Improve Your Company's Form Software License Agreement

PART 10: REMEDIES

KOLEY ■ JESSEN

ATTORNEYS

KEY TAKEAWAYS

Form software license agreements should:

1 *contain express remedies with an eye towards maximizing the licensor's remedies in the event of the customer's breach and minimizing the customer's remedies in the event of the licensor's breach;*

2 *state that all express remedies available to the licensor are "cumulative" and not in lieu of any other remedy available to the licensor under the agreement, law, or equity; and*

3 *state that all express remedies available to the customer are the customer's "sole and exclusive" remedies for the applicable breach.*

Put simply, remedies are the rights that are available to a contracting party as a result of the other party's breach of contract, breach of warranty, or misrepresentation. Remedies are critical for all contracting parties because they answer the following question: *"What does my client or company actually get as a result of the other party's breach?"*

Form software license agreements do not always adequately address remedies. There are many reasons for this, but one main reason certainly is that applicable law (contract common law and statutory law) provides certain "default" remedies in every breach scenario, whether or not remedies are addressed in the contract itself. So, it seems, contract drafters assume their client or company will be able to obtain their preferred remedy if the other party breaches the contract. However, that is not always

the case. Accordingly, from a licensor's perspective, form software license agreements should address remedies with an eye towards maximizing the licensor's preferred remedies in the event of the customer's breach, and minimizing the customer's remedies in the event of the licensor's breach.

The three main sources of remedies in the context of a software license agreement breach are the agreement itself, contract common law, and the applicable Uniform Commercial Code. A full discussion of all types of remedies and all sources of remedies is beyond the scope of this article. So, we will focus on the most prevalent remedy available under contract common law and statutory law (damages) and certain express remedies that can be set forth in a software license agreement itself, including the remedies set forth below.

Common Licensor Remedies in Software License Agreements:

- **Termination;**
- **Injunctive relief;**
- **Price acceleration;**
- **Interest on late fees;**
- **Self-help; and**
- **"Loser pays" attorney fees.**

Most people think about damages when discussing remedies for breach of contract. This makes sense because, at the end of the day, business deals are about money, and the non-breaching party wants to be put in the same financial position it would have been in if the other party did not breach the agreement. Further, damages are almost always available "by default" under applicable contract common law (assuming the non-breaching party did, in fact, suffer economic harm), so contract drafters need not set forth a damages remedy in the agreement itself. A prudent licensor, however, will realize that it may want other rights to exercise at its option, or obligations to impose upon the customer, if the customer breaches the agreement.

Termination

To start, the licensor may want to terminate the agreement. Although most form software license agreements address termination in one way or another, a licensor may want to pay particular attention to a few termination issues. First, the licensor may want very short cure periods, or no cure periods, for certain customer breaches, namely failure to pay on time and unauthorized use of the software. A common termination provision permits either party to terminate the agreement if the other party breaches the agreement and fails to cure such breach within 30 days of being notified of the breach.

But should a licensor be required to wait 30 days if the customer is using its software in an unauthorized manner (likely infringing intellectual property rights)? Further, if the licensor granted Net 30 payment terms, a termination provision like the one mentioned above could, in essence, change the payment terms to Net 60. Second, the licensor should set forth in the agreement certain obligations that the customer must perform upon termination of the agreement. Typically, the licensor will want the customer to cease all use of the software and return or destroy, all copies of the software on the customer's systems.

Injunctive Relief

Injunctive relief is another critical remedy for a licensor, especially if the customer breaches the license agreement by using the software outside the scope of the license grant. While a licensor may also sue for damages in this context, the most immediate need for the licensor may be for a court order requiring the customer to stop the unauthorized use of the software. Although this remedy could be available to the licensor under applicable law, a licensor can benefit from a contract provision that expressly sets forth the customer's agreement that breach of certain contract provisions (ex. license grant and confidentiality) would cause irreparable harm to the licensor, that damages alone are not an adequate remedy, and that the licensor need not post bond to obtain such injunctive relief.

Price Acceleration

A licensor may also consider setting forth various remedies that focus on the customer fees or the customer's failure to pay the fees in accordance with the agreement. A licensor may require that all payments are due and payable immediately if the customer breaches the software license agreement.

Similarly, a licensor may want to reserve the ability to impose greater audit rights and otherwise alter the payment terms to provide more security in the event a licensee fails to make payments in accordance with the agreement or otherwise demonstrates signs of financial instability.

Interest on Late Fees

The licensor may also include a provision that late payments accrue interest. The interest remedy can be especially helpful to the licensor in connection with disputes over large lump sum payments. A customer that has failed to make such a payment may be incentivized to settle quickly and fairly if a significant interest charge is accruing over the course of a dispute (which, if drawn out to litigation, could last several years).

Self-Help

A controversial and risky remedy is a set of remedies referred to as "self-help." In the software licensing context, licensor self-help refers to electronic self-help where the software contains a "key" or other mechanism that (a) automatically disables the software after the agreed-upon term of the software license agreement or (b) the licensor can use to disable customer's ability to use the software if, in licensor's opinion, the customer has breached the software license agreement. If a licensor includes such disabling

devices in its software, it should reserve the right to do so in its form software license agreement.

As a practical matter, these self-help remedies are very powerful for the licensor because they can help ensure that unauthorized use of the software will cease. Still, they are also very risky because exercising such measures could invite claims or counterclaims from the customer.

"Loser Pays" Attorney Fees

A less controversial and risky remedy to include in your form software license agreement is a provision that requires the "losing" party to pay the attorney fees incurred by the prevailing party in connection with any claim arising from the software license agreement. This provision reverses the so-called American Rule that requires two opposing sides in a legal matter to pay their own attorney fees, regardless of which party prevails.

The reversal of the American Rule can be of particular importance to "smaller" licensors that enter into agreements with "bigger" customers, because it may be cost-prohibitive for a licensor with few resources to pursue a claim against a customer with deep pockets. The cost of litigation is very high, so pursuing a claim against a customer with deep pockets may be cost-prohibitive for the "little guy" licensor. A "loser pays" attorney fees provision evens the playing field and incentivizes fair settlement.

If a licensor includes any of these specific remedies in its form software license agreement, the licensor should ensure that all express remedies in the agreement are "cumulative" and shall not be deemed to limit the licensor's remedies to only those set forth in the agreement. In other words, the licensor should reserve the right to avail itself to all of the remedies that applicable law provides, in addition to the remedies set forth in the agreement.

Finally, the customer may be entitled to certain specific remedies set forth in the agreement. The licensor may set forth remedies that are available to the customer if the licensor breaches warranties. See Part 4 in this series on representations and warranties for a discussion of certain customer remedies that the licensor may provide to the customer.

Also, the customer may negotiate for additional express remedies, including refunds, price reductions, specific performance, set-off, payment withholding, cover, and source code escrow. Each of these specific remedies should be reviewed and considered in detail by the licensor. Importantly, if the licensor sets forth these customer remedies, it should set forth that such remedies are the customer's "sole and exclusive" remedies. This ensures that the customer is not entitled to seek other remedies available under applicable law.