

TEXAS LAWYER

OCTOBER 7, 2014

An ALM Publication

www.texaslawyer.com

THE IMPORTANCE OF INDEMNIFICATION PROVISIONS IN SOFTWARE LICENSE AGREEMENTS

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It may be obvious that software publishers and their customers need protections related to use of the software. What may not be as intuitive to the end users is that they must review the indemnification and limitation of liability sections in license agreements to ensure that these provisions will cover the parties' complete relationship, not merely the use of the software products.

It is not uncommon for publishers to place indemnification provisions in the boilerplate license agreement requiring licensee to defend any claims and hold licensor harmless for any claims raised by a third party related to licensee's use of the software. It is not as common for the publisher to include any requirement that it indemnify the licensee.

When a license agreement does contain an indemnification provision related to the licensor, the provision is typically limited to third-party claims against the licensee that the use of the software constitutes intellectual property infringement.

It is critical for the parties to insist on mutual indemnification provisions. End users should also strongly consider the ramifications of all types of claims and include additional protections designed to cover likely outcomes.

For instance, a licensee could spend millions of dollars acquiring software licenses and dedicate years to implementing these products. If a court later decides that the licensee's use of the software infringes on a third-party's intellectual property rights, the court could enjoin the licensee's use of the product.

While the publisher may be required to defend the case, and pay any assessed



damages, who is going to pay millions of dollars it will take for the licensee to switch to another product? A good indemnity provision should include language related to compensation for the previously paid licensing costs, costs to procure replacement software, and services costs related to recovery of data and implementation of the new products.

Negotiators should also consider requesting indemnification provisions protecting the licensee in the event that it incurs liability related to security incidents and data breaches for use of the licensor's software.

Additionally, licensees need to seek protection for damages that could arise as a result of software license compliance reviews. Publishers often dictate the audit process, asking licensees to install tracking software, deploy commands and scripts, and allow physical inspections. But, the publishers are reluctant to give the licensee any protection for damages that may arise from these compliance activities.

If possible, it is advisable for licensees to seek these protections during negotiation of the license agreement and prior to any purchase of the license. The licensee has much more leverage before the transaction

is completed than after an audit is initiated by the licensor.

Understandably, publishers may be reluctant to offer such protections to licensees. During negotiations, it may be possible for licensees to get insight into which of the types of claims would be covered by the publisher's insurance policies.

Where there is coverage for claims related to lack of appropriate security protections in the software, third-party intellectual property claims, and claims based on the publisher's behavior (including in license-verification proceedings, parties should include indemnification by the licensor. The parties may also considering including a provision in the limitation of liability section to track the coverage language. That way, the publisher is not taking any additional liability, and the licensee gets the protection it needs to feel comfortable.

It is important to discuss the insurance requirements, indemnification and limitation of liability early in the software license decision-making process. If a prospective licensee requests reasonable indemnification and limitation of liability language and the publisher refuses, the licensee should consider the refusal as one of the factors in its buying decision. It could be dangerous for a licensee to spend significant amounts of money to purchase a product that presents too much risk after it is implemented.

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