

Pitfalls to Avoid in Indemnification Clauses in Tech Licensing / SaaS Agreements

Indemnity is one of the key issues in any licensing transaction and should be carefully reviewed. A quick overview and some thoughts on this important topic.

When it comes to commercial agreements, a key component that is often included is an indemnification provision. This is essentially an obligation for the licensor to be held responsible for any losses that can happen if an issue arises (sometimes the licensor can get an indemnity from the customer as well, but this is less common). For example, if you were to license a piece of tech, and there was an inherent flaw that ended up causing a data breach, the indemnification clause would clarify that you are responsible for things like legal fees or damages to the third party. While having an indemnification clause is a pretty standard part of tech-licensing contracts, there are some potential parts of a clause that can lead to greater issues. Here are some examples.

As a start, if you are the licensee, you want to make sure that indemnification isn't simply a temporary provision until the end of the initial agreement. For example, you may use a piece of software for a set indemnification period with no problems, only for the licensing contract to end. If the indemnification clause only applies to that initial licensing agreement term and if you were to suddenly be hit with an IP lawsuit after the term, you might not have any recourse against the licensor. As a result, make sure that the indemnification extends beyond your initial contract.

In general, for licensing agreements, the bulk of the potential pitfalls that you will find regarding indemnification clauses are based around IP issues. For example, some clauses include the provision that a tech licensor won't indemnify you if the IP rights that an infringement claim is based on are issued/registered after the initial agreement date. This may sound fair on paper, but you need to realize that even if the rights are registered after your contract is up, you can still get sued, and without that protection, you will be caught defending the claim out of pocket.

International businesses also need to take extra care to read the fine print when it comes to indemnification clauses. Very often a tech licensor will limit its indemnification obligations to violations of US laws. If you distribute products with the licensed tech in other countries, you could be liable for any claims. As IP laws can differ from country to country, you may want to consider whether or not you should insist that the licensor be responsible for foreign claims. In some cases, a licensor may resist indemnifying abroad, so your ability to obtain this protection will depend on your leverage.

Even if the agreement has indemnification provisions, you need to carefully consider how they are implemented. For example, does the licensor take care of the attorneys' fees and defend the claim, or simply reimburse you once the claim is "finally" awarded? In the latter case, you may not get compensated until the final lawsuit judgment is rendered, which could take years.