) months.

IP OWNERSHIP

Ownership of Intellectual Property.

A. Unless otherwise agreed in writing, all tools, equipment, materials, drawings, computer software, documents or data of every description furnished to SELLER by PURCHASER or specifically paid for in whole or in part by PURCHASER, and any replacement thereof, or any materials affixed or attached thereto, shall be and remain the personal property of PURCHASER Such property, and whenever practical each individual item thereof, shall be plainly marked or otherwise adequately identified by SELLER as being the property of XYZ Company by an appropriate clear marking, and shall be safely stored separate and apart from SELLER's property. SELLER shall not substitute any property for PURCHASER's property and shall not use such property except in filling PURCHASER's orders. Such property while in SELLER's custody or control shall be held at SELLER's risk, and shall be kept insured by SELLER at SELLER's expense in an amount equal to the replacements cost with loss payable to PURCHASER. Such property shall be subject to removal at PURCHASER's written request, in which event SELLER shall prepare such property for shipment and shall deliver it as directed by PURCHASER in the same condition as originally received by SELLER, reasonable wear and tear excepted, all at PURCHASER's expense.

B. SELLER shall keep confidential all drawings, specifications, computer software and other data furnished or specifically paid for by PURCHASER and shall not divulge, export from its own country, or use, directly or indirectly, such drawings, specifications, computer software or data to or for the benefit of any other party without obtaining PURCHASER's prior written consent and any required U.S. Government export authorization. Except as required for the efficient performance of this order, SELLER shall not make copies or permit copies to be made without the prior written consent of PURCHASER.   If consent is given for any reproduction, this provision shall be provided thereon. This provision shall not apply to information in the public domain otherwise than as a result of a breach of

this provision, nor shall it limit any rights the Government may have in such drawings, specifications, computer software, or other data.

DELIVERY, TESTING AND ACCEPTANCE

Inspection:

A. All goods (which term throughout this order includes without limitation raw materials, components, intermediate assemblies and end products) or services shall be subject to inspection and test by the PURCHASER and its Customers to the extent practicable at all times and places during the performance of this order including the period of manufacture, and in any event prior to final acceptance by the PURCHASER and its Customer.

B. If any inspection or test is made on the premises of SELLER or its supplier, SELLER, without additional charge, shall provide all reasonable facilities and assistance for the safety and convenience of the inspectors in the performance of their duties. All inspections and tests on the premises of SELLER or its supplier shall be performed in such a manner as not to unduly delay the work.

C. Final acceptance or rejection of the goods or services shall be made as promptly as practical after delivery, except as otherwise provided in this order, but failure to inspect and accept or reject goods or services shall neither relieve SELLER from responsibility for such goods as are not in accordance with the order requirements nor impose liabilities on PURCHASER therefor.

SELLER REPRESENTATIONS AND WARRANTIES

Media Warranty

SELLER warrants that for a period of 90 days from the effective date of this Agreement that the media used to store and deliver Licensed Programs to GE shall be free from defects in manufacture and material. Should the media fail to be free of defects in manufacture or material during the 90 day warranty period, SELLER shall replace the defective media. Defective media shipped to the SELLER with a shipping date within the 90 day warranty period will be replaced at no charge including shipping.

Licensed Program Limited Warranty

SELLER warrants that Licensed Programs will perform substantially as described in their Documentation. If PURCHASER should determine during the 90 day warranty period from the effective date of this Agreement that a Licensed Program fails to perform substantially in such a manner, PURCHASER's remedy, in addition

to other remedies that may be available to PURCHASER, shall be either replacement of the Licensed Program at no charge or a full refund of all license fees paid by PURCHASER for the right to use the program. PURCHASER will deliver all copies of defective Licensed Programs with associated Documentation to SELLER to receive replacements or a refund of fees.

SELLER does not warrant that the functions contained in Licensed Programs will meet PURCHASER's particular requirements nor that the operation of the software will be uninterrupted or error free, provided however, in no event will the Licensed Programs be deemed to be fully installed and accepted until any standards for acceptance testing that may be specified by PURCHASER have been met.

Code Integrity Warranty

SELLER warrants that Licensed Programs contain no known "computer viruses" or "time bombs" as those terms are commonly understood in the information processing industry which SELLER by means of reasonable inspection should have detected in the normal course of quality control and testing. Specifically, SELLER warrants that the Licensed Programs contain no known code or instructions (including any code or instructions provided by third parties) that may be used to access, modify, delete, damage, or disable any computer, associated equipment, computer programs, data files or other electronically stored information operated or maintained by PURCHASER.

Documentation Warranty

Any Documentation furnished as part of Licensed Programs hereunder will be in form and substance at least equal to comparable materials generally in use in the industry. If at any time such original Documentation is revised or supplemented by additional Documentation, thereupon SELLER shall deliver to PURCHASER copies of such revised or additional Documentation at no charge in a quantity of at least one copy. PURCHASER shall have the right to reproduce all Documentation supplied hereunder provided such reproduction shall be solely for the use of PURCHASER.

Year 2000 Warranty

SELLER warrants that the occurrence in or use by the Licensed Programs of dates on or after January 1, 2000 (the "Millennial Dates") will not adversely affect the performance of the Licensed Programs with respect to date-dependent data, computations, output or other functions (including, without limitation, calculating, computing and sequencing) and that the Licensed Programs will create, store and generate output data related to or including Millennial Dates without errors or omissions.

Interoperability

SELLER acknowledges that the Licensed Software is designed to interact and operate with at least one of PURCHASER's existing and/or yet-to-be installed computer systems. As such, SELLER shall ensure that the LICENSED SOFTWARE. . . .

General Representations and Warranties:

SELLER represents and warrants that:

A. all information that it has submitted heretofore and contemporaneously is true and accurate in every material respect;

B.   it has the authority, license or permission from any third party owner or security interest holder, to use intellectual property in conjunction with the provision of the Licensed Programs and/or services under this Agreement.

C. it has the requisite personnel, competence, alliances, skill and physical resources necessary to provide the Licensed Programs and to fully perform the maintenance, support and related services on a global basis as set forth under this Agreement.

D. Licensed Programs and services delivered or performed shall be in accordance with the highest generally accepted standards of the profession existent at the time the Licensed Programs and services are delivered or performed.

INDEMNITIES:

Patent and Copyright Indemnity:

A. SELLER shall hold PURCHASER harmless against, and at SELLER's expense handle and defend, any claim and defend any suit brought against PURCHASER based upon an allegation that the use of any Software, equipment, or services furnished pursuant to this purchase order constitutes an infringement of any United States patent, or any copyright or other proprietary information right, provided that SELLER is notified promptly in writing of such suit and given any necessary authority, information and assistance (at SELLER's expense) for the defense of the same. SELLER shall pay all damages and costs awarded in such suit, but SELLER shall not be liable to PURCHASER under this purchase order to the extent of any compromise made by PURCHASER or its agent without SELLER's written consent. If such Software, equipment, or services in such suit is held to constitute infringement and its use is enjoined, then SELLER has the right by its own election, and at its expense, either to procure the right for continued use of such Software, equipment, or services, or to replace or modify such Software, equipment, or services so that it becomes noninfringing, provided that the performance thereof will not thereby be materially adversely affected. As a last resort, SELLER has the right to accept return of Software, equipment, or rescind services, if purchased, and

refund to PURCHASER any license fees paid by Purchase for Software removed and refunded to PURCHASER the purchase price, as prorated, for equipment, services rescinded.

Alternative – Combined Warranty and Indemnity:

A.   SELLER represents and warrants that it is the sole owner of the Licensed Programs, or has procured the Licensed Programs under valid licenses from the owners thereof, and SELLER further represents and warrants that it has full power and authority to grant the rights herein granted without the consent of any other person. SELLER shall indemnify and hold PURCHASER harmless against and shall handle and defend against any claim, suit, or other proceeding brought against PURCHASER based on an allegation that the Licensed Programs or any elements thereof, or the use of any Licensed Programs furnished by SELLER pursuant to this Agreement constitutes a violation or infringement of any patent, copyright, trade secret, or other proprietary information right provided that SELLER is notified promptly in writing of such allegation, suit, or proceeding and given full and complete authority, information and assistance (at SELLER's expense) for the defense of same.

B.   SELLER shall pay all damages and costs incurred by PURCHASER with respect to such suits or proceedings, but SELLER shall not be responsible for any compromise made by PURCHASER or its agents without SELLER's consent. If any such Licensed Programs is held by a court of competent jurisdiction to constitute infringement, and its use is enjoined, SELLER shall, at its own expense, either promptly procure the right for continued use of such Licensed Programs by PURCHASER, or, if the performance thereof will not thereby be materially adversely affected promptly replace or modify such product(s) so that it becomes noninfringing. If neither of the actions specified for SELLER in the preceding sentence is commercially feasible, then as a last resort, SELLER shall accept return of such Licensed Programs and refund to PURCHASER all fees paid by PURCHASER for such Licensed Programs, plus any costs incurred by PURCHASER in the removal of such Licensed Programs and installation of alternative products. During the pendency of any claim against SELLER or PURCHASER with respect to SELLER's ownership or authority, PURCHASER may withhold payment of any sum otherwise required to be paid hereunder.

TERM & TERMINATION

Insolvency:

If SELLER ceases to conduct its operations in the normal course of business (including inability to meet its obligations as they mature), or if any proceeding under the bankruptcy or insolvency laws is brought by or against SELLER, or a receiver for SELLER is appointed or applied for, or an assignment for the benefit of creditors is made by SELLER, Purchaser may terminate this order without liability

except for deliveries previously made or for goods covered by this order then completed and subsequently delivered in accordance with the terms of this order.

MAINTENANCE AND SUPPORT SERVICES

A. Maintenance for Licensed Programs shall include the provision of all major and minor Program Upgrades, patches, bug fixes and consulting if required to correct Licensed Program defects, and shall include at least 1 primary and 2 backup contacts. Maintenance and support services shall be available at the prices specified in the proposal. Maintenance and support services are renewable annually at PURCHASER's option.

B. In the event of a bona fide commercial dispute over the rights and obligations of the parties under this Agreement, SELLER shall continue to provide maintenance and support services as required under this Agreement and expressly consents to the entry of an injunction or other equitable remedy to require it to do so.

C. All maintenance and support services provided by SELLER to PURCHASER under this Agreement shall be in accordance with Schedule C entitled "Support Services Protocol" in effect as of the effective date of this Agreement, which publication lists SELLER's service levels for designated categories and priority levels of service.

D. Where SELLER lists "response times" or similar terms in its "Support Services Protocol," such terms shall mean SELLER's committed response time and support performance levels to PURCHASER for which PURCHASER has paid a fee as identified in Exhibit A herein. For example, SELLER's Priority One response time shall be not more than X hours on average; SELLER's Priority Two response time shall not be more than Y hours on average. In the event that SELLER publishes a new version of its Support Services Protocol and response times are adjusted so as to be less favorable to PURCHASER than before, then the response times in existence prior to any adjustments shall prevail as to all PURCHASER support services received under this Agreement.

E. SELLER and PURCHASER agree that SELLER's willingness and ability to provide support services elected by PURCHASER at the service levels as identified herein shall constitute a material obligation of SELLER under this Agreement

F. SELLER agrees to provide support for the Licensed Program for a period of at least Z years from the effective date of this Agreement provided that PURCHASER is entitled to or has otherwise elected to receive such support services from SELLER. If SELLER discontinues support services on a Licensed Program during this period, SELLER will provide PURCHASER with a full refund of the amount of the license fees for the Licensed Program.

Access to Source Code / Source Code Escrow

Escrow:

SELLER shall maintain the SELLER Source Code in escrow pursuant to the Source Code Escrow Agreement.

Source Code License Grant:

Subject to the terms hereof, PURCHASER shall be entitled to immediate receipt and possession of the SELLER Source Code on the occurrence of a Release Event section below. Subject to the terms hereof, upon each occasion when SELLER does not provide Support for the Licensed Program to PURCHASER in accordance with this Agreement, SELLER shall be deemed to have granted (without the need for further action) to Purchaser a worldwide license to reproduce, use, modify, market, distribute, and otherwise prepare derivative works of, the SELLER Source Code (the "Source Code License") only to the extent reasonably necessary to, and for the sole purpose of, fixing Priority 1, 2 or 3 Errors as defined in Schedule C – "Support Services Protocol.". Each Source Code License shall end upon the earlier to occur of (1) the second anniversary of the termination hereof and (2) upon SELLER providing Support for the Licensed Program to Purchaser in full accordance herewith for ninety (90) consecutive days. Purchaser shall be entitled to retain and use Purchaser Personnel to exercise its rights under this Section 0, provided that the SELLER Source Code remains at all times in the control of Purchaser and that Purchaser shall use precautions to protect the Source Code of the Licensed Program that are consistent with PURCHASER's own precautions to protect source code owned by PURCHASER, but in no event will SELLER take precautions less rigorous than industry standard precautions used to protect source code.

Release Events:

A. SELLER not providing Support for the Private Labeled Product or the SELLER Software (excluding components thereof that are not provided by SELLER) to Purchaser in accordance herewith (except as a result of a material breach of any provision hereof by Purchaser); and/or

B. the failure of (A) SELLER to have any involuntary filing regarding it (i) under Chapter 7 of the United States Bankruptcy Code (or equivalent successor law) dismissed within thirty (30) days after it is filed or (ii) under Chapter 11 of the United States Bankruptcy Code (or equivalent successor law) dismissed within sixty (60) days after it is filed or (B) [the filing of any voluntary petition regarding it under any bankruptcy or insolvencylaw][any trustee, including SELLER as debtor in possession, in any bankruptcy case hereafter filed by or against SELLER either to (i) assume this Agreement within fifteen (15) days after the filing of the initial bankruptcy petition or (ii) perform this Agreement within the meaning of Section

365(a)(4)(i) of Title 11 of the United States Code, as now constituted or hereafter amended].

This Access to Source Code / Source Code Escrow Section shall survive the termination hereof for any reason.

MISCELLANEOUS

Public Release of Information:

No public release of information regarding this order (including, without limitation, photographs, films, announcements and denials or confirmations of the placing of this order) shall be made without the prior written approval of Purchaser.

Pass Through of Warranties:

Purchaser shall be authorized to pass through any of the covenants, representations or warranties made by SELLER hereunder to End Users, and Purchaser may include appropriate language in its End User License Agreements that purports to pass SELLER covenants, representations or warranties on to such End User. SELLER, at its sole cost and expense, shall be responsible for performing, either directly or indirectly, all repair, replacement and other services required to cure any breach of any of the warranties set forth herein. The parties intend that End Users are third-party beneficiaries hereunder.

ELECTRONIC SIGNATURES IN GLOBAL AND NATIONAL COMMERCE ACT

Passage of ESIGN:
On June 30, 2000, Congress enacted the Electronic Signatures in Global and National Commerce Act ("ESIGN" or "the Act"), to facilitate the use of electronic records and signatures in interstate and foreign commerce by ensuring the validity and legal effect of contracts entered into electronically.

Requirements of ESIGN
- Section 101 (c)(1) of the Act provides that information required by law to be in writing can be made available electronically to a consumer only if he or she affirmatively consents to receive the information electronically and the business clearly and conspicuously discloses specified information to the consumer before obtaining his or her consent.
- Section 101(c)(1)(C)(ii) of the Act requires businesses to obtain from consumers electronic consent or confirmation to receive information electronically that a law requires to be in writing. The Act went into effect in October 2000.

Benefits to Consumers:
1. **Ensures access to documents and promotes awareness**
   - Section 101(c)(1)(C)(ii) requires that the e-commerce business determine whether the consumer has the ability to receive an electronic notice before transmitting the legally required notices to the consumer. This can be broken down into the following:
     i. the consumer has access to a computer and to the Internet;
     ii. the consumer has access to the software necessary to open the documents that are to be transmitted electronically; and
     iii. raises the consumer's awareness of the importance of the documents received and the importance of receiving the documents electronically.
2. **Helps to identify legitimate businesses**
   - Section 101(c)(1)(C)(ii) also reassures consumers about the legitimacy of an on-line merchant. In particular, according to the Act, "Good businesses" would ensure receipt of documents and make certain that the consumer is comfortable dealing with an electronic format.
3. **Helps prevent deception and fraud**
   - Section 101(c)(1)(C)(ii) protects consumers from e-commerce businesses that might misuse the provision of electronic records to circumvent laws requiring that consumers receive certain disclosures, information and other documents. Such information might include information about any right to cancel a transaction within a "cooling-off" period and/or a copy of their contract to use in court if a future dispute were to arise.
   - Section 101(c)(1)(C)(ii) is also designed to prevent consumer fraud. ESIGN is somewhat unique among fraud statutes in that it attempts to prevent fraud *before* it occurs. Both consumer and industry representatives gave specific examples of how Section 101(c)(1)(C)(ii) protects against fraud, noting that the provision:

- Discourages the use of electronic records to provide information to a consumer without Internet access;
- Reduces the ability of businesses to use product price unfairly to persuade consumers to accept electronic record instead of paper;
- Deters companies from fraudulently changing the terms of contracts in cases where consumers electronically sign an agreement and consent to receive electronic disclosures;
- Ensures the ability of consumers to access or retain important electronic records;
- Provides a way to gauge the consumer's ability to use electronic equipment; and
- Gives the consumer a chance to reflect on what he or she is agreeing to before confirming consent electronically, in a transaction that originates in a face-to-face setting.

Year 2001 Review of ESIGN

- There was consensus among the participants and commenters that not enough time has passed since the law took effect to: a) allow consumers or businesses to experience the full effect of the provision; b) develop sufficient empirical data to evaluate quantitatively whether the benefits of implementation outweigh the burdens; and c) determine whether the lack of the type of procedure required by the consumer consent provision would lead to an increase in deception and fraud against consumers.
- Although participants expressed a range of views, it is reasonable to conclude that, thus far, the benefits of the consumer consent provision of ESIGN outweigh the burdens of its implementation on electronic commerce. The provision facilitates e-commerce and the use of electronic records and signatures while enhancing consumer confidence. It preserves the right of consumers to receive written information required by state and federal law. The provision also discourages deception and frauds by those who might fail to provide consumers with information the law requires that they receive.
- Therefore, Commerce and the FTC recommend that Congress take no action at this time to amend the statute.
- In general, consumer advocates and state law enforcement agencies expressed strong support for the consumer consent provision in Section 101(c)(1)(C)(ii) as an effective tool to prevent fraud and increase consumer confidence in the electronic marketplace. In their responses to the Federal Register Notice and their comments at the workshop, consumer groups and state law enforcement agencies said the benefits of Section 101(c)(1)(C)(ii) to consumers and e-commerce businesses outweigh the burdens associated with adapting business systems to comply with the provision.

ACME Software Development Company License

1. ACME is the developer of an enterprise software solution (ESS) for newspaper publishers. The software solution components include:

    (a) "MyNewspaper" e-commerce application that allows newspaper subscribers to create their own electronic version of the newspaper with the content they prefer. The "MyNewspaper" software was developed by MyNews.com and is subject to their license terms.

    (b) "Stock Photo" component that provides a library of photographs for use by the newspaper in articles and features.

    (c) "News Production" component that supports the production of a newspaper using a distributed system of computers accessed by the authors, editors and production staff.

2. Licensing Issues: "Newspaper" would like to license the ESS Suite but has identified several issues that need to be resolved.

    (a) The "MyNewspaper" application collects personally identifiable information from subscribers.

        (i) The ecommerce application automatically collects name, address and email information from the end user and forwards it to ACME. The system also sends data concerning the types of news/information selected by the user.

        (ii) Newspaper also collects registration information for its use in configuring the news and for billing purposes

        (iii) Newspaper has concerns that this structure won't conform to the Newspaper's on-line privacy policy. Cross Reference to US Privacy law proposals, FTC privacy policy and organizations such as TrustE and BBBOnline.

        (iv) The "MyNewspaper" application will be accessible in the United States and Europe. EU privacy directive will impact the information exchanged.

    (b) MyNews.com insists that its license terms be passed through ACME to Newspaper.

        (i) MyNews.com insists that its End User License Agreement be passed to and enforced upon all end users. (Passthrough of terms.)

(ii) Newspaper wants the terms of its agreement with ACME to govern all software and does not want to be subject to passthrough terms from MyNews.com.

(c) "Stock Photo" application allows Newspaper to use the copyrighted material of multiple photographers and photographic agencies (licensing of content.)

(i) ACME passes through to Newspaper terms and conditions of use from the Agencies from whom it obtains the photographs.

(ii) Newspaper insists that any use of the material be fully licensed without restriction.

(iii) Newspaper requires ACME to indemnify it for any allegations of copyright infringement brought based on Newspaper's use of the stock photos.

(iv) What rights do agencies have to enforce against Newspaper? Against ACME?

(d) "News Production" application is a "mission critical" application to Newspaper. It cannot afford any significant unplanned downtime.

(i) Newspaper insists on indemnity for direct and consequential damages that result from any unplanned downtime.

(ii) ACME seeks to disclaim any liability.

(iii) Other issues raised in Keenan's memo/Case description

3. Presentation format:

(a) Negotiators represent ACME and Newspaper. They are negotiating a license from ACME to Newspaper for the Enterprise Software Suite (ESS) Commentator provides running commentary.

(b) Display shows negotiating strategy for each side

(i) Key Issues

(ii) Proposed terms and fallback.

(iii) Deal Breaker issues

(c) Negotiators seek compromises – commentator discusses tradeoffs.

On-line Privacy Issues

Executive Summary

The number of people connected to and using the Internet continues to grow rapidly. As the number of users grows, companies continue to expand the services offered through the Internet. Consumers can now purchase a variety of goods -from groceries to cars- via Internet transactions. They can perform banking, insurance and retirement queries and transactions. And they can access a host of information for general reading and reference purposes.

Increased usage has lead to concerns about the privacy of information gathered over the Internet. Consumer transactions often contain personal information including credit card and banking information. Shopping or browsing can also generate records of web pages visited that indicate shopping patterns or interest profiles.

Officials in the United States, Europe and Asia have raised questions about how personal data is collected and managed. The European Commission acted first in 1995 with an EU Directive on Data Protection[1]. This directive controls the collection and transmission of personal data between member states. The United States Congress enacted regulations to protect children's information in the Children's Online Privacy Protection Act (COPPA) of 1998[2] which became effective on April 21, 2000. Three bills to extend privacy protection to all online data are currently pending before Congress[3]. It is likely that some form of regulation will become law in the near future.

The U.S. Federal Trade Commission set out four requirements for the protection of personal information in its 1998 Report on Online Privacy[4]. These requirements reflect the concerns of legislative bodies in Europe and Asia as well as the in U.S. Collection of personally identifiable information, according to the FTC, should be subject to the following core principles:

1. Notice - information practices must be disclosed before collecting personal information from consumers;
2. Choice - consumers must be given options with respect to whether and how personal information collected from them may be used for purposes other than those for which the information was provided;
3. Access - consumers should be able to view and contest the accuracy and completeness of data collected about them; and
4. Security – those who collect consumer data must take reasonable steps to ensure that the information is accurate and used only in an authorized manner.

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[1] Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data. Official Journal L 281 , 23/11/1995 P. 0031 - 0050

[2] 15 U.S.C. §§ 6501-6506.

[3] H.R. 89, H.R. 237, H.R. 347.

[4] Privacy Online: A Report to Congress (June 1998) (available at http://www.ftc.gov/reports/privacy3/index.htm).

Companies implementing online systems for interacting with their customers must be cognizant of these principles and ensure that their systems comply with the relevant laws and regulations. Outsourcing contracts and agreements regarding data collection must allocate compliance risks and ensure regulatory compliance. Internet transactions will no longer be unregulated.

European Directive

The European Commission issued a directive in 1995 intended to foster trade between states while protecting personal data. The commission recognized that increased trade would lead to an increase in the exchange of personal information processed by data processing systems. They acted to establish consistent rules for data protection to avoid a patchwork of country rules that could stifle the trade between states.

The Commission sought by the directive to consistently regulate the flow of personal data between member states. By establishing community-wide rules, the Commission sought to replace conflicting national laws with a set of national implementing laws consistent with the overall framework for data protection.

Personal data may be collected and processed only if:

1. The data is processed fairly and lawfully;
2. Data is collected only for specified, explicit and legitimate purposes, and used for no other purpose;
3. The data is adequate, relevant and not excessive for the purpose;
4. The data is accurate and kept up to date and corrected; and
5. The data is kept in a personally identifiable form only for so long as it is needed in that form[5].

The EC Directive establishes guidelines for each member state to use in enacting national laws to protect personal data. These guidelines include a right of an individual to challenge and seek correction of data and to know beforehand the purpose of the data collection.

One aspect of the Directive that has created problems for the U.S. is the requirement that personal data be transmitted to a third country (not a member state) only where "the third country in question ensures an adequate level of protection."[6] Most observers believe that the U.S. does not ensure protection equivalent to that required by the EU Directive. This could effectively bar the transfer of data from a member country to the U.S. between companies or between divisions of a multinational company.

The U.S. Department of Commerce entered into negotiations with the European Union to develop a set of "safe harbor" provisions that would protect a company transferring data from a

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[5] EC Directive, Article 6.
[6] EC Directive Article 25(1).

member state to the U.S.   These principles were published by the Department of Commerce on July 21, 2000. Organizations that want to take advantage of the safe harbor provisions must undertake to abide by the commission rules and publicly declare that they intend to follow the safe harbor provisions.

Compliance with the safe harbor provisions can be accomplished by joining a self-regulatory program that adheres to the rules or by establishing its own self regulating program that conforms to the principles.

The principles require notice, choice, limitation of onward transfer, security, data integrity, access and enforcement. These are very similar to the policies set out by the FTC. A major sticking point in the negotiations, however, was the lack of an effective enforcement mechanism. Because neither Congress nor the FTC had established laws or rules covering data privacy there was no clear ability to enforce privacy protections. Privacy organizations, such as TrustE or BBBOnline provide some structure but lack strong enforcement powers. The FTC has begun enforcing published privacy policies under Section 5 of the FTC Act that prohibits unfair or deceptive acts affecting commerce. The lack of a private cause of action under section 5 causes even this approach to fall short of meeting the EU requirements for enforcement.

United States Privacy Regulations

Children's Online Privacy Protection Act (COPPA)

The United States has been slow to adopt regulations governing the exchange of personal data. Initial efforts have focused on protection of children's personal data under COPPA.

The Children's Online Privacy Protection Act of 1998[7] (COPPA) became effective April 21, 2000. The act applies to the online collection of personal information from a child (under age 13.) Operators of online sites directed toward children, or of general purpose sites actually collecting information from children are covered by the act.

COPPA requires that an operator subject to the act comply with several notification and security policies. The operator must:

1. display a privacy notice that sets forth operator contact information;

2. provide a description of the information collected by the site;

3. disclose how the information will be used;

4. state whether the information will be disclosed to third parties, and, if so, what types of parties;

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[7] 15 U.S.C. Sect. 6501-6506.

5. explain that a parent has the right to consent to collection of information without consenting to disclosure;

6. agree that the operator will not collect more information than is reasonably necessary for the activity; and

7. clearly state that a parent may review the collected information and ask to have it deleted.

In addition to the web site notices, the operator must ensure that the child's parent receives a notice setting forth the above information. Further, the operator must obtain "verifiable parental consent" before collecting, using or distributing personal information about a child. The FTC requires that operators use means consistent with current technology to verify that a parent has, in fact, consented to the data collection.

FTC Recommendations regarding On-line profiling

The Federal Trade Commission has promulgated recommendations governing on-line profiling – the practice of collecting information on user viewing habits used to select and display of banner ads targeted to the user. The FTC presented a report entitled "Online Profiling: A Report to Congress" on June 13, 2000[8].

The FTC seeks to ensure that its core principles governing on-line data collection and distribution apply to the profiling industry.

Companies responsible for banner advertising and hence profiling, have organized the National Advertising Initiative (NAI) in an attempt to self-regulate and forestall FTC regulation of their industry. NAI has adopted a set of guidelines intended to meet FTC concerns.[9] After review by the FTC, the FTC has stated that the principles are sound and appear to meet the FTC objectives. However, the FTC cited a lack of enforcement ability and coverage of less than all of the industry as reasons for requesting legislation to implement profiling controls.

On-line Privacy Protection

Three bills are now pending before Congress that would extend the personal data protection to all online consumers. The number of bills suggests that many members of Congress view online privacy as an important issue that requires action. A brief summary of the pending bills follows.

H.R. 89 introduced January 3, 2001 and entitled "Online Privacy Protection Act of 2001" will extend the protections of COPPA to all online users and will allow them to exert greater control over collected data.

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[8] Available at: http://www.ftc.gov/os/2000/06/onlineprofilingreportjune2000.pdf
[9] Available at: http:// www.privacyalliance.org/resources/ppguidelines.shtml.

H.R. 237 entitled "Consumer Internet Privacy Enhancement Act" and introduced on January 20, 2001 requires that consumers be given notice of data collection and an opportunity to limit use of the information. The notice must be "clear, conspicuous, and easily understood" and the consumer must be able to easily limit use through an online function.

H.R. 347 was introduced January 31, 2001 and is entitled "Consumer Online Privacy and Disclosure Act." This act requires that an operator provide electronic notice of collection efforts including operator contact information. Additionally, the operator must provide a "simple online process" for opting out of information disclosure mechanisms.

These three bills address similar areas of concern. The final form of any legislation will give guidance as to the approach Congress believes most effective in dealing with these issues.

Conclusion

On-line privacy and disclosure practices are of increasing concern to individuals and are receiving legislative attention throughout the world. Organizations that plan to collect and use personal information must be aware of the requirements in each country in which their system will be accessible. Failure to comply with regulatory requirements can have a serious impact on that organization's business. The FTC has indicated that failure to follow current guidelines may result in sanctions under unfair trade and deceptive trade practices laws.

The FTC core principles should be used by any organization to provide a privacy context for data collection. An organization must establish rigorous processes for controlling the collection and use of personal data. Its success in avoiding sanctions may depend on an ability to demonstrate compliance with regulations, but more importantly with the FTC core principles.

Service agreements and outsourcing agreements must consider privacy compliance. Purchasers of such services must ensure that their vendors are taking the necessary steps to protect the purchaser. It will be important to identify the "operator" of the site and ensure that responsibility for compliance is clearly defined.

Privacy is a world-wide concern. Privacy considerations are already being used to control massive data collection efforts and to ensure that individuals retain the right to restrict disclosures of their personal data. The Internet has greatly increased the ease with which data is collected and disseminated. We must now look to Internet technologies to increase the ease of protecting personal information.

Mark Walker

509: Advanced Licensing Issues on the Net

Presenters:

Keenan Davis
Mark Walker
including material by:
Carl Horton

Goal: Adding Value

- Avoid pitfalls of poor agreements
- Craft agreement that is efficiently adminstrable
- Craft agreement that meets corporate objectives
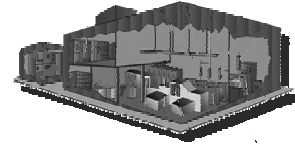- Negotiation strategy

Objectives:

- Heighten awareness of multilevel agreement issues
- Suggest options for dealing with those issues
- Emphasize data and privacy concerns

Format

- Negotiation Hypothetical
- Discussion of Issues
- Workshop
- Questions accepted

Hypothetical Fact Pattern:

- ACME Software Inc. (Licensor)

- Enterprise Solution Software (ESS) for newspaper publishers
  - Networked software for newspaper production
  - E-commerce software for end user customization
    - Developed by MyNews.com
    - Subject to MyNews.com license terms
  - Stock photograph content for newspaper
    - Library of content
    - Subject to photographer's restrictions

- Newspaper (Licensee)

- Newspaper production is mission critical
  - Must have warranted response times to problems
  - Need direct and consequential damages for failure
- Newspaper wants broad rights to all photos etc.
- Newspaper has strict privacy policy that prohibits disclosure of personal information about customers

Multilevel Structure

| MyNews.com | | photographers |

ACME

Newspaper

customers
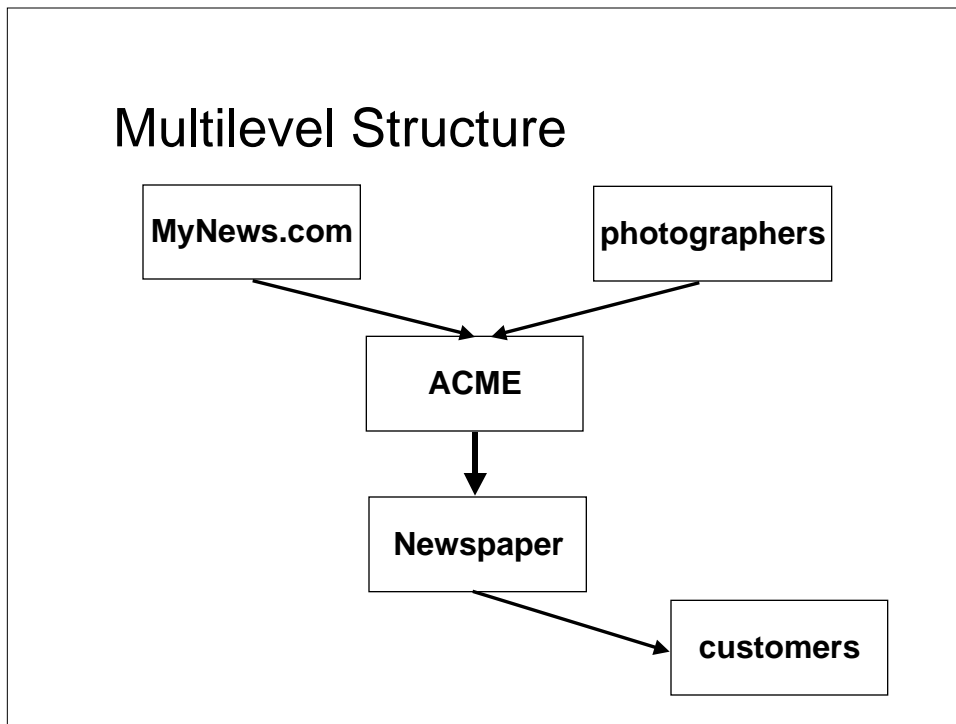
Potential Issues:

- Definitions
- License Grant
  - Passthrough req'ts
  - Obligations to 3rd party
- Delivery, Testing & Acceptance
- Reps & Warranties

- Indemnities
- Non-negotiable, "industry" fees
- Privacy
- Maintenance & Support Services
- Escrow of Source Code
- Electronic Signature
- 3rd party content restrictions

License Grant Issues

- Passthrough restrictions
  - e.g. limits on use, reporting requirements
  - mechanism to pass through
  - ability to enforce/administer
- Content Issues
  - no warranty of originality
  - no warranty of title

Definitions:

Seller / Licensor: **Buyer / Licensee:**

- Clearly define what is to be
  licensed
- Limited ability to expand.

Definitions:

Seller / Licensor: **Buyer / Licensee:**

"**Software**" is defined as any and all computer programs supplied under this Agreement, and any and all modifications thereof or upgrades thereto which perform the functions and/or achieve the objectives set forth in the Product Specification set forth in Schedule A.

"**Hardware**" is defined as any computer, server, person digital assistant or other such device which performs computer functions and/or sends or receives data, including all related equipment on which the Software is run.

License Grant:

Seller / Licensor: **Buyer / Licensee:**

Typically Pro-Licensor:
- defined period
- revocable
- non-exclusive
- Up-front &/or royalty-bearing
- non-transferable
- geographically restricted
- non-sublicensable
- leased or subscription service
- **Third party pass-through requirements**

License Grant:

Seller / Licensor: **Buyer / Licensee:**

Typically Pro-Licensee:
- perpetual
- irrevocable
- exclusive
- fully paid-up
- transferable
- worldwide
- sub-licensable
- purchased
- **Bilateral license without pass-through preferred**

IP Ownership:

Seller / Licensor: **Buyer / Licensee:**

- Passthrough of rights from third party, if any
- Restrictions imposed by third party
- Licensor ownership of all other software delivered

IP Ownership:

Seller / Licensor:

Buyer / Licensee:

- Unrestricted license to use materials
- Ownership of materials developed under agreement
- Ability to sublicense rights

Restrictions on use of 3rd Party Content (Licensee)

- Limits on use
- Disclaimer of warranty of originality
- Potential trademark and copyright infringement issues

Delivery, Testing & Acceptance:

Seller / Licensor: **Buyer / Licensee:**

- Accepted upon delivery
- Software sold without warranty

Delivery, Testing & Acceptance:

Seller / Licensor: **Buyer / Licensee:**

- When and where inspected (if at all)
- Who decides upon performance / inspection criteria
- Who performs the inspection
- Who ultimately decides whether software passes inspection
- Remedies for failure to pass inspection

Representations & Warranties:

Seller / Licensor: **Buyer / Licensee:**

- Disclaim liability for third party content
- Disclaim consequential damages

Representations & Warranties:

Seller / Licensor: **Buyer / Licensee:**

- Performance – software will function as per the specification
- Consequential damages
- Code Integrity
- Compatibility
- Ownership &/or ability to license
- Intellectual property reps & warranty
- Accuracy of written documentation
- Ability to support and maintain
- Y2K

Indemnities:

Seller / Licensor: **Buyer / Licensee:**

- Indemnification limited
- Recovery limited to amount of license

Indemnities:

Seller / Licensor: **Buyer / Licensee:**

- Breach of reps & warranties
- Patent infringement
- Copyright infringement
- Trade secret misappropriation

Privacy:

Seller / Licensor: **Buyer / Licensee:**

- Not responsible for privacy issues
- Data collection necessary for business purposes

Privacy:

Seller / Licensor: **Buyer / Licensee:**

- Newspaper privacy policy must be followed
- No personally identifiable customer information will be shared
- Cannot accept terms that compromise customer privacy

On Line Privacy in the U.S. - FTC

- Notice - disclose before collecting
- Choice - consumer options on uses for other purposes
- Access - consumer must be able to view and contest accuracy
- Security - collector must take reasonable steps to ensure accuracy and authorized use

Legislation

- COPPA
  - Display Notice
  - Describe information collected
  - Disclose use
  - Explain parental right to consent
  - Agree to limit information collected
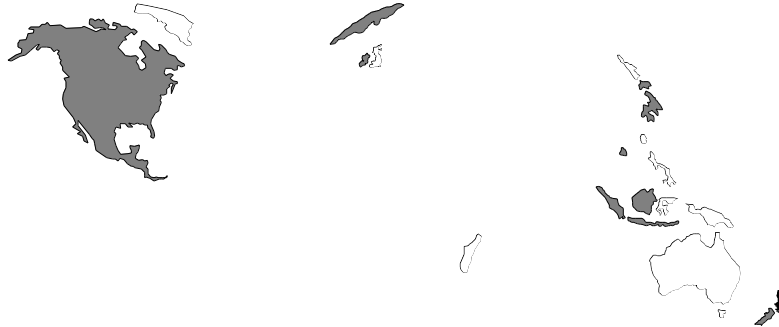 - State that parent may review and delete information

Proposed Legislation

- Three bills in the House
- Essentially extends COPPA protections to everyone
- Currently in subcommittee
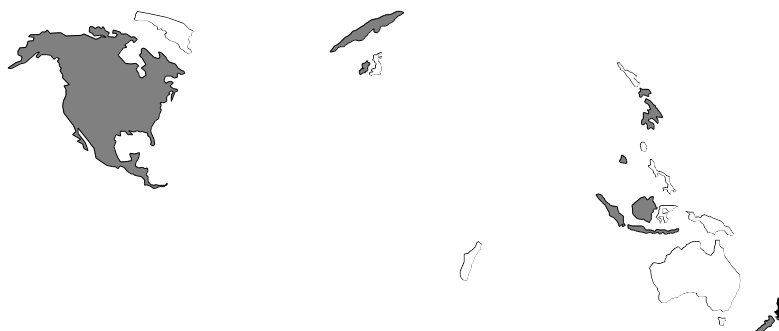- FTC has decided not to pursue privacy rules

Special Consideration for Privacy Issues in Europe & Asia
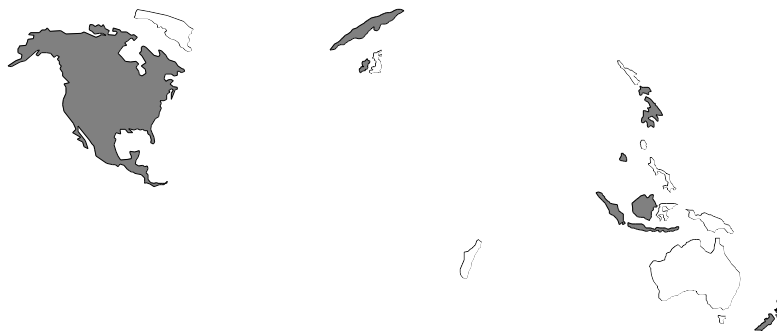
Special Consideration for Privacy Issues in Europe & Asia

Special Consideration for Privacy Issues in Europe & Asia

Special Consideration for
Privacy Issues in Europe & Asia

Maintenance & Support:

Seller / Licensor: **Buyer / Licensee:**

- Support documented   .
  function
- Annual maintenance fee

Maintenance & Support:

Seller / Licensor:

Buyer / Licensee:

- Responsive/ on-site support
- Include at least first year of support in license fee
- Acceptance period

.

Escrow:

Seller / Licensor:

- Definitely not
- Code comprises company's "crown jewels"

Buyer / Licensee:

.

Escrow:

Seller / Licensor: **Buyer / Licensee:**

- Need access to code in case of bankruptcy or failure to support
- Becomes critical business asset

Electronic Signature:

Seller / Licensor: **Buyer / Licensee:**

- Desire to bind with minimum formality
- Require acceptance of standard terms

.

Electronic Signature:

Seller / Licensor:

Buyer / Licensee:

- Only bound by authorized signatory
- Buyer's modified terms must apply

Digital Signature Guidelines

○ Http://scratch.abanet.org/ftp/pub/scitech/ds-ms.doc

Workshop Example

"Digi-Wallet" Digital Wallet Licensing Agreement

"WalletCo" offers a digital wallet service ("Digi-Wallet") to merchants for use in their websites to collect payments for goods or services. The digital wallet allows the end user to enter credit card, name and address information once for use in multiple transactions. The service is offered on a transaction fee basis, *i.e.* WalletCo is paid a set amount for each transaction that uses the service regardless of the amount of the transaction.

"Merchant" plans to make the "Digi-Wallet" service available to its customers (end users.) The service allows Merchant customers to charge purchases at its site and those of other companies that participate in the Digi-Wallet service. Merchant maintains customer data on its IT systems and will share data with WalletCo as appropriate.

WalletCo Terms and Conditions

1. Digi-Wallet service is licensed to Merchant.

2. Merchant fee is based on number of uses by customer.

3. Fee is fixed for all merchants with "most favored customer" provision.

4. WalletCo requires Merchant to report number of customer uses with zipcode information for each customer.

5. WalletCo handles payment processing activities through its information network.

6. WalletCo disclaims any warranty of accurate processing or data control.

7. Merchant end users must agree to honor payments made using Digi-Wallet, to not reverse engineer or otherwise analyze Digi-Wallet, and to avoid disclosure of the details of the operation of Digi-Wallet.

8. WalletCo may enjoin Merchant use of the service for any customer violation of these terms.