

TOOL SOFTWARE LICENSE CHECKLIST
SOFTWARE AND DATABASE LICENSE AGREEMENT CHECKLIST
(FOR TOOL SOFTWARE TO BE USED INTERNALLY ONLY)

1.0 INTRODUCTION

Many contracts contain provisions that are objectionable and should be deleted; on the other hand, they may also fail to provide assurances that we should reasonably expect. This checklist offers you - the users - guidance for reviewing and modifying license agreements for tool or design software to be licensed for internal use only. We have learned that very rarely do vendors refuse to negotiate their terms. The legal department is available to assist you to resolve any issue that you are not able to resolve with the vendor. The legal department will also perform a “last look” review of all agreements before they are signed by _____ (“Company”).

2.0 SIGNATURE AUTHORITY

All license agreements must be signed by a Vice President or Director (or his/her designee(s)) for your business unit or department.

3.0 ANALYSIS OF LICENSE TERMS

3.1 Does the license grant cover the uses you will expect to make of the software or database information?

- Be sure the agreement grants Company the right to use software for the expected or anticipated use.
- Examples of possible uses:
designing
modeling
testing
information processing

3.2 Does the license grant cover your expected modes of access?

- Be sure the agreement grants you rights to access the software within the expected mode of access.
- Examples of mode of access:
from a single machine only
within a single building or group
from multiple buildings
from anywhere within Company
by way of remote dial-in or other remote access

3.3 Does the agreement contain any warranty regarding the software?

- Make sure the following warranties are included:

Vendor warrants and represents that (i) the Software will perform in accordance with Specifications, (ii) the Software and all Vendor supplied modifications or updates do not and will not infringe any patent, copyright,

trade secret or other proprietary rights of any third party (iii) it owns or has the right to license the Software, modifications or updates provided by Vendor, and (iv) the Software contains no viruses, "time-bombs" or other disabling features which in any way may adversely impact Customer's use of the Software.

- If Vendor requests deletion of clause (ii), OK to delete if the agreement has an intellectual property infringement indemnification.
- The purpose of clause (iv) is to find out in advance what disabling features are contained in the software. So if Vendor requests deletion of clause (iv), OK to delete but find out what "disabling" features are built into the software and make sure they are acceptable to you.

3.4 Does the agreement provide for a software warranty period (i.e., free support during a period of time after the software is installed)?

- Make sure there is a warranty period (normally 90 days from the date of installation or shipment) so that we don't have to pay for support from day one.

3.5 Does the agreement provide for the kind of support that you need?

- At a minimum, we should get the support described in the attached support program. Whenever possible, include the attachment as an addendum to the license agreement.
- Note that many licenses will provide that the Vendor will not support previous releases of the software. Depending on your needs, you should make sure that the Vendor will continue to support previous releases for a certain period of time which should be so that you don't have to switch to using a new release in the middle of a design or project cycle.

3.6 Does the license agreement require us to ensure adherence to the terms of the contract by employees or third parties such as contractors (very commonly included in confidentiality provisions)?

- Limit any requirement that we ensure adherence to contract terms by employees or third parties to taking "reasonable steps" to do so.

3.7 Does the agreement include any provision that requires us to indemnify the Vendor?

- A *database* [software tool] license should not require the customer to indemnify the Vendor for anything, so delete any *database license* provision that requires us to indemnify Vendor. *On the other hand, software licenses might reasonably require the customer to indemnify the Vendor.*

If agreement requires us to indemnify Vendor against harms that could result from our use of data, ~~delete~~ any requirement that we will indemnify the Vendor against harms that could result from our use of data.

If agreement requires us to indemnify Vendor against harms resulting from some other cause (any cause), make sure our liability is limited to the amount of the license fee.

3.8 Does the agreement include an indemnity from the Vendor that its materials will not infringe the intellectual property rights of third parties?

- An intellectual property indemnity will usually be in a form similar to the following, though it may be much more detailed:

Vendor will defend, indemnify and hold Customer harmless from any action based on a claim that Customer's use of the Database in accordance with this agreement, infringes any patent, copyright, or trade secrets of any third party.

- If the agreement does not contain an indemnity from the Vendor regarding intellectual property claims, add an intellectual property indemnity as follows:

Vendor will defend, indemnify and hold Customer harmless from any action based on a claim that Customer's use of the Software in accordance with this agreement, infringes any patent, copyright, trade secret or other intellectual property of any third party.

- Some Vendors may want to limit their indemnity obligation to claims arising in certain countries (e.g. U.S). In general, most tool licenses that we acquire will be used only in the U.S. so it's OK to agree to have the Vendors' indemnification apply only in the U.S. In other cases, just make sure that the indemnification covers the country or countries where the software will be used.
- Whether or not a Vendor is willing to give the customer an indemnity depends on what type of software license it is. If the license falls into one of the following categories, the Vendor in most instances will not give any kind of warranty of non-infringement or indemnity with good reason and we would not insist on their giving it:
 - Beta test software
 - Free, steeply discounted or very low cost software
 - Software or databases provided by nonprofit vendors (examples: research institutions, scholarly societies)
 - Databases whose source data is public information
- See attached for further discussion on indemnification.

- 3.9 Does the agreement contain a cap on Vendor's liability?
- If damages are limited, for example, to the license fee for the software or database, edit the damages limitation clause to exclude claims of infringement (language to add is in boldface):

Except for claims involving intellectual property infringement as provided in Section xx, Vendor's total liability for damages under this agreement shall not exceed the license fee received by Vendor from Customer.
- 3.10 Does the agreement include a clause that requires us to bring suit for claims under the agreement within a limited period of time (this is called a shortened statute of limitations)?
- Do not accept contractual limits on the time you have to bring suit - normal statute of limitation is four (4) years for contract disputes.
- 3.11 Does the agreement include a clause that makes another state's law govern or control the contract?
- First preference is to change the governing law to California, second preference is delete the governing law clause and third preference is to agree to the Vendors' choice of law.
 - Governing law clauses sometimes also addresses venue and jurisdiction. For example the clause may go on to state that the parties agree to submit to the jurisdiction of the courts of a particular county (in another state), or that venue will lie with those courts. If your clause addresses these issues, delete the venue/jurisdiction part of the clause entirely even if you're going to agree to the Vendor's choice of law.
- 3.12 Does the agreement include a clause that gives the Vendor a right to terminate without providing Customer any rights to terminate?
- Add the following clause to give us appropriate termination rights:

If Vendor (a) breaches any term of this agreement, (b) terminates or suspends its business, (c) becomes subject to any bankruptcy or insolvency proceeding under any Federal or State statute, or (d) becomes insolvent or becomes subject to direct control by a trustee, receiver or similar authority, Customer may, in addition to its other legal rights and remedies, terminate this agreement on seven days' notice to Vendor.
 - Almost all license agreements contain a provision requiring prepayment of the yearly maintenance and support fee. Most vendors will not agree to give a refund if we terminate the agreement early either with or without cause

because of revenue recognition problem. You should try, however, to include the following provision which requires Vendor to refund to us the maintenance fee on a pro-rated basis:

If the Agreement is terminated by Customer for material breach of the Vendor's obligations hereunder, Vendor will return the prepaid maintenance fee to Customer on a pro-rated basis through the date of termination.

3.13 Does the agreement include a clause that provides for automatic renewal of the agreement or that requires us to notify Vendor shortly before the end of the contract term in order to renew?

- If yes, add the following clause to the agreement in order to require the Vendor to give us sufficient notice of changes so that we can take them into account before making the decision whether to renew the contract:

Vendor shall notify Customer of any changes in the terms of the agreement at least 30 days prior to the notice period for renewal, i.e., 60 days prior to the expiration of the then current term if the notice period is 30 days or 90 days prior to the expiration of the then current term if the notice period is 60 days

**ADDENDUM TO SOFTWARE LICENSE / MAINTENANCE AGREEMENT (the
“Agreement”)
TERMS OF SUPPORT SERVICES**

[Name of Vendor] (“Company”) will provide the following services to Customer:

1. DELIVERY OF "BUG UPDATES" AND NEW RELEASES.

Whenever Company makes a "Bug Update" or "New Release" generally available to its customers who have purchased maintenance and technical support services, Company will provide a copy of same to Customer, and Customer will install the same on any computer on which it intends to operate the Software. A "**Bug Update**" is an interim release version of the Software in which certain previously identified Errors have been corrected. A "**New Release**" is an updated version of the Software with certain new functions and/or features, other than computer programs that include substantially new or different functions and/or features relative to the Software. Both Bug Updates and New Releases will include revised Documentation or release notes which, when read in conjunction with previously delivered Documentation, identifies with reasonable clarity the new or differing functions and/or features of the Software. Upon delivery to Customer, any New Release will be considered a "Software" for purposes of this agreement.

Once each calendar quarter Company and Customer will meet to discuss Company’s product marketing and update plans with respect to the Software and to solicit suggestions from Customer with respect to improvements to the functionality of the Software.

Company will provide Customer, upon request, with periodic "bug" reports generated by Company’s technical support staff, including possible work-arounds and status of planned corrections to the Software.

2. ERROR CORRECTION.

Company will provide the following services for Errors (as defined below) of which Company is notified by Customer:

- (a) For **CRITICAL ERRORS**: Company will initiate work to verify and correct the Error within 24 hours after receipt of notification by Customer of such Critical Errors. Company will utilize all software engineering resources reasonably available to Company to diligently pursue the correction of the Error until the same is corrected. A "**Critical Error**" is an Error that materially impairs substantial functions of the Software or poses imminent danger to Customer's equipment or data.
- (b) For **NON-CRITICAL ERRORS**: Company will use reasonable commercial efforts to correct the Error in future Bug Updates and/or New Releases. A "**Non-Critical Error**" is any Error other than a Critical Error.

An "**Error**" means a material failure of the Software to conform to its functional specifications as described in the applicable the Documentation. Errors do not include any of the following circumstances, unless the operation of the Software or the ability of Company to maintain or support the Software is not adversely impacted by such circumstances: (A) the Software has been modified by any person or entity other than Company; (B) the Software has been operated other than in accordance with Company's installation and operations instructions, including without limitation on computing devices or with computer operating systems and/or third party software other than that recommended by Company; (C) the Software has been damaged in any manner due to the fault of any person or entity other than Company; (D) Customer fails to reasonably assist Company in verifying, reproducing and correcting error conditions (for example, by providing telecommunications connections to Customer's computer equipment and providing sample output and other diagnostic information), or Company is unable after using reasonable commercial efforts to verify and reproduce the error condition reported by Customer; (E) Customer has failed to install the most recent Bug Update or New Release of the Software made available to Customer pursuant to paragraph 1 above; or (F) any failure of the computer operating systems and/or third party software utilized by Customer.

Error correction may include a temporary work-around, patch or bypass supplied by Company, or temporary implementation by Customer of a computer or operational procedure, in order to diminish or avoid the effect of the Error.

3. "HOTLINE" SUPPORT.

Company will make a qualified member of its technical support staff available by telephone and e-mail during Company's normal business hours, to assist Customer's System Administrator in the use and operation of the Software, and to report Error conditions. Customer will designate a System Administrator who will be Customer's sole liaison with Company for technical support, and will be responsible for providing first line support of the Software for Customer's employees. If Customer's System Administrator reports multiple Error conditions, he or she may request that Company resolve such Errors in a designated order of priority. Company's technical support staff will communicate to Customer's Systems Administrator (by telephone, e-mail or fax) the status of Company's efforts to correct Critical Errors within the same business day.

4. ON-SITE SUPPORT.

Upon request of Customer, Company will provide on-site technical support staff services during the maintenance term as required at Customer's facilities at Company's standard hourly rate, together with reimbursement of reasonable travel and related expenditures.

5. Company will provide support for the previous version of the Software for at least twelve (12) months.

6. Upon any expiration or termination of this Agreement, Company will continue to provide support services to License at Company's then prevailing rates for a minimum of two (2) years.