Software Licensing Basics:
Key Elements of a Software License Agreement

Presenters:
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Introductions

- Dennis Clerke
- Mark Lehberg
Copyright Basics

• Copyrights protect original works of authorship fixed in a tangible medium of expression.

• Examples: books, movies, music, photographs, sculptures and software.

• The author’s copyright rights arise upon creation.

• “Work made for hire” doctrine - software developers vs. employees.
The exclusive rights of the copyright owner include the right to:

- reproduce,
- adapt (modify / make derivative works),
- distribute,
- publicly perform (for audiovisual works), and
- publicly display (for certain visual works).

Each software license agreement will include a license grant that includes one or more of the rights to reproduce, adapt and/or distribute.
Software License Agreements Generally

• Click-Through / Click-Wrap Agreements / Shrink Wrap Agreements – “take it or leave it.”

• Negotiated software license agreements executed by the licensor and licensee.

• Software license terms included in negotiated agreements involving the purchase and sale of hardware or services.

• Note: There is no “one-size-fits-all” software license agreement. Each deal will be different based on a number of factors.
License Grant

- Licensee
  - Should the term “licensee” include affiliates?

- Object Code – no right to modify.

- Source Code – right to modify/create derivative works
  - Should there be a premium on the license fees?

- Sublicense Rights – Internal use vs. reproduction and distribution.

- Term of the license – perpetual vs. limited term.
  - For “mission critical” software – should the Agreement terminate?
License Restrictions, Limitations and Conditions

• No reverse engineering, decompiling or disassembling.
• Reproduction of all proprietary notices on copies.
• Reserve all other rights.
• Restrictions on assignability and transferability.
• Limited number of seats, users, etc.
• Limit use to CPU, class of computers and/or facility.
• Limit use to non-commercial use or for “Internal business purposes only.”
• “Open source” restrictions and conditions.
Delivery, Acceptance Testing and Remedies

• Much like the sale of goods, the Licensor must generally “deliver” the software to the Licensee or make the software available for download.

• Licensees will want time to do “acceptance” testing. Licensors generally want to minimize this testing period. Licensors may also have revenue recognition issues and therefore want to limit the acceptance testing period.

• If the Licensee finds a problem with the software during the acceptance testing period what remedies are available to the Licensee?
License Fees

• One-time license fees.
• Monthly or annual subscription fees.
• Each of these can be based on the number of computers, users, facilities, concurrent users, etc.
Warranties

• Warranty that the software will “work” for some period of time.

• Warranty that the Licensor is the owner of the software and has the right to grant the licenses granted (no infringement).

• No viruses, time bombs, trap doors or other harmful or disabling code.

• Licensor should consider the warranty of performance when 3rd party software is included in the software (e.g., open source).

• Licensee might want to seek a warranty that Licensor has no plans to discontinue software.
Warranties Cont’d

• Warranty that software system will operate within service level parameters.
  • Remedy: pre-agreed service level credits (liquidated damages).

• Licensors will want to disclaim implied warranties.
  • Remedy: repair or replace the software, with a refund if replace/repair remedy fails.

• Licensors will want to limit the warranties to things within its control (e.g., not a failure of the computer system on which the software is running).

• Length of Warranty
  • Element of price.
  • Should run from date of acceptance.
Training, Maintenance and Support

• Training – Licensors generally provide training for a fee or as a part of a maintenance and support program.

• Support and Maintenance
  • Updates, upgrades, new versions and releases.
  • Licensor maintains only one or two most recent versions.
  • Telephone support and error correction.
  • Support standards based on the severity level of errors, including response times, update intervals and corrections.
  • Licensees may obtain source code if Licensor stops providing maintenance.
Maintenance and Support Cont’d

• How long will Licensor provide support and maintenance for the software?
  • Licensee: for so long as the Licensee is using the software.
  • Licensor: a reasonable period of time.
  • Licensees will also want to control support fee escalation over time. Limit the Licensor’s ability to increase support fees to some annual maximum.

• Support Fees (% of license fees) and Service Credits.

• Source Code Escrow Agreements.
  • Should include tools, encryption keys, compilers, documentation as well as software.
IP Infringement Indemnity

• A Licensee should seek indemnity if Licensee is sued as a result of the software infringing any copyrights, patents, trade secrets and other IP rights.

• Licensor will want the right to make software non-infringing, obtain a license, provide functionally equivalent software or refund the license fees.

• Exclusions: Any Licensee modification to the software, Licensor modifies at the Licensee’s request, Licensee uses an old version, use of the software with third party software/hardware.
**IP Indemnity – Limitations on Liability**

- Licensor will want to limit its liability under the Agreement, including disclaiming consequential damages and capping overall liability.
- Licensee may also want to limit its liability.
- Pricing the risk.
  - Increasing Licensor’s potential liability likely raises Licensor’s price.
Software Licensing Issues - Summary

• Scope of the License
• License Restrictions
• Acceptance Testing and Remedies
• Warranties, Remedies and Disclaimers
• Maintenance and Support
• IP Indemnity
• Termination Rights
• Software License Checklist – Valuable Tool