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WHAT IS SOFTWARE LICENSING?

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Simply put, a license is nothing more than permission given to do something that would otherwise be considered illegal absent that permission. In the licensing of computer software, what permission is given, how is it given and to whom? In the real world, software licensing arises in one of two very different situations.

In the first situation, which is fairly typical of most intellectual property licensing arrangements, one party deals directly with another and the two parties reach a mutually agreeable, but detailed, understanding as to what "permission" is being given by one party to the other. The second situation couldn't be more different from the first. In the second situation, a software manufacturer or distributor markets a mass produced generic product to a consuming public that is made up of an unknown number of unknown consumers. The first situation usually results in a legally binding document that is reviewed and signed by both parties. That document is subject to all of the usual licensing considerations, but with the exception of a few that are peculiar to software. The second is usually a preprinted form that may not even be read by the consumer. And if it isn't read, is it legally binding at all? This article will touch on the essence of each situation and provide some points to consider when preparing a "license" for either situation.

The software industry has devised a rather interesting method for dealing with the fact that software manufacturers and distributors really don't have much control over the parties that they will supply their mass produced software products to. Perhaps more importantly is the fact that they really have no control over what the purchasing public will do with the product once purchased. The software manufacturers and distributors have attempted to create some "illusion" of control by supplying a preprinted software license in a form that is inserted under the cellophane wrapper of the box that the product comes in. In this fashion, the so-called license is clearly visible to the consumer and is known as a "shrink-wrap" license agreement. If the consumer chooses to break the cellophane wrapper, thereby gaining access to the software sealed within it, then the license is arguably binding upon that consumer. In the area of computer programs that can be downloaded from the internet, such license agreements are known as "click-wrap" licenses. In those situations, the consumer is presented with a screen display and is asked to "accept" or "agree to" the terms of a similar form displayed on screen. The consumer, if agreeable to the terms, simply clicks a button to agree to or to accept the terms and conditions of that license. But even with that, who really bothers to read the fine print?

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In the realm of such licenses, the manufacturers and distributors of such mass produced computer programs are attempting to circumvent at least one problem that has been created by the legislature and that is peculiar to software. That problem is the fact that a purchaser the software program may legally create a "backup" copy of that program. In most any other situation, the creation of a backup copy would run afoul of the copyright laws. In the case of software, it is expressly allowed. For that reason, software manufacturers and distributors are concerned that such backup copies may find their way into the hands of a non-purchaser and may not be used as backup at all. The other problem that software manufacturers and distributors have to deal with is the fact that the magnetic media on which the computer software is contained allows for easy and repeated transfer to multiple pieces of hardware where only one such use was originally contemplated by the manufacturer. Accordingly, software manufacturers and distributors have attempted, by use of the "shrink-wrap" or click-wrap" licenses, to provide a document that (1) tells the consumer that he or she can use the product on a nonexclusive basis with the manufacturer or distributor retaining full right, title and interest in the program; (2) prohibits the resale and multiple usage of such software programs; and (3) declares a legal forum in the event that litigation is necessary to enforce the rights and responsibilities under the license to a forum that is typically favorable only to the manufacturer. This is a classic case of *caveat emptor* since some courts have upheld such licenses and others have not.

The other situation that arises in connection with software licensing is typical of most intellectual property license agreements. In particular, the software license will include basic clauses relating to such items as subject matter of the license; the term of the license; payment or royalty provisions; what happens upon termination of the license; and forum and choice of law provisions. Other items that should be considered due to the unique nature of software include

- restricting access to the base program (or source code) to those on a "need to know" basis only
- restricting use of the base program by the licensee
- restricting modifications to the program by the licensee without licensor approval
- restricting sublicensing of the program
- restricting third party access to the program
- making licensor modifications or enhancements to the software available to the licensee
- escrowing one complete copy of the software in the event of the manufacturer's discontinuance of business and/or litigation between the licensor and licensee
- providing for continued support for and maintenance of the software once installed
- providing for licensee indemnification of patent or copyright claims

- providing for arbitration in accordance with the Patent Arbitration Rules of the American Arbitration Association if a dispute is technical in nature

For more information on software protection and licensing, contact Joseph S. Heino at 414-225-1452 or jheino@dkattorneys.com