

# Software Company Representation

## Creating Value For Our Clients

Software companies, due to the nature of their products and services, require an integrated, industry-focused approach from their legal service provider. Seyfarth Shaw attorneys provide legal and business consulting services tailored to the needs of companies engaged in the commercialization of software assets. Our interdisciplinary team provides successful and efficient software company representation in the areas of software licensing and contracts, intellectual property, technology, venture capital and finance, and mergers and acquisitions, with the understanding that additional legal services are dictated by business needs.

**Software Transactions.** Software transactions form the economic backbone of the software company. Our attorneys handle hundreds of software transactions each year for our software company clients.

These transactions include all types of licensing and service structures, such as:

- Traditional software licensing
- ASP-based subscription services
- Vendor-hosted, licensed customer access
- Click-wrap licensing and downloadable products
- Web-based applications and transactions
- Boxed desktop products
- “Bundled” and OEM offerings and transactions
- Consulting and professional services transactions
- Outsourcing
- Software finance transactions
- Large-scale enterprise implementations encompassing multiple transaction formats

Whatever the business model, it's clear that balanced, market-appropriate standard contract forms and a streamlined and efficient contracting process are of paramount importance. With a deep understanding of market standards, practices and trends, our attorneys interface directly with our clients' in-house legal and contracts administration departments to understand the clients' risk tolerance, develop tailored forms and facilitate the expeditious closing of transactions. We perform in whatever capacity our clients need, from acting as the complete outsourced legal function for contract negotiation to merely supportive roles on difficult contract issues. We focus on providing the personnel and legal acumen to assist clients with high-volume transaction cycles, very large individual software transactions, complex RFP responses, and software transactions in heavily regulated industries such as healthcare and financial services.

**Intellectual Property Protection.** Intellectual property rights form the legal foundation of the software business. Proprietary elements include source code, functionality, screen displays, documentation, Web sites, data, databases, content, icons, "look and feel," trade secrets, trademarks, inventions, enhancements, business methods, and more. In software companies, the primary elements of an effective intellectual property plan involve trade secret protection, copyright protection and, increasingly, patent protection.

**Patent.** Our team includes several patent attorneys who have significant experience in the filing and prosecution of software patents, including both technological and business method patents. Following the October 2005 *Ex parte Lundgren* case before the Board of Patent Appeals—in which the previous limitation of patents to the "technological arts" was overturned—we expect to see growth in a wide variety of business method, process, software, database, Web site and related patents. In light of the costs of patent prosecution and the significant backlog at the U.S. Patent and Trademark Office, software companies benefit significantly from the use of experienced software patent attorneys in their prosecution matters.

**Copyright.** Our attorneys have extensive experience in the registration of copyrights for software and automated databases with the U.S. Copyright Office. Unlike patent, copyright protection itself is not contingent upon any formal filing or registration. However, copyright registration provides significant benefits to the copyright owner and is a relatively inexpensive process. The registration process for software can nonetheless be somewhat nuanced and complex with international overlays due to the Berne Convention (an international copyright treaty); special issues in seeking registration of multiple versions of software code; complex regulations regarding the registration of databases; and the use of specialized deposit allowances designed to achieve copyright registration while maintaining trade secret protection. Our intellectual property lawyers are well-versed in these areas, allowing us to provide practical, business-oriented, and strategic advice to our software company clients in support of their software copyright strategies.

**Trade Secret.** Trade secret law provides another important pillar of intellectual property protection for the software company, and there are many unique issues and "best practices" associated with protecting source code and software trade secrets. We have a dedicated trade secrets practice and training program which delves into the specifics of software development and distribution, and provides detailed information and counsel to maximize the availability of trade secret protection.

In addition to custom training programs, our greatest strength in this area is our ability to consult with the executive management of our software company clients to develop and implement strategic, comprehensive and integrated intellectual property plans to maximize the protection and value of the software company's intellectual property assets.

**Mergers and Acquisitions.** Merger and acquisition (M&A) transactions in the software company context provide unique challenges and issues. Our attorneys have handled numerous M&A transactions involving software companies and have identified and resolved

specific software issues in these deals. There are special due diligence issues, for example, in analyzing:

- Software code for ownership, licensing and “open source” issues
- Security procedures and disaster recovery plans
- Customer licensing and ASP contracts
- Sales tax and revenue recognition issues

Our attorneys have also addressed complex structural issues in M&A transactions, such as the use of source code as financing collateral, the monetization of revenue streams, and issues involving treatment of deferred revenues and prepaid fees in M&A deals.

**Financing.** Seyfarth Shaw attorneys have vast experience in all forms of finance transactions used by software companies. Our firm has had an extremely active venture capital practice prior to, during, and after the Internet bubble period in the late 1990s, through the present day. Our technology finance team, for example, has handled over \$1 billion in technology-oriented venture capital transactions alone (excluding mergers and acquisitions and public securities offerings) since the late 1990s. We also represent numerous venture funds and other institutional and “angel” investors, and bring that experience, and a substantial national contact list, to bear for the benefit of our software company clients who seek financing.

**Distribution.** A software company’s product distribution channels are often just as important as its customer and client contracting processes. Our technology transactions attorneys have experience with all types of software and technology product marketing and distribution structures, domestic and international. This experience includes the negotiation and documentation of complex co-marketing and strategic alliance relationships and the creation and management with our clients of large, international networks of commissioned sales persons, resellers and related parties.

**Open Source.** Software that is licensed under the General Public License (GPL) and other similar open source licenses is having increasingly important impact on the software industry. Our attorneys have drafted

customized open source licenses and consulted with software companies attempting to create viable businesses based upon open source models. In addition, for those businesses operating on a proprietary-code model, we have conducted open source audits and drafted strong development control policies aimed at preventing the use of open source and the potential for viral contamination of proprietary code with downstream disclosure obligations.

**Privacy.** Until fairly recently, a software company’s privacy concerns were limited to its Web site privacy policy and perhaps a subparagraph in the confidentiality provisions of its contracts. Now, however, with the advent of privacy legislation in California and other states, statutes such as HIPAA, Gramm-Leach-Bliley, the EU Data Directive, and other legislative activity worldwide, and a number of widely reported personal-information security breach cases involving technology vendors, software companies are faced with potentially profound, business-changing legal and regulatory burdens. We have some of the most experienced lawyers and thought-leaders across the country in such areas as navigating safe-harbor registration with the Federal Trade Commission, handling bet-the-company security breach enforcement actions, and counseling clients in developing domestic and global privacy compliance strategies amidst the evolving legal landscape.

**Sarbanes-Oxley.** The Sarbanes-Oxley Act of 2002, rapid changes in technology, and increasingly aggressive federal and state regulators and plaintiffs firms have reshaped the rules and risks facing public companies. Non-public software companies, however, are also dramatically affected, as public companies seek to “flow down” their internal financial, operational and technological control obligations onto their software vendors. Seyfarth Shaw attorneys assist public companies in developing technology management committees and policies, and improving contracting practices to ensure regulatory compliance. In addition, attorneys from our corporate and finance practice regularly assist our non-public software clients in understanding and negotiating reasonable and realistic contractual control obligations.

**SAS 70.** The emphasis on corporate compliance has also caused a strong resurgence of interest in Type I and Type II SAS 70 operational audits. Many public companies and other large purchasers of software systems and services all but require SAS 70 as a contract condition. We understand SAS 70 audits and have developed working relationships with accounting firms and auditors who perform these audits. As a result, we can effectively guide and counsel our software company clients through the sometimes arduous audit process.

**Employee Benefits.** Many have observed that the employees in a software company are its most valuable assets. As such, the provision of attractive, market-appropriate stock option plans and other financial and equity incentives to employees becomes a true competitive differentiator for the software company. Seyfarth Shaw has one of the largest and most experienced employee benefits practices in the country, and, in particular, has extensive experience in counseling clients and developing strategic incentive programs to meet company personnel recruiting and retention objectives.

**Employee Matters.** A key component of the protection of intellectual property and trade secrets falls within the realm of such seemingly routine matters as invention assignment, confidentiality and restrictive covenant agreements with employees. Because such contracts are governed by state law, however, the preparation

of an effective program for employees in multiple states requires a detailed approach. We have prepared enforceable agreements for all 50 states and have substantial experience in enforcing such agreements and obtaining temporary restraining orders and injunctions against rogue employees and unlawful behavior.

**Tax.** Our tax practitioners consult with software companies on various tax and accounting issues of concern, including revenue recognition issues and contracting strategies, state sales and use taxes and their applicability to ASP- and Internet-delivered services and offerings, jobs tax credits and their applicability to software development and technology businesses, and other issues.

**Software Litigation, Litigation Avoidance and Risk Management.** Our attorneys tend to view litigation as a last resort, but mature software companies find it difficult to avoid occasional contract disputes, piracy situations and infringement matters. Regardless of the type of litigation or the court in which it is filed, our business and intellectual property litigators are prepared for action. We have a deep understanding of software transactions, protections and issues: from development milestones, implementation matters, indemnification and other contract issues to software patent, copyright and trade secret infringement matters. This knowledge and experience allows us to reach the best possible outcome for our software clients engaged in disputes. ■



Atlanta

Boston

Chicago

Houston

Los Angeles

New York

Sacramento

San Francisco

Washington, D.C.

London

[www.seyfarth.com](http://www.seyfarth.com)

**Breadth. Depth. Results.**

©2012 Seyfarth Shaw LLP. All rights reserved. "Seyfarth Shaw" refers to Seyfarth Shaw LLP (an Illinois limited liability partnership). Prior results do not guarantee a similar outcome. Our London office operates as Seyfarth Shaw (UK) LLP, an affiliate of Seyfarth Shaw LLP.  
HO-06-0059 1/10