PART I

Prime Clauses

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 IT 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.

A. Simple End-User License, On-Premise Software

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

This chapter looks at typical, simple end-user licenses: the central clause in an end-user license agreement (EULA). In a typical 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 simple 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 Provider'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 Provider'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,

Mac, Linux, etc. And if the customer needs to reproduce user manuals and other documentation, the definition might include them: "The Licensed Product includes Provider's standard user manuals and other documentation for such software."[1]

Some EULAs give the customer rights to future versions of the software. That doesn't necessarily mean the software definition should include future versions. If the customer receives those versions through an update and upgrade program, you can address them in the maintenance clause or in whatever other terms cover that program. That clause might provide that updates and upgrades become "software" upon delivery to the customer.[2] But if not, address future versions in the definition: "'Software' refers to Provider's *GlitchMaster* software application, version 3.0 and any later version."

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.

Simple End-User Reproduction and Use

Provider hereby grants Customer a nonexclusive license during the Term to reproduce and use __ copies of the Licensed Product for Customer's internal business purposes, provided Customer complies with the restrictions in this Section __.

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Provider hereby grants Customer a nonexclusive license during the Term to reproduce and use the Software as necessary for Customer's internal business purposes, provided Customer complies with the restrictions in Section __ (*Restrictions on Software Rights*). Such internal business purposes do not include use by

1. See Chapter II.D ("Documentation").
2. See Chapter II.C ("Maintenance, Including Updates and Upgrades").

any parent, subsidiary, or affiliate of Customer, or any other third party, and Customer shall not permit any such use.

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Provider hereby grants Customer a nonexclusive license to reproduce and use the Licensed Product for its internal business purposes during the Term, provided: (a) Customer may give no more than __ Concurrent Users access to the Licensed Product; and (b) Customer complies with the other restrictions in this Section __.

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 provider should only grant an enterprise license if it knows the size of the customer's business and doesn't mind if it expands—or if the fees cover any likely expansion. Providers should also consider limiting enterprise licenses to the customer itself and forbidding use by subsidiaries, parent companies, and other affiliates. Again, see the second example in the clause box.

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. So instead of restricting the number of copies, the third example restricts the number of users who can access the software at any one time—the number of "concurrent users." The example capitalizes that term, meaning the contract defines it somewhere else. It's one of several industry terms related to software access, along with "seats" and "named users," among others. You should always define these and other industry terms of art, even if you think they have well-known meanings. For definitions of those and similar terms, see Subchapter I.C.2 ("License Scope Terms").

All three examples in the clause box grant license rights "provided" the customer complies with certain restrictions.[3]

3. The "provided" language helps the provider enforce the restrictions. See Subchapter I.C.1 ("Copyright License Rights").

2. End-User Conditions and Restrictions

End-user licenses generally include conditions and restrictions on the customer's rights, as well as a few clarifications.

End-User Conditions and Restrictions

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 receives no right to and shall not: (a) modify, create derivative works from, distribute, publicly display, or publicly perform the Software; (b) sublicense or otherwise transfer any of the rights granted in this Section __; (c) reverse engineer, decompile, disassemble, or otherwise attempt to derive source code or other trade secrets from the Software; or (d) use the Software for service bureau or time-sharing purposes or in any other way allow third parties to exploit the Software, including without limitation as software-as-a-service. Provider grants the license in Section __ (*License*) under copyright and also, solely to the extent necessary to exercise such rights, under patent and any other applicable intellectual property rights.

Every license should confirm that the customer receives only the rights specifically granted and that the provider retains ownership of the software. Providers should also add terms saying individual copies of the software are "licensed," not "sold." That means 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.[4]

An end-user license should also list certain rights *not* granted. Copyright law grants several exclusive rights to copyright owners. Providers should make sure the license doesn't grant any of those

4. Providers use this "license vs. sale" language to avoid copyright's "first sale doctrine." See footnote 16.

except the right to reproduce (along with the right to *use*, which isn't actually mentioned in the copyright statute). That's why Subsection (a) in the clause box excludes the other rights of copyright holders. If the clause said nothing about those rights, the license might be considered limited to the rights specifically granted. But why take chances? (See Subchapter I.C.1, "Copyright License Rights.")

In a typical end-user license, the provider should forbid sublicensing. See Subsection (b) in the clause box. It should also forbid reverse engineering and any other attempt to derive source code from the software. See Subsection (c). And the provider should clarify that the customer gets no time-sharing or service bureau rights, or any other rights to share the software with third parties. The customer can't use the software to provide software-as-a-service or other cloud services, which could cost the provider sales. See Subsection (d) in the clause box.

Finally, the provider should consider clarifying that this is a *copyright* license. See the last sentence in the clause box.

For a detailed explanation of these conditions and restrictions, see Subchapter I.C.3 ("License Conditions and Restrictions") and the text discussing it.