



# Software Licensing

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## Biography

*Alan Wetterhahn is a Partner at Fladgate LLP ([www.fladgate.com](http://www.fladgate.com)), and has been practising commercial law and providing solutions for his clients since 2000. Alan is an expert in commercial, digital, technology and sports matters and has acted in a wide range of industries.*

*His clients have included websites, technology platforms, software licensors, international media channels, gaming platforms, hotels, insurers, universities, brands, musicians, sports governing bodies, international sportsmen and Formula 1 teams.*

*Alan has drafted and negotiated bespoke commercial contracts for clients as well as advised on technology, e-commerce, consumer law, manufacturing, supply, distribution, agency, franchising, management, sponsorship, endorsement, image rights, intellectual property, social media, advertising and data protection matters.*

**Keywords** Software, Software as a Service (Saas), Licences, Licensing, Brexit, e-commerce, Commercial contracts  
**Paper type** Opinion

## Abstract

*Software licensing is a complicated topic, but knowing a little about software licensing can help you make sense of all the fine print. In this article, the author explores the thorny issue of software licensing and highlights and offers the best way to go about mitigating the risks.*

## Introduction

The late, great WG Grace was once asked whether a captain winning the toss on day one of a cricket test should bat or bowl. His response was unequivocal. “When you win the toss – bat. If you are in doubt, think about it, then bat. If you have very big doubts, consult a colleague – then bat.” The same holds true when you are considering whether to sell or license your software. When you wish to exploit a software product, license it. If you are in doubt, think about it, then license it. If you have very big doubts, consult a colleague or phone a friend – then license it.

Let’s take a step back. Many users, suppliers or providers of software use the words “sell” and “license” interchangeably when they refer to the use, supply or provision of software. But that could not be further from the truth.

The sale (or transfer or assignment) of software means that the owner of that software loses its ownership rights and transfers ownership to someone else. The former owner also, of course, loses the ability to control how that software will be handled by others. For all of you software owners out there ... that software might be your business’s crown jewels ... don’t just hand it over.



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## *Technology and Innovation*

Licensing, on the other hand, allows the owner to retain ownership and, importantly, to retain control. When software is licensed to a third party the owner is essentially granting the third party permission to use that software. And the owner will most likely grant that permission on the owner's terms and so, if people wish to use the owner's software, they will have to play by the owner's rules.

Whether you are a provider or a user of software, when you are considering granting or taking a software licence there are a number of critical factors to consider. These include: territory, fees, exclusivity and duration. These concepts are well understood but do, nevertheless, take the following into consideration before your licence begins.

### **Territory**

In what territory may the licensed software be used? It is no good obtaining a licence to use fantastic software in, for example, the UK if all of your users are based in the US. These kinds of considerations will have practical implications too and it might be that software intended to be licensed by UK businesses for UK users will refer to revenue in Pound Sterling which is likely to be absolutely unsatisfactory for US businesses who recognize revenue in US Dollars.

The territory of a licence probably needs to be more carefully considered now than it might ordinarily have been before. The reason for this extra care is Brexit. The UK will, in a few years, no longer be a member of the European Union (EU) and will most likely cease to lie within the European Economic Area (EEA). If the territory within which the software is intended to be used is the EEA or the EU then the licensor and the licensee will need to consider whether the licence should be extended to cover the UK after Brexit, and should amend the licence terms accordingly.

### **Fees**

The fees are an essential element of the licence and both parties will want to know how much they are paying or being paid. There are countless ways for licence fees to be structured and there is certainly no correct or incorrect way to do so. The only really crucial matter as far as fees are concerned is for there to be certainty so that the licensor and the licensee are clear as to what is being paid (and when).

Brexit may again complicate matters. The impact of Brexit is difficult to forecast and, with that in mind, it may be prudent to resist including long-term pricing arrangements in licences. Annual price reviews could become quarterly reviews post-Brexit, for example.

### **Exclusivity**

This is an important issue for both licensors and licensees. If a licensor grants an exclusive licence in a particular territory to a particular licensee then the licensor is reliant on that licensee for revenue from that particular territory. If the licensee breaches the terms of the licence or fails to reach minimum revenue targets (for example) the licensor may wish to "downgrade" the licence to become non-exclusive. The notion of exclusivity is closely linked to that of the territory and the impact of Brexit (that is, the withdrawal of the UK from the EU) should not be



forgotten. Some licensors will not work with a business model that suits the grant of exclusive licences and so exclusivity may not be of concern in every scenario.

### **Duration**

There is no real magic in setting out the duration of any licence but, again, the crucial issue is certainty. How long is the licence, will it be automatically renewed, can the licensee choose to extend it at the end of the initial term, can the licensor choose to terminate it at the end of the initial term, how much notice must be provided, can either party walk away at any time?

These are the kinds of commercial questions that licensors and licensees must ask themselves. Even the duration of a licence may be affected by the uncertainty surrounding Brexit. The parties may, for example, wish for the conclusion of the licence's initial term to coincide with Brexit or there may be a mutual right to terminate in the six months following Brexit if either party feels that the relationship is no longer working. Of course, all of the factors previously mentioned may contribute to a relationship working or no longer working.

The use of some of the traditional software exploitation models has, with the advent of mobile technology and super-fast and super-stable connections, been diminishing. Software as a service (SaaS) is now the model of choice for some former software licensors, with delivery of the software being made via the internet (i.e. it is provided as a service – not licensed or sold). When considering a relationship with a supplier or a customer on a SaaS basis, many of the same considerations related to territory, fees, exclusivity and duration will be relevant.

Regardless of your particular circumstances, some time spent thinking about how the four basic elements of territory, fees, exclusivity and duration will impact on your business and your software licence will not be time wasted.