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Licensing and Technology Transactions Update: 2011

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Overview

I. Cloud and SaaS Issues

- Introduction (What is it? What are the models?)
- Risk Considerations
- Implications on negotiating SaaS or Cloud services Agreements

II. Licensing and Technology Transaction Update

- Key Caselaw Developments for 2011
- Practice Pointers for Tech Transacation Attorneys

Cloud Computing and SaaS Issues

"What is Cloud Computing?"

What is Cloud Computing?

NIST Definition

- Ubiquitous and broad network access
- Pooled Resources
  - Multi-tenant
- Rapid Provisioning
- Pay as You Go

Deployment & Service/Delivery Models

Private vs. Public

Software as a Service

- Collaborative applications
- ERM, CRM, supply chain apps
- Ops and manufacturing apps
- Patient/student records apps

Platform as a Service

- Development tools
- Database, middleware
- Infrastructure software

Infrastructure as a Service

- Server, storage, network components
- OS, virtualization, file system
- Capacity on demand

What is Cloud Computing?

Potential Benefits

1) Cost

2) Convenience

3) Capability

What is Cloud Computing?

Key Risk Considerations

1) Responsibility for Underlying Data

2) Responsibility for Maintaining Data

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Cloud and SaaS Deals: Key Contract Issues

- Carefully Define Service Specifications
- Focus on Service Levels
  - Do the numbers make sense?
  - Who is responsible for identifying an SLA shortcoming?
  - What is the appropriate remedy?
    - Credits
    - Termination
    - Sole Remedy?

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Cloud and SaaS Deals: Key Contract Issues

- Risk Allocation
  - Indemnification
    - Mutual Indemnities Are a Trap
    - Focus on who is really culplable
      - IP Risks related to service – provider
      - Privacy and Data Breach – provider
      - Activities of users / harmful data – customer
      - Consider Insurance to bridge the Gap

- Controlling the Risk
  - Limitation of Liability
    - Carefully Scrutinize Arbitrary “Fees Paid” LOL
    - Mutal LOL doesn’t usually make sense

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Licensing and Technology Transactions Update

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Case Law Update:

Take care defining the royalty base

- Common approaches motivated by desire to avoid patent misuse allegations by defining royalty base with reference to patent claims
  - "Licensed Product" means any product or part thereof, the manufacture, use or sale of which is <u>covered by a valid claim</u> of an issued, unexpired licensed patent
  - "Licensed Product" means any product or part thereof, the manufacture, use or sale of which is <u>within the scope of a valid claim</u> of an issued, unexpired licensed patent
- What does "covered by a valid claim" or "within the scope of a valid claim" mean? See, e.g., Boyce Thompson Institute for Plant Research v. Medimmune and Glaxo, (May 19, 2009, Superior Court, Delaware)
  - Valid claim is "applicable to" product in question?
  - Valid claim is "infringed by" product in question?

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Case Law Update:

Take care defining the royalty base

- Compare
  - *Samsung Electronics v. Panasonic, et al.*, No. C 10-03098 (N.D. CA, August 25, 2011) ("The practice of charging royalties based on a percentage of the total price of a finished product is widely accepted method for calculating patent royalties where the final product includes, but is not limited to, parts or components that are covered by other patents or are unpatented.")
  - *Zenith Radio v. Hazeltine* 395 U. S. 100 (1969) (finding patent misuse where royalty based on total products sales irrespective of whether products actually used licensed patents).

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Case Law Update:
Dangers of Implied Licenses

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- Compare
  - If licensor does not intend license of certain patents to extend to claims presented in continuation patents, it has an obligation to make that clear. General Protecht Group, et al. v. Leviton, 651 F.3d 1355 (Fed.Cir., July 8, 2011)
  - Agreement did not explicitly permit "on behalf of" access and expressly prohibited any use of licensed technology not explicitly permitted. Compliance Source v. Greenpoint Mortgage, 624 F.3d 252 (5th Cir., October 18, 2010)

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Case Law Update:

Courts scrutinize online agreements

- Dunstan v. comScore, Inc., 11-cv-05807 (N.D. Ill. Oct. 7, 2011)
  - "the court declines to infer that clicking a box acknowledging that a user has read an agreement indicates that the agreement was reasonably available to the user, particularly when the plaintiffs have alleged that the hyperlink to the agreement was obscured."
  - "it is not reasonable to expect a user casually downloading free software to search for such an agreement if it is not immediately available and obvious where to obtain it. As the Second Circuit noted, 'when products are 'free' and users are invited to download them in the absence of reasonably conspicuous notice that they are about to bind themselves to contract terms, the transactional circumstances cannot be fully analogized to those in the paper world of arm's-length bargaining.' [U]nder the circumstances alleged here, including that the location of the license agreement was not readily apparent, the court concludes that the forum-selection clause was not reasonably communicated to the plaintiffs . . . ."

- Crabb v. GoDaddy.com, Inc., 2:10-cv-00940-NVW (D. Ariz. Sept. 27, 2011)
  - Universal Terms of Service failed to properly incorporate by reference Parked Page Service Agreement

- Harris v. Blockbuster Inc., 2009 WL 1011732 (N.D. Tex. April 15, 2009)
  - "illusory" contract where nothing in Terms and Conditions prevents Blockbuster from unilaterally changing any part of contract other than providing that such changes will not take effect until posted on website

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Case Law Update:
Courts scrutinize online agreements

- PRACTICE TIPS:
  - Counsel should work closely with business/technical teams to be sure user reviews online terms and clearly indicates assent
  - Be careful when cross-linking agreements and avoid complex cross-references across multiple online agreements if possible
  - Require actual notice before amendments become effective and/or consider ways to have users confirm agreement to updated online terms periodically

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Practice Pointer:

The Pitfalls of Joint Development Agreements

- Summary: Agreements that do a poor job of clearly delineating "who owns what" in a joint development context pose special problems
- Business people often default to "joint ownership" when relationships become complex
- What is often carelessly characterized as "jointly owned"?
  - Improvements
  - New inventions resulting from working together
  - Derivative works
  - Inventions resulting from jointly funded work

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Practice Pointer:

The Pitfalls of Joint Development Agreements

- The Problem:
  - Joint Ownership is a messy concept
    - The statute: "In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States, without the consent of and without accounting to the other owners."
    - This is often 100% different that the intent of the parties
  - Attempts to contractually define Joint Ownership often fall short
    - Who prosecutes the patent? Who pays? Who makes key decisions?
    - Who enforces the patent? Who collects judgments? Can the joint-owner be involved and to what extent?

- PRACTICE TIP:
  - Any time business person refers to joint ownership, test them. Do they mean it? Be considerate of all issues

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Practice Pointer:

Beware of "Exclusive Licenses"

- The Problem:
  - Business people often use the term "exclusive" to mean something different than IP lawyers do
  - Not understanding the effect of "exclusive" license can have dire consequences for the licensor
- Questions of Exclusivity, Ownership & Standing
- Questions of Breach and Remedies
  - What constitutes a material breach?
  - When will licensor be entitled to rescission, injunctive relief or enhanced damages?
  - What is licensor's measure of damages?
    - In the event of breach of the exclusive license by licensee, can the licensor recover lost profits related to missed licensing opportunities as part of its expectation damages?
  - Do licensee's remedies include rescission or injunctive relief or are they limited to monetary damages?
  - When will licensee be excused from obligation to pay royalties?

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Practice Pointer:

Beware of "Exclusive Licenses"

TIPS:

- In practice, most "exclusive licenses" fall on a continuum somewhere between a complete assignment, at one end, and a non-exclusive license (or a mere personal covenant not to sue), at the other end

- No magic words create or prevent an exclusive license

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Practice Pointer:

Open Source Licensing Myths

- The Phrase "Open Source License" Is Meaningful

  "The Developers Understand All This So I Don't Have to"

- Open Source technologies are in the public domain

  "Open Source licensing is not consistent with IP ownership"

- Contributors to open source development projects have the necessary right to contribute

  "The SCO lawsuit proves the liability risk is all made up"

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Practice Pointer:

Open Source Licensing Myths

- OSS is "viral" and can change proprietary code to "free" code

  "You can inadvertently give away your proprietary software with bad OSS compliance"

- The GPL is a well-written document

  "Millions of adopters can't be wrong"

- Lawyers can answer the tough questions if they spend enough time on them

  "A $30,000 memo on "linking" or "derivative works" is a good idea"

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