



Key Terms in Cloud and Software Contracts: Intellectual Property, Commercial Terms, and Liability

Presented by David W. Tollen to



Mountain West

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Types of Tech Offerings / Deals

On-Premise Software: software on the customer's computers

IT Professional Services: programming, tech support, implementation, consulting, etc.

Cloud Services: software hosted by the vendor

- *Software as a Service (SaaS):* applications (Salesforce CRM, MS Office 365)
- *Platform as a Services (Paas):* rented platform (OS, etc.) for software development and/or hosting (Force.com, Dell EMC)
- *Infrastructure as a Services (IaaS):* rented computers and datacenter – Amazon EC2, IBM Hosted Services, Microsoft Hosted Services

Other: edge-of-industry offerings, often powered by cloud systems (so a lot like cloud services)

- *Colocation:* real estate + services like power, cooling, and connectivity
- *Data-as-a-Service (Daas):* flow of data to customer
- *Other Tech-Powered Services:* networks (LinkedIn, Facebook), buys/sell (eBay), etc.



Our Agenda

1. The SaaS/Cloud Prime Clause
2. The SLA
3. Data Management and Security
4. Warranties
5. Indemnities
6. Limits of Liability
7. Open Source Software Myths

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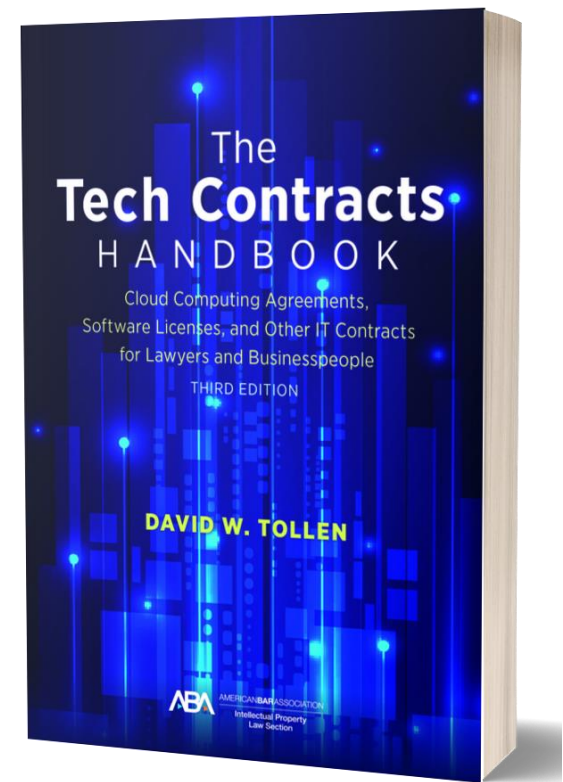
Related Resources

www.TechContracts.com

To use during and after this program ...

- ☐ **Clauses to copy and paste into your contracts:** all the sample terms in *The Tech Contracts Handbook: Software Licenses, Cloud Computing Agreements, and Other IT Contracts, for Lawyers and Businesspeople*
- ☐ **Form contracts to download,** based on the same book
- ☐ **Articles and other resources** about IT contracts.

And *The Tech Contracts Handbook*, 3rd ed.



*What's
wrong
with this
cloud-
services
prime
clause?*

“Supplier hereby grants Customer a license to the Cloud Services during the Term.”

1. The SaaS/Cloud Prime Clause



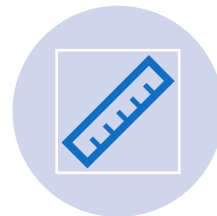
“Subscription”: a pretty good word



Description of System: specs & SLA's



No license necessary – but no harm to you if you're customer



Scope terms: territory, other restrictions on use (below)

The World in the 21st Century

Helpful
article ...

***Cloud Services
Are Neither
Products Nor
Services***

<https://www.TechContracts.com/2020/02/20/cloud-services-neither-products-nor-services-understanding-saas-contracts/>

TRADITIONAL PRODUCTS (products provided directly)	CLOUD SERVICES (like products, but provided remotely, and like services, but from computers)	PROFESSIONAL SERVICES (services from humans)
<ul style="list-style-type: none">• On-premise software• Computers• Cars• Toys• Drugs• Plows• Etc.	<ul style="list-style-type: none">• Software-as-a-service (SaaS)• Platform-as-a-service (PaaS)• Infrastructure-as-a-service (IaaS)• Etc.	<ul style="list-style-type: none">• Tech support• Computer programming• Consulting• Legal advice• Construction• Housekeeping• Etc.

Restrictions on Use



Seats, named users, concurrent users, etc.

Transactions

Virtualization: cores, servers, etc.

Other: usage rights for bots, etc.

2. The SLA

Maintenance for SaaS ...


- **Metrics:**
 - ✓ *Availability, uptime, downtime*
 - ✓ *Speed, transaction processing time*
 - ✓ *Latency, jitter, and other technical terms*
 - ✓ *Fix Response Times*
- **Credits:**
 - ✓ *Only 1 per failure?*
 - ✓ *Only against cloud service in question*
 - ✓ *Credit ≠ refund*
 - ✓ *Monthly minimum*
- **SLA Amendment**




Can we write/edit these as the customer?

The Customer's Problem of Illusory SLAs

- “‘Downtime’ means with respect to the Covered Service: all requests fail.”
- “Downtime begins when Customer submits a trouble ticket.”
- “System failures lasting less than __ minutes are not counted toward Downtime.”
- “‘Downtime’ means more than a ten percent Error Rate.”
- “‘Scheduled Maintenance’ means any period of maintenance on the System, provided Provider has given Customer written notice __ in advance.”
- “‘Critical Error’ means a severe and sustained error in a major system.”
- “The remedies listed in this SLA are Customer’s sole and exclusive remedies for any Failure.”



SLAs,
philosophically
speaking ...



*Is this an
effective legal
tool?*

3. Data Management & Security



Privacy & Security Law

Types of laws

- Comprehensive: GDPR, CCPA, Virginia Consumer Data Protection Act, etc.
- Industry-Specific: HIPAA, GLBA, etc.
- Data Subject or Medium: COPPA, CFFAA

Common threads?

- No consumer data ownership
- Contract terms required or encouraged
- Data subject requests



Compliance with Applicable Law?

What do we do with this mess?

- ❖ *Recognize* full compliance may not be possible, and breach may happen by accident. Plan/draft accordingly.
- ❖ *Special terms attachment*: segregating required terms
- ❖ *Promising compliance ... or not*. When is it required? When is it encouraged? When is it irrelevant?





Question

What does
it mean for
a party to
own data?

Defining, Owning, and Licensing Data

Defining the Data

“Customer Data” means all information processed or stored through the System by Customer or on Customer’s behalf. Customer Data includes, without limitation, information provided by Customer’s customers, employees, and other users and by other third parties, other information generated through use of the System by or on Customer’s behalf, and copies of all such information rendered onto paper or other non-electronic media. Provider recognizes and agrees that Customer Data may contain Personal Information (as defined below), even if the presence of such information is not disclosed and even if such information is not labeled or otherwise identified.

Account information?

Licensing the Data

To confirm ownership ...?

Ownership of Data

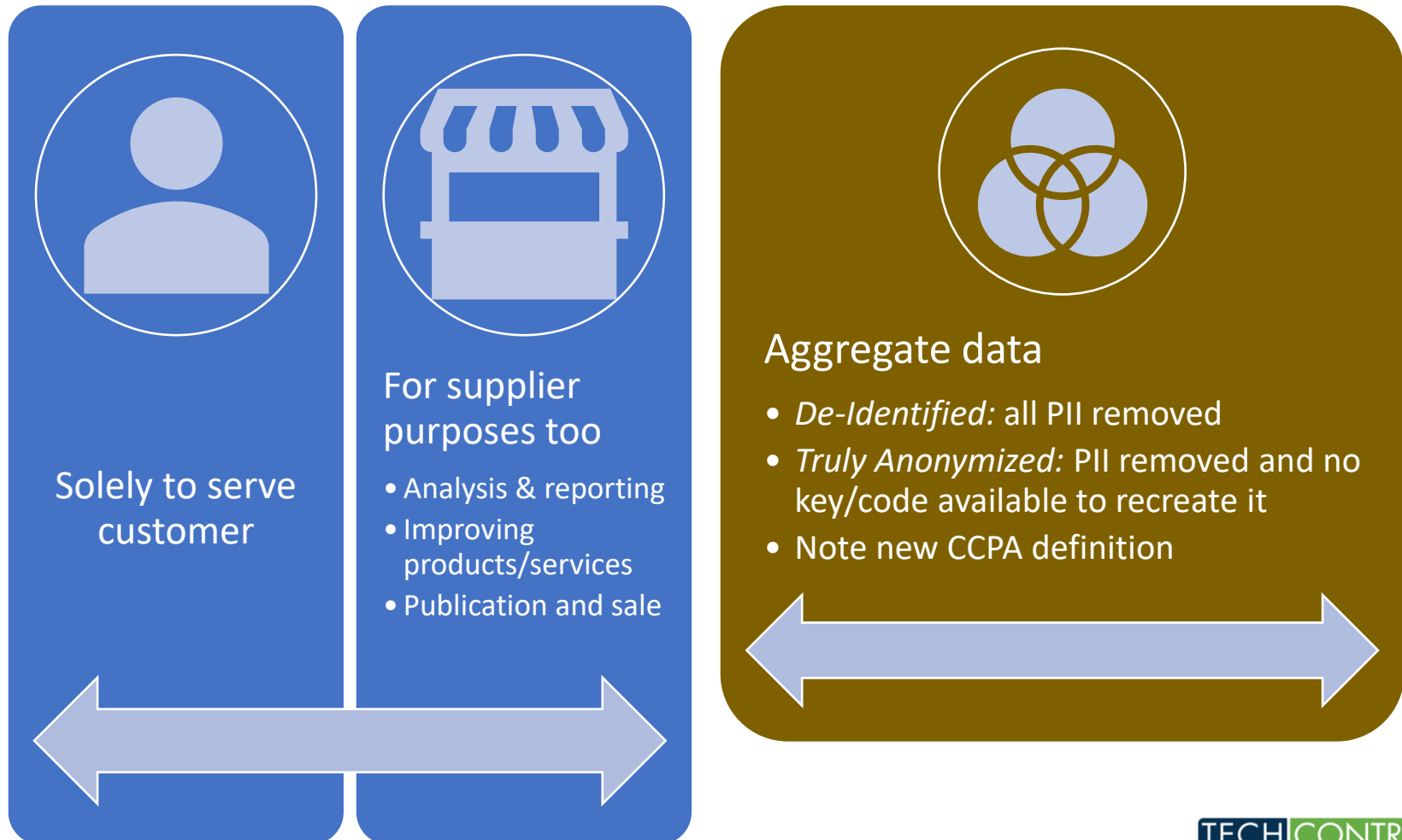
OUR data ...

- **The problem:** you can't really *own* data
- Ownership Acknowledgement – or assignment if applicable
- IP-Related “Confirmations”
 - ✓ Valuable property
 - ✓ Trade secrets
 - ✓ Original compilation under copyright
 - ✓ Substantial resources collecting, managing, compiling – under copyright

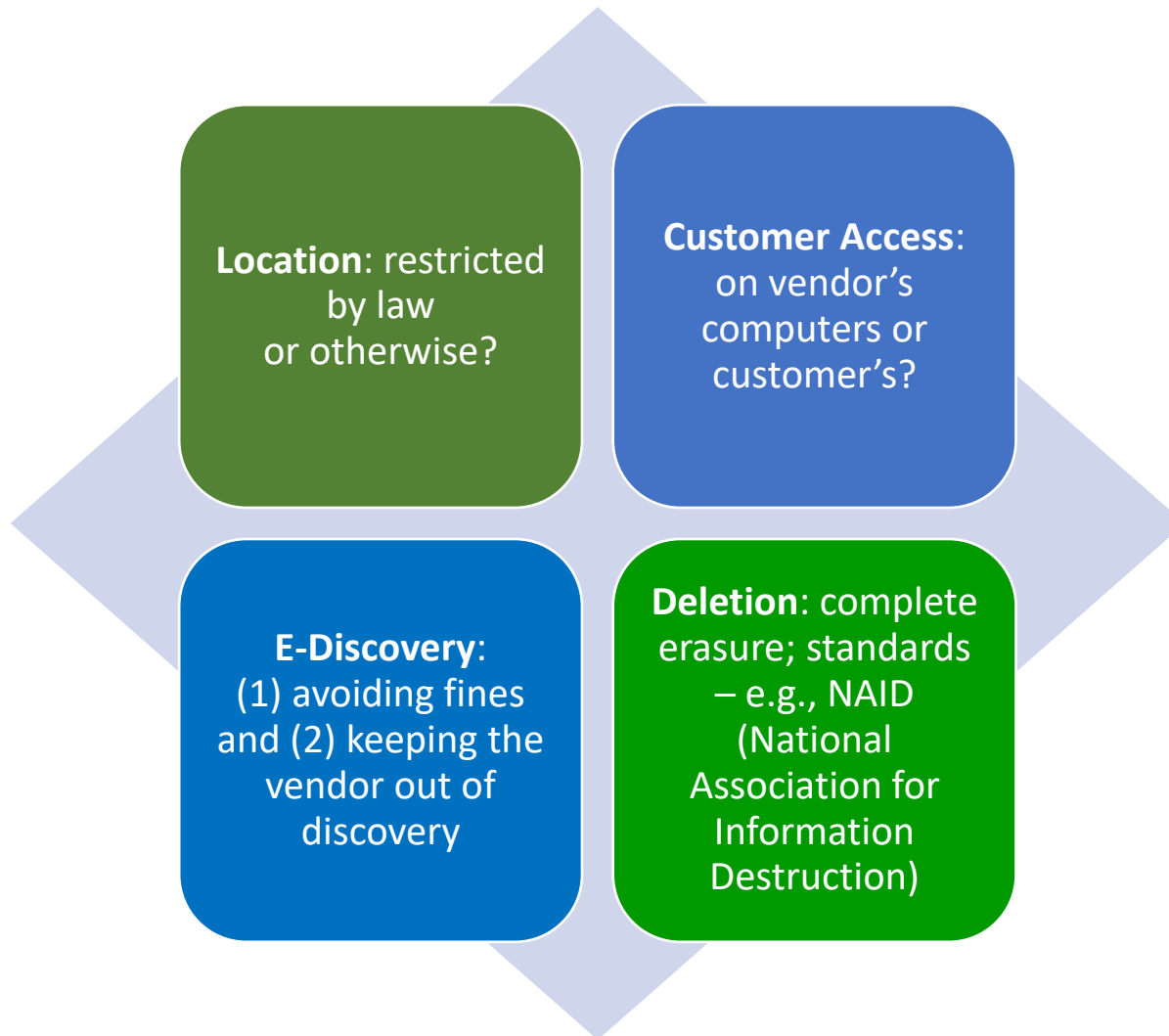
**TRADE
SECRET!**



Use of Data



Location, Customer Access, Deletion, and E-Discovery



This is you, in trouble with the court over e-discovery. (Not really, but it isn't pretty.)

Data Security



Technical Security

The big kahuna – tech specs

Employees and Contractors

- Need to know
- Separate contracts in place
- Background checks



Audits and Testing

- **SOC 2:** w/ Type II report (generally, not SOC-1, rarely SOC-3); or ISO 27001
- **Self-Audit:** vendor checks itself
- **Customer Testing:** questionnaires, on-premise reviews, penetration tests

Data Incidents (Breach Response)

Cost obligations:

- Detection and escalation
- Notification costs
- Post Data Breach Response

Lost business and reputation: not covered – consequential damages



4. Warranties

- ✓ **Functionality** - *What about the SLA?*
- ✓ **Intellectual Property:** (a) no infringement;
(b) no known claims – *What role in a deal w/ an IP indemnity?*
- ✓ **Workmanlike Services** (or work-woman-like services)
- ✓ **Data:** best efforts at legal collection, actual legal collection, IP rights, accuracy, no sabotage / rendering useless





Warranty Remedies

Undefined: termination, damages, or whatever the law allows

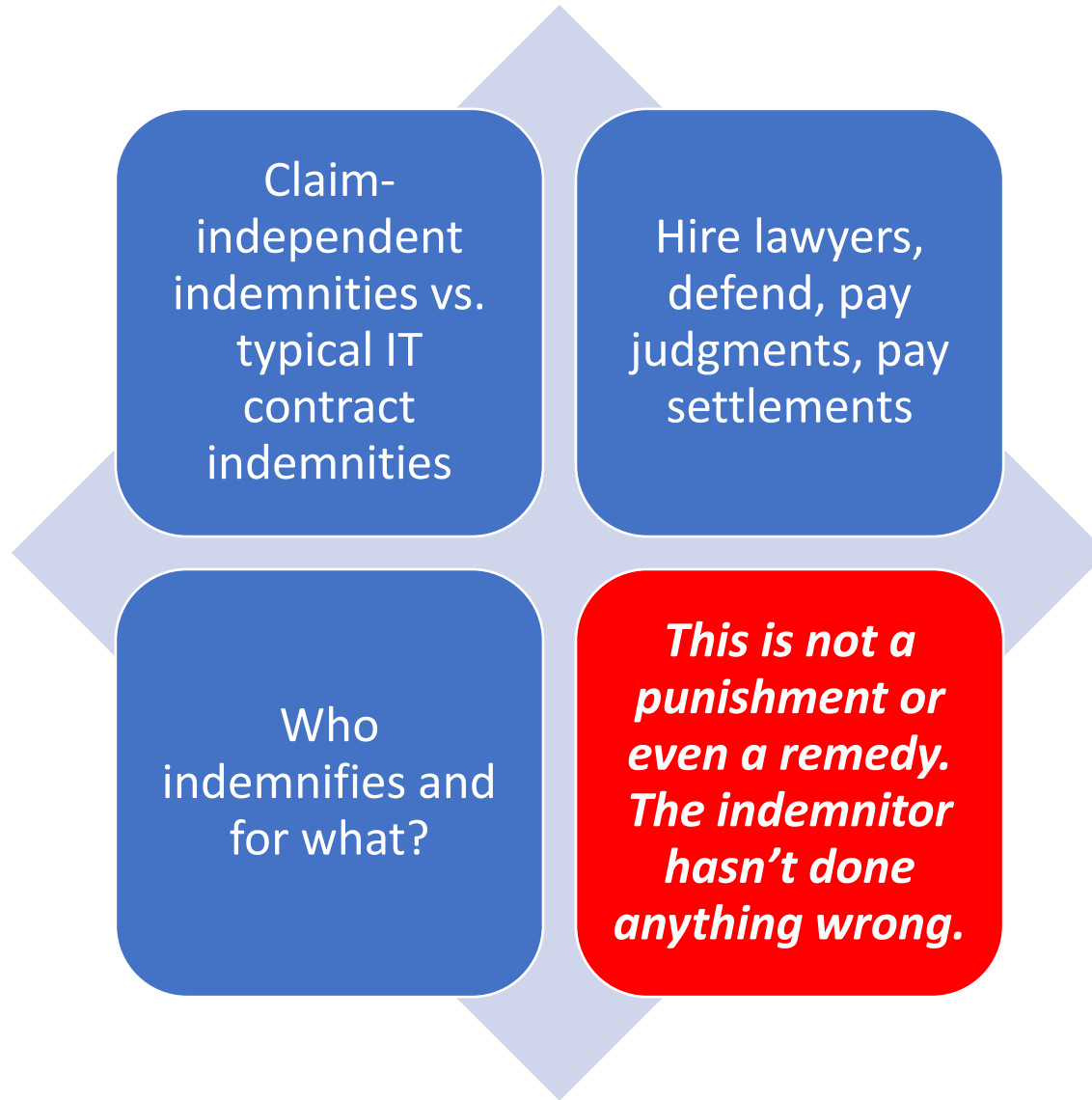
Types of defined remedies:

Typical for IP and functionality: (1) repair/license, (2) workaround/fix, (3) refund w/ return

For professional services: re-perform, correct; return & refund

Data-related: credit monitoring for data breach, etc.

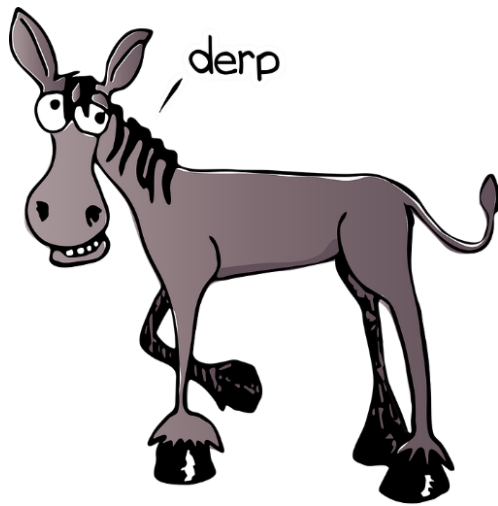
5. Indemnities



Some Key Vocabulary

“Hold harmless”: same as “indemnify,” so redundant – or coverage for risk of claims, waiver of indemnitor’s own claims, etc. (so indemnitors, don’t use it)

“Defend, settle, and pay judgments”: doing away w/ “indemnify,” to narrow – questionable value but might eliminate secondary litigation costs (e.g., travel)



“Mutual” Indemnities

This is just bad drafting ...

Each party shall indemnify and defend the other against any claim, suit, or proceeding arising out of or related to personal injury or property damage.

Who's the indemnitor? The party whose employee caused the injury? The party at fault? The party whose employee sues?

Better “Mutual” Indemnity

Each party (“Indemnitor”) shall indemnify and defend the other against any claim, suit, or proceeding arising out of or related to personal injury or property damage caused by Indemnitor’s act or omission or those of its employees, contractors, or other agents.

This isn’t really a mutual indemnity (since there’s no such thing). It’s two indemnities in one sentence.

IP Indemnity



Typical IP indemnity: from the provider, for IP claims against the customer re use of provider products/services



Customer content indemnity: from the customer, for IP claims against the provider for hosting, posting, or other use of customer text, photos, etc.

Exclusions & Exceptions to IP Indemnity

“Vendor’s obligations set forth in Section __ (*IP Indemnity*) do not apply to the extent that an Indemnified Claim regarding intellectual property infringement arises out of:

- a) Customer’s breach of this Agreement;
- b) revisions to the Software made without Vendor’s written consent;
- c) Customer’s failure to incorporate Software updates or upgrades that would have avoided the alleged infringement, provided Vendor offered such updates or upgrades without charges not otherwise required pursuant to this Agreement;
- d) Vendor’s modification of the Software in compliance with specifications provided by Customer; or **[orange flag for customer]**
- e) Use of the Software in combination with hardware or software not provided by Vendor.” **[red flag for customer]**

Data Breach Indemnity

- Indemnity from the provider: re customer data on provider computers
- Indemnity from the customer: the black box argument
- The cause problem: disputes about whether the vendor did it or not
- Does no indemnity mean no liability?



The Cause Problem (Advanced Indemnities)

- Indemnities triggered by indemnitor act/omission – data incidents, personal injury, etc.
- Problem: *What if the parties don't agree on causation at the start of the case (start of the defense)?*

(Probably not an issue for IP indemnities)



The Duty to Defend Law

If there's any question of fact about whether the indemnity applies, the indemnitor defends (in most states)

- All that hard work to limit the indemnity ... for nothing (or for less than expected)
- Conflict of interest doubles the expense
- Settlement problem

What to do?



Limit

- Restricted indemnity: limit of liability, etc.



Mutualize

- “Mutual” indemnity: sort of defeats the problem



Delete

- No indemnity: re data breach, etc.

Other Indemnities

Personal injury and property damage

Employment/compensation liability

Distributor product liability

Nuclear indemnity

Etc.

6. Limits of Liability

Dollar Cap review

- *Equation:* X months'/years' fees under SoW/Order or under whole contract?
- What about breach before X months/years? Extrapolate?
- Unconscionable? – the key gating issue

“PROVIDER’S LIABILITY ARISING OUT OF OR RELATED TO THIS AGREEMENT WILL NOT EXCEED:

- a) THE FEES PAYABLE PURSUANT TO THIS AGREEMENT FOR PRODUCTS AND SERVICES PROVIDED DURING THE YEAR PRECEDING THE EVENT CAUSING THE LIABILITY; OR IF SUCH EVENT OCCURS LESS THAN A YEAR AFTER THE EFFECTIVE DATE
- b) 12 TIMES THE AVERAGE MONTHLY FEES ... FOR PRODUCTS AND SERVICES PROVIDED BEFORE THE LAST EVENT GIVING RISE TO THE LIABILITY.”

LoL, *cont'd*

Consequential & Other Excluded Damages review

- ***Direct damages:*** losses that are natural/proximate result of breach – predictable
- ***Consequential, special, & indirect damages:*** losses arising from the parties' particular circumstances – not predictable
- ***Indirect damages:*** from efforts to avoid other damages
- ***Punitive damages:*** punishments – not available in contract anyway

Exclusions and Adjustments from/to Limits of Liability – *IT Contracts*



Indemnity obligations? (*See next slide for bad news.*)



Data breach obligations (3x?)



NDA/confidentiality breach: trade secret & consequentials concern



Fixed liabilities: liquidated damages, attorneys' fees, etc.



Gross negligence and intentional wrongdoing ???



Certain customer limits, where it's mutual: IP infringement, payment

Limits of Liability and Indemnities

An obligation to indemnify is not a liability. It's an obligation to perform.

Limits of liability don't limit obligations to perform.

An actual limit on indemnity obligations:

“Indemnitor is not required to spend more than \$X pursuant to Section ___ (*Indemnity*), including without limitation on attorneys' fees, court costs, settlements, judgements, and reimbursement of costs.”

See this article:

<https://www.techcontracts.com/2020/11/09/limits-of-liability-dont-work-for-indemnities/>

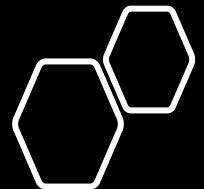




7. Open Source Software Myths

Mythology of the Modern World

- OSS is free. (Think free speech, not free beer.)
- OSS is public domain. (Then why the licenses?)
- OSS is insecure. (Not all myths are wrong – but this looks unlikely.)
- Copyleft OSS is viral
- We should keep OSS out of our procurement.



Permissive vs. Copyleft



Permissive

1. Use however you want
2. Use @ your own risk
3. Acknowledge when you distribute



Copyleft

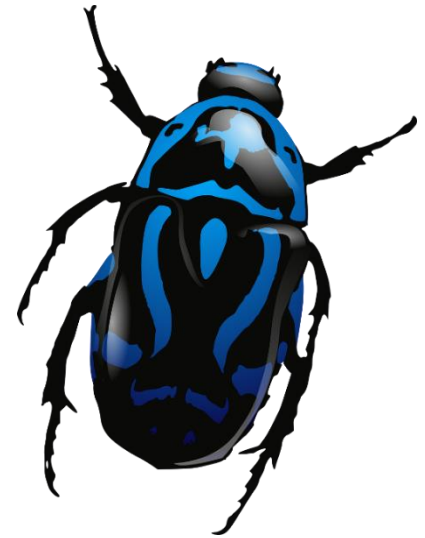
Those same three plus the following, governing both the original OSS *and any new derivative work*

4. If distribute, include source code
5. Distributed version must be licensed under same copyleft terms – “**viral**”
6. No additional restrictions

Copyleft: a licensing bug, not a virus

- Viral interpretation assumes court will order performance (“specific performance”), but this is not a contract
- Specific performance
 - ✓ No court has ever granted it
 - ✓ *Artifex Software v Hancom* allowed a claim under k but said, re specific performance, “the ultimate imposition of such relief is extremely dubious”; and the scenario *doesn’t fit* viral concern
- So likely limited to copyright remedies: © damages, © statutory damages, injunction

In other words, you have to stop selling the software, until you fix it, but you don’t have to provide it as OSS.



*But no one knows for sure
what’s possible.*

Relevance of Copyleft to the Licensee

Software user (customer): **no worries**

SaaS/cloud user (customer): **no worries**

SaaS/cloud provider: **only worry re AGPL**

Software provider/licensor, distributor (OEM, VAR, etc.): **you may have a problem**



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