

INTELLECTUAL PROPERTY

# Eight Pitfalls in Software Licensing Agreements

By Saraann Parker and Melanie Rheinecker

**W**hen a software vendor provides a “standard” license agreement, a company often signs without taking the opportunity to negotiate terms. These agreements, however, are not one-size-fits-all. Careful

consideration is necessary to ensure that the business has rights to use the software as it intends to use it and that it is protected against damages that may not be covered under the vendor’s boilerplate terms.

The following is a brief overview of areas a company and its attorneys should consider when presented with a software license agreement, to ensure that they receive the services and protections they expect as a part of the purchase. Avoiding these eight common pitfalls when negotiating your software licensing agreements can protect your company from protracted and expensive disputes.

**1** Warranties. Many initial drafts of license agreements state that software is provided “as-is, with no warranties. Whether this is acceptable could depend on how important the software is to company operations and how it affects its computer systems.

Is there a description of what you should expect out of the software? How extensively will its unexpected failure affect your business? Could a malfunction of this software introduce a virus to your company’s computer systems?

Consider also the time period in which you want a warranty breach to be resolved. Should it be minutes,

days, or weeks? How long can your company afford to be without this software while the vendor tries to figure out the problems? If the vendor cannot resolve the problems, what remedies are you provided?

You may want to engage a technology attorney to negotiate specific warranty protections that your company needs.

**2** Maintenance and Support. As offered by the vendor, maintenance and support can range from simple and straightforward to detailed and complex. Before signing off on the terms initially proposed, consider the kind of training,

support and maintenance the product will require and how it will be paid for.

For example, should telephone support during business hours be free? Will support require on-site visits from tech-

## IF YOUR COMPANY DOES NOT PURCHASE A NEW VERSION, WILL THE VENDOR SUPPORT THE OLD VERSION?

nicians? Will the company be obligated to implement a virtual private network to receive support? How quickly will the vendor respond? What types of corrections can be expected and how soon? Will the vendor install the software, or even assist with installation and implementation? Are there extra charges for these services? Will special training be required for company employees?

Support terms may be broken down to reflect the severity of the problem and how quickly it will need to be resolved. Charges for support and maintenance may be in a lump sum, annual or as-needed.

**3** Updates and Releases. A licensee should consider its expectations with respect to new versions of the software, as well as revisions to the current version. If your company does not purchase a new version, will its old version continue to be supported? How often will the vendor issue new releases? Will your company be required to update its existing operating system in order to be compatible with future releases?

**4** Infringement Indemnification and Remedies. What will happen if a third party sues your company, alleging the licensed software infringes its intellectual property rights? At issue may be the cost of defense as well as potential damages.

Indemnification, defense and hold harmless clauses are complex legal terms of art that if left as initially drafted by a vendor may not provide a licensee with the protection that it

expects in the event of an infringement action. The costs of intellectual property infringement lawsuits are high, so negotiating an acceptable level of protection is important.

**5** Relocation and Copies. If there is high turnover of the computer systems in your business, you may need to consider whether the standard agreement provisions regarding authorized copies and relocation of the software are adequate.

**6** Transfer of License. License agreements frequently provide for use only by the licensee. Might there be a circumstance in which your company needs to transfer its licenses to a subsidiary, affiliate or third party in a merger or acquisition? License agreements may be drafted to allow for such eventualities without delays or additional charges.

**7** Proprietary Rights. A software vendor has a strong interest in protecting its proprietary rights and accordingly is likely to push for aggressive language regarding the issue of ownership in its license agreement. While your company as licensee may have no desire to claim the vendor's intellectual property rights, consider whether anything your company does with or to the software will give rise to a new proprietary

right. If so, should your company be the proper owner of such right?

Many agreements are drafted to allow the vendor to retain ownership of anything developed in connection with the licensed software, even if it is created through the use of the licensee's proprietary or confidential information. If this is not acceptable, consider engaging an intellectual property attorney to craft and negotiate the agreement's proprietary rights provisions.

**8** Source Code Escrow. If the software being licensed is crucial to your business, you may want to request a source code escrow. This will provide assurance that the source code is available even if the vendor declares bankruptcy or goes out of business.



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