HOW TO

Improve Your Company's Form Software License Agreement

PART 9: INTELLECTUAL PROPERTY

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KEY TAKEAWAYS

Form software license agreements should:

1 accurately reflect the intent of the parties with respect to ownership of intellectual property rights ("IP") licensed and created as part of the relationship;

2 limit the scope of promises the licensor makes with respect to the licensed IP; and

3 include appropriate restrictions on the customer's use of the licensed software and underlying IP.

Software license agreements often contain default provisions that set forth basic rules for ownership of IP. These provisions typically provide that

(i) each party will retain ownership of their own pre-existing IP;
(ii) each party will own the IP in what they develop; and
(iii) licensor will retain ownership of all IP in the licensed software.

As is often the case, default provisions that are not carefully drafted often create unintended issues.

Default Ownership

Software license agreements should carefully establish default ownership rules that not only provide for the licensor to retain ownership of all underlying IP in its software, but also anything that it (or its customers) might develop as part of the relationship.

A software licensor often develops modifications, updates, upgrades and enhancements ("Updates") to its licensed software that it pushes out to all of its customers. While licensors are typically fine with

licensing these Updates as part of the overall license grant, rarely do licensors intend to give up ownership of such Updates to its customers. Failure to carefully draft your license agreement to retain ownership of the IP in these Updates could result in inadvertently assigning over ownership therein to a customer. In the event a customer is permitted to create modifications or additions to licensed software that should be owned by the licensor, the software license agreement should specifically address ownership of such modifications/additions and include a present assignment ("Customer *hereby* assigns...") in such modifications/additions back to the licensor.

Customer Feedback

A related concept is "feedback". It is common for customers to provide licensors with ideas on how to improve the licensor's software. Licensors are often worried that they may infringe their customers' IP if they use the ideas provided by customers to improve their software.

Although that worry is largely unfounded (a fundamental tenant of IP law is that mere ideas are,

generally speaking, not protectable under IP law), a licensor-friendly form should contain a provision that says the licensor has the right and license to use such feedback and ideas to improve its software and that such feedback and ideas are not its customers' confidential information.

Customized Development

There may be certain relationships where a software licensor may include customized development as part of its relationship with its customer.

For example, a customer might need certain functionality specific to its business, or may want to pay licensor to develop customized functionality specific to its needs or business. When custom development is included as part of the arrangement AND the customer is paying specifically for such development, then a customer will often expect to own the underlying IP in such custom developments.

In these circumstances, your software license agreement should include a carefully and narrowly drafted provision that

(i) identifies with specificity the customized development;

(ii) grants ownership to the customer in such customized development (but nothing else); and

(iii) limits the grant of ownership to the copyright interest in the development (vs. including patent rights, which may expand the rights you are granting to more than what is desired).

Representations and Warranties

Negotiated software license agreements almost always include representations and warranties with respect to the software's underlying IP. Typically these representations and warranties address non-infringement – that the software licensed under the agreement (and the customer's use thereof) will not infringe the IP of a third party.

As previously discussed in this Series' article on representations and warranties, it is important to limit any IP representations and warranties by

(i) making them applicable only at the time the parties entered into the agreement;
(ii) requiring the customer to use the software as required by the licensor and the license agreement; and
(iii) limiting to IP of the respective jurisdiction in effect at the time the parties entered into the license agreement.

The licensor may also consider limiting such representation and warranty to non-infringement of third-party copyright and trade secret rights. Furthermore, your software license agreement should provide the customer with specific, exclusive and limited remedies in the event of a breach of a non-infringement representation/warranty. Typically these remedies include modification of the software to make it non-infringing, procurement of substitute software that is non-infringing, or a refund of customer fees paid by the customer under the license agreement.

Lastly, the license agreement should specifically exclude the application of the non-infringement representation/warranty in the event that the customer uses the software in breach of the agreement, fails to use it in accordance with the documentation, modifies or makes any changes to the software or uses it in connection with third party technology that it is not intended to be used with or is not otherwise approved by the licensor.

Restricted Use

Finally, a form software license agreement must include restrictions on the customer's use of the software and underlying IP. Software code can be protected under trade secret, copyright and patent law, but often times parties rely on copyright law as the primary form of IP protection.

As a copyright owner, you have many rights granted to you under copyright law, including the important right of making derivative works. Arguably the law would prevent a customer from making derivative works (even absent language in the agreement), as that right is specifically granted to the copyright holder. The law does not necessarily address a party's right to reverse engineer, disassemble and reassemble, decompile or otherwise attempt to discover the source code of the software.

Therefore, it is critical that any software license agreement include certain restrictions on the customer's use of the software and its underlying IP, and such provisions should specifically restrict a customer's ability to create derivative works in the software (even though you arguably have protections under applicable law) as well as reverse engineer, disassemble and reassemble, decompile or otherwise attempt to discover the source code of the software.

Moreover, relying on copyright law protection without robust contractual use right restrictions is even more risky after the US Supreme Court's 2021 decision in

Google LLC v. Oracle America, Inc. Many legal experts and commentators have discussed the possible impacts on copyright law's applicability to software after *Google*.