

Software Licenses and Pitfalls in Software Contracts

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Software Licensing

- *License versus Sale*
- License is a grant of intangible rights to the software
- Typically includes the right to use (but not to re-distribute) the software

Software Licensing

- Sources of intellectual property rights in software
 - Patents
 - Copyright
 - Trade secrets

Software License Agreement

- Contract granting permission to use one or more copies of software in ways which may otherwise infringe on the software owner's intellectual property rights

Software License Agreement

- Software license frequently includes (mandatory or optional) maintenance and support
 - License my reference or incorporate separate contracts for maintenance and support
 - Statement(s) of Work

Software License Agreement

- Software license will frequently incorporate *Documentation*, including user manuals, technical manuals, training manuals, specifications or other explanatory or descriptive materials covering the licensed software

Software License Agreement

- Object Code: the *machine-readable* version of the software, which runs on a computer or other device
- Source Code: the *human-readable* version of the software, which programmers can read and modify
 - Source code escrow arrangements
 - Specifically configured or customized software

Deal Points

- Licensee
 - Who may use the software
 - Subsidiaries, affiliates or joint ventures?
 - Outsourced providers/contractors?
 - After-acquired entities?

Deal Points

- Term
 - License may be perpetual
 - Licensor may seek to limit to a specified term
 - Revocable/irrevocable?
 - Impact of breach

Deal Points

- Authorized Use
 - License may limit or restrict rights to use software
 - Number of users or specific users
 - Number of simultaneous users
 - Number of installed devices or specific devices
 - “Internal” business purposes only

Deal Points

- Assignment/Transfer
 - License typically non-assignable and non-transferable
 - Subsidiaries, affiliates or joint ventures?
 - Mergers, acquisitions or reorganizations?

Pitfalls

- Performance warranties
 - Software specifications
 - Appropriate accountability for performance and functionality
 - Coordination of warranties with maintenance and support provisions
 - Effective acceptance testing

Pitfalls

- Data Privacy
 - Use of software to manage sensitive and personal customer information
 - Measured confidentiality provision
 - Strong indemnity for breach of confidentiality
 - Exclude from limitations of liability/remedies

Pitfalls

- Disputes
 - Timing of performance and payment
 - Audit rights
 - Suspension or termination
 - Dispute escalation and resolution

Pitfalls

- Exhibits, Schedules and Addenda
 - Multiplicity
 - Ambiguity/inconsistency
 - Lack of legal review
 - Incorporation/integration
 - Priority of terms

Pitfalls

- Communication
 - Effective coordination of technical, business and legal review
 - Agreement checklist or written summary of fundamental deal points

Thank you
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