

SOFTWARE LICENSING IN THE USA

1. Ownership

A basic tenet of the Canadian and the U.S. copyright law is that ownership of a physical copy of a work does not grant any ownership rights in any intellectual property embodied in the copy. Thus, a purchaser of a book or CD is an owner of a physical copy, but only a licensee of intellectual property. Under U.S. copyright law, copyright owners have the exclusive right to distribute copies of the work to the public, subject to the limitation of the "first sale doctrine." The first sale doctrine allows owners of physical, lawfully-made copies of a work to sell, rent or otherwise dispose of their copies without the authorization of the copyright owner, effectively limiting the copyright owner's exclusive distribution right to the first authorized sale or distribution of the work.

Because the first sale doctrine permitted the rental of a copy of software without the authorization of the copyright owner and because software rental was identified as a key factor in software piracy, the U.S. in 1990 exempted software rental from the first sale doctrine. The first sale doctrine would, however, still apply to the sale of software, limiting the copyright owner's exclusive distribution right to the first authorized sale. To avoid this result, software agreements usually are a license, not a sale, of both the physical copy and the intellectual property, thereby enabling the copyright owner to restrict the licensee's ability to transfer the copy of the software to a third party.

2. Scope of License

The most important provision of every software license is the one defining the usage rights the licensee acquires from the licensor. Because the license represents the transfer to the licensee of only some of the licensor's rights in the intellectual property, the license should precisely specify which rights are being transferred and to what extent. If a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement. The scope of use provision establishes which and how many persons may use the software, the types and numbers of machines on which the software may be run, and at what location(s) the software may be used. When the scope of the license is in dispute, the copyright owner bears the burden of proving that a subsequent software license was unauthorized. The scope may also limit the type of business applications for which the software can be used. The more accurately the licensee anticipates the scope of use it will ultimately make of the software, the less likely it will be that the license will require later amendments and increased fees.

The second most important provision of a software license is the delineation of the purposes for which the licensee can utilize the software. A licensee may be limited to using the software for its own internal use or only in its primary business activity. Such restrictions aim to prevent the licensee from using the product as a service provider for third parties, such as in a service bureau arrangement. The context of these re-

strictions is to prevent an expanded use of the software in such a way as to deprive the licensor of license fees from those users for which the licensee may provide service using the software.

3. Fees

License fee provisions should be detailed and comprehensive. The fees may be based on the number of computers or users for which the software is licensed, and may account for the various locations at which the software will be used. The fee for a multiple-location site license may be a single fee or a sliding scale fee, in which the licensee might pay a full fee for use at the first site, and then a fraction of the full fee for use at additional sites.

In connection with complex customized or custom software development, individual fees may be applied to individual modules of the software package. The fee schedule should include all costs that the licensee may incur, including costs of training and installation of the various modules of the software. Payments usually are payable over a period of time and are tied to specific milestones, such as contract execution, delivery, completion of acceptance testing, training of users, and live implementation of the system. The licensee should not be required to pay in full until any custom modifications are installed and tested for conformity to an agreed upon standard.

4. Term

Off-the-shelf software is granted almost exclusively on a perpetual basis, subject only to termination upon licensee's breach of the license. Offsetting the benefits of the perpetual term, however, is the fact that off-the-shelf software licenses generally do not obligate the licensor to continue to maintain and support the software, although such a requirement might be negotiable in the context of a large-scale implementation of off-the-shelf software. Some off-the-shelf software, such as shareware or software distributed for evaluation purposes, however, is subject to a temporary license. In the event of a lesser breach that still renders the licensor the ability to receive the benefits of the bargain, the licensor is left with option to continue to receive royalty payments while still seeking injunctive relief against the unauthorized.

5. Representations and Warranties

The licensor's representations and warranties are among the most significant provisions of the software license, development agreement, or sales representative or distributor agreement. They set forth the licensor's promises and obligations about the software, and therefore form a large part of the bargain from the licensee's perspective. These representations and warranties generally concern ownership and performance issues.