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DOING DEALS: DON'T FORGET SOFTWARE LICENSING

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When a buyer purchases the assets from someone selling a business, the buyer generally expects to receive all of the assets the seller used in operating the business. Sometimes this expectation is misplaced, particularly regarding software.

Many software licenses prohibit transfer of any kind. Failing to evaluate the potential restrictions on license transfer before the transaction closes can result in unexpected liability and increased expenses.

Software license publishers use several different types of provisions to allow or prohibit transferability of the software license. A few publishers are more permissive and allow businesses to freely transfer the software. Several publishers allow transfer of the licenses without consent, provided that the new owner accepts the software license terms. Finally, many publishers prohibit all transfer of the licenses or require written authorization and, often, payment of a transfer fee.



Maksim Yemeljanov - Fotolia

Because publishers have ongoing relationships with the users of their software, they often have access to information about current corporate structure. Software sales professionals have often been trained to identify potential prohibited license transfers as a possible revenue-generating mechanism.

Businesses that plan to restructure or sell their assets should be prepared for challenges related to license transfers, and buyers should include appropriate

warranties in the transaction to avoid potential liability from license transfers.

Diligence and Liability

In some instances, the parties fail to conduct due diligence related to software licenses because the purchaser assumes that a purchase of the computer hardware assets will include any software licenses on the hardware. Because the right to transfer software licenses is so often limited, failure to conduct

appropriate due diligence can be a costly mistake.

If all of the relevant software licenses are transferable, counsel needs to review the prerequisites to ensure that the buyer and seller follow all required steps. If the license requires that the transferee accept all the license terms, the transferor must deliver the terms to the transferee and obtain a representation that the transferee accepts the license terms.

When the licenses are not transferrable without permission, when the buyer intends to use the licensed software after the transaction closes, and when the buyer does not have an arrangement with the relevant publishers, it is critical for the buyer, at the earliest phases of the transaction, to begin to identify software that will be part of the transaction and to determine whether the license agreements prohibit transfer.

Sometimes, the transfer of software licenses is not a critical component of the asset transaction. For instance, if the buyer already has an enterprise-level agreement with the software publisher or publishers, the buyer may not need the licenses transferred. In those instances, the parties may not need to spend a great deal of time conducting due diligence related to licenses.

But, when software licenses are a critical component of the deal, the best way to approach software licensing due diligence is to have

the seller produce copies of all software licenses to the buyer. However, due to time constraints, it is not always possible for the buyer to review them.

If time is limited, lawyers should focus on the most significant software licenses in an effort to identify those that require permission to transfer. If the license is not transferable, the parties should negotiate an adjusted purchase price to reflect the fact that the buyer has to purchase the necessary licenses.

Closing on the transaction prior to seeking approval and attempting to transfer the licenses unlawfully could result in liability for inadvertent copyright infringement.

Buyers may have difficulty quantifying the risks associated with improper or void transfers of software licenses. One method counsel often uses to assign a value to the risk is to determine the amount of the license fee paid to acquire the software. This method can give counsel an estimate of the potential risk, but it fails to consider the fact that the Copyright Act gives the copyright owner the ability to choose either statutory damages or actual damages, whichever is more favorable to the copyright owner.

Statutory damages can equal as much as \$30,000 per work infringed (e.g., transferred without permission) for infringement that's not willful and \$150,000 per work

for willful infringement. Damages can also include attorney fees and litigation costs.

Buyers may decide to reserve a portion of the purchase amount to cover any costs related to a publisher's claim that a software license was not transferable. But sellers may not agree to a reserve that spans the three-year statute of limitations for copyright infringement claims.

To ensure that the buyer receives all of the assets for which it's paying in the transaction and does not subject itself to liability for copyright infringement, transaction counsel must carefully review all the relevant software licenses and, if necessary, seek permission to transfer the licenses before the transaction closes.

Failure to conduct due diligence, seek the required permission and ensure that the buyer took all necessary steps can result in significant unbudgeted liability and litigation expenses to the purchaser.

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