The prime clauses are the key terms in most technology contracts. They provide for the fundamental transaction: the exchange of software or services for money or other consideration.

Most software and tech services contracts include two of the clauses described in this part: (1) a transfer or sale of software rights or of services (Chapters I.A through I.F) and (2) a promise of payment (Chapter I.G). But combination contracts—agreements with multiple transactions—include several prime clauses.¹

¹ For combination agreements, see “Subject Matter: Types of IT Contracts” in the Introduction.
A. Standard End User Software License

A license grants the customer rights to copy software or to exploit it in other ways. It leaves ownership with the vendor. A license works like a rental agreement. The vendor/landlord still owns the house, but the customer/tenant gets to use it.

This chapter looks at standard end user licenses: the central clause in an end user license agreement (EULA). In a standard license, the customer gets the right to run software for internal business purposes. It can’t share the software with third parties or modify it.

A software license is a copyright license, but this chapter doesn’t go far into the mechanics of copyright. That kind of knowledge isn’t usually necessary for a standard license. If you want a deeper understanding of licensing, or if your license doesn’t fit the “standard” model discussed here, see Chapter I.C (“Software Licenses in General”).

Before drafting your license, ask yourself: What is being licensed? The contract should clearly define the “Software” or “Licensed Product”—usually in a separate definitions section. In a standard license, it’s usually enough to give the software’s name and version number and specify object code: “Software’ refers to Vendor’s GlitchMaster software application, version 3.0, in object code format.” But if the software has multiple modules or libraries or whatever, or if you see any chance of dispute about what’s included, list the necessary elements: “Licensed Product’ refers to Vendor’s RoboSurgeon for the PC software application, version 2.0, in object code format, including the following modules: RemoteScalpel, Anesthesia-Alarm, and MalpracticeManager.” You might also specify the platform: Windows, Macintosh, Linux, etc. Finally, if the customer needs to reproduce
user manuals and other documentation, the definition might include them: “The Licensed Product includes Vendor’s standard user manuals and other documentation for such software.”

1. Reproduction and Use

End user licenses employ various terms for the rights granted. Most license clauses grant rights to “use,” “run,” “install,” “download,” “copy,” or “reproduce” software. These terms have commonsense meanings, but many of them overlap. This chapter sticks to “reproduce” and “use,” to avoid throwing around too many overlapping terms. I recommend you do the same for your end user licenses.

The customer should always get the right to use the software. Specifically listing reproduction rights, on the other hand, isn’t always necessary. If the vendor delivers ten copies—ten CDs, for instance—and the customer only needs ten, the license doesn’t need the right to reproduce. The same goes for downloaded software. If the customer can keep downloading copies until it has the correct number, it doesn’t need reproduction rights. Of course, technically speaking, you reproduce software every time you install it, but the right to use software implies the right to make an installed copy. The customer only needs reproduction rights if it can make more copies than the vendor delivers—for instance, if the vendor sends one CD or allows one download, and the customer needs ten copies. In that case, the license should grant the right to reproduce and use ten copies.

Standard End User Reproduction and Use

Vendor hereby grants Customer a nonexclusive license to reproduce and use __ copies of the Licensed Product, provided Customer complies with the restrictions set forth in this Section __.

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2. See Chapter II.D (“Documentation”).

3. Actually, the explanation above glosses over some legal complications related to “use” and “reproduction” rights. But we don’t need to address those complications to understand typical end user licenses. If you’d like to know more, see Subchapter I.C.1 (“Copyright License Rights”)—particularly the bullet point on Use and Other Pseudo Rights.
Vendor hereby grants Customer a nonexclusive license to reproduce and use the Software as necessary for Customer’s internal business purposes, provided Customer complies with the restrictions set forth in Section __ (Restrictions on Software Rights). Such internal business purposes do not include use by any parent, subsidiary, or affiliate of Customer, or any other third party, and Customer shall not permit any such use.

If the customer can reproduce the software, the license should specify the number of copies, as in the first example in the clause box above. At least, that’s the case for most deals. Some contracts call for an “enterprise license.” In an enterprise license, like the second example in the clause box, the customer can make as many copies as it needs. A vendor should only grant an enterprise license if it knows the size of the customer’s business and doesn’t mind if it expands, along with the number of copies—or if the fees cover any likely expansion. Enterprise license vendors should also consider limiting software use to the customer itself and forbidding use by subsidiaries, parent companies, and other affiliates. Again, see the second example above.

Some software sits on a single server computer, and users access and use it from their own client computers (desktop, laptop, phone, etc.), without making new copies. That’s the structure in the third example in the clause box above. If the license for one of these “client-server” systems allows 60 “concurrent users,” the customer may allow 60 users at one time. The software could be physically available to hundreds of users and client computers, but it’s restricted to 60 at a time.
A client-server license might instead allow a fixed number of “seats,” as in the fourth example in the clause box above. If the license authorizes 15 seats, it generally means 15 designated users can access the software, and no others. Jane Employee can’t access the software unless she’s one of those 15, even if fewer than 15 are accessing the software at any given time. (If Jane’s in the in-group, she probably has one of the 15 user IDs and passwords.) But in some cases, “seats” refers to a number of designated client computers, rather than individuals. Then, only those 15 client computers can access the software. Consider defining the term “seats” to avoid any doubt.

All four examples in the previous clause box grant license rights “provided” the customer complies with certain restrictions. Subchapter 2 addresses those restrictions.4

2. End User Restrictions

End user licenses generally limit the customer’s rights in various ways.

<table>
<thead>
<tr>
<th>Standard End User Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copies of the Software created or transferred pursuant to this Agreement are licensed, not sold, and Customer receives no title to or ownership of any copy or of the Software itself. Furthermore, Customer receives no rights to the Software other than those specifically granted in this Section __. Without limiting the generality of the foregoing, Customer shall not: (a) modify, create derivative works from, distribute, publicly display, publicly perform, or sublicense the Software; (b) use the Software for service bureau or time-sharing purposes or in any other way allow third parties to exploit the Software; or (c) reverse engineer, decompile, disassemble, or otherwise attempt to derive any of the Software’s source code.</td>
</tr>
</tbody>
</table>

Every license should confirm that the customer receives only the rights specifically granted and that the vendor retains ownership of the software. Vendors should also consider stating that individual copies of the software are “licensed,” not “sold.” In other

4. The “provided” language helps the vendor enforce the restrictions. Subchapter I.C.1 (“Copyright License Rights”).
words, the software isn't like a book you've bought, which you can
give away or sell. Rather, it's like music you've downloaded, which
you're not allowed to pass around. See the first two sentences of the
clause box above.\(^5\)

An end user license should also list certain rights \textit{not} granted.
Copyright law grants several exclusive rights to copyright owners.
Vendors should make sure the license doesn't grant any of those
except the right to reproduce (along with the right to use, which
isn't actually mentioned in the copyright statute). That's why the
example in the clause box provides that the customer can't exer-
cise the other rights of copyright holders. It can't distribute, modify
(create derivative works), or publicly display or perform the soft-
ware. The customer also can't sublicense its rights to anyone else. Of
course, if the clause is silent on restrictions, a court may consider
the license limited to the rights specifically granted. But why take
chances?

The vendor should clarify that the customer gets no time-sharing
or service bureau rights, or any other rights to share the software with
third parties. \textit{Time-sharing} means sharing an application with custo-
mers or other third parties—letting them use the software too. \textit{Service
bureau} usage involves another type of sharing: the customer keeps the
software, but it uses it to process third party data, instead of its own
data, including in a cloud services offering. Either could cost the ven-
dor sales.

The vendor should also be sure the license forbids reverse
engineering and any other attempt to derive source code from the
software.

Finally, the vendor should be sure the customer stops repro-
ducing and using the software when the agreement terminates. The
clause box above doesn't provide that requirement because this book
addresses it in Subchapter II.V.4 ("Effects of Termination").

\(^5\) Vendors use this “license vs. sale” language to avoid copyright's “first sale doc-
trine.” See footnote 13.
B. Standard Distributor Software License

This chapter addresses licenses to distribute software. In these clauses, the vendor authorizes a distributor to transfer copyrighted software to third parties—to end user customers. This chapter, therefore, talks about “distributors” rather than “customers.” But to avoid throwing too many terms around, it sticks to “vendors” for the software’s ultimate provider.

Software licenses are copyright licenses. But like Chapter I.A (“Standard End User Software License”), this chapter doesn't go far into the mechanics of copyright licensing. That kind of knowledge isn't usually necessary for a standard distributor license. But if you want a deeper understanding of licensing, or if your license doesn't fit the “standard” model discussed here, see Chapter I.C (“Software Licenses in General”).

Before turning to the terms of a distributor license, ask: What is being licensed? The contract should clearly define the “Software” or “Licensed Product”—usually in a separate definitions section. It’s usually enough to give the software’s name and version number, and specify object code: “‘Software’ refers to Vendor’s Cookie-Cruncher software application, version 6.02, in object code format.” But if the software has multiple modules or libraries or whatever, and you see any chance of dispute about what’s included, list the necessary elements. “‘Licensed Product’ refers to Vendor’s Pimp-My-Photo software application, version 4.05, in object code format, including the following modules: Wardrobe Upgrade, Body Maximizer, and VirtualNoseJob.” You might also want to specify the
platform: Windows, Macintosh, Linux, etc. Finally, if the distribu-
tor needs to distribute user manuals or other documentation, the
definition might include them: “The Licensed Product includes
Vendor’s standard user guides and other documentation for such
software.”

1. Distribution

Not surprisingly, a distribution license grants the right to distribute
the software—to pass it around.

<table>
<thead>
<tr>
<th>Standard Distribution Rights</th>
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<tbody>
<tr>
<td>Provided Distributor complies with the restrictions set forth</td>
</tr>
<tr>
<td>in Section __ (Software Restrictions) below, Vendor grants</td>
</tr>
<tr>
<td>Distributor: (a) an exclusive license to distribute the Licensed</td>
</tr>
<tr>
<td>Product within __________ (the “Territory”); and (b) a nonex-</td>
</tr>
<tr>
<td>clusive license to reproduce and use the Licensed Product within</td>
</tr>
<tr>
<td>the Territory, solely as necessary to market it and to provide</td>
</tr>
<tr>
<td>technical support to customers.</td>
</tr>
</tbody>
</table>

Provided Distributor complies with the restrictions set forth in
Section __ (Software Restrictions), Vendor hereby grants Distrib-
utor a nonexclusive, worldwide license to exploit the Software
as follows, solely as an embedded component of Distributor’s
Product: (a) to distribute the Software; (b) to reproduce and use
the Software for sales and marketing purposes and to the extent
necessary to provide technical support to customers of Distrib-
utor’s Product; and (c) to sublicense to its customers the right to
reproduce and use the Software. Distributor may sublicense to its
sub-distributors the rights granted in Subsections __(a) through
__(c) above.

(continued)