



FRASER MILNER CASGRAIN LLP

# Unwinding the Technology Deal

**Michael Beairsto, Partner**  
**Gillian Akai, Associate**

**Fraser Milner Casgrain LLP**

1 First Canadian Place  
100 King Street West  
Toronto ON M5X 1B2

Telephone (416) 863-4511  
Fax (416) 863-4592  
[www.fmc-law.com](http://www.fmc-law.com)

Montréal Ottawa Toronto Edmonton Calgary Vancouver New York

# **UNWINDING THE TECHNOLOGY DEAL: EFFECTIVE STRATEGIES** \*

## **INTRODUCTION**

As a result of the current state of the economy, particularly the state of the information technology sector, there are an increasing number of situations where parties wish to get out of their contractual arrangements relating to technology deals. In other words, the parties want to "unwind the deal". The lawyer's role in these situations is to advise clients on effective strategies and assist in negotiating and preparing agreements to allow the parties to exit from or alter their relationship.

There are many different types of technology deals that clients may wish to unwind. Common examples of such deals include licensing arrangements (e.g., licensing of software, technology, intellectual property) and outsourcing of technology related services (ie. help desk, I.T. department, data center or service bureau). For the purposes of this paper, the term "Vendor" will refer to the licensor of software/technology in a licensing arrangement, and the service provider in an outsourcing arrangement. Similarly, the term "Customer" will refer to the licensee of software/technology in a licensing arrangement and the purchaser of services in an outsourcing arrangement.

The paper will consider two main topics with respect to unwinding a deal. At the outset, possible reasons for unwinding a deal will be covered. Subsequently, the remainder of the paper will set out, in general terms, the steps that should be taken by counsel in unwinding a deal and

---

\* This paper is based on a portion of a presentation made by Michael Beairsto and Mario Lavoie, General Counsel and Director, Contracts and Negotiations, IBM Global Services - Canada, to the Information Technology and Electronic Commerce Section of the Ontario Bar Association on March 20, 2002.

outline important issues for counsel to consider at each step of the process. The main steps in the process of unwinding a deal include: (1) reviewing the agreements; (2) understanding the context of the deal; (3) facilitating the ending of the relationship; (4) anticipating interests of the other party; (5) developing strategies for solving problem(s) and achieving objectives; and (6) documenting the solution.

### **POSSIBLE REASONS FOR UNWINDING A DEAL**

Clients may have many different reasons for wanting to unwind a deal. A common scenario is the failed implementation of a technology solution. In such a situation, whether it is software or technology licensing or outsourcing, it is likely that the arrangement has not worked out as planned or as anticipated by the parties.

A failed implementation may result from relationship problems between the parties involved or a breach of the agreement. For example, the Customer may not have paid its bills or the Vendor may not be providing the services that it agreed to provide. Where neither party is interested in salvaging the relationship or the agreement, they may be interested in simply terminating the relationship and unwinding the deal.

In addition to a failed implementation, there may be other reasons why the parties do not wish the arrangement to continue. The parties may need to unwind a deal because either the Vendor or the Customer has become insolvent or bankrupt and the deal cannot be continued or maintained by the insolvent or bankrupt party, or the non-insolvent party is unwilling to continue with the arrangements. In certain situations other restrictions may affect the parties options, such as bankruptcy or insolvency legislation. For a discussion on these issues please refer to the paper by Sheryl Seigel of this panel presentation.

Alternatively, there may be a change in the business plans of the Vendor and/or Customer. Such a change in business plans may make the deal either unnecessary or undesirable to one or both parties. A change in business plan may be caused by a change in ownership of the company, a sale of the specific business to which the arrangement relates, or change in the market in which the Vendor or Customer operates. A market change may result in a change in business plans where either the Vendor decides that it is no longer profitable to provide the service or product or the Customer decides that it no longer has a use for the service or product provided by the Vendor because the Customer is no longer pursuing a business to which the service or product relates.

In short, there are many different reasons why the parties may need or want to undo their technology arrangements. Negotiating some exit arrangements at the beginning of the transaction, while often unpopular at the time the parties are negotiating the agreement, can provide the parties with a useful framework or certainty in the event there is a need to unwind their relationship. However, even with the most comprehensive of contracts, contemplating the exact circumstances under which the relationship may need to be unwound, and all of the specific issues that the parties want and need to address, may not be entirely possible.

### **STEPS IN UNWINDING THE DEAL**

Once it is determined that the parties would like to unwind a deal, there are a number of important steps that should be taken to effectively do so.

#### **1. Reviewing the Agreements**

Before unwinding a deal, one must understand the key terms of the current deal. After being approached to assist a client in unwinding a deal, the first step is to obtain and review the final signed versions of all of the agreements and documents that are relevant to the arrangement. This may include correspondence, amendments to agreements, e-mails and minutes of meetings. This may also include examining the conduct of the parties involved.

## **2. Understanding the Context: Scope of the Relationship and Business Objectives**

To get a further understanding of the deal, it is also important to review the current situation with the client and understand the context of the arrangement. This includes understanding the business objectives of the parties involved and the scope of the relationship.

A general understanding of the business objectives of the parties involved (specifically the objectives of your client) is necessary in order to determine an effective way of unwinding the deal to address concerns, requirements and/or needs arising from these objectives.

The scope of the relationship can be defined by many parameters, including scope of use/service, terms of ongoing development, terms of ongoing maintenance, and terms of support and ongoing services.

### **(a) Scope of Use/Service**

Determining the scope of use in a licensing arrangement or scope of services in an outsourcing arrangement is imperative in understanding the factors that go into negotiating an effective solution for the parties. The primary consideration is the importance of the software, services or product to the Customer's business. As an example, where software is being used for a critical element or component of the

Customer's business, the terms upon which the parties agree to unwind the deal should minimize adverse effects to the Customer's ongoing business and address how the Customer's business can continue to function during and after the severance of the relationship.

Secondarily, in a licensing arrangement, one must consider the rights and restrictions placed on the Customer with respect to the product. Similarly, in an outsourcing arrangement, one must consider the specific services provided and terms of service (e.g. cost and timelines). Understanding these factors will help to identify what the Customer's needs will be on an ongoing basis and negotiate ways to address these needs in a manner acceptable to the Vendor.

(b) Ongoing Development

In a transaction involving customization of software, the project may still be in the development phase. In such a situation, upon severance of the relationship, the parties must consider the current stage of the development of the software and what impact this has upon unwinding the deal. Rights of continuing development and ownership with respect to continued development, use and exploitation of the software may have to be agreed upon. The Customer may wish to retain or obtain the right to continue to develop the product to completion and own any subsequent developments. Conversely, the Vendor may be unwilling to relinquish ownership or development rights with respect to the Product, particularly if there is no ongoing relationship. Completion of development by the Customer, or a third party on behalf of the Customer, may require disclosure

and use of the Vendor's source code, which makes these issues particularly difficult and complicated if they are part of a settlement.

(c) Ongoing Maintenance

In both a licensing and outsourcing arrangement, the terms under which maintenance is provided must be understood. This is necessary to identify what ongoing maintenance the Customer may require, if any, and what ongoing maintenance the Vendor may be willing to supply, after termination of the current arrangement. After the existing contract is terminated, ongoing maintenance may be provided by a Vendor as a courtesy, as part of the overall settlement or on a fee for service basis, for a limited period of time and likely under different terms from the original arrangement. If the Vendor will provide ongoing maintenance, the cost, scope and term of the maintenance service must be negotiated.

(d) Support and Ongoing Services

Much like ongoing maintenance, terms of any ongoing support and services, if necessary, must be agreed to and documented. If the Customer needs ongoing support and services then it must be decided who (ie. the Vendor, the Customer, or a third party) will be providing this support or service. In certain situations there may be other authorized providers of support or service providers who can provide ongoing service. As above, after an arrangement is terminated, ongoing support and services may be provided by a Vendor as a part of the settlement and often under slightly different terms and so the cost, scope and term of support and ongoing services, which must be negotiated.

### 3. **Facilitating the Ending of the Relationship**

An important part of negotiating and facilitating the unwinding of the deal is to determine if either party needs the other party for a transition period and can assist the other as the relationship is unwound. These are important issues to consider because they: (i) impact negotiations; (ii) can be used to find creative ways of unwinding a deal; and (iii) can be used to achieve a mutually beneficial outcome (ie. the provision of assistance can be used to offset other components of the settlement).

Parties may be able to assist each other in many ways, as the relationship is unwound. Vendors may provide transition assistance, assistance in winding up the project, permit the transfer of products or services to a Customer's affiliate, or possibly attempt to continue the relationship with the Customer under a new arrangement.

#### (a) Transition Assistance

Vendors can assist Customers in transitioning from their existing products or services in a number of ways. Where a license is being terminated, the Customer may be preparing to use alternate technology (either Vendor's or a third party's) and the Vendor may be able to assist the Customer in the preparation to use this new technology. For instance, the Vendor may help the Customer transfer data from the current database or format or to a new system or provide staff to assist the Customer in activities such as transforming databases or reconfiguring the hardware platform. Alternatively, where a Customer is searching for alternate technology, the Vendor may agree to continue to provide ongoing services or

continue to license its product to the Customer for a limited period of time depending on the business interests of the Vendor.

In an outsourcing arrangement where a Vendor is withdrawing certain services, the Vendor may provide training to the staff of the Customer to allow them to perform services internally. Alternatively, a Vendor can provide ongoing services for a limited period of time to allow the Customer to find an alternate service provider.

(b) Wind-up of the Project

In the same way as transitional support, Vendors can assist Customers by providing resources and continuing the relationship for sufficient time to allow for a smooth wind-up of the project. Where a project is incomplete (e.g., an implementation of a system or development of software), the Vendor may agree to complete the current stage of the project or to certain milestones rather than completely withdrawing its services or support midway through a particular phase. This may mean continuing the project to the point where another Vendor or the Customer can continue the project much more easily. Likewise, the Vendor could be asked to provide a summary report outlining what has been completed to date and/or identify what tasks remain outstanding.

(c) Leverage Existing and/or Continuing Relationship

As mentioned above, there may be situations where a Customer no longer requires a product or service, for instance, as a result of a change in business plan

but the Vendor and Customer are prepared, and in fact have a desire to continue their relationship. In these circumstances, there may be different ways to continue the relationship between the parties and/or avoid having to forego the services or abandon a license to use a product. A Vendor may adopt some of the following options to salvage and provide for a long-term relationship with an important Customer:

a. Credits Toward Other Purchases

Though uncommon, where a Vendor has a suite of products, a Vendor may agree to take back some of the licenses granted to a Customer and give the Customer partial credit towards the purchase of another of the Vendor's products. This arrangement allows the Vendor to maintain the relationship with the Customer and the Customer to recover some value for excess licenses.

b. Repurchase or Upgrade

Similarly, it is unusual but possible that a Vendor may agree to repurchase software from the Customer in order to maintain the relationship with the Customer. This is a rare occurrence, as the repurchase of software by the Vendor can lead to business, financial and accounting issues for the Vendor. A more common arrangement, if useful, is that the Vendor may agree to upgrade software and/or permit a transfer from one software system or hardware platform to another.

c. Assistance in Finding a Purchaser

A Vendor may assist a Customer in finding a purchaser for the Vendor's services or products that the Customer no longer requires. Like repurchasing described above, it is somewhat unusual that a Vendor would assist a Customer in finding a purchaser for the Customer's unwanted technology because this directly impacts the Vendor's sales revenue. Where a Customer intends to sell the products provided by the Vendor, the Customer will normally have to identify a purchaser on its own, absent some consideration or motivation for the Vendor to assist.

d. Transfer Products or Services to an Affiliate

The Vendor may permit the Customer to transfer the applicable services agreement or license to an affiliate of the Customer that can use the services or product provided by the Vendor.

While the above options may initially appear to be inconsistent with the business interests of the Vendor because they may result in a loss of profit, sales and/or lower revenues in the short-term, they are an opportunity for the Vendor to cultivate goodwill and lay the foundation for a long-term relationship with the Customer and/or recover from a break down in the relationship.

#### 4. **Anticipating Interests of the Other Party**

To effectively negotiate the unwinding of a deal to meet the needs of the parties involved, one must anticipate the requirements and interests of the other party. In other words, one must gain an understanding of how the deal and its termination will affect the other party's business.

Understanding the other party's concerns can assist in negotiations and help remove barriers to unwinding the deal.

In the context of unwinding a deal, Vendors may be particularly concerned about maintaining confidentiality, loss of revenue or profit, loss of a reference account or site, and the costs of re-deploying resources that may no longer be required. On the other hand, Customers may be concerned about the costs of re-acquisition of the product, transitioning to another product or service provider, and loss of the "first to market advantage".

### **Vendor Interests**

(a) Confidentiality

Either party may be concerned that the other party may divulge confidential information that was exchanged during the relationship. However, often Vendors will be particularly concerned with confidentiality because they will not want third parties (other customers, potential customers, competitors) to know about a failed implementation, substandard product or poor service, a disappointed customer or a terminated relationship. To address this concern, a specialized non-disclosure covenant may be included as part of the unwinding of the deal.

(b) Loss of Revenue/Profit

Obviously a primary issue for a Vendor in the context of unwinding a deal will be any loss of future revenue or profit that results from the termination of the contract.

(c) Loss of Reference Account/Site

Another issue that may be of great concern to a Vendor is the loss of the reference account or site. While this obviously has a direct impact on revenue or profit, this may also have an impact on other sales if the Customer could be used as a reference account for potential customers of the Vendor. Loss of a Customer may be of particular importance to a Vendor in a situation where the Vendor is trying to break into a new industry segment or introduce a new product.

(d) Costs of re-deploying resources of Vendor

As a result of the unwinding of a deal, a Vendor may have to re-deploy the resources that were anticipated for the Customer. Such resources may include tangible resources or professional services staff. Re-deployment takes time and any resulting down time during the re-deployment period constitutes an unwanted expense to the Vendor. To address this issue, a Customer may agree to a “wind down period” in which the Customer will compensate the Vendor for (and may make use of) some or all of the resources or staff that were to be deployed under the arrangement. The Customer may make use of those resources for various functions, including transitioning from the products or services provided by the Vendor to those of another vendor, or other project wind-up activities.

### **Customer Interests**

(a) Costs of Re-acquisition

In the context of unwinding a deal, the primary issue for a Customer is often the costs of re-acquisition of another technology solution to replace the technology or services being withdrawn by the Vendor. Such costs include both the hard costs and soft costs of re-acquisition. For example, hard costs include the monetary cost of purchasing new technology, while soft costs include time spent sourcing replacement technology, negotiating contracts, training staff, implementing the new system and transitioning to the new technology solution.

(b) Transition to Another Provider

As a result of loss of the product or services provided by the Vendor, the Customer may have to transition to the product or services of another vendor. Hence, the Customer will be very concerned with related transition issues. As discussed above, a Vendor may have the ability to provide assistance to the Customer during this transition period. Although assisting the Customer to transition to the product or service of a direct competitor may appear to be adverse to the Vendor's business interests, providing transition assistance is an opportunity to cultivate goodwill, potentially reduce liability and/or exposure of the Vendor and/or possibly maintain a long-term relationship between the parties.

(c) Loss of Time to Market Advantage

Another concern that the Customer may have is how the loss of the use of a technology or service will impact on the Customer's delivery of its product or services. In particular, the unwinding of the deal may mean that the Customer has lost a significant amount of time and potentially lost any "first to market

advantage" as a result of the delay in the development and/or implementation of the new technology.

## 5. **Develop Strategy for Solving Problem(s) and Achieving Objectives**

Various strategies may be employed to solve the problems and achieve the objectives identified earlier in the resolution process. The appropriateness of each of the strategies below must be considered in the context of the specific circumstances.

### (a) **Quitting Hard versus Quitting Soft**

Where the relationship is no longer working, each party must consider the most effective way to address its needs and interests. Two different strategies that may be employed are "quitting hard" or "quitting soft". Quitting hard means immediately severing the relationship and ceasing to continue with the project or any transitional arrangements. In the case of the Vendor, this may mean withdrawing service and in the case of the Customer, this may mean the cessation of its obligations, including payment. Where a party is attempting to get the attention of or obtain compliance from the other party, quitting hard may be an effective strategy. On the other hand, quitting hard may result in increased exposure to liability in connection with the agreement.

Quitting soft is a less abrupt process of trying to work out an appropriate wind-up or change in the relationship. This may include: (i) giving informal notice, rather than formal notice to the other party of concerns; (ii) employing a cure period to allow the other party to correct problems; and/or (iii) working together during a

transition period once it is agreed that the relationship is to be changed. This strategy may be appropriate where the party wants to maintain the relationship and/or avoid or minimize exposure to liability.

(b) **Good Communication Skills**

Clear and effective communication is a critical factor in successfully exiting from a relationship. However, effective communication can often be a challenge in a situation where a relationship between the parties has already failed and is strained. To achieve clear and effective communication, it is important for all participants to be both professional and polite, and keep things on a business level, rather than a personal one.

(c) **In-Person Meeting**

In-person meetings may or may not be appropriate given the circumstances of a deal. On the one hand, in-person meetings may clear up confusion, more efficiently deal with complicated matters and allow the parties to reach agreement more quickly. On the other hand, where the relationship between the parties is acrimonious, in-person meetings may simply aggravate the relationship, although this can be mitigated with careful selection of which representatives from each party are attending the meeting.

## **6. Document the Solution**

After the parties have negotiated the key business terms involved in unwinding the deal, it is important that the solution be documented. The first step once a solution is at hand, particularly

where the solution may be complicated or require further detailed negotiations, is to draft a Letter of Intent ("**LOI**") or Memorandum of Understanding ("**MOU**") to quickly formalize the key terms of the agreement without having to negotiate all of the details. This can help to avoid significant changes in terms or re-negotiations and is an effective technique to record and crystallize agreed points or concepts in the settlement. However, it is important to note that a LOI or MOU may or may not be binding on the parties. If it is not binding, this may allow some deviation from the original conception of the solution and flexibility with respect to the terms. This may or may not be advantageous depending on the circumstances.

The terms of the LOI or MOU serve as the basis upon which a Settlement Agreement is drafted and negotiated. The Settlement Agreement provides for the specifics of the unwinding of the deal.

### ***Terms of the Settlement Agreement***

In the context of unwinding a deal, the Settlement Agreement will set out the specific terms of the deal (ie. who's to do what and when) and often include the following components:

- (a) **Releases:** Releases are required to ensure that the parties will not attempt to make any claim under the original agreement subsequent to the signing of the Settlement Agreement, as the Settlement Agreement is generally intended to be a full and final settlement between the parties from the original agreement. However, it is possible that a settlement is only in respect of certain issues in dispute or claims, so partial releases are also possible. Due to the significance and potential contentiousness of releases, it is appropriate to be specific about the type and scope of claims being released.

- (b) **Confidentiality and Non-Disclosure Provisions:** Confidentiality and non-disclosure provisions may be required not only to protect the confidential information divulged by the parties involved, but may be specifically requested by the Vendor to prevent the disclosure of the settlement or information relating to a failed implementation, a disappointed Customer, substandard products or poor services.
- (c) **Publicity Provisions:** In some instances, confidentiality of the unwinding of the relationship is not possible, so provisions relating to publicity associated with the deal may be incorporated into the Settlement Agreement where the parties want to determine how, when and what information about the deal may be divulged to the public, other customers and/or specific third parties. For instance, a provision may provide when a press release will be released by the parties and that the specific content thereof must be agreed upon by both parties.
- (d) **Key Terms:** Key terms of the deal must obviously be included in the Settlement Agreement. These may include transfer of title to certain assets, assignments of rights, rights to develop products, ownership rights in subsequent developments, ongoing services or support that the Vendor will provide, transition assistance, winding up of the project, or some portion of a continuation of the existing relationship.

### ***Additional Documentation***

In addition to the Settlement Agreement, additional documentation relating to implementation of the deal may be required. Such documentation may include:

- (a) **Assignments:** Assignments may be required where there is a transfer of a services agreement or a license agreement to another party. Assignments of ownership rights in intellectual property may also be required.
- (b) **Notices:** Notices may be required to be given to various third parties that will be affected by a severance of the relationship. For instance, notices may need to be sent to clients of the Customer, suppliers, subcontractors or other interested parties.
- (c) **Agreed Communications to Clients, Suppliers, and Affected Third Parties:** Communications to clients, suppliers, and third parties may be agreed upon by the parties to ensure that the interests of both the Vendor and the Customer are protected and properly represented in any communications to third parties. For instance, a Vendor may be concerned that the change in the relationship be described in a favourable way.
- (d) **Bills of Sale:** Bills of sale will be required in situations where assets are being transferred from one party to another, for instance, where the Customer is selling some hardware back to the Vendor.
- (e) **Software Licenses:** Software licenses will be required where, as part of the settlement, the Vendor is granting a "specialized" license to use certain software to the Customer upon severance of the relationship. This may occur in situations where the Vendor is withdrawing services relating to the software and the Customer wishes or needs to continue to use and/or develop the software, at least for a period of time.

## **SUMMARY OF THE STEPS IN UNWINDING A DEAL**

Unwinding technology deals is becoming more and more common. As a result, lawyers should develop the skills and understand the steps involved in terminating technology related contractual arrangements. The critical success factors in unwinding any deal are to understand the needs of the parties involved and negotiate a solution that addresses these needs. To do this, the following key steps that are recommended in this paper should be followed:

1. **Understand the Deal:** Review the agreements and meet with your client to understand the deal.
2. **Understand the Context of the Deal:** Understand the scope of the relationship and business objectives of the parties involved.
3. **Facilitate the Changing of the Relationship:** Determine what either party can do to assist the other in facilitating the change in the relationship.
4. **Anticipate the Interests of the Other Party:** Understand what the other party is concerned about and determine if and how these concerns can be addressed.
5. **Develop a Strategy for Solving Problems and Achieving Objectives:** Consider and adopt the most effective strategies for solving problems and achieving the objectives of your client.
6. **Document the Solution:** Document key terms of the solution by drafting a Letter of Intent or Memorandum of Understanding and using those terms as a base for negotiating and drafting the Settlement Agreement.