

SOFTWARE LICENSING AGREEMENTS

Prepared by

Raymond R. Bonnabeau¹
Hellmuth & Johnson, PLLC
8050 West 78th Street
Edina, Minnesota 55439
Telephone: 952-746-2121
E-mail: rbonnabeau@hjlawfirm.com
Web: hjlawfirm.com

¹ Mr. Bonnabeau is a partner at the law firm of Hellmuth & Johnson, PLLC and heads the firm's Information Technology (IT) and eCommerce Practice Group. He has extensive experience in drafting, reviewing and negotiating IT contracts, including numerous eight figure agreements. His practice has focused on representing healthcare, financial and insurance organizations in the procurement, development and implementation of IT. He also provides IT seminars and training sessions for clients. This article was originally presented as part of an annotated document series CLE at Minnesota Continuing Legal Education.

Table of Contents

Page

I.	INTRODUCTION	1
II.	SOFTWARE LICENSE.....	1
III.	TYPES OF SOFTWARE LICENSES	2
IV.	DELIVERY.....	2
V.	IMPLEMENTATION PLAN	3
VI.	ACCEPTANCE	3
VII.	SOFTWARE WARRANTIES.....	4
VIII.	HARDWARE WARRANTIES	6
IX.	TERM AND TERMINATION	7
X.	SOFTWARE SUPPORT	8
XI.	SUPPORT v. WARRANTIES.....	9
XII.	PAYMENT TERMS.....	9
XIII.	CONFIDENTIAL INFORMATION	10
XIV.	INDEMNIFICATION.....	10
XV.	REPLACEMENT OF SOFTWARE.....	11
XVI.	SOURCE CODE.....	12
XVII.	LIMITATION OF LIABILITY	13
XVIII.	TAXES.....	13
XIX.	MEDIATION AND ARBITRATION	13
XX.	GOVERNING LAW.....	13
XXI.	FORCE MAJEURE	14
XXII.	ENTIRE AGREEMENT.....	14
XXIII.	MODIFICATION	14
XXIV.	ASSIGNMENT.....	15
XXV.	IMPLEMENTATION AND CONTRACT MANAGEMENT ISSUES	15
XXVI.	CONCLUSION.....	15

APPENDIX A – SAMPLE ANNOTATED SOFTWARE LICENSING AGREEMENT

Software Licensing Agreements

I. INTRODUCTION

There are a number of issues and clauses common in all software licensing agreements. This article will address many of these issues and clauses and will provide a software user (“User”) with information and insight into what to look for and what to avoid in reviewing and drafting software licensing agreements.

II. SOFTWARE LICENSE

The right to use Software is typically given in the form of a license, rather than a sale. A sale would give the user all rights that are associated with ownership of the Software (e.g., sale or license of the Software to third parties, the right to copy and create derivative works). As vendors desire to retain such rights in the Software, the vendor conveys limited rights to the user in the form of a license.

User Checklist:

- a. If a User desires to use the Software for an indefinite period of time and is paying one amount for such use rights, the User should obtain a paid-up and perpetual license to use the Software
- b. A User should obtain the right to make copies of the Software (and documentation) should such be necessary for its intended use. At a minimum, the User should secure the right to make one copy of the Software for back-up and archival purposes.
- c. A User should be sure to allow all intended users to use the Software. Should the User want Affiliates and/or other persons and entities to use the Software, the User should be sure to clearly set forth such use rights in the Agreement. A User must also consider whether it wants to license the Software as a site license, or on a concurrent user basis, or simply on a single computer.
- d. Software upgrades, updates, modifications, releases, enhancements and versions (“Releases”) should be deemed part of the Software originally licensed.
- e. If the Software license is granted only for use on a specific identified computer or server, the User should obtain the right to transfer the Software to compatible, upgraded or successor computers or servers without paying an upgrade fee.

- f. If DBC desires to use the Software for or at non-affiliated sites (e.g., to provide regional services), DBC will need to be sure that DBC's license agreement with the vendor allows for such use. In addition, DBC will also need to be sure that it has an agreement with the non-affiliated site covering not only such use, but also protecting DBC from the actions of the non-affiliate site.

III. TYPES OF SOFTWARE LICENSES

There are a variety of Software licenses available to Users. Software licenses may range from a license to use Software on a single computer, to a concurrent user basis at a single (or multiple) geographical site(s), or for use on a non-concurrent user basis at a single (or multiple) geographical location(s). To determine the appropriate license, the User should determine who needs to use the Software and where such use is desired.

- a. **Single Computer License:** This is the most basic license as use of the Software will be limited to one computer (e.g., this is the typical license received when one purchases off the shelf software for personal use).
- b. **Concurrent User Licenses:**
 - i. Concurrent user licenses will allow a pre-determined number of users to simultaneously use the Software. Typically, the license fee will be based on the number of concurrent users, with a User having the right to purchase additional licenses should increased use be desired. Such licensed Software will often have a monitoring program which will limit use to the authorized number of users. Therefore, additional users will be denied access and be typically notified, by way of a screen prompt, that access was denied as the maximum number of authorized users are presently using the Software.
 - ii. Software licensed on a concurrent user basis will often consist of the following two (2) software components: (a) a server component and, (b) a client component. The server component will be resident on a server, with the client component resident on remote computers (e.g., personal computers). Remote computers will be networked (or connected) to the server and the client component will enable a user to access and use the server software.
 - iii. Concurrent user licenses may limit access to one or more geographical site(s). For example, access may be limited to the authorized number of concurrent users located at the User's site and Affiliate sites.
- c. **Non-Concurrent Licenses:** Non-concurrent user (non-single seat) licenses will enable any number of "permitted users" to use the Software. Typically, "permitted users" will be limited to employees, agents or contractors of the User. Should additional "permitted users" be desired (e.g., non-employee

healthcare providers), be sure to secure such use rights. Further, use of the Software may be limited to one or more geographical site(s).

IV. DELIVERY

A User should specify the delivery date(s) within the Agreement. If delivery by a certain date is essential, be sure to include “time is of the essence” in referring to such delivery. In addition, should the User expect the Vendor to install the Software (or provide other pre-acceptance testing services), such obligation(s) should be expressly set forth in the Agreement, along with any payments due to the Vendor for such services. *See* Implementation Plan section. In the event the Vendor is to perform all or some of the services at no additional cost to the User, be sure to expressly identify which services are to be performed at no additional cost. Further, the Vendor may want User to bear the risk of loss of the Software while in transit. Delivery terms such as “FOB [shipping point]” and “FOB [origin]” would place the risk of loss on User.

V. IMPLEMENTATION PLAN

Prior to the installation and implementation of Software, the User and Vendor will often complete an implementation plan setting forth respective responsibilities, milestones and timeframes. It is this implementation plan that will govern many (if not all) of the tasks necessary for a successful implementation. Consequently, special care should be given to the drafting and reviewing of such plan.

User Checklist:

- a. The implementation plan should clearly set forth the User’s and Vendor’s respective responsibilities and tasks. In addition, the implementation plan should include performance milestones and a corresponding timeline for the completion of such milestones.
- b. As any implementation may be delayed due to a vendor’s performance or non-performance if it’s tasks, a User should consider “capping” implementation costs (e.g., implementation fees to be paid by the User for the Vendor’s performance of the Vendor’s implementation tasks shall not exceed \$XXX).

VI. ACCEPTANCE

The acceptance provision is one of the most important provisions in a software license agreement. First, even with standard “off the shelf” Software, User will never know until it actually tries the Software whether it lives up to User’s expectations. Second, the need to develop sufficient and objective acceptance criteria will force User and the Vendor to come to a clear understanding of what the Software is supposed to do in User’s business environment. Third, warranty provisions can be drafted to incorporate the acceptance criteria, thereby making them standards that the Vendor is committed to maintaining.

User Issue Checklist:

- a. If User has developed acceptance testing criteria (or other performance requirements), such criteria should be provided to the Vendor as soon as possible. User should request that the Vendor submit a written response detailing the Software's capability to meet such performance criteria. Thereafter, the acceptance criteria and the Vendor's response should be attached to the Agreement.
- b. If acceptance criteria has not been developed, User should consider developing (either individually or jointly with the Vendor) such criteria as soon as possible. Further, if the Vendor proposes to use its own testing criteria, make sure to obtain a copy of such criteria to determine its adequacy.
- c. Make sure all agreed-upon acceptance testing criteria are attached to the Agreement and expressly incorporated into the Agreement.
- d. Acceptance testing should occur in User's own internal environment on User's own equipment.
- e. Acceptance testing should commence no earlier than upon successful installation of the Software at User's site.
- f. Provide for an adequate number of days to test the Software.
- g. Provide for the possibility that the Software will not pass acceptance testing (e.g., allow Vendor a certain number of days ("cure period") to correct the non-conformance *at no cost to User*).
- h. If a cure period is acceptable to User, User must have a period of time to re-test the Software after expiration of such period. Be sure to expressly state when User's re-testing period will commence and end.
- i. Provide User with the right to terminate the Agreement in the event the Software does not pass acceptance testing during the re-testing period.
- j. If User terminates the Agreement, Vendor should give User a full refund of all sums paid to Vendor.
- k. Vendor should also be responsible for all costs incurred in de-installing the Software, removing the Software from User's premises and in transporting the Software back to Vendor's site.

VII. SOFTWARE WARRANTIES

Vendors often attempt to cast software licenses in the form of a commercial transaction (e.g., the moment you drive it off the lot it is yours with all faults). However, Users pay for Software with the expectation that they will be able to use such Software for many months, if not years, to come. Although no amount of warranty provisions will “guarantee” Software performance, such provisions should be carefully drafted and reviewed to protect the User’s interests and future expectations.

User Issue Checklist:

- a. Vendor *must* warrant that it owns the Software or, to the extent it does not own the Software, it has all rights necessary to grant to User the license under the Agreement.
- b. Vendor should warrant that the Software will not contain any disabling code.
- c. Vendor should warrant that it has used its best efforts to scan for viruses within the Software. A fall back position could be that the Vendor has scanned for viruses in accordance with standard industry practices.
- d. Vendor should warrant that no malicious software will be provided to User under the Agreement.
- e. Vendor should warrant that the Software is Date Compliant.²
- f. Vendor should warrant that the Software will not infringe on any patent, copyright, trade secret, trademark or any other third party proprietary rights.
- g. Vendor should warrant that the Software will conform to the descriptions, standards and performance criteria (including the acceptance testing criteria) contained in the Agreement.
- h. Vendor should warrant that the Software will conform to all state and federal laws and regulations to enable the User to use the Software as set forth in the Agreement.

User Commencement/Warranty Duration Checklist:

- a. All performance warranties (i.e., VII.g. above) should commence upon User’s acceptance of the Software.

² Although the new millenium arrived worldwide some years ago, users should still insist on including a Date Compliance warranty provision within software licensing agreements. Most (if not all) vendors will assert that a user’s date compliance concerns should not exist as we are well past the year 2000. However, the passage of time will not, in and of itself, render a software application able to correctly and accurately calculate dates among and between different centuries.

- b. All non-performance warranties and the Year 2000 warranty should commence upon execution of the Agreement and continue thereafter throughout the duration of the Agreement.
- c. Initially, attempt to have all performance warranties continue throughout the duration of the Agreement as long as User is receiving support from the Vendor. Should the Vendor fail to agree to such a provision, make sure to expressly set forth the number of days such performance warranty is in effect.

User Warranty Breach Checklist:

- a. Provide Vendor with a set number of days to correct any warranty non-conformance *at no cost to User* (such period should commence upon Vendor receiving User's notice of non-conformance).
- b. In the event Vendor is unable to correct the non-conformance, User should receive a pro rata refund of all sums paid to Vendor under the Agreement based on a five (5) year straight-line depreciation calculated from the date of User's acceptance of the Software. [*Please note:* The above guideline suggests a five (5) year depreciated refund based on the assumption that the Software will have a five (5) year useful life. Should the Software have a shorter/longer estimated useful life, the provision should be accordingly modified].
- c. Consider obtaining a full refund of all sums paid under the Agreement in the event the Software fails to comply with applicable state and federal laws and regulations. In addition, consider having the Vendor defend, indemnify and hold User harmless from any noncompliance with state and/or federal laws and regulations that results in harm to a third party or prompts any type of monetary penalty.
- d. Vendor should be responsible for all costs incurred in de-installing the Software, removing the Software from User's premises and in transporting the Software back to Vendor in the event Vendor fails to correct the non-conformance.

VIII. HARDWARE WARRANTIES

A Vendor may also license an integrated "System" (consisting of Software and Hardware). In this event, the Software warranty provisions and checklist above should be used [by inserting the term "Hardware" in place of "Software"] in reviewing the Vendor's Hardware warranty provisions. In addition, the following checklist should be consulted.

User Checklist:

- a. Vendor should warrant that it will convey good and clear title to the Hardware being purchased under the Agreement, free and clear of all liens and encumbrances.
- b. [If applicable] Vendor should warrant that it assigns all warranties it has received from the Hardware manufacturer.
- c. Vendor should warrant that the Hardware is fully compatible with, and will operate successfully with, the Software.
- d. Vendor should warrant that the Hardware shall be free from defects in material and workmanship.
- e. [If applicable] Vendor should warrant that the Hardware will conform to the manufacturer's published specifications and user documentation in existence at the time of delivery of the Hardware.
- f. Whether the Vendor is providing Vendor owned Hardware or third party Hardware, the Vendor should warrant that the "System" will conform to the descriptions, standards and performance criteria (including the acceptance testing criteria) contained in the Agreement.

IX. TERM AND TERMINATION

The term of an Agreement may vary from an initial one year term (with yearly renewals thereafter) to one perpetual in nature (e.g., as long as the Agreement is not terminated User continues to have the right to use the Software).

User Term Checklist:

- a. In the event the Agreement contains an initial one year term, User should consider having the term automatically renew, unless User provides the Vendor with written notice of its intent not to renew within [a set number of] days prior to the expiration of the then current term. In addition, User should strongly resist a Vendor's request to have a similar termination right (as User may be reliant on the Software and such continued use should only be terminable in the event User breaches a material obligation).
- b. Make sure the Vendor may only terminate the Agreement upon a material breach by User which remains uncured for a set number of days (*see* Termination Checklist below).

User Termination Checklist:

- a. Both User and Vendor should have the right to terminate the Agreement upon a breach of a material obligation by the other party which continues or fails to be remedied within a set number of days.
- b. User should also have the right to terminate any separate support agreement in the event User terminates the license Agreement.
- c. Specific “non-exclusive” remedy provisions should be included within any corresponding remedy provision. For example, in the event User terminates the Agreement prior to acceptance, User should receive a refund of all sums paid to Vendor. Further, in the event User terminates the Agreement after acceptance, User should receive a pro rata refund of any support payments paid to Vendor based on the then-remaining term for which such fees apply. Also, User should receive a pro rata refund of all other sums paid to Vendor based on an agreed-upon useful life calculated from the date of User’s acceptance.
- d. Lastly, in the event the Agreement is terminated, all confidential information should be returned to the disclosing party or otherwise destroyed, with written confirmation that such information has been either returned or destroyed.

X. SOFTWARE SUPPORT

Often, Software support provisions are given less consideration than necessary. However, support provisions may provide a User with its only leverage to obtain post-warranty fixes.

User Checklist:

- a. Support may commence upon either (i) the expiration of the performance warranty period, or (ii) upon acceptance of the Software. If support is to commence upon acceptance of the Software, such support should initially be provided at no cost to User [as User should not have to pay the Vendor to correct warranty non-conformances].
- b. Support should not be paid on a time and materials rate (as such costs could escalate). Rather, support should be provided for a fixed annual amount.
- c. Limit support payment increases to an annual increase of five percent (5%) or the percentage increase in the Consumer Price Index (CPI), as published by the Department of Labor, whichever is less.

- d. Vendor should warrant that all support services will be performed in a good and workmanlike manner consistent with acceptable industry practices.
- e. Vendor should provide all support necessary to continue the warranties under the Agreement at no additional cost to User.
- f. In addition, Vendor should provide all updates, upgrades, releases, enhancements, modifications and versions (“Releases”) of the Software at no additional cost to User. In the event the Vendor will not agree to provide User with subsequent Releases at no cost to User, User should obtain a price discount for such Releases.

XI. SUPPORT v. WARRANTIES

As Vendor’s often charge for support, Vendors want support obligations to commence as soon as possible. Although a User may desire support upon acceptance, a User should not have to pay the Vendor to correct warranty non-conformances. Therefore, if support is to be provided during the performance warranty period, be sure that all warranty non-conformances will be corrected by the Vendor at no additional cost to the User. In addition, Vendors often seek to separate its support obligations (and a user’s remedies) from those otherwise contained in the Agreement. This may be done, for example, by executing a separate support agreement. A Vendor may attempt to limit its support obligations to “repair or replacement” and correspondingly, limit a User’s remedies to “repair or replacement” and/or “to support fees paid.” From a User’s perspective, this could prove seriously inadequate, as a User could be left with non-functional Software and inadequate remedies. To protect against such a result, the User should insist that all performance warranties continue as long as the User is receiving support from the Vendor. If the Vendor refuses to extend such warranties, be sure to enable a User to obtain the source code to allow for internal support.

XII. PAYMENT TERMS

Although the amount of the payments to be made under an Agreement are often considered in selecting a Vendor, the times at which such payments are to be made are frequently given less consideration than necessary.

User Checklist:

- a. User should tie payments to objective “progressive” milestones (e.g., 20% of the Software license fee payable upon successful installation of the Software, 30% of the Software license fee payable upon successful completion of test environment testing, etc.). User should also consider withholding payment of the Software license fee until User has accepted the Software. If the Vendor insists on “front loading payments”, User should resist paying more than fifty percent (50%) of the Software

license fee prior to User's acceptance. This will, amongst other things, provide the Vendor with an incentive to provide User with acceptable Software.

- b. User should NEVER tie payment dates to a set number of days after the occurrence of a "non-progressive" event (e.g., User shall pay 20% of the Software license fee within 90 days after execution of the Agreement; User shall pay 30% of the Software license fee within 120 days after execution of the Agreement). As a multitude of factors may affect a User's implementation, the User should be careful not to be contractually obligated to make payments based on non-performance milestones.
- c. User should cap late interest fees at one percent (1%) per month. In addition, late interest fees should only apply to past due *undisputed* payments.
- d. User should also have the right to withhold payments based on a good faith dispute. In addition, Vendor should not have the right to terminate the Agreement or stop performing during such dispute.

XIII. CONFIDENTIAL INFORMATION

Although the vast majority of software licensing agreements contain Vendor boilerplate confidentiality provisions, such provisions may not adequately protect the User.

User Checklist:

- a. Confidential information should not be limited to information which is marked as "confidential" or "proprietary". In addition, confidential information should not be limited to "written" documents.
- b. Make sure to broadly define what is to be considered confidential information. Use the phrase, "including but not limited to" and then list specific items.
- c. Vendor should use the same degree of care in protecting User's confidential information as Vendor uses to protect Vendor's own confidential information. In addition, User should specifically include language requiring that such degree of care "not be less than a reasonable degree of care".
- d. Vendor's obligation of confidentiality should survive termination, non-renewal, expiration or rescission of the Agreement.

XIV. INDEMNIFICATION

Special care should be used in reviewing a Vendor's proposed indemnification provision.

User Checklist:

- a. Vendor should defend, indemnify and hold harmless User against third party claims of infringement.
- b. Indemnification coverage should include any claims that the Software infringes any patent, copyright, trade secret, trademark and any other proprietary right of a third party. User should strongly resist limiting coverage to patent and copyright infringement claims (as Software developers often seek to protect Software through trade secret protections).
- c. In the event the Vendor will not "defend" User, be sure the indemnification obligation is not limited to "costs and damages finally awarded." Such a provision may prove seriously inadequate, in that User may incur substantial expenses in defending against actions which prove groundless. In addition, be sure to state that the Vendor will "hold User harmless". Use of the term "hold harmless" is important, as such would require the Vendor to reimburse User for all damages, expenses, losses, claims and liabilities, including costs and reasonable attorney's fees incurred by User.
- d. A Vendor may attempt to condition its indemnification obligations upon User giving the Vendor prompt notice of third party infringement claims, that User will not take any actions to prejudice the defense of the claim and that User will give the Vendor assistance and authority necessary to solely defend the claim. User should strongly resist any such conditions, as the Vendor could later use such provisions to avoid its indemnification obligations.
- e. User should not limit or otherwise exclude the application of consequential, indirect, special or incidental damages arising from indemnification claims. See Limitation of Liability section below.

XV. REPLACEMENT OF SOFTWARE

Although the Vendor may be obligated to indemnify User against third party infringement claims, User's use of the Software may be disrupted by such claims. This provision should be used to set forth specific Vendor obligations in the event a third party claim threatens User's use of Software.

User Checklist:

- a. Vendor should be required to perform the following (at no additional cost to User): (i) modify the Software so as to provide User with functionally-equivalent, compatible and non-infringing Software; or (ii) replace the Software so as to provide User with functionally-equivalent, compatible and non-infringing Software; or (iii) obtain a license for User's continued use of the Software for the term of the Agreement; or (iv) if none of the foregoing are possible even after Vendor's reasonable efforts, User should have the right to terminate the Agreement and the Vendor should promptly refund to User a pro rata portion of all sums paid to Vendor under the Agreement based on an agreed-upon useful life calculated from the date of User's acceptance of the Software.
- b. The foregoing obligations should commence in the event a third party claim or threatened claim causes User's reasonable use of the Software to be disrupted or seriously endangered. [*Note*: Vendor's obligations should not commence in the event User is enjoined from using the Software; as User's use of the Software may be disrupted long before the issuance of an injunction].
- c. Vendor should acknowledge that time is of the essence in any interruption of User's use of the Software.
- d. Vendor should be responsible to pay all costs incurred in de-installing the Software, removing the Software from User's premises and in transporting the Software back to Vendor's site in the event Vendor is unable to continue User's use of the Software.

XVI. SOURCE CODE

In the event a Vendor is unable to perform its obligations under the Agreement, User should be afforded the option to continue to use the Software. However, such continued use may require that User have the Software source code on site. Therefore, obligating the Vendor to deliver the source code to User upon the occurrence of certain events should be strongly considered.

User Checklist:

- a. If User desires to receive the source code, User should clearly set forth the terms governing such delivery (e.g., source code release events, use rights, etc.).
- b. Release events: Delivery should occur in the event the Vendor or its successor corporation which assumes its obligations under the Agreement (i) ceases to transact business or (ii) maintain its computer software

research, development, and support services at levels sufficient to meet its obligations and responsibilities under the Agreement on an ongoing basis.

- c. Upon the occurrence of a release event, delivery of the source code should occur within a set number of days after User's demand.
- d. User should secure the right to for it, or a third party, to use, copy, modify, maintain and enhance the source code, documents and descriptions for User's [and, if applicable, User's Affiliates] internal use only.
- e. In the event the Vendor maintains such source code with an escrow agent, require the Vendor to notify User (upon initial delivery of the Software) of the name of the escrow agent. In addition, User should require the Vendor to notify the escrow agent of the terms and conditions set forth in the source code section of the Agreement.

XVII. LIMITATION OF LIABILITY

As a Vendor will likely attempt to limit its financial exposure with restrictive language, special care should be used in reviewing this section.

User Checklist:

- a. The limitation of liability provision should *not* apply to indemnification obligations.
- b. If the Vendor insists on excluding consequential, indirect, special and incidental damages, such liability exclusion should apply mutually to both parties.
- c. The Vendor should remain open to direct damages.

XVIII. TAXES

Vendors will often initially require User to pay any taxes arising out of or related to the Agreement.

User Checklist:

- a. User should not be required to pay any taxes for which User is exempt.
- b. If requested, User could provide a copy of its tax exempt certificate to the Vendor.

XIX. MEDIATION AND ARBITRATION

Mediation and arbitration provisions can assist in reducing the costs and scope of potential litigation. If a mediation and arbitration provision is used, be sure to have the mediation and arbitration occur in the county in which User is located.

XX. GOVERNING LAW/JURISDICTION

User Checklist:

- a. The laws of User's State should govern the Agreement.
- b. In addition, be sure to exclude the application of conflicts-of-law and choice-of-law provisions.
- c. User should obtain exclusive jurisdiction in User's State and exclusive venue in the county in which User is located.

XXI. FORCE MAJEURE

This provision is intended to address non-performance due to events the risk of which should be borne by both parties. Although rarely invoked, care should be given to this clause.

User Checklist:

- a. Limit events to natural disasters and other events the risk of which should rightfully be borne by both parties (e.g., war, civil disturbance, actions or decrees of governmental bodies, acts of God).
- b. Strongly resist insertion of the phrase "events beyond the reasonable control of either party" as such phrase could be used by the Vendor as an escape clause for events which are part of the daily risk of doing business (e.g., strikes, transportation delays).
- c. Limit period of non-performance to a set number of days.
- d. Provide for termination rights in event the non-performing party is unable to perform after a certain number of days after the force majeure event.

XXII. ENTIRE AGREEMENT

The entire agreement clause is one of the most important sleeper provisions in computer contracting, for it addresses what the Vendor is willing to stand behind if anything goes wrong in the performance of the Software.

User Checklist:

- a. Make sure all exhibits and other documents which are part of the Agreement are incorporated into and made a part of the Agreement.

XXIII. MODIFICATION

The Agreement between the parties should be as written and care should be given not to allow either party to orally modify the Agreement.

User Checklist:

- a. Make sure to insert a provision stating that the Agreement may be amended or modified only in a writing signed by duly authorized officers of both User and Vendor.

XXIV. ASSIGNMENT

The Vendor may want the ability to assign its obligations and rights under the Agreement to third parties. However, User should attempt to limit the Vendor's assignment rights.

User Checklist:

- a. Provide that both parties shall not assign or subcontract all or any part of the Agreement without the written consent on the other party. If pressed by the Vendor, User could provide that such written consent will not be unreasonably withheld.
- b. If the Vendor insists on having the ability to assign its obligations to third parties, limit such assignment to cases of merger or acquisition, provided such successor entity expressly assumes all of the Vendor's obligations and rights under the Agreement.

XXV. IMPLEMENTATION AND CONTRACT MANAGEMENT ISSUES

- a.

XXVI. CONCLUSION

Although the issues and provisions addressed in this article are not intended to be exhaustive, such should provide a User with guidance and information necessary to avoid a number of common "pitfalls" in software licensing agreements.

In addition, Appendix A contains an annotated software licensing agreement which addresses issues typically found in such agreements.

APPENDIX A
(VENDOR ORIENTED AGREEMENT)

SOFTWARE LICENSE AGREEMENT

This Software License Agreement (“Agreement”) is entered into between _____ (“Licensor”) and _____ (“Customer”).

1. Definitions

- a. *Software*. The term “Software” shall mean the computer program in object code only and the user manuals described in the specifications set forth in Exhibit A.¹

2. License

- a. *Grant of License*. Licensor grants Customer, pursuant to the terms and conditions of this Agreement, a perpetual, nonexclusive, nontransferable license to use the Software.²

- b. *Authorized Equipment and Site*. Customer shall use the Software only on the computer equipment (“Authorized Equipment”)³ at the location (“Site”)⁴ listed below:

¹ Be sure to include upgrades, updates, modifications, enhancements, releases and versions (“Releases”) of the originally licensed Software within the definition of “Software”. By doing so, the warranty (e.g., right to license), indemnification and other provisions applicable to the originally licensed Software would apply to such Releases. In addition, Releases should be provided, at no additional cost, under the vendor’s Software support obligations. In the event the vendor refuses to provide all Releases at no additional cost, make sure to separately define at no cost Releases from releases the vendor may charge a fee. For this purpose, I suggest broadly defining at no cost Releases and excluding from such definition software which amounts to a new product.

² In the event your client will be paying one license fee for a perpetual license to use the Software, insert within the license grant that your client will also receive a “paid-up” license. If the vendor resists this modification, consider including language that your client would receive a “paid-up license upon payment of all license fees set forth in Exhibit A for the Software.”

³ This provision could prove very detrimental to your client! For example, if your client first uses the Software on Equipment with a “model” number of X150 and then later desires to use the Software on equipment with a “model” number of X151, your client will not have the contractual right to do so. In this event, the vendor may request (rightfully) that your client pay, for example, an “upgrade” or “transfer” fee which could be as much as the original Software license fee. Such a result will likely come as an unwelcome surprise to your client. With that in mind, in the event the equipment on which the Software will be initially used must be specifically described, be sure to insert within such description that your client may use the Software on “equivalent or greater” components (e.g., “Model Number: X150 or equivalent or greater.”). *See also* footnote 6.

⁴ In the event your client desires to use the Software beyond a specified “site” be sure to include language allowing for such use (e.g., “Customer shall use the Software only on the computer equipment (“Authorized Equipment”) at Customer’s and Affiliate sites”). The term Affiliate could be drafted to include all desired locations. In addition, vendors are usually aware of the extent to which a user wants to use the Software very early in the sales process. Therefore, it should not typically be an issue to include all desired sites after receiving the vendor’s “standard” license agreement. If it becomes an issue it will likely come at the surprise of your client.

Authorized Equipment (Manufacturer, Model and CPU):

Site:

Customer may temporarily⁵ transfer the Software to back-up computer equipment at a location different from the Site if the Authorized Equipment is inoperative for more than twenty-four (24) hours and Customer provides Licensor advance notice, in writing, identifying the new computer equipment and its location.⁶

c. *Restrictions on Use.* Customer agrees to use the Software only for Customer's own business. Customer shall not (i) permit any parent, subsidiaries, affiliated entities or third parties to use the Software, (ii) process or permit to be processed the data of any other party, (iii) use the Software in the operation of a service bureau, or (iv) allow access to the Software through any terminals located outside of Customer's Site.⁷

d. *Copies.* Customer, solely to enable it to use the Software, may make one archival copy of the Software's computer program, provided that the copy shall include Licensor's copyright and any other proprietary notices. The Software delivered by Licensor to Customer and the archival copy shall be stored at Customer's Site. Customer shall have no other right to copy, in whole or in part, the Software. Any copy of the Software made by Customer is the exclusive property of Licensor.

e. *Modifications, Reverse Engineering.* Customer agrees that only Licensor shall have the right to alter, maintain, enhance or otherwise modify the Software.⁸ Customer shall not disassemble, decompile or reverse engineer the Software's computer program.

f. *Material Terms and Conditions.* Customer specifically agrees that each of the terms and conditions of this Section 2 are material and that failure of Customer to comply with

⁵ Your client should have the right to "permanently" transfer the Software to other computer equipment as it is possible the original computer equipment will become obsolete. Further, as your client may need to immediately transfer the Software, requiring that your client be "down" for twenty-four (24) hours could be harmful to your client's business operations. In addition, although a vendor may reasonably request that your client notify them, in writing, of such a transfer, consider allowing your client the right to do so after the transfer.

⁶ Be sure to also insert language which expressly allows your client to use the Software, at no additional cost, on compatible, upgraded or successor equipment. *See also* footnote 3

⁷ Although such use limitations are common, in the event your client needs additional use rights (e.g., allowing use and access by affiliates), be sure to insert language conveying this right.

⁸ Your client should have the right to modify and maintain the Software in the event the vendor fails to perform its maintenance obligations. Language expressly conveying this right to your client could, for example, be inserted within a Source Code section in the Agreement. In addition, in the event your client lacks internal resources to so maintain the Software, you should consider inserting language allowing your client the right to have independent contractors and consultants modify and maintain the Software.

these terms and conditions shall constitute sufficient cause for Licensor to terminate this Agreement.⁹

3. Delivery, Installation, Data Conversion, Testing and Acceptance

a. *Delivery.* Licensor shall deliver the Software to Customer's Site designated in Subsection 2.b within twenty (20) days of the effective date of this Agreement.

b. *Installation.* Within ten (10) days after the effective date of this Agreement, Customer shall (i) provide at the Site the computer equipment and all required peripherals identified in Exhibit A to this Agreement, and (ii) obtain and install thereon all required third party software identified in Exhibit A to this Agreement. Customer agrees that such computer equipment, peripherals and third party software shall be installed and fully operational before Licensor begins installation of the Software. Licensor shall install the Software at the Site within the next ten (10) days. Any installation time incurred by Licensor as a result of Customer's delay or failure to comply with this Agreement shall be charged to Customer at Licensor's then-current hourly rates.¹⁰

c. *Testing.* Customer shall have thirty (30) days, commencing upon delivery of the Software,¹¹ to test the Software for substantial compliance with the specifications¹² set

⁹ This provision allows the vendor to automatically terminate the Agreement without notice or affording your client with an opportunity to cure. As such, this language is unacceptable. Be sure to insert language requiring the vendor to notify your client, in writing, of any alleged non-compliance with your client having a period of days (e.g., thirty (30) days) after receipt of such notice to correct the alleged non-compliance.

¹⁰ Consider inserting language protecting your client from implementation delays caused by the vendor. For example, you could insert language requiring that any implementation services which are delayed by the vendor would be performed by the vendor at no additional cost to your client. In addition, if there is an implementation plan created for the engagement, be sure to incorporate such document into the Agreement by reference. If the implementation document is not incorporated into the Agreement, your client may not have the contractual right to enforce such obligations in the event the vendor fails to perform such responsibilities. *Pearson v. McGowan*, 29 N.W. 176 (Minn. Sup. Ct. 1886) (prior oral agreement was superseded by subsequent written agreement although the written agreement omitted certain things that had before been agreed upon).

¹¹ Acceptance testing should rarely, if ever, start upon initial delivery of the Software. At a minimum, testing should start upon successful installation of the Software. However, please note, your client will likely desire to first test the Software in a "test" environment prior to testing and using the Software in "production". Such a testing approach will greatly reduce the likelihood of an adverse impact on your client's "production" environment. In addition, as no test environment will fully resemble your client's production environment, be sure to allow for your client to test the Software in "production" during the acceptance testing process.

¹² "Substantial" compliance is unacceptable and should not be accepted for acceptance testing purposes. In the event the Software performs 17 of the desired 20 features and functions it is likely, if not probable, that the Software would have performed in "substantial" compliance with the specifications. However, if two (2) of the desired features and functionality are materially important to your client, your client may not be able to reject the Software. Therefore, at a minimum, insist that the Software perform "in all material respects" to the acceptance criteria. Such language would enable your client to assert that the two (2) non-functioning features amount to a failure to perform "in all material respects" to the acceptance criteria. In addition, in the event the vendor has submitted a Response to Proposal and/or other performance representations to your client, be sure to include all such materials as part of the acceptance criteria. Should

forth in Exhibit A (the “Testing Period”). During the Testing Period, Customer shall provide notice to Licensor of any failure of the Software to substantially¹³ comply with such specifications. Upon receipt of such notice, Licensor shall use its best efforts to remedy the failure and install a fix within fourteen (14) days.¹⁴ If such notice is provided by Customer to Licensor, the Testing Period shall be extended through the thirtieth (30th) day after Licensor’s last receipt of notice of a failure of the Software.

e. *Acceptance.* Acceptance shall occur (i) upon Customer’s delivery of notice to Licensor that the Software substantially complies¹⁵ with the specifications set forth in Exhibit A, or (ii) if Customer does not provide notice of a failure of the Software within the Testing Period.¹⁶

4. License Fee

a. *In General.* In consideration for the license granted by Licensor under this Agreement, Customer shall pay Licensor a fee as set forth in Exhibit B (the "License Fee").

b. *Payment Terms.* Each installment of the License Fee shall be due and payable in accordance with the Payment Schedule set forth in Exhibit B. All amounts not paid within ten (10) days of the due date shall bear interest at the rate of one and one-half percent (1.5%) per month, or at the highest rate allowed by law, whichever is less, from the date due until paid.¹⁷ Failure of Customer to pay any amounts when due shall constitute sufficient cause for Licensor to terminate this Agreement.¹⁸

such documentation be too voluminous to attach to the Agreement, be sure to specifically reference such documentation and incorporate such within the Agreement. If such performance representations are not incorporated into the Agreement, your client will lack the contractual right to claim a breach in the event the Software fails to conform to such representations. *See* footnote 10. In addition, incorporating such performance representations will enable your client to include such performance representations not only as a part of the acceptance testing criteria, but also as a part of the post-acceptance performance warranty. *See* footnote 23.

¹³ *See* footnote 12.

¹⁴ Although this provision may appear harmless, it is possible the vendor will be unable to provide a “fix” even after using its best efforts. Should that occur, the vendor would not be in breach of the Agreement as long as the vendor has used its “best efforts” to remedy the failure. To protect from such a result, you could revise this sentence as follows: “Upon receipt of such notice, Licensor shall have fourteen (14) days to remedy the failure and install a fix.” In addition, be sure to include language that the provision of such “fixes” will be at no cost to your client.

¹⁵ *See* footnote 12.

¹⁶ Be sure to include language allowing your client to terminate the Agreement in the event the Software is not accepted. In addition, should your client terminate the Agreement due to non-acceptance, the vendor should refund “all sums” paid by your client.

¹⁷ Past due interest should never apply to “disputed” amounts. In addition, insert language that the vendor will invoice your client in accordance with the payment schedule set forth in Exhibit B and such invoices shall be due within thirty (30) days after your client’s receipt of such invoices.

¹⁸ This provision may prove very harmful to your client! First, this provision should only apply to “undisputed” amounts. Second, your client should be provided with no less than thirty (30) days prior written notice of the failure to pay undisputed sums prior to the vendor having the right to terminate the Agreement. In addition, you should strongly consider inserting language allowing your client to withhold “disputed” amounts without the vendor having the right to terminate the Agreement or take any other

c. *Taxes.* Customer shall, in addition to the other amounts payable under this Agreement, pay all sales, use, value added or other taxes, federal, state or otherwise, however designated, which are levied or imposed by reason of the transactions contemplated by this Agreement.¹⁹

5. Ownership

a. *Title.* Customer and Licensor agree that Licensor owns all proprietary rights, including patent, copyright, trade secret, trademark and other proprietary rights, in and to the Software and any corrections, bug fixes, enhancements, updates or other modifications, including custom modifications, to the Software, whether made by Licensor or any third party.

b. *Transfers.* Under no circumstances shall Customer sell, license, publish, distribute, or otherwise transfer to a third party the Software or any copy thereof, in whole or in part, without Licensor's prior written consent.

6. Confidential Information

Customer agrees that the Software contains proprietary information, including trade secrets, know-how and confidential information that are the exclusive property of Licensor. During the period this Agreement is in effect and at all times after its termination, Customer and its employees shall maintain the confidentiality of this information and not sell, license, publish, display, distribute, disclose or otherwise make available this information to any third party nor use such information except as authorized by this Agreement. Customer shall not disclose any such proprietary information concerning the Software, including any flow charts, logic diagrams, user manuals and screens, to persons not an employee of Customer without the prior written consent of Licensor.^{20/21}

7. Use and Training

adverse action against your Client due to such withholding. Lastly, you should also strongly consider inserting language requiring the vendor, unless otherwise requested by your client, to continue to perform fully under the Agreement during the resolution of the dispute.

¹⁹ You should exclude taxes based on the vendor's income. In addition, if your client is a tax exempt entity, be sure to exclude taxes from which your client is exempt.

²⁰ Your client may need the right to disclose the Software to independent contractors and agents in the event the vendor fails to provide support services. Therefore, consider inserting language allowing for such disclosure rights. In addition, to protect your client (and appease the vendor) you could include language requiring such independent contractors and agents to first execute a non-disclosure agreement prior to gaining access to the Software.

²¹ As it is likely your client will disclose its own confidential information, be sure to insert confidentiality language protecting your client.

Customer shall limit the use of the Software to its employees²² who have been appropriately trained. Licensor shall provide, at a mutually convenient time, a _____ () day training program at no charge at Customer's Site for up to _____ () employees of Customer.

8. Warranty

a. *Scope of Warranty.* Licensor warrants to Customer that for a period of ninety (90) days commencing upon Acceptance the Software will substantially comply with the specifications set forth in Exhibit A.²³ During this warranty period, Licensor shall also provide Customer the support and maintenance services set forth in Exhibit C.²⁴ After expiration of the warranty period, Licensor shall provide support and maintenance services set forth in Exhibit C.^{25/25.1}

b. *Disclaimer of Any Other Warranty.* THE LIMITED WARRANTY SET FORTH IN SUBSECTION 8.a²⁶ IS IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

9. Limitations Period

²² Be sure to consider whether “non-employees” (e.g., visiting physicians, etc.) will need to use the Software. If non-employees need to use the Software as much as employees, you could broadly define allowable users within the Definition section of the Agreement.

²³ Although a ninety (90) day post-acceptance performance warranty period may appear acceptable, you should consider extending the warranty protection for as long as your client is under maintenance. By doing so, your client will have the option of receiving warranty protection throughout (if not beyond) the perceived “useful life” of the Software.

²⁴ Maintenance services provided during the Warranty Period (the initial ninety (90) days after acceptance) should be provided at no cost to your client. This would prevent the vendor from charging your client for warranty fixes.

²⁵ In addition to a performance warranty, you must include a warranty that the vendor is the lawful owner of the Software or, if not the lawful owner, the vendor has all rights necessary to license the Software to your client under the terms of the Agreement. Further, consider inserting the following additional “standard” warranties to protect you client: (i) that the vendor used it’s best efforts to scan for viruses within the Software; (ii) a year 2000 warranty; (iii) that the Software will comply with all applicable federal, state and local laws and regulations; (iv) that the Software will not infringe on third party intellectual property rights; and (v) a no disabling code warranty. Such additional protection may protect your client not only from the unknown, but also from the unthinkable. For example, software programmers have been known to include intentional bugs or time bombs into their programs to deactivate a user’s software at a specified event or time (e.g., failure to pay monies under the agreement or the user has otherwise allegedly failed to comply with the agreement). Such acts have been so negatively viewed by some courts they have imposed punitive damages. *See* Werner v. Lewis, N.Y.L.J., Aug. 4, 1992 (N.Y., Civ. 1992) (court assessed punitive damages against a programmer for intentionally disabling a computer program).

^{25.1} As the vendor will be performing maintenance services, consider also inserting warranty terms applicable to such services (e.g., that all maintenance services provided under the Agreement will be performed in a good and workmanlike manner consistent with industry practices).

²⁶ To give effect to any other “express” warranties within the Agreement, you should delete the words “THE LIMITED WARRANTY SET FORTH IN SUBSECTION 8.a. IS IN LIEU OF . . .” and insert in its place “THE WARRANTIES SET FORTH IN THIS AGREEMENT ARE IN LIEU OF . . .”.

No arbitration or other action under this Agreement, unless involving death or personal injury, may be brought by either party against the other more than one (1) year after the cause of action arises.²⁷

10. No Consequential Damages

Licensor shall not be liable to Customer for indirect, special, incidental, exemplary or consequential damages (including, without limitation, lost profits) related to this Agreement or resulting from Customer's use or inability to use the Software, arising from any cause of action whatsoever, including contract, warranty, strict liability, or negligence, even if Licensor has been notified of the possibility of such damages.²⁸

11. Limitation on Recovery

Under no circumstances shall the liability of Licensor to Customer exceed the amounts paid by Customer to Licensor under this Agreement.²⁹

12. Indemnification

Licensor shall indemnify and defend³⁰ Customer from and against any claims, including reasonable legal fees and expenses, based upon a valid³¹ claim that the Software infringes

²⁷ This provision could come back to harm your client. Under Minnesota law, a cause of action for a breach of a sales agreement accrues when the breach occurs, regardless of the non-breaching party's lack of knowledge of the breach. Minn.Stat. § 336.2-725(1), (2). Should a breach be latent or otherwise not known, the above one-year limitation period could pass prior to your client's discovery of the breach. Please note, under Minnesota law, transactions involving the licensing of software are considered transactions in goods within the Uniform Commercial Code ("UCC"). *Valley Paving, Inc. v. Dexter & Chaney, Inc.*, 2000 WL 1182800 (Minn.App. Aug. 22, 2000). Even where such transactions involve services (e.g., support), the UCC will govern unless such services are the predominant element of the agreement. *Valley Farmer' Elevator v. Lindsay Bros. Co.*, 398 N.W.2d 553, 556 (Minn. 1987). The UCC contains a four-year statute of limitations period for any action for breach of a sales agreement.

²⁸ A vendor's indemnification obligation should be excluded from any limitation of liability cap. This is fair as the vendor is in the best position to know whether it's Software may be infringing and your client should not have to establish that it's damages incurred by any such lawsuit were directly caused by the inability to use the Software. Further, any limitation of liability provision should be reciprocal. In addition, also consider excluding from any liability cap damages to "property", confidentiality breaches and damages arising from tortious conduct.

²⁹ This provision is unacceptable and should be resisted. At a minimum, the vendor should remain open for "direct" damages. This language, on the other hand, could lessen any direct damage recovery amount obtainable by your client. In addition, in the event the vendor must have a "direct liability cap", be sure to make such reciprocal and also consider excluding from such a cap the vendor's indemnification obligation, etc.. *See* footnote 28.

³⁰ In addition to the obligation to indemnify and defend your client, vendor should also "hold harmless" your client from such claims. The language "hold harmless" would require the vendor to reimburse your client for all expenses, costs, damages, claims, losses and liabilities, including costs and reasonable attorneys fees, regardless of who wins a third party infringement suit.

³¹ Whether an infringement claim is "valid" will likely be litigated and, consequently, may take years to determine whether such claim was valid. In addition, if the vendor and third party claimant enter into a "no fault" settlement, the validity of such claim may never be known. Obviously, the need to be protected against infringement claims arises when the claim is brought and not after the claim is resolved. Therefore, your client should be protected from "all" infringement claims. As the vendor is in the best position to

on any copyright or patent;³² provided Customer promptly notifies Licensor of any such claim in writing, allows Licensor to control the proceedings and Customer fully cooperates with Licensor during such proceedings.³³ In the event a court finally determines that the Software infringes on any United States copyright or patent,³⁴ Licensor may replace, in whole or in part, the Software with a substantially compatible and functionally equivalent computer program or modify the Software to avoid the infringement.

13. Term and Termination

a. *Effective Date.* This Agreement and the license granted hereunder shall take effect upon the date that the last party executes this Agreement.

b. *Termination.* Each party shall have the right to terminate this Agreement and the license granted herein upon the occurrence the following events (an "Event of Default"):

(i) In the event the other party violates any provision of this Agreement; or

(ii) In the event the other party (A) terminates or suspends its business, (B) becomes subject to any bankruptcy or insolvency proceeding under Federal or state statute, (C) becomes insolvent or subject to direct control by a trustee, receiver or similar authority, or (D) has wound up or liquidated, voluntarily or otherwise.³⁵

know whether it's software may infringe on third party rights, the vendor should assume the risk of all infringement claims.

³² An indemnification obligation limited to patents and copyrights is unacceptable. Software developers often seek to protect their software through "trade secret" protections. In addition, software may also, for example, be protected by contract. Therefore, this language should be modified as follows: "based on any claim that the Software infringes on any copyright, patent, trademark, trade secret or any other third party proprietary right."

³³ In the event your client does not "promptly" notify the vendor of the claim, this provision could be used by the vendor to avoid it's indemnification obligations. Therefore, resist language placing a "condition" on such indemnification obligations.

³⁴ This language is unacceptable as your client's ability to use the Software may be jeopardized long before a "court finally determines" that the Software was infringing. Therefore, insert language requiring the vendor to take reasonable steps to continue your client's use of Software in the event your client's right to use the Software is endangered. Further, insert language allowing your client to terminate the Agreement and obtain an equitable "refund" in the event the vendor is unable to continue your client's use of the Software. Lastly, be sure to include language stating that the vendor's indemnification obligations survive the termination, non-renewal, recession or expiration of the Agreement.

³⁵ An express insolvency/termination clause may not be enforceable under the United States Bankruptcy Code ("Code"). However, the Code does allow bankrupt vendors to reject executory contracts which are a burden to the estate. 11 U.S.C. § 365 (a). For bankruptcy purposes, a contract is executory if both parties still have at least minimal performance obligations under the contract. The Code does provide some protection for software licensees in the event of such a rejection, by allowing the licensee to elect to retain all of it's rights under the contract for the term of the contract or, to sue for an unsecured breach of the contract. 11 U.S.C. § 365(n). In the event the licensee elects to retain it's rights under the contract, the bankrupt licensor shall be relieved of it's affirmative obligations under the contract (e.g., maintenance, training, etc.). *Id.*

c. *Notice and Opportunity to Cure.* Upon the occurrence of an Event of Default, a party shall deliver to the defaulting party a Notice of Intent to Terminate that identifies in detail the Event of Default. If the Event of Default remains uncured for thirty (30) days, the party may terminate this Agreement and the license granted herein by delivering to the defaulting party a Notice of Termination that identifies the effective date of the termination, which date shall not be less than thirty (30) days after the date of delivery of the Notice of Intent to Terminate.

d. *Procedure.* Within ten (10) days after termination of the license, Customer shall return to Licensor, at Customer's expense, the Software and all copies thereof, delete or destroy all other copies of the Software, and deliver to Licensor a certification, in writing signed by an officer of Customer, that the Software has been returned, all copies deleted or destroyed, and its use discontinued.

14. Assignment

Customer shall not assign or otherwise transfer the Software or this Agreement to anyone, including any parent, subsidiaries, affiliated entities or third parties, or as part of the sale of any portion of its business, or pursuant to any merger, consolidation or reorganization, without Licensor's prior written consent.³⁶

15. Force Majeure

Neither party shall be in default or otherwise liable for any delay in or failure of its performance under this Agreement if such delay or failure arises by any reason beyond its reasonable control, including any act of God, any acts of the common enemy, the elements, earthquakes, floods, fires, epidemics, riots, failures or delay in transportation or communications, or any act or failure to act by the other party or such other party's employees, agents or contractors.³⁷ The parties will promptly inform and consult with each other as to any of the above causes which in their judgment may or could be the cause of a delay in the performance of this Agreement.

16. Notices

³⁶ Consider modifying this provision to make it apply mutually to both parties. Your client will likely be entering the Agreement based on prior experience or a perceived comfort level with the vendor and its personnel. Consequently, your client should not be forced to work with a new vendor without first having the opportunity to reject such assignment. A fall back position would be to allow the assignment of the Agreement and underlying obligations and rights in the event of "a merger or acquisition of all or substantially all of the assets of the assigning party".

³⁷ Force majeure clauses are often given less attention and consideration than necessary. Force majeure provisions can be used by a vendor to have a user equally assume all of the vendor's risks of doing business (e.g., delay in delivery of the vendor's vendors; strikes, etc.). Therefore, force majeure provisions should only contain events the occurrence of which is both equally unpredictable and unpreventable from both parties (i.e., acts of God). In addition, you should also consider inserting a time period (e.g., 30 or 60 days) for the party so affected to resume performance. In the event performance has not re-commenced within such time frame, the non-affected party should have the right to terminate the Agreement and seek remedies under the Agreement.

All notices under this Agreement are to be delivered by (i) depositing the notice in the mail, using registered mail, return receipt requested, addressed to the address below or to any other address as the party may designate by providing notice, (ii) overnight delivery service addressed to the address below or to any other address as the party may designate by providing notice, or (iii) hand delivery to the individual designated below or to any other individual as the party may designate by providing notice. The notice shall be deemed delivered (i) if by registered mail, four (4) days after the notice's deposit in the mail, (ii) if by overnight delivery service, on the day of delivery, and (iii) if by hand delivery, on the date of hand delivery.³⁸

LICENSOR:

Attention:
Address:

CUSTOMER:

Attention:
Address:

17. General Provisions

a. *Complete Agreement.* The parties agree that this Agreement is the complete and exclusive statement of the agreement between the parties, which supersedes and merges all prior proposals, understandings and all other agreements, oral or written, between the parties relating to this Agreement.³⁹

b. *Amendment.* This Agreement may not be modified, altered or amended except by written instrument duly executed by both parties.⁴⁰

³⁸ Notice provisions are common and appropriate. However, make sure you advise your client that a “phone call”, “face-to-face discussions” and “e-mails” may not be considered sufficient notice under the Agreement.

³⁹ Integration clauses are used not only to expressly reference all agreement terms, but also to exclude terms which are not part of the Agreement. Terms which are not made part of the Agreement will be unenforceable. *Lehman v. Stout*, 261 Minn. 384, 389-91, 112 N.W.2d 640, 643-45 (1961)(where the court held that a party could not claim contractual rights which were not specified in their agreement); *United Artists Com. v. Corporate Pro.*, 410 N.W.2d 39, 42 (Minn. App. 1987)(“. . . [t]he [parol evidence] rule forbids to add by parol [oral agreement] were the writing is silent, as well as to vary where it speaks.”) *see also Pearson v. McGowan*, 29 N.W. 176 (Minn. Sup. Ct. 1886) (prior oral agreement was superseded by subsequent written agreement although the written agreement omitted certain things that had before been agreed upon). Consequently, make sure all documents and other terms which are a part of the parties agreement are incorporated into the Agreement and deemed a part thereof.

⁴⁰ Under Minnesota law, a contract containing a “non-oral modification” provision may be orally modified by the parties. *Larson v. Hill’s Heating & Refrig. of Bemidji*, 400 N.W.2d 777, 781 (Minn. App. 1987) (a written contract can be varied or rescinded by oral agreement of the parties, even if the contract provides

c. *Waiver.* The waiver or failure of either party to exercise in any respect any right provided for in this Agreement shall not be deemed a waiver of any further right under this Agreement.

d. *Severability.* If any provision of this Agreement is invalid, illegal or unenforceable under any applicable statute or rule of law, it is to that extent to be deemed omitted. The remainder of the Agreement shall be valid and enforceable to the maximum extent possible.

e. *Governing Law.* This Agreement and performance hereunder shall be governed by the laws of the State of _____.⁴¹

f. *Read and Understood.* Each party acknowledges that it has read and understands this Agreement and agrees to be bound by its terms.

[* In addition to the terms of this Agreement, you should consider adding, for example, Medicare access language (if your client is a provider of services to Medicare participants); a use of name provision limiting the vendor's right to use your client's name and the name of its personnel; if applicable, specific HIPAA warranty language and corresponding "Business Associate" language; a source code provision allowing your client access to the source in the event the vendor fails to support the software; and mediation and arbitration language.]

that it shall not be orally varied or rescinded). The party claiming that a written contract provision has been modified by a oral agreement has the burden of showing such modification by clear and convincing evidence. *Kavanagh v. The Golden Rule*, 33 N.W.2d 697, 700 (Minn. 1948); *Merickel v. Erickson Stores Corp.*, 95 N.W.2d 303, 305 (Minn. 1959).

⁴¹ Be sure to insert not only the law of the State in which your client is located, but also that both parties consent to the personal jurisdiction of such State and to the exclusive venue of the county in which your client is located.

AGREED:

LICENSOR:

CUSTOMER:

Signature

Signature

Name

Name

Title

Title

Address

Address

Date

Date

**EXHIBIT A TO
SOFTWARE LICENSE AGREEMENT**

Specifications

1. Software

a. *Computer Program*

[insert specifications for computer program, including hardware and third party software requirements]

**EXHIBIT B TO
SOFTWARE LICENSE AGREEMENT**

License Fee and Payment Schedule

1. License Fee

The License Fee shall be \$_____.

2. Payment Schedule⁴²

a. Payment due upon effective date of Agreement: \$_____

b. Payment due upon delivery of Software to Customer: \$_____

c. Payment due upon Acceptance: \$_____

⁴² Although such a payment schedule is better than most, be sure to withhold a meaningful percentage until acceptance. Such will provide the vendor with the incentive to perform through such date. In addition, the vendor should invoice your client on the foregoing dates with payment being due within thirty (30) days after your client's receipt of invoice.