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INTELLECTUAL PROPERTY

Software licenses, even the ones in those troublesome click-wrap agreements, contain many provisions that can positively and negatively impact a licensee. From the license grant to the indemnification provisions, companies are struggling to ensure that the applicable software licenses meet their business needs.

For large companies with decades of history with a particular publisher, this problem can be magnified by conflicting provisions in the agreements. Procurement teams can spend months negotiating favorable terms in a license agreement, only to have the installation of an upgraded product that has unfavorable license terms supersede the favorable provisions that the company worked so diligently to obtain.

One software licensing issue that many businesses are struggling with is the geographic or territorial licensing restriction contained in some software licenses. Technology professionals and executives are often surprised that some of the software they have purchased cannot be used throughout the entire global enterprise.

Restricted Areas

Software licenses acquired in Asia or Latin and South America are often far less expensive than licenses obtained in North America and Europe. Many large software publishers restrict the use of the heavily discounted software to the country of purchase to reduce the possibility of companies purchasing software and sending it to their affiliates in more expensive markets.

Publishers also often want to limit the scope of the indemnification provisions to the countries where it knows its risk is identifiable.

Impact on Businesses

When global companies purchase software licenses for use in the organization worldwide, it is critical for those companies to review the provisions purporting to restrict the territory of use. In many instances, licensees are unaware of the restrictions and do not learn of the territorial limitation until

they are in the midst of a software audit. Even if the licensee is aware of the restrictions, the license provision may be ambiguous.

The problem usually arises when licensees have offices locations and affiliates in many nations and geographic regions. A centralized procurement department in one region will try to obtain licenses for all of the affiliated entities in all regions.

The procurement team does not usually review license agreements, and it may be unaware that licenses obtained in the country where the headquarters is located cannot be transferred, even on an intra-company basis, to another office in a different country.

It can also be problematic when a licensee that has offices in only one territory acquires a new entity or opens its first international office. The issue of whether the software licenses can be used in the new location is not typically at the forefront of the due diligence exercise.

Furthermore, if the geographic region is not adequately defined, the problem can become more complex. Many global entities redefine North America to include Canada and the United States, and include Mexico in Latin America. If that company acquires licenses in Mexico and sends them to its office in Guatemala, it could believe that it is not restricted from transferring those licenses. A publisher may disagree.

Some publishers make the issue even more complicated, restricting the use to a particular office location, or even a particular computer. If a company relocates, opens a new branch in a new location, or acquires new hardware, the publisher claims that the licensee must purchase additional licenses to cover the location or the hardware.

Solving Problems

It is not always simple to address geographic limitations. Technology can advance faster than companies can execute new licensing agreements, and the language in the license agreement is usually not as clear as it should be.

For instance, users are not always certain whether the geographic limitations apply to the place where the software will be used or where the software will be installed. Some license agreements clearly say that the software cannot be used outside the country of purchase, but many say that the software is restricted, not the use or installation of the software.

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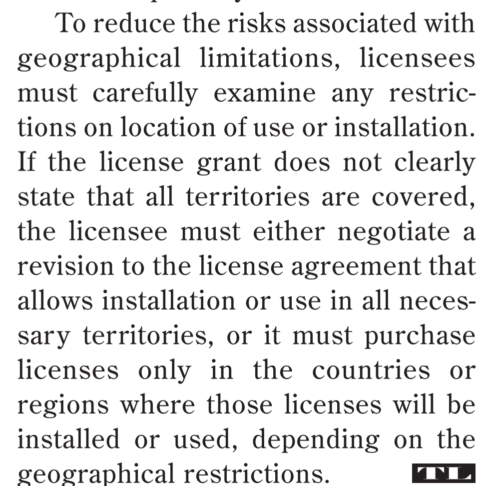

Because many companies have one datacenter that users around the globe log into, it is critical to clarify whether their international users can legally use the software, as long as the installations on the physical hardware are limited to one territory.

A publisher would likely argue during an audit that any software used in a restricted territory, even if the software was never installed outside the country where it was purchased, must be separately licensed.

To reduce the risks associated with geographical limitations, licensees must carefully examine any restrictions on location of use or installation. If the license grant does not clearly state that all territories are covered, the licensee must either negotiate a revision to the license agreement that allows installation or use in all necessary territories, or it must purchase licenses only in the countries or regions where those licenses will be installed or used, depending on the geographical restrictions. TL

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