

License Restrictions

By Brian Kirkpatrick

A broad license grant is often limited by license restrictions. These restrictions may include clarifications on the license grants as well as prohibitions. A typical set of license restrictions would prohibit licensees from:

- a. Distributing, sublicensing, renting, leasing, loaning, or granting any third party to access the software;
- b. Creating derivative works, modifying, translating, or altering the software;
- c. Exploiting or using the software other than for internal business purposes;
- d. Reverse engineering, decompiling, decoding, decrypting, disassembling, or deriving the source code; or
- e. Using the software for any purpose not expressly granted in this agreement.

Although the above list is generally a reasonable and standard list of restrictions that a licensor may include with a license grant, the licensee should understand the prospective uses of the software to determine whether one of these restrictions may prevent the intended use of the software. Additional restrictions that usually require a more critical evaluation before acceptance include:

- a. Non-transferrable;
- b. Revocable;

Without an express provision allowing transferability, licensees may not transfer licenses. If a license is non-transferrable, then the software license cannot be resold. It is typical that even a perpetual license is not transferrable, but licensees often overlook this restriction where the licensee sells the license to another party after the licensee no longer intends to use the software. In such cases, it is possible that the buyer could be liable for copyright infringement even if paid a fair value for the software.

Licensees may be surprised to see a term that allows a perpetual license to be revoked. If a license is revocable, the particular circumstances in which the license would be revoked should be addressed. Acceptable reasons may be that the government no longer permits the licensing of the software or that the licensee has misused the software in a manner that is inconsistent with the agreement.

When selling or acquiring software, it can be helpful to consult an attorney familiar with software licenses to ensure that the grant and restrictions are appropriate. Conveying or obtaining an inappropriate license can be very costly or even a violation of copyright law.



About the author Brian Kirkpatrick:

Brian practices exclusively in intellectual property and technology law. He has drafted and negotiated hundreds of software contracts with a wide breadth of complexity including large-scale master services agreements (MSA's), software as a service (SaaS) agreements, and End-User License Agreements (EULA's). Before entering the legal profession, Brian was a licensed securities representative and Vice President level middle-market commercial banker.

Get in touch: bkirkpatrick@scottandscottllp.com | 800.596.6176