PUBLICATION

Intellectual Property Indemnities

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Software product vendors typically provide intellectual property indemnification in software licensing agreements, including stand-alone licensing agreements, Original Equipment Manufacturer (OEM) agreements (where the software is to be bundled with other software or provided with computer hardware) and value-added reseller agreements (where the vendor has modified the original software). Indemnities assure end users that the vendor is selling legitimate title to the software, and that the users will have protection in the event they are sued for infringement by a third party demanding anything from surrender of the software to imposition of monetary damages. Most indemnity clauses use standard language, but vendors and purchasers may wish to modify indemnity terms to their own advantage.

Counsel for software vendors, for example, can seek to limit vendor liability in an infringement lawsuit to the end user's original purchase price or annual license fee, thus capping any potential damage awards. Vendors may also reserve the right to specify and hire infringement defense counsel, as well as the right to approve any final settlement. End users' counsel, by contrast, can seek vendor indemnity against any and all infringement allegations involving the software's patents, copyrights, trademarks and business methods. Users may also want to define protection for derivative works developed using the software. Either side may seek to specify geographic coverage— vendors to U.S. patent law only, end users to potential intellectual property rights violations arising globally.

Software vendors formerly were reluctant to modify indemnity terms. However, highly competitive conditions in the technology marketplace can give end users greater leverage to negotiate coverage. As in all deals, attention to contract language can lead to more effective negotiations. Both vendors and end users should be fully aware of future risks.