STRUCTURAL BUILDING COMPONENTS MAGAZINE (FORMERLY WOODWORDS)
April 2000

"Software Acquisition Transactions: A Legal summary" by Kent J. Pagel

Without a doubt most of us believe the growth of software utilization in truss plants will continue. As such, truss manufacturers should begin taking time to become more well versed in the contract and legal issues that are important when acquiring or developing software. As with other contracts, the language that is set out in license agreements and other software agreements must be carefully considered and perhaps changed to suit the needs and requirements of the truss manufacturer. In this process, many of the more traditional rules lawyers and others follow when drafting and negotiating contracts are inadequate and need to be revised.[1]

CONTRACTS WITH OUTSIDE DEVELOPERS & SUPPLIERS

Most truss manufacturers rely on outside vendors for software. The spectrum of vendors ranges from Microsoft to others, including the many suppliers who advertise in *WOODWORDS* and exhibit at the annual BCMC show.

From a legal perspective, many areas of law can become involved when entering into a software transaction. Issues of copyright, trademark, patent, trade secret and contract law may need to be considered. The simplest of transactions occurs when we open mass-marketed software that is sold with what is commonly referred to as a "shrink wrap" license. The opening of the software is deemed to constitute an acceptance of the terms of the license. While each of us could debate or even litigate the legality or fairness of that principle, instead we should probably accept it for the time being. Other transactions are not nearly as seamless and deserve comment and discussion.

- **License vs. Purchase.** Software agreements are most often structured as licenses, as opposed to purchase agreements. Use of the license format has become the standard in the industry. It is the proposed terms of the license that need to be reviewed and negotiated. In such licenses the vendor will be designated as the "licensor" and the user as the "licensee."
- **Ownership of Software Rights.** A good rule of thumb: If a program already exists (and you are buying such program as is or plan only minor modifications) the program developer is unlikely to give up his ownership rights. On the other hand, if you are the one primarily paying for development, you should contract to maintain ownership. Otherwise you may find the developer selling the program to one of your competitors—at a price far less than what you paid for development!
- **Pricing.** Different pricing structures flourish in the software field. Payments will usually be on either a lump sum or periodic payment basis. In the case of periodic payments, carefully review the factors by which the licensing fee can be increased. As with all payment schedules, the licensor is interested in accelerating the payments. Conversely, the licensee should consider delaying payment, perhaps conditioning payments upon delivery or after tests have

been successfully completed. This depends of course on the complexity of the software involved. Be especially careful if your agreement involves the development of software on some kind of time and materials basis.

- **Performance Specifications.** One of the most difficult issues to get a handle on in software acquisitions is to describe what the software will do. In other words, what is the desired end result? Most of the time it is difficult to understand the detailed performance specifications the developer has included as part of the proposed license. One way of resolving the issue from a legal perspective is to describe in some detail what the licensee expects and have the parties compare such expectations with the performance specifications of the software. The results could then be incorporated into the license agreement.
- **Limitation of Liability Provisions.** Generally when products or services are purchased, there is a warranty that comes to the buyer from the seller. If the warranty is breached, the buyer can then recover from the seller unless the agreement in some way limits the liability of the seller. Generally licensors will require that their liability be very limited. The licensee should consider negotiating exceptions to such proposed limitations. Consider for a minute the losses your business could sustain in the event of a failure on the part of critical software. To begin with, you could be losing the money you expended on the software itself as well as hardware purchases that you may have made to accommodate the software. Although not a direct expense, much valuable time may also have been expended by your company employees on training. A failure of software could furthermore lead to expenses incurred for direct repair or replacement software, and diminished production or design capacity business that means either extra expenses or loss of profits.
- **Source Code.** The source code is the set of instructions as written by the programmer of the software. If a person wants to understand how a program works or needs to modify the program, he will want to see the source code. Except in very significant transactions, most software developers are unwilling to disclose the source code. If you have the sophistication to modify a program it may be very important to acquire the source code since without it modifications are probably not feasible. If you do not have the sophistication to use the source code, and you plan to develop modifications to the software, you are well advised to require the software developer to maintain the software for an extended period of time (and thereby utilizing the developer for modifications) or to develop modifications for the software.
- **Software Updates.** If the subject software is likely to be periodically updated to add features or improve performance (which seems to be the rule rather than the exception), the software agreement should address the availability and cost of such updates.
- **Training and Documentation.** Great software has no value to the user who has not been adequately trained or who lacks adequate documentation. Therefore you should determine the level of training and documentation that is required and negotiate to receive it.
- **Hardware and Software Compatibility.** A common problem is identifying whether a glitch exists because of the hardware, the software, or compatibility between parts of each. When a combination of equipment and software is being acquired, you should consider having either the software provider or the equipment provider responsible for the whole system.
- **Confidentiality Provisions.** The license agreement will set forth confidentiality provisions if the source code is provided. To the extent your company may be providing confidential information in connection with the development or implementation of the software, a confidentiality provision should be inserted protecting you from the disclosure of such information.
- **Other Restrictions.** Software licenses may contain any number of additional contractual

restrictions on licensees. They may restrict various activities relating to the source and object codes such as reverse engineering of the object code (the process to recreate the source code), limitations on personnel who may use or have access to the software, or limitations on how many multiple computers can run the software at the same time. These types of restrictions must also be carefully reviewed.

[1]Drafting efforts have gone on for several years on a uniform set of laws that could be implemented by each state covering software sales and licenses. This effort was abandoned when differences between the groups pushing for uniformity could not resolve their differences and as the proposed draft was seen as favoring software developers and vendors at the expense of purchasers. Why this is noteworthy is that it reflects the fact that licenses that are currently being proposed by most software licensors and developers are quite one-sided.

SBC HOME PAGE

The mission of Structural Building Components Magazine (SBC) is to increase the knowledge of and to promote the common interests of those engaged in manufacturing and distributing of structural building components to ensure growth and continuity, and to be the information conduit by staying abreast of leading-edge issues. SBC will take a leadership role on behalf of the component industry in disseminating technical and marketplace information, and will maintain advisory committees consisting of the most knowledgeable professionals in the industry. The opinions expressed in SBC are those of the authors and those quoted solely, and are not necessarily the opinions of any of the affiliated associations (SBCC, WTCA, SCDA & STCA).