Technology Agreement Basics and Common Pitfalls

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Types of IT Agreements

• IT Outsourcing Agreements
  – IT Infrastructure Outsourcing
    • Data Center Services
    • Application Development Services
    • Application Maintenance Services
    • Desktop/Workstation/Mobility Services
    • Help Desk Services
    • Telecommunications/Network Services
  – Web Hosting/E-Commerce Services
  – Systems Integration
IT Outsourcing Agreements

Common Features of IT Outsourcing Contracts

- Assumption of risks/responsibilities by Provider
- Transfer of assets
- Transfer of staff
- Roles and responsibilities matrix (e.g., RACI chart)
- Service level agreement
- Detailed change control procedures
- Scalable/flexible charging methodologies (e.g., ARCs/RRCs, rate cards, project pool)
Types of IT Agreements

• Cloud Agreements
  – Service Models:
    • Software as a Service (SaaS)
    • Platform as a Service (PaaS)
    • Infrastructure as a Service (IaaS)
  – “as a Service” frenzy:
    • Storage as a Service (SaaS)
    • Communications as a Service (CaaS)
    • Network as a Service (NaaS)
    • Monitoring as a Service (MaaS)
    • Identity as a Service (IDaaS)
    • IT as a Service (ITaaS)
Software-as-a-Service

- Provider maintains administrative control over the application.
- Subscriber has control over the users of the application.

Courtesy of National Institute of Standards and Technology, US Department of Commerce
Platform-as-a-Service

- Provider controls the operating system and hardware.
- Middleware components are made available to the Subscriber to configure (i.e., database services, user authentication services, identity management, programming languages).

Courtesy of National Institute of Standards and Technology, US Department of Commerce
• Provider controls the lower layers of the stack.
• A hypervisor creates one or more Virtual Machines (VMs).
• Subscriber controls each VM and all software layers above it, with responsibility for operation, updating and configuration of these resources.

Courtesy of National Institute of Standards and Technology, US Department of Commerce
Types of IT Agreements

• Software Agreements
  – Software License Agreement
  – Maintenance and Support Services
  – Application Development Services
  – Application Hosting Services

• Professional Services Agreement

• Consulting Services Agreement
Pitfalls

- Pitfalls discussed today are some of the most common pitfalls that we see in IT agreements
- Some of the pitfalls apply equally to Providers and Customers, however, majority are Customer pitfalls
  - HOWEVER, Providers are customers too…so pay attention!
- Pitfalls that are only applicable to Providers are designated as such in the slides
- All other pitfalls are either Customer pitfalls or pitfalls that apply to both parties
Confidentiality Pitfalls

Example Provision: “Nondisclosure. **Neither party will disclose the other party’s Confidential Information to any third party.** This obligation will continue for five years after disclosure of the Confidential Information. **Confidential Information does not include information that:** (A) is in the possession of the Recipient at the time of its disclosure and is not otherwise subject to obligations of confidentiality; (B) is or becomes publicly known, through no wrongful act or omission of the Recipient; (C) is received without restriction from a third party free to disclose it without obligation to the Discloser; (D) is developed independently by the Recipient without reference to the Confidential Information; **(E) is required to be disclosed by law, regulation, or court or governmental order;** or (F) is disclosed with the prior written consent of the Discloser.”

• Pitfalls:
  – Failing to acquire the right to disclose Confidential Information to certain third parties (e.g., affiliates, attorneys, advisors, agents, contractors, service providers, etc.)
  – Excluding information that is required to be disclosed by law, court, etc. from the definition of Confidential Information
Confidentiality Pitfalls

Example Provision: “**Nondisclosure.** Neither party will disclose the other party’s Confidential Information to any third party, except as expressly permitted in this Agreement. **This obligation will continue for three years after disclosure of the Confidential Information.** Confidential Information does not include information that: (A) is in the possession of the Recipient at the time of its disclosure and is not otherwise subject to obligations of confidentiality; (B) is or becomes publicly known, through no wrongful act or omission of the Recipient; (C) is received without restriction from a third party free to disclose it without obligation to the Discloser; (D) is developed independently by the Recipient without reference to the Confidential Information; (E) is required to be disclosed by law, regulation, or court or governmental order; or (F) is disclosed with the prior written consent of the Discloser.”

**Pitfalls (cont.):**

- Failing to exclude Personal Information and Trade Secrets from the confidentiality period

- Failing to exclude Personal Information and Trade Secrets from the carve-outs to the definition of Confidential Information
Confidentiality Pitfalls

• Other Practice Tips:
  – Include a provision for equitable relief allowing the disclosing party to obtain an injunctive relief when a breach of confidentiality occurs
  – Ensure the information you consider to be “confidential” is covered by the definition of Confidential Information
  – Consider the standard of care that should be used by the parties to protect Confidential Information
Limitation of Liability Pitfalls

Liability Cap

Example Provision: “Provider’s aggregate liability under this Agreement, whether arising in tort (including negligence), breach of contract, breach of statutory duty or otherwise, shall in no event exceed the fees paid by Customer for the relevant Services during the three (3) months preceding the event leading to liability.”

Pitfalls:

• Agreeing to a one-sided liability cap
• Omitting critical carve-outs from the liability cap
• Agreeing to a liability cap that is too narrowly constructed
  – Only fees actually paid by Customer
  – Only fees paid for the relevant Services
  – Unreasonably short payment window
• Agreeing to cap liability to the extent of the Provider’s insurance coverage
Limitation of Liability Pitfalls
Exclusion of Damages

Example Provision: “In no event will Provider be liable for any indirect, special, incidental, punitive or consequential damages of any kind, or any lost revenue or lost profits in connection with this Agreement, regardless of the form of action, whether in contract, tort (including negligence), strict liability or otherwise, even if informed of the possibility of such damages.”

Pitfalls:
- Including a one-sided exclusion of damages
- Omitting critical carve-outs to the exclusion of damages
- Pre-agreeing that lost profits/lost revenue are automatically excluded.
Carve-outs to Limitation of Liability

• **Pro-Customer Carve-outs:**
  – Breaches of the Provider’s confidentiality/data privacy obligations
  – Provider’s indemnification obligations (e.g., IP infringement indemnity)
  – Provider’s failure to comply with laws/regulations or industry requirements (e.g., PCI-DSS, Card Network rules, etc.)

• **Pro-Provider Carve-outs:**
  – Customer’s payment obligations
  – Customer’s breach of license
  – Breaches of Customer’s confidentiality obligations

• **Mutually Beneficial Carve-out:**
  – Gross negligence or willful misconduct of a party or its representatives
Indemnification Pitfalls

Example Provision: “**Indemnification.** Provider agrees at its expense to **defend or settle** any third-party claim **against Customer** and to pay all damages that a court may finally award against Customer (or agreed to by Provider in settlement) **to the extent the claim alleges that the Services** provided to Customer under this Agreement infringe any patent or copyright protected by the laws of the United States, provided that Customer (a) promptly notifies Provider of any such action, (b) gives Provider full authority, information, and assistance to defend such claim, and (c) gives Provider sole control of the defense of such claim and all negotiations for the compromise or settlement of such claim.”

- **Pitfalls:**
  - Failing to obtain an indemnification obligation in addition to the defense obligation
  - Limiting the indemnified party to Customer only
  - Limiting indemnity to Services or Software or Materials only
Indemnification Pitfalls

Example Provision: “**Indemnification.** Provider agrees at its expense to defend or settle any third-party claim against Customer and to pay all damages that a court may finally award against Customer (or agreed to by Provider in settlement) to the extent the claim alleges that the Services provided to Customer under this Agreement **infringe** any **patent or copyright** protected by the **laws of the United States**, provided that Customer (a) promptly notifies Provider of any such action, (b) gives Provider full authority, information, and assistance to defend such claim, and (c) **gives Provider sole control of the defense of such claim and all negotiations for the compromise or settlement of such claim.**”

- Pitfalls (cont.):
  - Failing to include “misappropriated” in an IP infringement indemnity (trade secrets can only be misappropriated, not infringed)
  - Failing to include all IP types in an IP infringement indemnity
  - Limiting an IP infringement indemnity to IP protected in the U.S.
  - Failing to prevent Provider from settling claims without Customer’s consent (or other limitations on the Provider’s authority)
Indemnification Pitfalls

**Example Provision:** “**Indemnification.** Provider agrees at its expense to defend or settle any third-party claim against Customer and to pay all damages that a court may finally award against Customer (or agreed to by Provider in settlement) to the extent the claim alleges that the Services provided to Customer under this Agreement infringe any patent or copyright protected by the laws of the United States, provided that Customer (a) promptly notifies Provider of any such action, (b) gives Provider full authority, information, and assistance to defend such claim, and (c) gives Provider sole control of the defense of such claim and all negotiations for the compromise or settlement of such claim.”

- **Provider Pitfalls:**
  - IP infringement indemnity claims caused by the Customer should be excluded from your indemnification obligation (e.g. unauthorized modifications, etc.) and request that the Customer indemnify you for such claims
  - Failing to require the Customer to notify Provider of any IP infringement claims brought against the Customer and prohibiting Customer from settling such claims without the Provider’s consent
Indemnification Pitfalls

Example Provision: “No Third Party Beneficiaries. This Agreement is for the benefit of Customer and Provider only, and does not provide any third party any right to enforce or bring an action for any remedy, claim, liability, reimbursement, cause of action, or other right or privilege.”

• Pitfalls (cont.):
  – Failing to exclude indemnified parties from “No Third Party Beneficiaries” provision
  – Failing to exclude any other third parties that have rights under the agreement (e.g., affiliates)
Limitation of Remedies Pitfall

Example Provision: “Customer’s **sole and exclusive remedy** and Provider’s sole obligation for a breach of the warranties in this Section, will be the **correction or re-performance of the nonconforming Service** by Provider.”

- **Pitfall**: Agreeing to an exclusive remedy for breaches by the Provider, where the remedy provided may be insufficient to make the Customer whole.

- **Common Sources**:
  - Performance and service warranties
  - Service level agreement
  - IP infringement warranty/indemnity
Example Provision: “Obligations Upon Expiration or Termination. In the event of any termination or expiration of this Agreement, Customer will pay Supplier all fees for Services performed prior to such date and any Deliverables provided prior to such date.”

- Pitfalls:
  - Failing to provide for termination assistance services
    - Continued provision of the Services; and
    - Assisting with moving Services back in-house or to another provider
  
  - Paying for termination assistance services (other than continued provision of the Services) if the Agreement is terminated other than for convenience by the Customer or for material breach by the Provider
  
  - Failing to require the Provider to return your information upon request and at termination
    - Note: be careful with making this provision reciprocal
Affiliate Pitfall

Example Provision: “This Agreement (“Agreement”) is effective as of May, 1, 2014 (“Effective Date”) and is by and between ABC Corp. (“Supplier”) and XYZ Corp. and all of its affiliates (“Customer”).”

Pitfall: Including “affiliates” as part of the contracting entity (unless intention is for such affiliates to be jointly and severally liable under the Agreement).

Practice Tips:

• Extend use rights of the relevant software, deliverable or services to affiliates of Customer in the license grant or similar provision.
• Include affiliates of Customer as indemnitees with respect to the Provider’s indemnification obligations.
Reorg/Divestiture/Acquisition Pitfalls

Example Provision: “Assignment. This Agreement may not be assigned by either party without the prior written consent of the other party. Any assignment other than as permitted by this Section is void.”

• Pitfalls:
  – Failing to obtain broad assignment rights
  – Failing to contract for continued services to divested entities
  – Failing to contract for services to newly acquired entities
Performance Failure Pitfalls

Example Provision: “Performance Warranty. Provider warrants that, for ninety (90) days following delivery of the Software, the Software will perform materially in accordance with the Documentation. As Customer’s exclusive remedy and Provider’s sole obligation for breach of the foregoing warranty, Provider shall correct or replace the non-conforming Software at no additional charge to Customer. To receive the warranty remedies, Customer must report such deficiencies in writing to Provider not later than five (5) days of the first date the deficiency is identified by Customer.”

• Pitfalls:
  – Agreeing to an insufficient warranty period
  – Tethering the performance warranty solely to “Documentation” that the Provider has the right to modify at any time in its sole discretion.
  – Agreeing to sole and exclusive remedy language (if the remedy is insufficient)
  – Conditioning the performance warranty on unreasonable reporting requirements.
Performance Failure Pitfalls

Service Level Agreement - Pitfalls:

- Agreeing that the recovery of credits is Customer’s sole remedy
- Agreeing to inappropriately broad exceptions to when the SLA applies
- Agreeing that unused service credits expire upon termination of the Agreement

Acceptance Testing - Pitfall:

- Agreeing that Customer’s failure to formally accept the relevant deliverable within the requisite period will automatically be “deemed accepted” by Customer (include a fail-safe!)

Acceptance Testing - Pitfall:

- Failing to designate objective acceptance criteria for testing
Entire Agreement Pitfall

**Example Provision:** "**Entire Agreement.** This Agreement constitutes the entire agreement between the parties regarding the subject hereof and supersedes all prior and all contemporaneous agreements, understandings, marketing materials, and communications, whether written or oral. Any modification or amendment of any provision of this Agreement must be in writing."

- **Customer Pitfall:** Failing to void all click through, shrink-wrap, etc. agreements (if applicable)

- **Provider Pitfall:** Failing to void terms in a Customer purchase order or similar document that is acknowledged/signed by the Provider
Payment Terms Pitfall

Example Provision: Customer shall pay all invoices under this Agreement within thirty (30) days of the invoice date. In the event that Customer fails to pay any amount by the relevant due date, Provider may, without limiting its other rights and remedies under the Agreement, suspend the Services without notice until such amounts are paid in full.

All fees paid hereunder are non-refundable.

Customer Pitfalls:

• Failing to exclude from Customer’s payment obligation amounts that are under good faith dispute.
• Giving the Provider a broad suspension right for minor payment infractions.
• Agreeing to broad “no refund” language.

Provider Pitfall:

• Failing to include a procedure for resolving payment disputes.
LICENSING AGREEMENTS
Licensing Pitfalls

Example Provision: “Subject to the terms and conditions set forth in this Agreement and in consideration of Licensee’s strict compliance with the terms of this Agreement (including, without limitation, its payment obligations), Licensor hereby grants to Licensee a nontransferable, nonexclusive license during the License Term to use the Software, together with all Documentation accompanying such Software, for its internal business purposes only consistent with the usage limitations specified in the Order Form.”

• Pitfalls:
  – Making license grant subject to Licensee’s compliance with terms in the agreement (copyright infringement if in breach)
  – Failing to acquire rights for the intended users (e.g., affiliates, contractors, agents, service providers, etc.)
  – Failing to acquire rights for the intended uses
    • e.g., access, display, install, load, modify, maintain, etc.
    • restrictions on where the software can be installed
    • restrictions on where the software can be used
Licensing Pitfalls

Example Provision: “Subject to the terms and conditions set forth in this Agreement and in consideration of Licensee’s strict compliance with the terms of this Agreement (including, without limitation, its payment obligations), Licensor hereby grants to Licensee a nontransferable, nonexclusive license during the License Term to use the Software, together with all Documentation accompanying such Software, for its internal use only consistent with the usage limitations specified in the Order Form.”

• Pitfalls (cont.):
  – Failing to exclude permitted assignments from “nontransferable” limitation
  – Limiting use of the software for the Customer’s “internal use only”

• Other Practice Tips:
  – Include an exclusive remedy for breach of license scope
  – Make sure that confidentiality provision synchs with license grant

• Provider Pitfall:
  – Failing to prohibit the Customer from acting as a service bureau or services provider
IP Ownership Pitfalls

Example Provision: “Contractor agrees, and will cause its approved subcontractors to agree, that all aspects of the Deliverables are to be considered “works made for hire” within the meaning of the United States Copyright Act of 1976, as amended.”

- **Pitfall**: Relying on the “works made for hire” doctrine for software ownership

- **Other Practice Tip**: Include an assignment of rights provision instead of, or in addition to, a “works made for hire” clause

- **Provider Pitfall**: Granting ownership in customizations of, or modifications to, Provider’s proprietary system/technology
ELECTRONIC AGREEMENTS
Background on Electronic Contracts

• The use of electronic signatures and records to form binding contracts in most transactions is governed by the federal Electronic Signatures in Global and National Commerce Act (“E-SIGN”) and state law counterpart, the Uniform Electronic Transactions Act (“UETA”)

• E-SIGN ➔ electronic transactions in interstate commerce
• UETA ➔ electronic transactions governed by state law
• E-SIGN/UETA excludes certain types of transactions
Electronic Signatures

What is an “electronic signature”?  
• An electronic sound, symbol, or process, attached to or logically associated with a contract or other record, and executed or adopted by a person with the intent to sign the record  
• **Examples:** a typed name, a click-through process, a personal identification number, a password, a digitized image of a handwritten signature, an identification number created using a number generator, a digital signature
Electronic Signature Pitfalls

Pitfall:

- Failing to properly authenticate the identity of the signor
- Failing to attach or logically associate the signature to the underlying record
- Failing to use a system that tracks and stores the electronic signature using consistent and reliable processes
Electronic Records

What is an “electronic record”? 

• A contract or other record created, generated, sent communicated, received or stored by electronic means

• **Examples**: a record in HTML format, a PDF document, e-mail message or attachment to an e-mail, a digital photograph or electronic file archiving relevant information
Electronic Record Pitfalls

Pitfall:

• Failing to implement a system that will accurately record/retain the electronic record
• Failing to provide a mechanism for the signor to download, print or otherwise retain a copy of the electronic record for future reference
• Requiring the use of electronic records without a paper option
• Failing to present contract terms in a conspicuous manner (e.g., use of scroll boxes where consumer can accept terms without manually scrolling through the terms)
• Using electronic records in transactions excluded from the scope of E-SIGN (e.g., will and codicils; matters of family law; notices informing individual of default/eviction/foreclosure involving a primary residence, cancellation of utility service, cancellation of life or health insurance benefits or product recalls; transactions governed by certain Articles of U.C.C.)
E-SIGN Consumer Disclosures

• E-SIGN requires that certain additional steps be taken where a law or regulation requires that a notice or disclosure be provided to a consumer in writing, before such notice or disclosure may be delivered to the consumer electronically:

  (1) the consumer affirmatively consents to the use of electronic records
  (2) the consumer is provided a clear and conspicuous statement of:
      – right to receive the record in paper form
      – right to withdraw consent
      – scope of consent (i.e., specific transaction vs. all future transactions/disclosures)
      – hardware and software requirements for accessing and retaining electronic records
  (3) the consumer consents in a manner that reasonably demonstrates his or her ability to access such electronic records in the relevant format
  (4) the consumer be informed of any material changes to the hardware/software requirements
E-SIGN Consumer Disclosure Pitfalls

Pitfall:

• Providing notices/disclosures to consumers required by federal law without providing the E-SIGN consumer disclosures

• Failing to obtain the consumer’s affirmative consent to use electronic records for the delivery of such required notices/disclosures

• Failing to include a mechanism by which the consumer reasonably demonstrates his or her ability to access electronic records in the relevant format
Website Terms of Use Pitfalls

Click-wrap vs Browse-wrap:

• **Click-wrap Agreements** → users must affirmatively manifest assent (i.e., by clicking on an “I agree” button)

• **Browse-wrap Agreement** → users are deemed to have read and accepted website terms by using the website

Pitfall:

• Failing to obtain affirmative written consent to important terms and conditions
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