

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

**\*\*ACC - Technology/Software Licensing - Beyond the US Frontier**

Event Date/Time: Feb. 17. 2005 / 12:00PM ET

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

## CORPORATE PARTICIPANTS

### **Sally March**

*Siemens Group - Head, Legal Department*

### **Paula Barrett**

*Eversheds LLP - Partner*

## PRESENTATION

**Sally March** - *Siemens Group - Head, Legal Department*

Good evening from London. Today is another of the series of webcasts of the International Legal Affairs Committee of ACCA (ph) very kindly supported by Eversheds. My name is Sally March. I'm in the legal department of what used to be BBC Technology. We're now part of the Siemens Group. I wish I could say Sally March of the BBC is on the line, but Sally March of Siemens is your hostess tonight. If you have any questions that you'd like the speaker to address at the end of the presentation, you can send them to me at sally.march - m-a-r-c-h -- .01@bbc.co or you can direct your questions to Sam Spencer - that's with no break - s-a-m-s-p-e-n-c-e-r -- @eversheds.com.

I'd like to thank Eversheds for their unstinting and generous support over the years of the International Legal Affairs Committee of the ACC. We've been very fortunate to have them as a sponsor and they are providing us with excellent webcast articles and legal quickies. For those of you who have not been participating in our conference calls and if you would be interested, details of committee activities are posted on the ACC website and I would encourage you all to join us.

I have to admit I'm showing my age by saying that I remember when Eversheds became the first nationwide law firm in Britain. And was astonished to see that it's now the second largest law firm in Europe and one of the world's largest international law firms with over 4,500 people located in 24 offices around the world. They have a full service capability, representing clients in corporate and commercial matters, human resources, real estate and dispute management as well as, of course, information technology. I've been aware of their IT practice for some time and know a number of their partners and was very pleased to meet Paula at our annual general meeting earlier - well, last year.

Paula is a partner in the technology and private area. She heads Eversheds data privacy practice. She spent her early years practicing with one of the magic circle firms in London and joined Eversheds about five years ago. She has a varied practice in what I would call information law, covering IT, privacy, data protection, some of the issues that are perhaps higher on the radar in Europe than they have been to date in the U.S. And consequently, she's well placed to advise U.S. companies on doing business in technology in Europe and internationally.

Before I hand over the podium to Paula, I'd like to remind people that there will be another webcast kindly presented by Eversheds for the International Legal Affairs Committee on April 21. We don't have a topic firmed up yet, but if you watch the website, there will be details coming up soon. And I'd also like to remind people that this webcast will be available again two hours - or approximately two hours-- after we finish tonight. So if any of you have friends or colleagues that you think might be interested in the subject, please encourage them to check out the website and link in for a rebroadcast. That concludes the announcements, and I would like to turn the program over today to Paula Barrett with thanks for your generous support.

---

**Paula Barrett** - *Eversheds LLP - Partner*

Thank you very much, Sally. Thank you all for dialing in this morning. Coming up with a topic for this morning was really quite simple because we have received lots of inquiries over the past few years in relation to how to go about dealing with the issue of taking under (ph) terms, which you're familiar with in the U.S. and taking those into Europe or Asia. So, what I'm going to do is to try and paint a picture for you. If you - you mentioned (ph) that the scenario is that you are counsel for a fast-growing technology company and are faced with the - your business developments, TV (ph) and marketing people saying, we're about

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

to strike out into Europe. We need your help. We're going to go into a number of jurisdictions to promote our products. And of course, we're going to need legal support there. So, we're hoping that you can take your - the standard terms and conditions, which you've invested a lot of time and effort in perfecting and using in the U.S.

And of course, asking (inaudible) we can simply use those. What I'm going to help you to do today is to be able to respond to queries like that that might come up and to give you some idea of some issues that can crop up when you use terms and conditions you're familiar with in the U.S. and try to (inaudible) them and use them over in Europe and in Asia.

Now really, I can't cover 200 phrase (ph) or these type of terms and conditions. So I plan to focus on just a few particular provisions. Take a look at key ones such as the grant or the license that you might have. How long is it being granted for? Typically, if you looked at a U.S. style license, you might see a license is granted for a perpetual term. You'd see the restrictions in relation to what could be done with a piece of software. You'd expect to see limitation of liability in there, and also clauses which maybe deal with choice of governing law and jurisdiction, and restrictions on assignment.

So, using those (inaudible) changes our core points of reference. I'm now going to do a little bit of European law as some background for you. And I'll try to keep this brief. I don't want to go huge detail. It's (inaudible). But it gives you some flavor and understanding of why certain clauses are interpreted in a certain way.

One of the key concepts enshrined and you can turn to the next slide, please. One of the key concepts that is enshrined in EU law, which is relevant to this topic, is the whole concept of freedom of movement of goods and services within the common market. And most of you will recall, I'm sure, that the European Union was founded on the basis of it being - it's actually a forum for trade, initially. Now in Europe, intellectual property rights are territorial in nature. So for example, trademark registration in France will only give you protection in France unless that country is a party to (inaudible) which extends the rights to other jurisdictions. (Inaudible) of the Berne Convention will help in that regard for something in relation to copyright. But there's always been a tension in Europe between a lag (ph) and a full right to protect them and enforce (ph) IT rights and pursuing the concept of free movement of goods and services.

Now to redress that balance, because these are - there were times when owners of IT were using their IT rights in a way that wasn't justified. The principle which is an exhaustion of intellectual property right was developed. Now this principle means that an owner of IT rights cannot partition the common market and prevent imports of goods into a European country if (inaudible) would be placed on the market in another European country. To give you a quick example, outside of the software arena because it's probably simpler. If I manufactured some goods under (inaudible), say in Germany and put them in the market Germany, and one of my purchasers then buys goods to sell them into France, I cannot use my IT rights in France to prevent the sale of those goods in France, even though I have not expressly authorized the goods-- that the goods can be sold in France. By putting the goods on the market in Germany, I have exhausted my IT rights in relation to those goods. Now with that backdrop you'll see later on, there has been some debate in relation to how far that extends to issues of software licenses. But we'll see later on that that principle exhaustion comes back when we look at particular clauses.

As you move to the next slide, I'd like to look at perpetual licenses. A common feature of software licenses is (inaudible) granted, either expressly stated to be perpetual or for an indefinite term, very common in U.S. and unequally in the UK. But care (ph) is neatly taken in respect to those loss (ph) provisions in many countries. Say, for example, France and Belgium and Italy - a perpetual license is not featured as a license for the duration of copyrights for the license for indefinite terms. And it is therefore capable of termination on reasonable notice at any time. That might be a bit of a surprise to you.

In Spain, if there is no duration stated in the license, then the term will be five years. And if the license is for an indefinite period of time, then it could be interpreted under Spanish law as a sale of the IT rights. That again, was on the principle of exhaustion, which I mentioned earlier. If you went into France, and you don't actually specify the period of your license, then you could in fact end up with it being considered to be unenforceable and void. Now, getting around this is quite simple. A common theme throughout this talk will be about making it clear what (inaudible) you intend in relation to certain provisions (ph). So for a perpetual license, you could address this by saying that the license runs for the period of the copyright ownership, which tends

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

to be 70 years from the death of the author. And by doing that, you're giving it a specific, definite term. Also, of course, you could use a shorter period if you wish to.

Moving onto the next slide and (inaudible) our usage restrictions ...

---

**Sally March** - Siemens Group - Head, Legal Department

Excuse me, Paula. Some of our listeners are having trouble hearing. If you could speak up, please.

---

**Paula Barrett** - Eversheds LLP - Partner

Fine. I shall try to do so. In relation to usage restrictions, Articles 81 and 82, the Treaty of Rome come into play. Now, I could spend a long time talking about anti-trust legislation here in Europe, so let me just touch on this again to give you a flavor. But this could impact on restrictions which you might commonly see in a U.S. style license. For example, restrictions that software can only be used on a specific piece of hardware, or on a specific site, as well as perhaps a limit on the number of users.

If a site transfer or hardware transfer restriction cannot be justified on reasonable grounds like restricting the number of users if the supplier is attempting to levy addition fees as a result, and these fees are very high, then there is an argument to say that such provisions are in breach of EU competition law and are not enforceable. Now to some degree, this can be an academic point. I will only really (inaudible) on supplies where they've actually got a sizeable proportion of the market which they're operating in. But it is something to be bearing in mind when you're looking at your restrictions. Certainly, if I look at drafting shrink-up (ph) licenses in Europe, the licenses apply for (inaudible) package. And I would be more cautious about including these kinds of restrictions in there.

I would probably be inclined to allow a transfer for your charge for hardware, location and person (ph), but on condition that the newer user enter into a license agreement with me and that there was no change in scope of use. One other point I'd like to raise - if you went to Germany - is bringing it to life again the concept I mentioned about exhaustion of rights. Since Germany has its own local laws, which means that restricting a license to a location or specific server are likely to be void. This is because, under German copyright law, once the license has been granted, this gives certain inalienable rights to the end user. And this can lead to a situation where there is an inconsistency between the law and the contract, and in Germany this is known as the law of obligation and copyright laws.

So take this example. Licensee A has a license from the supplier and he agrees to loan (ph) the user software in his basic processing center in Munich. Later on, licensee A decides to sell the software to licensee B, who wants to use the software in Frankfurt. And it seems that under German copyright laws, the licensor cannot stop the licensee from using the software in Frankfurt. However, because there was a prohibition on transfer in the license agreement between licensee A and the supplier, he would still be in breach of the agreement. Not a happy overlap, but one that you need to be aware of.

If you move on now to the next slide, let's focus on IT and other protections that arise. It's true (ph) to say that in most Western countries, software is generally protected by a copyright of the literary work. And this is true not just in Europe, but in China and Singapore and here as well. A comment or two (ph) on restrictions in a software license against copying, decompiling, reverse engineering or any form of adaptation or modification. And why not? If IT is actually protection, you've invested in it, why would have the freedom to-give freedom to other people to actually modify that?

Things are not quite the same in Europe and Asia. It comes out again to this concept of freedom of movement diverged when exhaustion of right (ph). What happens was that there was a concept that actually IT owners were perhaps abusing their rights, trying to - people wanted to try encourage us to develop the use of technology across Europe, particularly interoperability. What we have is something of a strange compromise which is being leased after a lot of hard lobbying, which basically says that, in certain circumstances, you must allow people to take copies of software.

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

So, for example, elimination (ph) fees (inaudible) that has to be connected. Also, you must allow people to decompile, but only to the extent that is necessary in order to create an interface with another program. And there it's important to note that if any (ph) as far as necessary because one of the ways of addressing this is to make sure that it's never actually necessary for your customer to do that. You make sure that they are aware that if they come to you, you will provide them with the interface material that they actually need to carry out an interface development (ph), having to go down the line of decompilation. That's the rule that's instilled in European law and is now being implemented elsewhere within Europe.

In France, a license law must (inaudible) - hello, sorry about that. Technical fault. It's all right. There we see (inaudible). We were just talking about France, I believe. The - in France, a licensor must reserve itself the right to correct software defects. Otherwise, the licensee can do it. Care also needs to be taken in Belgium, too, because although the view is that restrictions in the license against alteration and modification work, some commentators think that this may not be enforceable if it deprives the license of substance. Where the advice in Belgium is restrict only to the extent you really need to.

And then, moving (ph) to Asia, in Singapore, it is lawful to include provisions prohibiting alternation and modification. But it is subject to similar provisions that (inaudible) in relation to Europe in relation to the compilation, et cetera, and making a copy. Perhaps, I mentioned, software is protected by copyright in China, although there are known to be ambiguities in Chinese software law. One of which is often quoted as being the Article 32 Ambiguity. Now this basically says that if a user of a piece of software does not realize that use is infringing copyright, then the liability for such infringements lies with the supplier.

Now, you can see situations where a user pretends not to realize that he or she is infringing copyright in order to back liability onto the supplier. Now, I suspect a practical conclusion here is to ensure that the scope of use is properly documented and brought to the attention of the use (ph) before use. Now that's not ignoring the fact that privacy is and remains a big issue in China, and there are lots of positive relations to enforcement and (inaudible) in relation to the judicial system there.

If I can move onto the next slide, which - we're going to look now at restrictions in relation to assignment. Now you recall my talking about a principle (ph) of exhaustion of right. Well, here's another context in which it comes into play. If exhaustion laws were applied, then prohibition on assignment would be unenforceable. And as long as the original licensees cease to using the software, as a purchaser of the copy would be free to use that.

Now the UK has not adopted this approach in relation to an end user license and generally, some of the issues that I mentioned now, prohibitions on assignment of software licenses are enforceable in the UK. But other European countries have taken a different approach. In Germany, for example, a prohibition on assignment of a shrink wrap license or purchased software package is likely to be invalid. This comes from a number of German law principles - one being that it is in contravention of an owner's right to prevent disposal of his property, i.e. that copy of the software.

And secondly, because of the EU law principle of exhaustion, which I have just outlined. This position is the same in Spain. The license is nonexclusive and perpetual. I feel sure that we have not had the latter exhaustion in relation to software licenses, especially around shrink wrap software sold through reseller and distribution network.

Restrictions on assignments don't just fall down because of exhaustion. I should point out. Italy and Belgium - if you silent on assignability, then you will not be capable of assignment without the supply's consent. Now contrast that with the position in the UK, where silence on the point can imply it is all okay. Equally, under Danish law, any restriction on assignment is restrictive of competition and contrary to section six of the Danish competition (ph). So you would raise an anti-trust issue there. So I think by and large, it's probably safe to assume or, perhaps not safe to assume, that assignability or restrictions in assignability are going to be okay and that you're going to need to check if you're looking at a particular jurisdiction and whether an assignment can be restricted or not.

If you'd like to go to the next slide, we'll start to suggest the thorny topic of limitation of liability. Now, those of us who have experience in sectors other than IT will know that, in terms of limiting liability, the IT industry is uncommonly restrictive. Generally, what one finds in the UK and the U.S. is a complete exclusion in terms of consequential and indirect losses. And there is generally

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

no sharing of business risk. For example, all losses around profit revenue and business are often excluded. Often, there is an overall cap to the price paid under a license. So, how does this stack up internationally? Can you rely on similar provision elsewhere? Where would you expect an (inaudible), they don't seem to have much of a problem with limitation of liability at all. In fact, in those countries, it makes no difference if you're being with a consumer. Problems there are related to how you actually go about enforcing things.

But in many countries, liability cannot be limited in respect to gross negligence or willful default. I think in most countries, you must allow limitation in relation to death or personal injury claims. Limitation of liability in consumer contract is quite difficult in Europe, partly because there's a lot of European legislation aimed at protecting consumers.

If you move to the next slide, we'll talk about Italy and Belgium. Important to note that, as I've mentioned in relation to a previous note, you shouldn't always assume that concepts that you could have applied in a U.S. style contract will be known or registered in other jurisdictions. The concept of consequential or indirect losses is certainly one of those concepts. If you were to use those terms in Italy or Belgium, you would find that you were feel exposed in relation to what we understand as indirect or consequential loss in the U.S. because Italy and Belgium do not have those concepts and therefore, it's incredibly important that you actually go through the steps of defining what types of loss you're actually intending to exclude without loss of profit, business opportunity, loss of revenue. You do need to be careful and spell it out.

Singapore has exactly the same rules as the UK. They have an onsite (ph) contract terms like the United Kingdom. And therefore, limitations in licenses, like those in the UK and U.S. version, should be okay. In Spain, there is a distinction between a breach being committed in bad or good faith. A bad faith breach allows a claim for all damages that result from the breach. whereas a good faith breach just allows damages that are foreseeable. In addition, there are some warranties that cannot be excluded in the event a bad faith breach is not possible to exclude liabilities of bad faith breaches.

If you move to the next slide, under German law, it's not possible to limit liability in connection with a term that goes at the heart of the contract. And indeed, it is very unusual to limit liability to the software licensee. Hungary is interesting. Inasmuch as it's only possible to limit liability to the extent that there is some advantage to the purchaser, and a discount on the price is not considered to constitute such an advantage.

If we look at one other point on German law, we'll touch on implied warranties a little bit later on as well, but we're picking it up here. German law provides that certain provisions are automatically implied into the license. And there are either lease agreement provisions or purchase agreement provisions. If a license is for a long period of time, it has a one-off fee, then it is more likely to be construed a purchase agreement and, amongst other things, there's a two-year warranty.

If the agreement is for a shorter period with periodical payments, then it is likely to be a lease agreement and a disadvantage to the supplier is that there is an ongoing warranty for the life of the agreement. It's therefore very important to make a choice under German law or try to exclude these implied provisions by expressed provisions.

If you move on now to the next slide, we'll have a quick look at governing law and jurisdiction. Now what were you going to say for us against the law that should affect individual countries? Now, I'm sure you will realize that this is (inaudible). As a U.S. software company speaking to licensing for the rest of the world and you are not going to want to license your software in any one country. You'd really prefer to have one form of license and preferably have that license governed by a single law and jurisdiction which is enforceable.

Most of the licenses that come across my desk tend to be governed by U.S. law and it may be a particular state, whether it's California, Delaware, et cetera. But it's normally a U.S. state that's being selected. Now in most cases, a clause in a license should give exclusive jurisdiction to the courts of a specific country will be decisive, which is good news. Although in India, any agreement to take jurisdiction out of the Indian courts, where the course of action arose in India, can be void or invalidated.

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

In terms of governing law, if you move to the next slide, the position is quite similar. In most countries, the parties may determine which law will govern the license, and local laws will recognize that choice. Now in Europe, this is partly because of the treaty to learn (ph) convention in which the signature of the (inaudible) to observe the party's choice of law. It's several (ph) quite surprising to us that (inaudible) similar treaties. And so, one is left with a private international law rules of each country.

Fortunately, as I've said, that broadly gives us the same result in that most countries recognize choice. However, you do often get interjections by particular courts. I am aware of instances where the UK courts have decided to step across and hear a case where the chosen jurisdiction was banished because it felt it would take too long. So, there are instances where, notwithstanding, what, perhaps with new type international law, they will find a reason to keep the jurisdiction within the decided (ph) territory.

If you move onto mandatory laws, the next slide, it's worth our remembering that even if you've chosen your governing law as being the U.S. or UK, you can't necessary take that as meaning that you can rest assured that only the provisions of the contract itself will apply to govern your relationship with your customer. And that's because most countries have monetary laws which cannot be contracted out of. In the context of Europe in particular, what we have is an instance where there's an awful lot of consumer protection and therefore a lot of legislation, which goes to protect consumers at a European level, which is then implemented into local law.

If you move to the next slide, mandatory laws number two, I'll give you some examples of that. For example in Australian law, consumers have protection under Part V of the Trade Practices Act. And this protects them against misleading or deceptive conduct and false or misleading representations made by corporations. In Austria, there are provisions under the Consumer Protection Act and the Civil Code, which cannot be invalidated. For example, dealing with the invalidity or validity of certain parts of the agreement, the consequences of unclear or mistake of a wording, protection of science and commerce agreements, minimal conditions of warranty. The list goes on.

In Belgium, certain consumer protection and product liability and insolvency provisions can't be excluded by choice of law other than Belgium, and if I go on to look on some other implied terms which come in. So Belgium, for example, going back to the Civil Code. We have an implied (inaudible) must deliver a good that is strictly in conformance at the contract specification. There's also an implied warranty against some defects, which cannot be excluded, and you also can't exclude warranties to the extent that they would reduce liability to zero. Then in some contracts, excluding liability for (inaudible) might have that effect. It's quite strict within Belgium.

In other countries, like France, Germany or Italy, the main driver will be to look at who you are dealing with. And the rule of thumb is if you're dealing with consumers, it's going to be far more difficult to actually restrict the application of implied terms. In Spanish law, for example, there you have a contract for sale of software copies to sell in this (inaudible) that it is the legitimate owner and the project is free of defects. Liabilities are breached. You can only be limited if you're not dealing with consumers.

Germany - exclusion of (inaudible), is not very common and actually is likely to be invalid under the German Civil Code. That's because it basically provides a (inaudible) so free of defects as implied in condition. And it is agreed characteristics and absence of agreed characteristics, it will be those which are useful for a product of that particular type. The call (ph) to contract (inaudible) say, essentially, it will be assumed that if you're producing a particular type of financial software that, for example, it will be able to operate in a way which allows a balance sheet to be created, for example.

It would be a common characteristic and you could allow that to happen, then you can see that you might want to be in breach of that German implied condition. Look at Singapore - there is a provision in there on contract terms that says that all apply, notwithstanding any contract term which applies or purports to apply the law of some country outside Singapore.

So where does all of that leave us? Well, if you move onto the next slide- can one size fit all? I thought, at the outset, let us know where you're being asked by your business development colleagues who - they will tell me to simply use this contract that we have in the U.S. and make sure that it can be used throughout Europe. Well in practice, what you've probably-- in terms of the completion of you hearing this talk, is that that's going to be quite difficult. It's not impossible. We have done it for certain

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

clients. But what we turned up with is a somewhat unwieldy document, which sets a very high bar for you because in order to do that, you're going to have to go right across and see where are the limits. Say, for example, you have a provision that says, well, because in Germany, it's (inaudible) estate and you can't produce gross liability for gross negligence. You then end up having to make sure that your liability provisions across Europe did not exclude liabilities of gross negligence. Now in fact, in the UK and in other states, you can't exclude that from the liability. So you would be opening up a risk for yourself in the UK and those jurisdictions.

Most multinationals that operate in these segments on a regular basis tend to adopt multiple contract standards. Now, that might be something which will require a lot of investment in time at the outset, but the reality is that that will become simpler in the longer run, when you actually come to implement these documents. Other issues to think about was also language. You will find that in France, for example, you would need to make sure that your contracts all were in French. You may find it simpler to be operating in Germany if you're using a German language contract as well.

It's really about taking a pragmatic approach. And I think, in most situations, you will find that that comes to the rescue. So, if you turn to the next slide, I'll set out something of a sanity check for you. Based on this scenario, I think one of the first questions is to find out which country you're focusing the sales efforts on. Even if your colleagues are saying we're going into Europe, by and large, they won't be covering all 25 jurisdictions in one hit. They'll probably be targeting two or three of an initial foray into the region. And so, therefore, the task, which, basically, is not quite so large as it might first seem. If you are doing a kind of broader range here, however, it's possible to select maybe three or four jurisdictions, so that you've actually got a bit of a cross section in relation to local laws.

Important things to check - your license terms and usage restrictions. Are they suitable? First, commercially, because you obviously need to make sure that they make sense in that particular jurisdiction. What's the common practice in that location? Is it for fixed term licenses? Is it for annual term licenses? What's the repercussion commercially and financial for you? And then, tend to look at the legal implications and (inaudible) around that. So, for example, if the focus are the fixed terms, you need to make sure that your normal perpetual language exchange to have a definite term associated with it.

Don't assume that your U.S. style liability limitations will be enforceable. Nine times out of 10 they will not. You will normally have to do some alterations to view them. And therefore, it's quite important that, if nothing else, you get those checks out under local law. The key thing here, as well as making sure that you know what elements can't be excluded for gross negligence under (inaudible) in some jurisdiction. Fraud is another one. Personal injury - it can be a (inaudible). So, what you don't complete being (inaudible) at your clause. (inaudible) are going to be important to make sure that the scope of the limitation is covered properly. So, is it clear on the basic, what is being limited? Is it clear what is meant by their actual - direct or indirect loss consequential through special delegate (ph) (inaudible).

You then need to find out what are the most laws or implied terms that you need to take account of in these jurisdictions. Ignorance isn't bliss in this regard. That indicates to be that you can actually sell or put in place protection which might otherwise be available within the contract itself. And it also means that there is a risk, which you might not be covering up of either very practical sets or through the contract.

The other element is to check the governing law and jurisdiction. Consider, is it right that, in relation to governing law, is the home state best or would local law and jurisdiction have advantages? It might well be that U.S. may law or the particular state might be the area that you're most familiar with. But does that make sense when it comes to enforcement? That you actually give the people you're dealing with a greater (inaudible) vision in relation to their ability to seek damages from you, perhaps. It might just not be better to choose the local law because, on balance, you get better protection (inaudible) as well as the customer.

And generally enforcement - consider where are you going? Are you looking at taking your product into Asia and is enforcement going to be difficult. Are there practical solutions that might be easier, actually, to enforce using other local operation with respond (ph) to buy a local (inaudible), who then, when they present themselves to the local court, are looked at in a non-partisan



Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

(ph) way? Are there other elements you can bring to bear in terms of how you'll go to production marketed in that particular jurisdiction, which makes it a little bit safer in terms of protection against unfortunate (ph) copies being made?

So, with that run through on various topics, I would like to hand back to Sally to see if there are any further questions that need to be raised.

---

## QUESTIONS AND ANSWERS

**Sally March** - *Siemens Group - Head, Legal Department*

Well, thank you, Paula, for a very soft provoking trot around the world. It has indeed provoked some questions from our listeners, some of which I think you've covered as you've gone along, but some, I think, are so pertinent that it would be worth going back and to spend a little more time on them. The first question asks whether most U.S. software companies actually retain local counsel for each jurisdiction in order to modify their license for local laws. Or do they, essentially, punt and pray. I think you told us that most multinationals do adapt to their licenses, but could you talk a little bit more about whether, in your experience, U.S. companies tend to use the one size fits all for Europe and that another one-size-fits-all for Asia or whether you're finding that U.S. companies actually take the time to dissect the differences, country by country?

---

**Paula Barrett** - *Eversheds LLP - Partner*

I think if you're looking - the distinction breaks down between the size of the corporation and also the number of markets that it's planning within Europe or Asia. I think a lot of those companies plan (ph) to come to Europe. Perhaps now you're thinking that there are a lot of similarities within each jurisdiction. Now, there are, but there are also quite a lot of differences. And therefore, to some degree, there is a hope or wishful thinking, perhaps, there is a possibility to create this one document that does fit all. What we tend to find is that, beyond two or three jurisdictions, make companies realize that, actually, it meant that it is a (inaudible) impossible task or - because even the very young view (ph) will be document, which doesn't protect the company as it might well say.

I think what we are seeing is that the more you invest into Europe, the more companies are actually likely then to make the investment in terms of counsel to actually get the document reviewed. And do you find that in practice, it's much easier to actually have separate documents for each jurisdiction, so that you're fully protected in that particular jurisdiction. So, as I said, this is something, which doesn't necessarily have to be done overnight in one big bang. Most of these organizations have gone out and gone (ph) out maybe in two or three jurisdictions and then going out to five or seven or nine. I'm grateful (ph) they haven't just landed it in 25 jurisdictions overnight. And therefore, there is time to reflect the cost (inaudible) should they create in those - have carrying out the reviews (ph) in creating a separate document for each country.

---

**Sally March** - *Siemens Group - Head, Legal Department*

I'm going to have to ask you to speak up again, Paula, because apparently the national grid isn't giving us enough power to get your voice all the way - you can yell at me.

---

**Paula Barrett** - *Eversheds LLP - Partner*

I can yell at you. Okay. Sorry about that.

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

**Sally March** - Siemens Group - Head, Legal Department

Next question. Can you describe generally, the types of circumstances under which the private international law of a country would not honor the party's contractual choice of governing law? I think you touched on consumer as one answer.

**Paula Barrett** - Eversheds LLP - Partner

I did touch on consumer as one area. It's a highly complex area in terms of private international law. It - consumer protection (ph) is one area. Then, there are circumstances where it felt that it's important. The (inaudible) for example is (inaudible) jurisdiction which seems to grab jurisdiction to itself whenever it is (ph) feasible and they will look at issues around where the contract is being performed, et cetera, so actually they will know (inaudible) particular circumstance, that it should be our jurisdiction which prevails over the actual express choice. And they'll also look at that in relation to the negotiating strength of each party as well.

**Sally March** - Siemens Group - Head, Legal Department

Another question on choice on law and dispute resolution. Are there any countries to avoid or are such high risk for the licensor because of either non-existent enforcement or, I would add courts that are so notoriously unfriendly to U.S. licensors that you might encourage, perhaps, an arbitration clause for that country or simply staying away?

**Paula Barrett** - Eversheds LLP - Partner

I don't think there is any country I would say don't go and trade in that jurisdiction. There are ways of dealing with it and certainly the reality of it is that the countries where there are currently most problems with enforcement, which that would include China, India and are all facing as some of the largest markets which people are hoping to penetrate the moment. So, even if I were to say to you don't go there, the reality of it is that your business colleagues will be saying we are going to go there. Let's find a way to deal with this.

I would suggest that, in relation to India, in particular, and also, to some degree, China, the arbitration clauses are attractive, simply because of the way enforcements around arbitration orders work and the India amongst other countries have lined up to recognize arbitration awards made elsewhere (ph) so you don't have to go through the very lengthy court proceedings within India. So, yes, I would recommend arbitration in that jurisdiction and also in China.

**Sally March** - Siemens Group - Head, Legal Department

If you cast your mind back to your slides on usage restrictions and assignment issues and licensing issues for IPR, we have a question on whether there is a difference if the software license if coupled with a license to practice under patent?

**Paula Barrett** - Eversheds LLP - Partner

Sorry. Could you repeat that, Sally? I don't think I quite follow the question.

**Sally March** - Siemens Group - Head, Legal Department

How do your observations about the application of local law - you cited Germany and Belgium in particular - with respect to indefinite terms, assignability, et cetera, differ if you have a patent license combined with your software license?

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

**Paula Barrett** - *Eversheds LLP - Partner*

Okay. The (inaudible) outlining were about being indefinite periods of time being listed. So, if you find (ph) about what you're intending, then that sort of problem has arrived. If you've got patent rights, then obviously you can't control what happens in relation to that patent beyond the life of the patent. But you still have the ability to control what happens in relation to copyright on software. So, you could still protect by a copyright for the seventy-year term. And you simply wouldn't be able to restrict your patent rights beyond the twenty-year term, if that's applicable.

**Sally March** - *Siemens Group - Head, Legal Department*

Next question is are there any special issues relevant to software licensing in the context of an application service provider where the software is delivered online?

**Paula Barrett** - *Eversheds LLP - Partner*

You have some interesting issues in relation to where - which governing law might apply in that regard. You'd obviously have to make very clear which law you thought was applying, which would - most people tend to go for their home territory of governing law and jurisdiction. We then get issues in relation to what happens in our mandatory laws. Are you subject to all the mandatory laws of a particular jurisdiction throughout all jurisdictions throughout the world? And in that regard, you would need to have a look at a particular legislation. In Europe, for example, there is legislation which looks at the applicable laws where things are being traded online. And there is something of the tension in relation to that, where you have gotten some instances - consumers, if you are dealing with consumers - able to rely on their own local laws applying. And whether (ph) (inaudible) businesses, then you will find it far easier to dictate that the law of jurisdiction where you're actually providing the service from would apply.

**Sally March** - *Siemens Group - Head, Legal Department*

Now, you mentioned earlier that we might have problems with implied warranties of fitness for purpose in certain jurisdictions. If we went with our old standard U.S. language, would a local court be inclined to invalidate the entire agreement or strike out that clause?

**Paula Barrett** - *Eversheds LLP - Partner*

I think it - the approach will vary from jurisdiction to jurisdiction, but they're going to give us a general rule. It's really quite important that you specify within your contract that if a particular clause folds, that the rest of the provisions will prevail. So that you are clearly saying to any court that comes to look at it, that you do not intend - that that particular - no particular clause is so fundamental to the rest of the agreement that the entire agreement should fold if that particular clause is struck out.

So, it's important that those provisions go in. Now, absence that sort of wording, then you do run a danger that the court might look at a particular clause and say is it say fundamental to the substance of the contract that if we take out, then the whole reasoning behind the contract should fold away and that's where the entire contract should fold. But you do have to be quite careful about that.

**Sally March** - *Siemens Group - Head, Legal Department*

I'm going to use the moderator's prerogative to ask one of my favorite questions and also remind listeners we've got five more minutes, if anyone would like to send in additional questions. But mine is with respect to the Unfair Contract Terms Act in the

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

UK, whether you have any views on drafting the definition of damages that one is excluding. And particularly, what consequential means to you.

---

**Paula Barrett** - *Eversheds LLP - Partner*

Okay. I think some interesting issues in relation to what happens in the UK and the application about that (ph). A few things I'd like to mention. One is in (inaudible) up there is the Unfair Contract Terms Act, which applies in a number of specified cases. But it would certainly apply in relation to business-to-consumer contracts. It can also apply in relation to business-to-business contracts - probably business-to-business contracts as well. So, if I look at that and narrow it down a little bit. What UCTA does in relation to consumer contracts is implies certain conditions. And also limits the ability to exclude liability to the extent that is reasonable.

In business-to-business contracts, UCTA still applied where you're trading on standard terms. And that's a concept which is often overlooked. They don't apply business-to-business contracts as well. So, you have a whole range of things that have to be considered. As do what types of liability can be excluded, what is consequential, what is not, there is an awful lot to be based at the moment and that there has been some case law around what is consequential loss, which, essentially, provides that you need to spell out what type of loss it is. So, if you're looking to exclude loss of profit, loss of revenue, loss of data and you want to exclude that whenever that arises, whether it's what you might recognize as directly flowing (inaudible) or otherwise, that you must be very clear in your language.

And therefore, anyone who's seen recent UK exclusion clauses, they will note that they now go into some detail and actually spell out those types of loss are expressly excluded whether they're direct or indirect. And that they'll then go on to have a separate clause which deals with exclusion of indirect and consequential loss. And then, perhaps, there's other sets of clause, which goes on to talk about debt and other types of loss not being excluded. One of the reasons I should express that growth now is those who want the question that was raised earlier, which was what happens if a particular clause is struck out. And by sticking out the different types of limitation, you're making it easier for a clause, if they feel it's necessary, to strike one particular clause out, but leave - but leave the rest of the clause still standing and active. That you don't necessarily lose the entire limitation of liability clause if one particular clause is found to be unreasonable and under UCTA.

---

**Sally March** - *Siemens Group - Head, Legal Department*

We've got two last questions, which I think we can handle pretty quickly. The first one is would you suggest incorporating language into end user license agreements, et cetera, that encompass the different jurisdictions and their mandatory and local laws? In other words, tailoring your standard ula (ph) to each jurisdiction.

---

**Paula Barrett** - *Eversheds LLP - Partner*

Yes, I would, particularly if your standard clause is something which is going to be dealt with - if there's any consumers there, that is an absolute must. I think with business as well, it is worth checking out because as I've mentioned, in certain jurisdictions, say for example, Germany, some of the provisions you would normally see in a U.S. contract, you simply couldn't rely upon. They'd be struck out on (inaudible) and I think it is important to catch (ph) your standard provisions.

---

**Sally March** - *Siemens Group - Head, Legal Department*

And the final question today. Can you recommend a good reference book for us to read?

Feb. 17. 2005 / 12:00PM, \*\*ACC - Technology/Software Licensing - Beyond the US Frontier

**Paula Barrett** - Eversheds LLP - Partner

A good reference book. I haven't come across one which covers this in all of the jurisdictions you'd be looking to operate in. I don't - I'd be interested if anybody else has come across one, but I'm still looking as well as anybody else to actually to find one of these. I think part of the problem with these reference books is that, actually, you could end up with something, which is (inaudible) the most printed (ph) because you're talking about - if you would say you wanted a European reference book (inaudible) you've got 25 jurisdictions now.

All of them are hearing different cases every day. And the laws (inaudible) frequently, across the board, across (inaudible). So, I think (inaudible), if it existed, it isn't something which you'd be able to keep on the shelf and actually rely on for any length of time. What would be interesting, I guess, is the - have an online product or a day-to-day that you could tap into, which would have that sort of information available to it. It's (inaudible) that we're looking into.

**Sally March** - Siemens Group - Head, Legal Department

That's a great chance for me to plug the ACC website and specifically the International Legal Affairs Committee websites. If you have specific questions about specific jurisdictions, bring them on the web and some of us who live abroad will pick them up and share what little we know about practicing where we live or point you in the direction of a good resource like Eversheds or other local counsel. And on that note, thank you very much, Paula.

**Paula Barrett** - Eversheds LLP - Partner

My pleasure.

**Sally March** - Siemens Group - Head, Legal Department

Thank you to all of our listeners. We'll look forward to the next Eversheds webcast on the 21st of April and thank you all for your time. Good night.

**Paula Barrett** - Eversheds LLP - Partner

Good night.

#### DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2005, Thomson Financial. All Rights Reserved.