

## **A Very Basic Outline of a License Agreement**

Licensee is referred to as the author, and the licensor is referred to as the publisher

### **I. Introduction**

- A. Who are the parties?
- B. Describe the software in general terms (want a specific definition somewhere, maybe in an Exhibit)
- C. What type of an agreement is this - license, purchase, etc.

### **II. Definition**

- A. Define any terms which could have ambiguous meanings  
For example: updates, enhancements, new versions, what the software is, etc.

### **III. Items Provided by Author**

- A. What exactly are you licensing - object code, source code, documentation
- B. In what form are you delivering the software
  - 1. Does the Publisher get a copy of the source code or just object code?
    - a) If Publisher gets source code, do they get all development and source code documentation?
- C. Are you providing a user manual?
- D. Is there anything you don't want the Publisher to get?

### **IV. Delivery Schedule**

- A. When do you have to deliver the items described in Section 3 to the Publisher  
Sometimes it is advantageous to have a delivery schedule, sometimes not.  
Probably at a minimum you'll have to put in how quickly you get them the final copy of the software after you have a golden candidate.

### **V. Source Code Escrow**

- A. Often, Publishers want to put the source code in escrow. Spell out when they can get it and who pays.

### **VI. Maintenance and Modifications**

- A. Do you have any maintenance or modification responsibilities once you turn over the software to the Publisher?
  - 1. If so, clearly spell them out -- telephone support, online services support, training, etc.
- B. Who pays for bug fixes or recalls?
  - 1. If you're getting a royalty, will these expenses come out of your royalty?
- C. Do you have to provide updates?
  - 1. If so, do you get paid for them or are they part of a continuing support obligation which entitles you to royalties or some other compensation scheme?
  - 2. What happens if you can't or don't want to provide updates?

### **VII. Other Responsibilities of Parties**

- A. Who is responsible for the marketing, distribution and packaging of the software?
  - 1. If you want a certain number of demo copies, get this written into the contract.

### **VIII. The License**

- A. What exactly is the subject of the license?
  - 1. Object code or source code?

2. Exclusive or non-exclusive?
3. If you've gotten code from other sources, make sure you have all rights to it (remember, independent contractors, unlike employees, own the copyright to the code they write for you which needs to be explicitly assigned over to you) or can sublicense the code (remember, compilers put code into your code!)
4. Right to reproduce, distribute, make derivative works
- B. What is the duration of the license?
- C. What is the geographical and market (platform) scope of the license?
- D. Does the Publisher have a right of first refusal or the right to match or top any other bid on new software you develop?
  1. If so, for how long?
- E. Will either party be prohibited from writing or selling competing software?
  1. This is the non-compete clause and can be very useful in the age of consolidation -- just as the guys who wrote SUM!

#### **IX. Acceptance**

- A. Does the Publisher have to do anything to show the software has been accepted?
- B. How much time does the Publisher have to evaluate and test the software prior to acceptance?
- C. What happens if the software is rejected?

#### **X. Royalties**

Let's face it -- this is really what counts, right!!

Remember - there is no right way to set up the money. Everybody gets a different deal, so tailor it to make it work for you, not what worked for someone else.

- A. Are you getting an advance or an initial payment?
  1. How much?
  2. Is this a non-refundable advance or do you have to pay it back?
    - a) If you have to pay it back, how do you pay it back?
- B. Are you getting a royalty?
  1. You could be getting a flat fee, an hourly wage or a combination of these.
- C. If you are getting a royalty, is it paid to you on each copy of the software?
  1. Is there a minimum dollar amount per sale that the royalty is calculated on?
- D. How are the royalties calculated?
  1. From the gross receipts or the net receipts?
    - a) If from net, spell out exactly what can be deducted from the gross (for example: trade discounts and allowances (eg., prompt payment discounts and quantity discounts), returns, commissions, freight and insurance charges, sales taxes, value added taxes, customs duties, and other similar taxes and duties, but only to the extent that such discounts, returns, commissions, charges, taxes and/or duties are actually paid or credited by Publisher with respect to any customer's account).
- E. Is there a minimum guaranteed royalty even if the software isn't selling well?
- F. When are the royalties to be paid?

Again, there is no standard. You can get them monthly, quarterly, bi-yearly or yearly. Also make sure you know when they are due. For example, if you are paid monthly, make sure the contract says when they have to get you the money -- like by the 15th of the following month.

1. When do they accrue?
2. Make sure you get some kind of accounting statement with your royalties.
3. Do you get anything for free copies or dealer demos - demos, evaluations etc. (normally not)
4. If you supply the manual, does this have its own royalty arrangement.

#### **XI. Accounting**

A. What records does the Publisher have to keep and what access do you have to them?

1. Get a right to do an audit -- if you've got it you'll never need to use it, but if you don't have it you'll wish you had it.
2. Spell out who can do the audit, how often, what records can the auditors see, what can you find out, what to do if there is a "mistake".

#### **XII. Warranties**

A. What are you warranting and what is the Publisher warranting

1. DO NOT WARRANT THAT YOUR SOFTWARE WORKS -- IT WILL NOT! EVERYBODY HAS BUGS!
2. Make sure you disclaim all warranties express, implied or statutory, and in particular the warranties of merchantability or fitness for a particular purpose (not valid in some states so check and see -- OK in California) Make it explicit that you cannot and do not warrant that the program is free from defects.
3. Also make sure you have a limitation on liability - basically that you are not liable to the Publisher or any other party for an incidental, special or consequential damages.

#### **XIII. Indemnification**

A. Under what circumstances will you indemnify the Publisher?

1. For suits regarding copyright, patents, trademarks, or trade secrets? Be very careful about patents. Everyone will ask, and you might not have a choice, but people are getting patents on software. The problem is that since patents take 2 to 3 years to issue, you might not even know you're violating someone's patent even if you search the Patent Office records. This is because patents are effective from the date of filing, not the date of issue.
2. For bugs or recalls?

B. Under what circumstances will the Publisher indemnify you?

1. Lawsuits regarding the quality of the software?
2. Lawsuits concerning mistakes made by the Publisher and its employees regarding sublicensing the software or advertising?

C. Are there any dollar limits?

#### **XIV. Copyrights, Trademarks, Trade Secrets and Confidentiality**

A. Who owns the copyright and who's responsible for marking the copyright on the software?

1. Also, who's responsible for registering the copyright with the Copyright Office. Now a days, everything you write is immediately protected by the copyright laws, but there are definite advantages to putting on the warning label and registering with the Copyright Office (statutory damages, rights in foreign countries, presumption of the validity of your copyright, etc.)
2. Also, make sure that if the Publisher sublicenses to the Government, they put the special disclaimers on which will protect your copyright from being ignored by the Government.

B. Who owns the trademark? This can be valuable.

C. Get a mutual confidentiality clause put in, for just in case situations.

#### **XV. Contract Termination**

A. Who can terminate the contract?

1. Why can the contract be terminated?
  - a) Breach - do you get a chance to cure and if so how long?
  - b) Bankruptcy?
  - c) Not meeting minimum sales requirements?
2. How can the contract be terminated?
  - a) What kind of notice do you need, if any.
3. What happens to the software after termination?

B. What, if any, provisions survive termination?

1. Make sure the royalty, indemnification and confidentiality provisions survive, along with the disclaimer of warranties and limitations on liabilities -- to name a few.

#### **XVI. Arbitration, Governing Law, Jurisdiction**

A. Arbitration - can be useful for small companies, but can get as expensive as going to court in some circumstances. Depends on your situation.

B. Governing law - it's nice to spell out which state's laws govern the interpretation of the contract - but sometimes it's not possible -- probably not something worth scuttling the deal over.

C. Jurisdiction - same with jurisdiction - ie. where you'll go to court. If you're dealing with a relatively large company - you can probably get jurisdiction over them -- really depends on your situation.