INSIDE THE MINDS

Understanding Your Client's IP Needs

Leading Lawyers on Mitigating Financial Risks, Defining IP Standards, and Avoiding Common Mistakes

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Advising Clients in Transactional IP

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Many otherwise knowledgeable colleagues and clients both inside and outside of the legal profession have a tendency to classify intellectual property (IP) lawyers as a group of professionals who speak with a single voice. However, patent lawyers are not merger and acquisition lawyers, merger and acquisition lawyers are not necessarily skilled in matters involving the development and commercialization of software, and practitioners who are heavily involved in licensing are not necessarily trademark or copyright experts. My voice, my specialty in a specialized field, has been the acquisition and implementation of major information technology (IT) systems, also commonly referred to as enterprise software systems.

I am fortunate to have had a diverse background. I have close to forty years of concurrent experience in the areas of mergers and acquisitions and IP, and I have represented both those who acquire IT systems and individual software properties, and those who develop and distribute such systems and properties. Related areas in which I practice include outsourcing of IT departments and, more recently, a strong overlay of work involving the design and development of Web sites, privacy issues that arise with increasing frequency with respect to the operation of Web sites, and the creation and use of digital rights management and protections for the delivery of content over the Internet.

Representing the Client in IP Acquisitions

When representing a client that is acquiring a new IT platform to run its business, I will be called upon to understand the nature of the legacy systems and what it is that has been promised to the client, both from the business and legal standpoints and from the technology perspective as well. For example, many hospitals are currently involved in the process of acquiring very large, expensive, and complex IT systems governing the entire spectrum of their operations. Such acquisitions often may consist of a two-part process: coupled with negotiating the terms of the licenses and the support agreements for the IT system to be acquired, I am also called upon to negotiate the consulting or implementation agreement with either the software vendor or a consulting firm. Therefore, legal counsel is essentially representing the client in connection with two very different kinds of agreements, all the while seeking to establish a certain degree of

accountability on the part of those who would profit greatly by the licensing and implementation relationships. This is where the marriage of IP and merger and acquisition skills is critical, because at that point counsel is dealing with both commercial and technology issues.

The tension between the two kinds of relationships becomes all too quickly obvious: the software vendor will insist that its system works each and every time and that problems, if any, arise only in the customization and implementation, as to which, claims the software vendor, only the customer should be at risk. The implementation/customization teams will respond, on the other hand, that they are merely consultants, and that any problems must lie with the software vendor or the customer. In the absence of experienced legal advisers, the allocation of risk will fall squarely and exclusively on the customer. A bad place to be if you are the customer. So my thesis can be briefly summarized: there are methods through which the allocation of risk can be shared, at least to some extent, if you care to spend the time and effort.

I am also engaged by those who did not go through the rigors of carefully negotiating these kinds of agreements. After a few years into the project, such a client may come to the realization that it has a financial and technological disaster on its hands. A chief executive officer or general counsel of a business will ordinarily engage legal counsel in a $5 to $30 million project outside of the technology area. But all too often, if a decision is reached that an enterprise must acquire a new IT platform, executive management may simply assume—often based on input from the head of technology—that the terms of such acquisitions are non-negotiable, or that negotiation of such terms is unnecessary. Such an assumption, however, is likely to be incorrect and may prove to be a costly error.

In our firm, we put together multi-disciplinary teams to handle troubled acquisitions of IT platforms. Typically, a litigation partner (having both technology and licensing experience) and I will work in tandem to seek remedies for the client. And while it may be demanding work for the lawyers, it is a far more difficult process for the client, because the implementation of what the client had set out to achieve will, at a minimum, be delayed for many years, and no one likes to return to senior management or the board and tell them there is a serious problem. The

message here should be clear: engage qualified legal counsel in the formative stages rather than the disaster recovery stages.

Representing the IP Owner

Conversely, I may be engaged by an emerging software company that is undertaking the design, development, and distribution of its own products. In that case, I will work with the client to establish its initial business model and legal structures, and its policies and procedures for IP protection. The client and I will typically review in considerable detail the variety of possibilities that are available. It is important to consider a number of key questions, some examples of which include:

- What are the preferred distribution channels for the type of IP product involved?
- Is the license term perpetual or renewable?
- What are the usage implications (run time or authorized users)?
- Is there an application service provider component?

In many cases, the industry itself and/or a dominant competing product may have already set the standard for how the client's product will be distributed, and clients often tend to select those elements that have been previously established in the market, rather than trying to experiment with a different business model.

Frequently, our conversations will center on the degree of tolerance within the emerging client's marketplace for various types of contractual IP protections. In other words, what is the perceived level of tolerance or lack of tolerance that prospective customers will exhibit in relation to the degree of IP protections for the client's products? A number of topics are common. For example, will customers accept the requirement for the installation of new release versions in order to continue to be eligible for product support? Will customers require source code escrows? Will customers accept strong limitations of liability? Fortunately, the IP marketplace tends to allow for a greater degree of protection for those who design, develop, and distribute software than is often available for more tangible products in other industries, perhaps because more clients in the software industry have consulted with lawyers upon the inception of their

businesses due to the intangible nature of the underlying IP, and due to the nature of the license relationship, as contrasted with a product sale.

I believe the most difficult lesson to impart here is the absolute need for the emerging enterprise to separate marketing and sales materials from its contractual obligations, and to censor the client's natural enthusiasm for a new product so it does not become "over-promised." Accordingly, I recommend that legal counsel review from time to time the text of marketing materials, and that such materials be expressly excluded from the contractual documents. Interestingly, this problem is not limited to the emerging enterprise, and actually can be a plague for the mature business as well. It is one I have been able to exploit routinely when representing the customer for such software, as will be discussed below.

Major Challenges in IP Negotiations

One of the principal challenges an IP attorney faces when representing a client who intends to acquire a major IT system is that of the client expectations, sometimes expecting too much from the product, but more often demanding too little from the software vendor or project implementation team. While you may not be able to induce Microsoft to accept changes in the terms of its licensing agreements, if the project is big enough (i.e., many hundreds of thousands, if not millions, of dollars), almost all of the mega-licensors of this world will very grudgingly agree to negotiate some of the terms in their standard documentation, even though they will initially tell you they will not do so. The client needs to appreciate that this is not just a "make work" project for zealous legal counsel, but that it genuinely represents a value-added effort to establish accountability and risk sharing in connection with the project. Client education of what is possible in relation to these issues is extremely important, following which the client may then intelligently decide whether it wants to spend the time and money to negotiate these terms. Of course, some will elect not to do so, and some of those will wish they had.

The percentage of major IT initiatives that experience very significant cost overruns and material schedule delays is astonishingly high. And the percentage of major developmental projects (i.e., those having a relatively high degree of customization or custom development and build factors)

that fail altogether or do not reach scalability or other key metrics is even higher. Needless to say, many clients do not want to hear this from their legal counsel, or entertain this advice at all. And it's certainly not the kind of information glowingly presented in your annual report. Understanding that there is a material element of risk in these projects is perhaps the single most important advice I can provide, as this information will drive other discussions and considerations that are discussed below.

Another challenge in the domain of IP negotiations results from the enormous rate of change in technology-driven industries. What you knew to be a problem a few years ago, at least from a practical standpoint, may no longer be an issue today. This rate of change cannot be overestimated. It was not that long ago, for example, that I was in the audience when a chief visionary officer (that wasn't his title, but it seemed to be his job description) spoke of governments and businesses, individuals and communities, electronically wired together in every form of business and personal expression, as a challenge to our collective future landscape. All this from the spokesperson of one of Silicon Valley's most forward-looking enterprises. Yet those words had hardly escaped his mouth when they had become obsolete. The lesson may be that legal counsel and business leaders alike need to understand better the relationship between our customary legal issues and the nature of our clients' particular technologies. It also is important for practitioners and business leaders alike to understand where the risks may become manifest in any given transaction and in any new technology, and the protections that can be employed to mitigate such risks. This process requires a degree of candor among the members of the technology, business, and legal teams that, quite often, is simply lacking. But therein lies the goal.

As globalization and the concentration of vendors in the various IP-centric industries increases, processes that influence almost every facet of our lives and commercial practices, the acquisition and implementation of major IT systems is and will continue to be affected. From the client standpoint, the license and implementation agreements for the acquisition of IT systems will become increasingly difficult to negotiate based on the disparity in bargaining power and the lack of viable alternative choices. This is not a populist diatribe, but simply a fact of current economic life that must be recognized and overcome to the extent possible by a variety of techniques.

Prominent among those is the use of request for proposal/request for quotation procedures. When using this process, counsel also may consider offering up an acquiring party form of license that must be used by the successful bidder. Keep the competition in play as long as possible. These techniques can help level the playing field in the context of projects having significant scope and dollar value.

The globalization and concentration of vendors not only affects those who are acquiring IP, but it also presents an increasingly formidable entry barrier for emerging enterprises. Many entrepreneurs who have succeeded in developing and placing a viable product into commercial production will have a choice of whether to try to continue to go at it alone, or sell or license product rights to one of the major software players, knowing that if they do not, the potential acquiring party will threaten to obtain rights to someone else's product or develop a similar product internally. Indeed, in negotiating an "inbound license" to a major software company, creating what is essentially a private label relationship, the leverage is entirely in the hands of the acquiring party. Therefore, legal counsel's role is often reduced to protecting the young entrepreneur from himself or herself, while at the same time knowing when and where some flexibility can be achieved. A guiding presence, reminding the entrepreneur that there is a reason his or her product has been chosen, can mean more than any negotiation with the acquiring party.

However, these challenges, while difficult to overcome, are what make IP enterprises and IP legal practices alike exciting. Legal counsel must be capable of handling any issues on a technological level. When legal counsel reviews the request for proposal or request for quotation with the client's technical team, we must be able to recognize and discuss any technology problems that affect the legal relations. At the same time, counsel must have a sense of transactional realities—what will work and what will not. Therefore, we must be able to employ two very different skill sets in support of our clients.

Effectively Negotiating an IP Agreement

As suggested above, many problems in this practice area occur simply because the client did not bring legal counsel into the process before

signing agreements for IT system acquisitions. Skilled counsel can assist clients in mitigating a variety of risks. For example, I was recently brought in to assist the in-house counsel of a publicly held company that was in the process of restructuring its IT platform. One of the projects involved a comparatively low-tech, high-volume software solution. When I reviewed the proposed license agreement, I discovered the license stipulated that the software would work in accordance with the product specifications. I then asked the client, "Have you reviewed the product specifications? If so, are they adequate? Do they contain performance metrics satisfactory for your purposes?"

A momentary digression. On the one hand, "product specifications" for software traditionally consist of "functional specifications" describing what tasks a product will perform. On the other hand, "performance specifications" or "performance metrics" are frequently absent from the product specifications. Performance metrics are especially important, as they delineate how much volume the product can be expected to produce, what the response times will be correlated to the volumes and the number of concurrent users, as well as the expected up-time of the platform. Indeed, the existence or lack of performance metrics can often represent the difference between accountability for the failure of an IT project on the one hand, or the result that there may be no recourse for such failure on the other hand. This is the other most important piece of advice I can provide to any client from the acquisition perspective.

Returning to my example, the client told me, "Well, we haven't seen the specifications, so we don't know what they consist of, and the vendor won't let us see them until we sign the license." We then scheduled a conference call with the vendor. I asked the vendor, "Where are the specifications?" The vendor said, "We don't give them out until you sign up." I said, "We don't sign up until we review the specifications." After some grumbling, the vendor finally agreed to provide the specifications. However, we soon received a call back from the vendor, who told us they did not have specifications of any kind for that particular product line. I then told the vendor, "Your license says the product will work in accordance with the specifications, and now you are telling me there are no specifications, and therefore there is no accountability on your part." At that point, I instructed the vendor that my client's technical team would work with the vendor's

technical team to develop mutually agreeable performance specifications detailing the minimum standards under which the product would operate. Although there was again some considerable grumbling, the vendor ultimately agreed, and we signed the licenses following completion of the specifications. As it turned out, one of three major project elements failed to perform as per the agreed specifications, and we demanded that the vendor return the relevant part of the client's money. Had we not structured the licenses in the manner I have described, the client would have been left with no recourse for a product that simply did not perform appropriately in the real world. Instead, the client received a check for half a million dollars without the necessity and expense of litigation.

Interestingly, the project manager for this client was initially resistant to the entire line of inquiry because he was concerned it would unduly delay the project, but I made it clear that I was hired by the general counsel to protect the company, not one individual's project schedule.

Another element lies in project timing. For more than thirty years, IT vendors have played the "end of quarter" or "end of fiscal year" game, claiming that, "Once we're in a new quarter (or year), the favorable pricing we've quoted for you is off the table." Whether the client is willing to play software poker is always an interesting moment. But by just a little better timing in the project cycle, you can avoid this problem entirely. Needless to say, my answer to this dilemma is simply to reply, "Next-quarter business is better than no business at all." But you will need client buy-in that it will simply not stand for this kind of treatment.

Understanding Your Client's IP Needs

IP Categories, Prioritization

The major categories of legal needs for the preservation and protection of IP rights are determined from the nature of each client's particular business. Accordingly, clients are better served by encouraging IP counsel to explore directly and personally the nature of the client's businesses so we in turn can best protect that which is of the greatest importance to our clients.

For example, while a client may have obtained patent protection involving a critical element of its world beating widget, it nevertheless may need to develop an IP protection program covering any number of areas ancillary to its main IP asset. This IP infrastructure could quite easily include any of the following tasks:

- Obtain trademark rights to the name "world beating widget."
- Consider copyright protection of slogans for the "world beating widget."
- Determine if the client's IT department has used any open-source code in connection with the development or operation of the widget, and consider any implications if such was the case.
- Establish standardized work-for-hire and non-disclosure agreements for the use of independent contractors and third-party consultants.
- Develop institutional invention/patent policies for the client's employees.
- Review product licensing/sale policies and contracts for the widget, with a view to the preservation of IP rights.
- Review key employee contracts, with a view to protection of the IP owned by the enterprise.
- Review Web site terms and conditions for IP and privacy protections and related matters.

Obviously, each of these examples has a different weighting in terms of importance. And the client's needs will be better served if a number of these examples had been in place prior to the creation of the widget. The foregoing is presented only as a series of examples to be considered, reminders really, of the broad range of the kinds of IP protections that may be useful and available for the protection of IP beyond that required for the initial IP invention itself.

A related inquiry: is the IP an occasional byproduct or one small component of a larger business, or is the IP key to what generates a material part of the client's revenue stream? Prioritization needs to be driven by the client's business needs, and the applicable business model. The larger the client, the more likely that outside counsel will be restricted

to services on a project-by-project basis. Yet legal counsel is most effective when we are provided with the opportunity to explore and respond to the larger picture.

Therefore, when IP counsel considers the legal needs of a new client, we should explore the characteristics of the industry involved, the client's business generally, and the specific role of the IP in the potential revenue stream for the enterprise, in order to determine the appropriate expense level for the protection of the IP. Consequently, to protect the client and its budget, we need to:

- Identify the categories of legal protection that may be required.
- Understand the role of the IP in the client's business, and then make appropriate recommendations concerning the client's budget for legal services.
- Isolate the relevant portions of the IP infrastructure for which protection should be obtained within the client's specified budget. Propose the most cost-effective means of protecting the IP infrastructure.
- The prioritization of IP protection should occur initially based on the client's business judgment as to the relative importance of the respective IP rights to the overall financial and operational success of the enterprise. Ideally, these kinds of decisions are made with the advice of IP counsel.

Harvesting Information

I do not believe the use of checklists is the best means of harvesting the information necessary to establish an IP protection program or to counsel IP clients effectively. I typically borrow from the merger and acquisition experience and recommend that in-person (if feasible) or telephonic due diligence meetings with various client business leaders will provide a more comprehensive picture of what the client may need, including the exposure of differing opinions within the client team concerning the relative values, future prospects, and expected life spans for key elements of the client's respective IP assets.

All too often, the task of responding to checklists is delegated by the client to those persons with the least seniority, or who are perceived to have the most time available for such purposes. This is not necessarily the person with the broadest vision in the enterprise. Moreover, such delegation is likely to reflect only the information available to that one person. Instead, I recommend obtaining the personal views of several business leaders, to include representatives from (i) in-house legal counsel, if any, (ii) IT, (iii) sales and marketing, and (iv) research and development. Consensus is not necessary, but reliable information is critical. The client will benefit indirectly as well. A more in-depth and analytical, if not personal, viewpoint will be expressed to legal counsel behind closed doors than will ever be provided to a subordinate for a checklist.

When I refer to "due diligence," I do not mean reviewing the IP equivalent of minute books, contracts, and licenses. I have in mind conversations, posing leading questions, conducting a friendly deposition, and encouraging personal views of the business model, the nature of the IP, and the direction of the client's business. It is important to learn the business from the eyes of those who lead it. Counsel will be able to fill in the legal blanks as things proceed.

Consideration of Industry Factors

I certainly recommend obtaining documents in current use by various competitors when considering the kinds of IP protections that may be warranted for a client's particular product or industry. Such reviews might include consideration of the kinds of customer sale contracts, licenses, warranty and support policies, and other critical contracts in general use within the industry for competing products. It is important for legal counsel to understand what the norm is in each particular industry to engage with the client in the "marketing" versus "legal protection" discussions, particularly as they relate to the permissible depth and nature of contracts to protect the client's IP.

The determination of the nature, degree, and type of IP protection can often involve a number of independent moving parts, such as (i) the type of protection that may be available for the particular IP, (ii) the client's budget for ongoing protection, (iii) the client's need for protection, (iv) the ease of

entry/difficulty of entry into a given field or industry, (v) the velocity of change in the given field or industry, and (vi) the prevalence of work-arounds to avoid the kind of IP protection that might otherwise be selected for the particular IP involved. Of these six factors, the last three, in particular, involve familiarity with the client's industry, not just the client's business.

Again, I believe an in-depth due diligence review with key business leaders at the client level becomes the most effective means of determining the relevant industry factors. To be effective, counsel certainly needs to see the industry, overall, and the client's place in that industry, in particular, through the client's eyes.

Monitoring IP Trends

Attorneys by nature, practice, and training are experts on what has occurred in the past. However, we are challenged, perhaps as never before, by the rapidity of technological change. Monitoring the prevailing trends—legal, business, and technological—is a much more demanding inquiry today than in the past. Correspondingly, vast amounts of information can be accessed through the Internet today as never before. Therefore, the range and speed of change has created both unparalleled challenges and opportunities to the IP practitioner.

The social networking Web sites that have become so prominent during the past few years provide a contemporary example of unanticipated change, having interest to IP practitioners well beyond the highly publicized infringement cases. As a result, an increasing number of major multinational corporations is beginning to explore how they may harness or encourage customer interaction through company-sponsored sites. And all of these kinds of activities involve knowledgeable IP-, media-, and content-savvy corporate, entertainment, and legal executives and legal advisers with the foresight to lead rather than follow.

Learning how to cope with and recognize those particular trends that may affect any given client will often take the practicing lawyer out of his or her comfort zone. Here are a few useful tips to consider:

- Clients and IP counsel should consider the means by which third parties may be able to appropriate the client's IP and forge it, steal it, alter it, duplicate it, disclose it, physh it, spam it, regulate it for public use, create private and moral rights to it, and so on.
- Clients and IP counsel should anticipate the frailties and vulnerabilities facing the client's IP in order to fashion legal solutions accordingly.
- From counsel's perspective, talk to your clients. They already think you are pretty smart, or they wouldn't be your clients. Try to envision what their innovation promises to be, consider what their product vulnerabilities may be, and discuss what factors the client fears the most.
- All concerned need to be prepared for the expansion of conventional laws to new IP. Privacy-related issues (see the recent legislative activities regarding DNA test results, as just one example) represent an area ripe for future expansion.

Recommendations

While any generic recommendations gain relevance only through application to the specific problems and facts involving each individual client, the nature of the IP, and the position of the client and its technology within its particular industry, I have nevertheless set forth some recommendations and further reflections in the following sections in the hopes that they may be of some assistance to IP counsel and their clients.

The following are some general recommendations for best practices in the IP practice area:

- Once the client has been provided with forms of agreements dealing with work for hire, confidentiality, and similar topics to be signed by third-party contractors and consultants, counsel and the client should periodically discuss whether and to what extent these protections are being systematically placed into everyday use by the client.
- Counsel should be correspondingly encouraged to review the forms of such agreements in use from time to time against the "master form" that was originally supplied to the client. These types of

agreements frequently morph over time in the hands of those who are charged with implementing them. A change is made for one particular contractor, and that changed form then unknowingly and unintentionally becomes the client's new template.

- Once the client has been provided with an employee invention policy, related provisions for the client's employment manuals, and implementing forms covering employee inventions, counsel likewise should be periodically encouraged to audit the level of compliance by the client.
- In this regard, when representing emerging enterprises, look back as well as forward. Confirm that the founders and former key employees have assigned to the enterprise all rights and interests to key IP in accordance with prior understandings and agreements. It is surprising how often this will arise as an impediment to a future sale, merger, or initial public offering.
- As mentioned above, there is a broad range of medium- to higher-end software, the business and legal terms of which *are* negotiable. Indeed, as also previously noted, even if you will not be able to achieve any success with one or two major players, you will be able to level the playing field to some extent with a surprising number of other major vendors.
- The same is true for the engagement of professional services incidental to the acquisition of IT platforms. Such services are provided under outsourcing contracts, implementation contracts, development contracts, Web site contracts, and other consulting contracts, many of which are as important as the licenses for the underlying IP. And often the cost factor is equal to or greater than the license fees for the underlying IP. Failure at least to consider, if not pursue, some degree of risk sharing and accountability for the success of the project in connection with the engagement of such services may not be a prudent decision.
- Clients often consider the related statements of work and specifications accompanying the licenses or customization and implementation contracts for IT platforms, or for major Web site projects, as the exclusive province of the IT team. Nothing could be further from the truth. First, the legal terms of the design, development, implementation, and similar contracts cannot really

be separated from the transactional detail of what will be performed or provided by the contractor. Second, it is all too common for such attachments to provide that the terms of the attachment supersede the terms of the principal agreement. And the terms of the attachment may well allocate all risks for performance and completion of the tasks under the attachment on the client, rather than shared as appropriate between the contracting party and the client. Last, such attachments may often directly or indirectly include other very material legal terms.

- Contract negotiations to include the presence of the legal team should be started earlier in the overall process than is often thought to be necessary. Otherwise, the pressure on the business team at the end of the selection/contracting process will leave the legal team arguing not only with the vendor, but also with the client's own business leaders whose project schedule is placed in jeopardy due to extended negotiations of the remaining business and legal terms.
- Legal counsel should be consulted on the importance and best practices to control the use of open-source software. The critical element here is not so much "how" to control this use, but rather to educate the client on the need for such controls, and the basis under which that need arises.
- Legal counsel should review and assist in the preparation of requests for proposals and requests for quotations. These practices will help protect the client's IP acquisition in a variety of ways, including: (i) identify and help preserve what the client may develop or own as contrasted with what may be licensed from others, (ii) if the client intends to require the vendor to use a form of agreement created for or by the client, as licensee or buyer, this is the appropriate time to make such a requirement known, (iii) this is where the inclusion of relevant performance metrics and the creation of risk-sharing and accountability begins, and (iv) to the extent that the client has specific legal terms and conditions peculiar to its business or industry, special terms adopted by its general counsel, or unique legal issues, these should be specified and vendor education and buy-in should take place at this time, as a condition to the vendor response to the request for proposal or request for quotation.

Risks of IP Management

The legal and financial risks in IP management may increase dramatically in the circumstance when the risks themselves are vaguely perceived, if at all. The failure to perceive the risks involved occurs more often for IP created or acquired for internal operations, rather than with respect to IP portfolios developed as part of the ongoing business of the enterprise. I think of the former as "internal" or "enterprise" IP, and the latter as "product" IP. Clients whose business models are directly involved in the design and development of product IP or the creation of IP-dependent products are more likely to understand and pursue appropriate levels of IP protection.

However, clients who acquire enterprise IP as an incidental result of conducting business largely unrelated to the creation of IP products are often at risk of failing to recognize the need for IP-related protections. Additionally, businesses that principally *develop* enterprise IP for internal use only may stand the greatest chance of failing to recognize the need for IP protection programs.

Another common risk occurs when acquiring enterprise licenses for IP used in the process of creating the enterprise's products. Frequently such licenses contain restrictions on the field of use that are considered reasonable at the time. Clients are often willing to accept such restrictions because they believe they will never enter into other product lines that would make such restrictions untenable. However, if their business goals change or the product lines change, they may realize the mistake they have made, but at that point, it may be too late or too expensive to correct the mistake, or the rights they need might not be available.

Specific Recommendations for Business Leadership

- A word about custom IT projects: don't. Or think twice about recommendations to develop independently, either internally or by contract, a new-generation IT system, or to substantially customize an existing IT system. And then, "just say no." The road to IT ruin is paved with such projects.
- If the project warrants a consultant, clients often choose one who has advised others with respect to acquisitions involving the same

IP. This selection criteria should apply equally to your selection of legal counsel. More and more general counsel will tell you that today they engage lawyers, not law firms.

- Consider early on with your legal and consulting teams the general parameters of what level of risk you are willing to underwrite, and what level of protection is likely to be achievable, in relation to the type of project and the track record for the vendor of the IP. Bear in mind the general recommendations discussed above concerning major IP undertakings.
- Consider the extent to which some degree of accountability for the proper operation of the IT platform can be allocated to the vendor of the IT platform and to the provider of implementation or consulting services.
- As also anecdotally noted above, the determination of mutually agreed performance metrics is the keystone for the successful IT project. Yes, the software itself usually will be accompanied by some form of product specifications. Such specifications serve only as the starting point for your protection. Such matters as scalability (both concurrent user access and volumes) and speed of processing, benchmarked for volumes as well as system performance (and single versus multiple instances), should be considered for your platform and embodied in performance metrics for which there is some degree of accountability and remedy.
- Last, don't lose sight of the responses received during the request for proposal/request for quotation process, as well as other "sales cycle" information that is commonly provided by the vendor. Do you really want to hear, "Well, yes, that's what we said, but…"? I routinely require the vendor to incorporate by reference their responses to the request for proposal/request for quotation and even sales literature providing product descriptions and product functionality as part of the IT platform specifications. You can easily imagine what those discussions sound like, particularly concerning inclusion of the sales cycle marketing material, and it is not pretty. In the final analysis, either such information is accurate and worthy of inclusion as part of the product specifications, or it is inaccurate. In either circumstance, the client benefits from this exercise. What you might not imagine is the degree to which this

process causes the vendor to "correct" information previously delivered, and to resize the recommended hardware and related products. Certainly, if that resizing is necessary to protect the vendor, the additional capacity will likely protect the client as well.

After-Care

Finally, a few words of advice concerning support (maintenance) relationships. So-called service level agreements are common in outsourcing relationships, and on occasion they are offered in acquisition or support agreements for IT platforms as well. Basically, these tend to be liquidated damage provisions, providing very modest credits to the customer upon the failure of the IT system to achieve various benchmarks, such as system up-time. My approach is to require that service level agreements are not exclusive remedies if the triggers occur more than a stated minimum number of times within any rolling six- or twelve-month period. This response is strongly resisted, as the service level agreement is offered to limit the vendor's liability, not as a means of making the customer whole.

Probably the most common ongoing issue in support relationships today involves the conflict that develops between the vendor's requirement that the customer install new versions and releases within a given period of time or within a specified number of versions in arrears. While this requirement may appear to be fair, it nevertheless may result in the concomitant requirement for the customer to install and run new versions or releases of third-party products the customer does not want to deploy at all or within the time required. There is often no "right" or "wrong" here, but to understand the problem is the first step in negotiating at least more favorable terms than those offered in the conventional support agreement.

Another example of issues to consider with respect to support agreements involves the potential legal effects of change orders or amendments that may create unintended changes to existing agreements. Even those clients who are scrupulous in their use of legal counsel in the negotiation and documentation of the principal license agreements neglect to involve legal counsel in connection with ongoing project change orders and amendments to support agreements. Yet those same change orders or amendments may

contain assumptions, terms, or conditions that will significantly alter the legal relationship between the contracting parties.

A few years ago, through a series of "amendments" ostensibly related to the support agreements with its customers, an international software vendor of major repute effectively altered (to its customers' significant financial detriment) the entire fabric of the pricing structure under its license agreements with respect to the usage charges payable for its software. The tech personnel, being unaware of the subtle nature of these changes, blithely signed amendment after amendment, until the crisis became apparent. This points to the need for improved processes between IT leadership and staff on the one hand, and legal counsel on the other hand.

Another example can be found with a service level agreement under an outsourcing contract that included both the personnel and IT equipment and software licenses of a client. I had occasion to revisit the contract a number of years into what was a long-term relationship. Upon inquiry as to what the client's experience had been under the service level provisions, I was told by the client, "Whoops, we forgot about that." Common attrition in the workplace environment can leave the IT department without the personnel who negotiated and understood the nature of key contracts. The absence of legal summaries or other processes for maintaining control over the rights and remedies available at a day-to-day level under such contracts should be examined.

It is not at all uncommon for the long-term expenses under the support relationship to exceed the original license fees for the IT platform. And once acceptance has occurred for the customer's IT system, the client is left only with the support relationship. It seems self-evident that as much attention should be paid to the support relationship as with any other aspect of the license agreement. Yet this is seldom the case. This should be seriously reconsidered by IT departments, both large and small.

Phillip E. Adler is a partner with Loeb & Loeb. His practice concentrates on the acquisition of enterprise-wide information technology platforms and systems (ranging from $1 to $50 million), the licensing of client software to major entertainment and software companies for internal and private label use, major information technology outsourcing relationships, digital rights protection for licensors or users of media downloads, and dispute resolution and project analysis. He also deals with Web site development contracts, privacy and security policies, matters regarding loss or theft of customer data, patent licensing and commercialization, and more.

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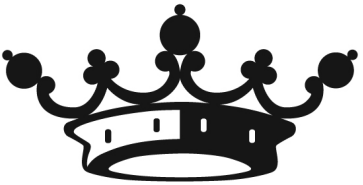

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