Software License Disputes: Managing the Inherent Risks
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This Note discusses key issues and sets out practical tips for licensees and licensors to help anticipate and manage the risk of disputes that commonly arise in software license arrangements.

Many companies outsource the development of the software they rely on to help run critical business systems more efficiently and manage their operations cost-effectively. While licensing third-party owned software can be an effective business strategy, any sudden suspension or termination of the software license by the licensor due to a dispute with the licensee may significantly harm the licensee's ability to conduct its business.

For licensors, disputes with licensees that result in the nonpayment or setting-off of license fees deprives them of critical operating revenue necessary to recoup their costs for developing that software, as well as to invest in the development new products and services.

This Note examines:

- The business risks for each party when a dispute arises (see Business Risks when Software License Disputes Occur).
- Key provisions that typically lead to disputes between licensors and licensees (see Key Provisions that Lead to Software License Disputes).
- Steps that licensees and licensors often can take when negotiating the software license agreement to minimize the risk of harm that could be caused by a dispute between them (see Common Steps to Manage the Risk of Software License Disputes).
- Recent case law relevant to some of the key issues discussed in this Note (see Relevant Case Law).

BUSINESS RISKS WHEN SOFTWARE LICENSE DISPUTES OCCUR

RISKS FOR LICENSEES

The suspension or termination of a software license due to a dispute with the licensor can significantly disrupt the licensee's business in several ways, including:

- Disruption to operations. Many companies license complex software to help run core operational systems such as enterprise resource planning (ERP), customer relationship management (CRM) and project management systems. For these businesses, suspending or terminating a license for these types of software could dramatically interrupt their operations, as alternative measures may be less effective and integrating them can be time consuming.
- Disruption to cash flow. Companies that rely on licensed software to run their online payment or e-commerce systems could suffer significant financial disruption if they cannot accept and process purchases from their customers. For example, a bank uses a hosted on-line payment system. If after a dispute the third-party host terminates the bank's license, the bank may have no alternative in place that has been developed, tested and can be quickly implemented.
- Customer service degradation. Companies that license customer-facing applications can be especially burdened...
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by any disruption caused by a dispute with the licensor. For example, if a company had a robust customer-facing website that includes a licensed search tool that allows customers to search and find information on the website, a termination of that license could make the entire website extraordinarily difficult to navigate.

- **Increased administrative burdens.** For companies that use software to help streamline business processes and drive efficiency, any disruption in access to this software could force these companies to devote more personnel and other resources to address any increased administrative work. From a business continuity standpoint, the resulting costs for these companies can include:
  - slowdowns in new product or service innovation due to shifting of internal resources;
  - delays in selling to new customers or expanding into new markets; and
  - hiring additional personnel to manually perform previously automated administrative tasks.

**RISKS FOR LICENSORS**

The Licensor too may suffer significant harm to its business if a dispute arises, including:

- **Disruption to cash flow.** Licensors rely on income from licensed software to fund their operations, including research and development of new products and support services for existing products.

- **Disruption to customer service.** A licensor may need to divert internal resources and attention to address a dispute, which may compromise its ability to effectively support its other customers. Any resulting reduction in customer service efficiency as a result could damage the Licensor’s reputation.

- **Loss of investment.** A licensor may have invested considerable resources in developing software for the licensee which may not be easily marketable to other potential licensees.

**KEY PROVISIONS THAT LEAD TO SOFTWARE LICENSE DISPUTES**

Parties to a software license agreement often carefully negotiate the business terms of the arrangement. However, they often overlook how the language used to set out the terms could be interpreted differently in the future and, as a result, give rise to a dispute. Whether a licensee is in compliance with the terms of the license agreement is often a close call. The language in the license agreement itself can sometimes fuel the disagreement, rather than help resolve it.

Key provisions in a software license agreement that often lead to disagreements include:

- Scope of permitted access and use of the licensed software by the licensee (see *Scope of Permitted Access and Use*).

- Pricing and payment of license fees (see *Pricing and Payment of License Fees*).

- Third-party access and use of the licensed software (see *Third-party Access and Use*).

- Geographic limitations on the licensee’s use of the licensed software (see *Geographic Limitations*).

- Updates, improvements and other modifications to the software (see *Updates, Improvements and Other Modifications to the Software*).

- Restrictions on the licensee’s right to transfer or sublicense the software (see *Restrictions on Transferring or Sublicensing the Software*).

**SCOPE OF PERMITTED ACCESS AND USE**

Software license agreements typically limit the:

- Extent to which the licensee may access the software.

- Purposes for which a licensee is permitted to use the software.

A licensor often structures these limitations in the software license agreement to reflect the software’s intended purpose and accommodate the licensor’s business model and pricing practices.

**Accessing the Software**

Licensors typically seek to limit the extent to which licensees can access the software. For example, they may permit the licensee to access the software only:

- On a single computer, or a specific number of computers, at any given time.

- At certain specified facilities of the licensee.

- On computers or networks running on specific operating systems or hardware platforms.

The parties may dispute the nature of these restrictions if the software license agreement does not clearly set them out. Disputes can also arise when the needs of the licensee change (such as a move to a new operating system) and the agreement does not include a mechanism to accommodate the resulting shift in how the licensee uses the software.

Licensors also sometimes limit the scope of a license to no more than a maximum number of users. Disputes often arise, however, in arrangements where the software license agreement fails to clarify if the limitation is meant to cap either:

- The total number of users that may access the software.

- Just the number of users that may access the software at a given point in time.

**Permitted Use**

Licensors usually limit the scope of how licensees can use the software by inserting a permitted use clause in the software license agreement. A permitted use clause can generally limit a licensee to using the software for “internal use only” or, alternatively, set out specific examples of permitted uses. For example, the provision may include language allowing for back office processing for the license, but not for processing...
of information from the licensee’s clients. For an example of a standard permitted use provision, see Standard Document, Software License Agreement (Pro-Licensor) (Section 3.2) (www.practicallaw.com/7-505-1335).

However, the language setting out these limitations can sometimes be vague. For example, a licensee could interpret the term “internal use only” to allow it to, among other things:

- Provide its customers, independent contractors, advisors or other third-party consultants with access to the software (as opposed to only the licensee’s employees) (see Third-party Access and Use).
- Use the software for customer-facing web applications or to remotely interface with its customers.
- Process information or perform tasks on behalf of its own customers.

Licensees should be wary that licensors may bring a claim for copyright infringement in addition to a claim for breach of contract if it is alleged the licensee exceeded its permitted use (see Madison River Mgmt., Co. v. Business Mgmt. Software, Corp.).

PRICING AND PAYMENT OF LICENSE FEES

Pricing and payment terms are among the most common provisions in software license agreements that lead to disputes. Issues that often arise in this context include:

- Vague or ambiguous price structure that can be interpreted differently by each party.
- The provision of additional services, for example, installation, testing or training, of which the cost and payment terms are not clearly articulated in the agreement.
- Lack of clarity on which party is responsible for paying sales and use taxes imposed on the license and the use of the licensor’s software.
- Charging and collecting interest on recurring payments that the licensee fails to pay when due.
- The licensee’s ability, without incurring late payment charges or other penalties, to dispute invoices that the licensee argues are incorrect.

THIRD-PARTY ACCESS AND USE

Disputes can arise in situations where a licensor anticipates that only certain types of individuals associated with the licensee are permitted to access the software, but the software license agreement is silent or otherwise fails to clearly set out this limitation.

The most common situation involves licensors that look to allow only the licensees’ employees, instead of their third-party agents, contractors or advisors, to access the software. This type of restriction can be especially troublesome for licensees that rely heavily on independent contractors, instead of employees, to handle tasks relevant to the software’s intended purpose.

Compliance Source Inc. v. GreenPoint Mortgage Funding Inc. is a notable example (2010 WL 4056112 (5th Cir., 2010)). In this case, the US Court of Appeals for the Fifth Circuit held that the licensee breached the terms of a software license by allowing its outside counsel to access and use the licensed software (see Compliance Source Inc. v. GreenPoint Mortgage Funding Inc.).

In addition, conflicts often ensue when a software license agreement does not address the means by which authorized users would be identified (for example, by listing out specific employees in an attached exhibit), if required by the licensor.

GEOGRAPHIC LIMITATIONS

Licensors also sometimes limit the scope of the license by including language allowing the licensee to use the software only in a specific geographic territory, jurisdiction or market. Given that many companies operate globally, however, conflicts may occur when the provision is ambiguous on whether:

- The licensee is merely required to store the software in a designated location.
- Only users physically located in that designated location are permitted to use the software.

Loose geographical descriptions can also lead to disagreements. For example, an agreement may define the applicable territory as “Europe,” without clarifying whether to include only European Union (EU) countries in the defined territory or EU countries plus others belonging to the European Free Trade Association.

UPDATES, IMPROVEMENTS AND OTHER MODIFICATIONS TO THE SOFTWARE

Licensors commonly provide software maintenance updates and other improvements as part of the software licensing arrangement, at no additional charge, to licensees. A licensee’s expectations about what this service includes or entails may significantly differ from the licensor’s when the relevant provision does not:

- Affirmatively disclaim any obligation for the licensor to provide software updates and releases.
- Adequately define the types of software updates and releases that the licensor may provide.
- Clarify that the licensee is not entitled to obtain new releases (also sometimes called new versions) under the software license agreement. A new release is a software release that the licensor distinguishes from updates and other improvements by:
  - marketing it as a distinct licensed product; and
  - making it subject to a separate license.
- Distinguish maintenance releases from software support services, which involve the licensor responding to specific problems that a licensee may have in using the software.
RESTRICTIONS ON TRANSFERRING OR SUBLICENSING THE SOFTWARE

Software license agreements usually restrict the licensee from transferring or sublicensing the software to third parties. However, licensors sometimes permit licensees to transfer or sublicense the software, for example, when the licensee:

- Merges with or is reorganized into other related parties such as subsidiaries or entities that share a common owner with the licensee.
- Must provide key third-party agents or contractors with access to the software to enable them to undertake certain operational tasks central to the licensee’s business.
- Enters into a joint venture and must sublicense the software product to the joint venture entity.

Conflicts often happen in these circumstances when:

- The licensee sublicenses or transfers the license to a third party as permitted in the software license agreement, but fails to properly notify the licensor or take other steps required under the agreement to ensure the licensor can enforce its terms against the sublicensee or transferee.
- A sublicensee or transferee breaches the software license agreement and the licensor and licensee disagree on when or how the licensee must indemnify the licensor for the breach.
- The parties cannot agree on the amount or payment of additional license fees to the licensor for any third-party use of the software.
- The licensee allegedly fails to comply with a change of control provision when assigning its license to a third party that acquires the licensee's business, whether through an asset sale or a stock acquisition.

COMMON STEPS TO MANAGE THE RISK OF SOFTWARE LICENSE DISPUTES

To help minimize the risk of disruption to its business and liability to the licensor in connection with a dispute, licensees and licensors should consider taking specific steps when negotiating a software license agreement.

FOR LICENSEES

Making the License Irrevocable

The parties can make a license irrevocable by describing the license as “irrevocable” in the license grant section of software license agreement. Unless a license is irrevocable, the licensor can terminate in the event that the licensor determines that the licensee is in breach. Even a “perpetual” license puts the licensee at risk of not being able to use the licensed product if a dispute arises.

In the event of a breach, if a license is irrevocable, the licensor can sue for damages, but cannot prevent the licensee from continuing to use the licensed product. A commonly cited example is Nano-Proprietary Inc. v. Canon Inc., where the Fifth Circuit held that a license could not be terminated even though there was a clear breach by the licensee of the right to sublicense the intellectual property (537 F. 3d 394 (5th Cir. 2008)).

However, licensees should note that an irrevocable software license may not include a termination clause.

Restrictions on Terminating or Suspending Access to Software

If a license dispute cannot be resolved by negotiation, licensors will typically suspend access to the software or give notice of termination of the license. In this situation, the licensee’s only recourse may be to file a lawsuit for a declaratory judgment and request an injunction to keep the license in place pending a final determination of the dispute.

For licensees, however, there is a possible solution to avert any risk of disruption. The licensee can negotiate to include a clause in the software license agreement that allows the licensor to suspend or terminate the license only after the conclusion of a dispute resolution process from which the licensee is determined to have breached the agreement. Alternatively, the licensee can minimize its risk by:

- Limiting the licensor’s ability to terminate only for material breaches.
- Defining “material” in the agreement, for example, by referring to specific provisions or to multiple breaches within a certain period.

Source Code Escrow Arrangements

Licensees sometimes negotiate a third-party source code escrow arrangement to hedge against the licensor’s dissolution or failure to maintain the software. In this arrangement, licensees request that the licensor place the software source code and related documentation into escrow with a third-party escrow agent during the term of the agreement. The escrow would then be released to the licensee in the event the licensor:

- Experiences financial distress.
- Ceases to operate.
- Fails for any reason over a period of time to maintain or update the software as required under the software license agreement.

A source code escrow arrangement should be agreed to and included in the software license agreement, as licensors typically demand further consideration for placing the source code in escrow at any time following the execution of the license agreement. The escrow clause should also detail the specific events that would trigger the licensee’s right to obtain and use the software source code.

Requiring the Licensor to Use Open-source Software

Open-source software (OSS) is computer software in source code form that is licensed to the general public at no charge under a
copyright license that conforms to a set of standard criteria. By requiring a licensor to use OSS, a licensee can:

- Limit its licensing costs.
- Speed up product development.
- Obtain access to third-party improvements.

More importantly, the licensee would then be able to minimize disruption in the transition to another software vendor familiar with the OSS platform.

However, licensors may strongly resist using OSS because its use can affect the proprietary nature of the licensor’s intellectual property. By placing the licensor’s proprietary software in the public domain as OSS, the commercial value of the software would be devalued or destroyed. For more information on OSS generally, see Practice Note, Open-source Software (www.practicallaw.com/0-500-4366).

Audit Restrictions

While unrestricted audits of a licensee’s premises, equipment, records and personnel can disrupt the licensee’s normal operations, they can also create financial risk to licensees by incentivizing licensors to over aggressively uncover and charge for alleged violations of the license agreement (such as excess use). A licensee should consider negotiating timing and remedial restrictions into any such provision in the software license agreement to cap the timing and number of audits and restrict the remedies for discrepancies. For example:

- Allowing the licensor to conduct audits only during the term of the software license agreement.
- Prohibiting the licensor from undertaking any audits following the expiration or termination of the agreement.
- Restricting any successors to the licensor from conducting an audit until a purchase agreement between the licensor and successor has been executed, to prevent a stream of potential successors from conducting audits.
- Permitting the licensor to conduct only a limited number of audits during a specified period, such as once every 12 months.
- Allowing the licensor to collect additional license fees only if the licensee’s use exceeds a specific threshold.
- Requiring the licensor to reimburse the licensee for any costs the licensee incurs in cooperating with the audit, if no discrepancies are found or such discrepancies amount to less than the specified threshold.

FOR LICENSORS

Front Loading Payments of License Fees

The form of payment terms in software license agreements can vary, but the licensor can reduce the licensee’s leverage of withholding payment when a dispute arises by ensuring that a significant portion of the license fees are paid at the commencement of the license arrangement.

Allowing Only “Good Faith” License Disputes

If the licensee insists on having the right to dispute invoices, the licensor should ensure that the licensee can only dispute an invoice in “good faith.” The licensor can also include language requiring the licensee to notify the licensor of the dispute within a certain period from the date of invoice or else forfeit the right to dispute the invoice.

Prohibiting Licensees from Offsetting Payments

As an additional contractual protection against nonpayment when a dispute arises, the licensor can include language in the software license agreement expressly prohibiting the licensee from withholding payment of any license fees owing because of any set-off of any claim or dispute with the licensor.

Limiting Termination For Cause

Instead of granting the licensee a termination right for a breach of any of the licensor’s obligations under the software license agreement, the licensor can limit the licensee’s right to terminate solely to an uncured breach by the licensor of the limited warranty it provides to the licensee under the agreement (if any is provided).

FOR BOTH PARTIES

Eliminating Ambiguity in Schedules

Attorneys for each side should carefully review any schedules attached to the software license agreement for ambiguous language. Disputes can arise from unclear language in an attached schedule to the software license agreement as often as any ambiguous clause in the agreement itself.

Because schedules are often expressly incorporated into the software license agreement, for example, in a merger provision in the contract, the language and terms drafted in any schedules have meaning. It is not uncommon, however, for the parties’ attorneys to negotiate the terms of the software license agreement, but leave the schedules to each side’s respective business and technical representatives to complete.

Ambiguity in a schedule, even if resulting from a short phrase or the absence of certain key words, can lead to significant disputes because the subject matter contained in these schedules often relate to important business issues. In addition, schedules sometimes contain indemnification, limitation of liability and other risk management provisions, conflicting with the corresponding provisions in the main body of the agreement.

Negotiating a Statute of Limitations Clause

To bring some certainty to the period in which a claim can be made, the parties should consider including a statute of limitations clause in the software license agreement that provides for a shorter timeframe to bring a claim than otherwise permitted under applicable state law. Courts generally will enforce a statute
of limitations provision, despite applicable state procedural law that sets the applicable limitations period for a longer period (see, Pacific Health Advantage v. Cap Gemini Ernst & Young).

Parties usually include this provision with or in choice of law and choice of forum clauses. In addition, the licensee can consider limiting certain claims by stating that invoices for payment under the software license agreement must be submitted within a certain period of the services being rendered.

Establishing a Dispute Escalation and Resolution Process

To help manage the risk of costly litigation or arbitration, the parties should consider including an internal escalation process for resolving disputes. It should require the business parties at the appropriate decision-making level to first attempt in good faith to address conflicts, within defined timeframes, before bringing a claim or terminating the software license agreement.

However, either or both parties may wish to provide that the alternative dispute resolution mechanism is optional for both parties for certain provisions of the agreement. This enables a party to commence litigation immediately if the other party’s actions may irreparably harm the aggrieved party’s business.

RELEVANT CASE LAW

When a dispute over a software license arises, the parties can litigate over several discrete issues contained in the license and also issues extraneous to the license. While most disputes are fact specific, some representative decisions on the issues discussed in this Note are described below.

MADISON RIVER MGMT., CO. V. BUSINESS MGMT. SOFTWARE, CORP.

In this case, the software licensor sued the licensee for copyright infringement, alleging that the licensee made excessive, unpaid use of the licensed database (Madison River Mgmt., Co. v. Business Mgmt. Software, Corp., 387 F. Supp. 2d 521 (M.D.N.C. 2005)). The licensee countered that its excess use could not be unauthorized because excess use was contemplated and explicitly allowed in the license agreement. Specifically, the agreement provided: “[i]f [the licensee] exceeds the number of licenses purchased[,] [the licensee] has 30 days to remit payment for the actual number of licenses used.”

The US District Court for the Middle District of North Carolina found that the agreement presupposed that excess use comes before payment, essentially granting permission for the excess use and then requiring payment for it. As a result, the North Carolina court held that payment terms where permission precedes payment were covenants. Therefore, the licensor’s remedy did not lie in copyright infringement, but in breach of contract.

HYPERQUEST INC. V. N’SITE SOLUTIONS INC., ET AL.

The US Court of Appeals for the Seventh Circuit affirmed the lower court’s dismissal of a suit between software licensees where HyperQuest, Inc. sued another licensee for allegedly infringing on its “exclusive license” (HyperQuest Inc. v. N’Site Solutions Inc., et al., 2011 WL 148803 (7th Cir., 2011)). The Seventh Circuit found that HyperQuest received broad rights to reproduce, distribute and create derivative works under its license with the licensor. However, because the licensor retained a wide array of rights, the Seventh Circuit could not find the kind of clearly delineated exclusivity over any of the statutory copyright rights to give HyperQuest standing to sue for infringement.

The Seventh Circuit stated that the fact that the license agreement used the phrase “exclusive license” or its equivalent from time to time was a factor in its evaluation of HyperQuest’s claim. However, this was not dispositive because it was the

COMPLIANCE SOURCE INC. V. GREENPOINT MORTGAGE FUNDING INC.

This decision addresses the extent to which the licensee can, depending on the terms of the software license agreement, permit a third party to access or use the licensed software on its behalf (Compliance Source Inc. v. GreenPoint Mortgage Funding Inc., 2010 WL 4056112 (5th Cir., 2010)).

Here, the Fifth Circuit held that the licensee breached the terms of a software license by allowing its outside counsel to access and use the licensed software. The Fifth Circuit reversed the lower court’s grant of summary judgment to the licensee, stating that the lower court erred when it found that the licensee’s provision of the technology to its attorneys did not violate the licensing agreement because the attorney’s use of the technology was on behalf of and for the benefit of the licensee.

The license agreement provided, in part:

“Except as specifically provided in this Agreement, [the licensor] has not granted, and [the licensee] has not received, a license or any other right to copy, make, use, have made, sell, support, or sub-license the Software Products, or any part thereof. [Licensee] may only use the Software Products for itself. [Licensee] may not sublicense the Software Products to third parties.”

In reviewing the agreement, the Fifth Circuit found that it contained no provision that generally permitted the licensee to grant third-party access, whether or not that access would be on behalf of or for the benefit of the licensee. In addition, the licensee was unable to show any other provision in the agreement granting it that right.

The Fifth Circuit concluded that the license expressly prohibited any use of the licensed technology not explicitly permitted by the agreement itself. In addition, other provisions allowing limited third-party access did not permit the type of input access that the licensee provided to its attorneys.
PACIFIC HEALTH ADVANTAGE v. CAP GEMINI ERNST & YOUNG

A software service agreement that created a one-year statute of limitations on causes of action was held to be enforceable, despite applicable state procedural law that sets the limitations period for contractual claims at six years (Pacific Health Advantage v. Cap Gemini Ernst & Young, 2007 WL 2619052 (S.D.N.Y. Sept. 6, 2007)). In this case, the US District Court for the Southern District of New York (Southern District of NY) granted the defendant’s motion to dismiss the plaintiff’s breach of contract claim. The parties’ agreement provided, in part: “No action, regardless of form, arising out of or in connection with this Agreement … may be brought by either party more than one (1) year after the cause of action accrued ….”

The Southern District held that the provisions of the New York’s civil procedure law allows parties to modify the statute of limitations in a written agreement by specifying a shorter, but reasonable, period within which to commence an action (N.Y. C.P.L.R. § 203). The court rejected the plaintiff’s argument that questions of fact existed regarding when the plaintiff’s claims accrued, stating that the plaintiff alleged in its filings that it discovered the defendant’s purported breach more than one year prior to the filing of suit.

MARKET AMERICA INC. v. GOOGLE INC., ET AL.

This case addresses whether licensees can raise claims against a licensor for allegedly underperforming software, despite the software license agreement both:

- Lacking provisions requiring a party to:
  - deliver a particular system with a specified capacity; or
  - guarantee a system that will prove successful in implementation.
- Containing limitation of liability provisions that disallow liability for representations not included in the agreements in explicit terms.

(Market America Inc. v. Google Inc., et al., 2010 WL 3156044 (D. Del., 2010)).

In this case, the US District Court for the District of Delaware granted the defendants’ motion to dismiss Market America’s fraud- and contract-related claims. Market America contended that Google and others fraudulently induced it into entering into certain software license arrangements based on misrepresentations regarding the capacity and scalability of the software. However, the license agreement’s limitation of liability clause, provided, in part:

“Other than as stated herein, [the licensor] makes no representations, warranties, or guarantees, express or implied, with respect to the deliverables or services provided pursuant to this agreement, including implied warranties of merchantability or fitness for a particular purpose.”

In addition, the court noted that neither the license agreement nor its related software service agreement included contractual provisions guaranteeing a quantifiable level of performance. Rather, the service agreement contained several relevant disclaimers, including:

- “[Licensor] does not warrant that the operation of the Software will be ‘error-free’ or ‘uninterrupted.’”
- “The product and services provided by [Licensor]…are otherwise provided ‘as is.’”
- “[Licensor] does not warrant that the product or any portion thereof, ([is] error or bug free.”
- “Licensors assume no responsibility for the proper installation and use of the product.”

SAFETY MGMT. SYS., INC. v. SAFETY SOFTWARE LTD.

The Southern District of NY in this case denied the plaintiff’s motion for a preliminary injunction to immediately deposit the source code for certain software in escrow with plaintiff’s counsel under certain existing escrow agreements (Safety Mgmt. Sys., Inc. v. Safety Software Ltd., 2010 WL 1837770 (S.D.N.Y., 2010)). In this case, the software developer entered into escrow agreements with licensees in the US to ensure that if the developer stopped operating, its licensees would still be able to access the source code and continue to use the software. This was done to avoid potentially costly business disruptions that may result from a sudden inability to access it.

The plaintiff, which was the exclusive licensing agent for the licensees, argued that the injunction was necessary because the software developer had become insolvent. This created a grave risk that certain licensees would suffer imminent harm without access to the source code.

The software developer seemingly had no issue with placing the source code in escrow for the benefit of the licensees in the event one of the “triggering events” in the escrow agreement occurred. However, the software developer objected to placing the source code in escrow with the plaintiff’s counsel because it believed the plaintiff was seeking to obtain the data for improper purposes.
The Southern District of NY found that to the extent that the licensing agent sought to vindicate the rights of the licensees, the agent was not the proper party to raise these claims. In particular, none of the licensees appeared in this action or otherwise objected to the software developer having deposited the software with a UK escrow agent under a different arrangement. The Southern District of NY also found that the action was a typical contract dispute and any harms could be redressed through monetary damages, as opposed to equitable relief.