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Thomas M. Hemnes S.

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Restraints on Alienation, Equitable Servitudes, and the Feudal Nature of Computer Software Licensing

Thomas M.S. Hemnes*

Background: The Development of the Computer Software License

A discussion of computer software licensing appropriately begins with the question of why a license is needed at all. The purchase or sale of a truck, a lathe, a set of instructional manuals or a box of pencils does not require a complex legal document. At most, terms and conditions of sale are printed on the back of a purchase order, or on an invoice, and no one worries about them enough to hire a lawyer. Negotiations are usually limited to price, credit, delivery and warranty terms. It does not take a lawyer to figure these out.

Why should software be any different? The license agreement immeasurably complicates what otherwise seems a simple, straightforward business transaction. From the vendor's standpoint, the license impedes sales; from the user's standpoint, the license frustrates purchases. For everyone involved, the license agreement dramatically increases transaction costs.

It is tempting to say that a license agreement is required because computer software is a type of intellectual property, while a truck and a lathe are not. But this answer is wholly inadequate. A book contains every bit as much "intellectual property" as a computer program, yet the purchase of a book is not conditioned on a "shrink wrap" license agreement.[1] For that matter, a truck or a lathe may embody patented inventions, the benefit of which ordinary people blithely buy and sell without aid of license agreements every day of the week. Again, why should computer programs be any different?

The answer to this question is largely historical. At some point in the development of computer technology, perhaps during the 1960s, people came to see computer programs as having value independent of the hardware on which they operated.[2] This created a challenge for lawyers. If one represented a client, A, who wanted to make his computer program available to B for a price, into what legal framework did this transaction

* Partner, Foley, Hoag and Eliot. The author gratefully acknowledges the contributions of Mark Clark to the analysis presented in this article and the assistance of Daniel Schaeffer and Karen Cheyney in its preparation.

1. A "shrink wrap" license agreement requires the consumer to abide by the terms of the license when he opens the protective packaging containing the software. Opening the packaging means that the consumer consents to the terms of the license. There are questions regarding the enforceability of such purported agreements. *See infra* note 26.

2. *See* Robert W. Wild, Comment, *Computer Program Protection: The Need to Legislate a Solution*, 54 Cornell L. Rev. 586, 587 (1969); Note, *Computer Programs and Proposed Revisions of the Patent and Copyright Laws*, 81 Harv. L. Rev. 1541, 1543-45 (1968).

fit? It wasn't exactly a sale or lease of the program, because, in the typical case, A wanted to continue to use the program, and to make the same program available to C, D and E for a price as well.

The transaction was more like a sale of a copy of the program, akin to the sale of a copy of a book or of a device embodying a patented invention. But this categorization had the difficulty that computer programs, unlike books, were not clearly protected by copyright in the 1960s and early 1970s.[3] Prevailing wisdom held that protection for computer software programs was precluded by the principle that mathematical formulas and algorithms were not patentable.[4] In the absence of clear copyright or patent protection, providing a copy to B would enable B to make other copies and sell or give them away to C, D or E, destroying A's market.

Lawyers for software developers were therefore driven to the conclusion that trade secret law provided the only protection for their clients' programs.[5] Trade secrets partake of the plasticity of the common law. Anything can be a trade secret, as long as it is, in fact, maintained in secrecy and provides a competitive advantage to its owner.[6]

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3. For a discussion about the copyrightability of computer programs under the 1909 Copyright Act, see Note, *supra* note 2. The Copyright Act of 1976 extended protection to computer programs to an unspecified extent. *See* H.R. REP. No. 1476, 94th Cong., 2d Sess. 54 (1976). It was not until 1980 that computer programs were definitively protected under copyright law: "Any lingering doubts as to the copyrightability of computer programs was dispelled by the Computer Software Copyright Act of 1980 which 'has the effect of clearly applying the 1976 law to computer programs'. . . ." 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 2.04[C], at 2-46.3 to 2-46.4 (1993) (footnotes omitted) (quoting H.R. REP. No. 1307, 96th Cong., 2d Sess. 19 (1980)); *see* Computer Software Copyright Act of 1980, Pub. L. No. 96-517, § 10, 1980 U.S.C.C.A.N. (94 Stat.) 3028.

4. *See* Parker v. Flook, 437 U.S. 584, 585 (1978) (method for calculating "alarm limits" during catalytic conversion process held unpatentable); Gottschalk v. Benson, 409 U.S. 63 (1972) (method for converting binary-coded decimal numerals into binary numerals in a digital computer held unpatentable). This impediment was substantially eliminated by Diamond v. Diehr, 450 U.S. 175 (1981), which allowed patent protection for the process of curing synthetic rubber while not pre-empting the use of the mathematical formula embodied in the process. It is now widely believed that patent protection for software programs can be obtained by describing an invention that embodies a program to achieve a particular result. *See* JOHN T. SOMA, COMPUTER TECHNOLOGY AND THE LAW, §§ 2.02-2.03 (1983 & Supp. 1992). Thus far, however, there have been few court cases testing the validity of such patent claims. *Id.*

5. *See, e.g.*, Cybertek Computer Prod., Inc. v. Whitfield, 203 U.S.P.Q. 1020, 1022 (Cal. Super. Ct. 1977); Amoco Prod. Co. v. Lindley, 609 P.2d 733, 743 (Okla. 1980); *see also* LESTER HORWITZ & ETHAN HORWITZ, INTELLECTUAL PROPERTY COUNSELING AND LITIGATION § 11.03[3][a] (1994); Wild, *supra* note 2, at 590-92; Note, *supra* note 2, at 1554-56. In the early days of computing, the majority of programs were protected by trade secret law, if at all. Unlike copyrights and patents, trade secret protection has been analogized to a blanket, "protecting everything beneath it," including both ideas, and the expression of those ideas. HORWITZ, *supra* § 11.03[3]; *see also* T. Buckman, Comment, *Protection of Proprietary Interest in Computer Programs*, 51 J. PAT. OFF. SOC'Y 135 (1969).

6. *See* RESTATEMENT OF TORTS § 757 cmt. b (1939). Section 757 defines trade secret as follows:

> A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see § 759) in that it is not simply

A trade secret may be disclosed to others without losing its protected status, as long as the persons to whom it is disclosed agree that they will not themselves disclose it.[7] This principle has the absurd implication that something can be a secret even if everyone knows it, much like in the story of the Emperor's New Clothes.[8] This fiction nevertheless forms the basis in commerce for trade secrets, since, without it, the first disclosure would destroy the protected status of the secret.

So far, one might conclude that a software developer in 1970 could have simply required purchasers of copies of the program not to re-sell or otherwise disclose it to anyone else. This would protect the secret, while giving the purchaser the bargained-for use of the program. Still, no license would be required—only a simple nondisclosure agreement.

Lawyers for vendors perceived, however, that such an arrangement would violate an ancient tenet of the common law—that "restraints on alienation" are generally unenforceable.[9] According to the United States Supreme Court, "[t]he right of alienation is one of the essential incidents of a right of general property in movables . . . ."[10] The Supreme Court could have included real estate and some intangibles as well. The right of alienation finds expression in such diverse places as the antitrust laws,[11] the Bankruptcy Code,[12] the Copyright Act,[13] patent law,[14] and article 2 of

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information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business. Generally, it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management.

7. Management Science of Am. v. Cyborg, 6 Comp. L. Serv. Rep. 921 (N.D. Ill. 1978) (distribution to 600 licensees under confidentiality agreements did not destroy secret); Data Gen. Corp. v. Digital Controls Corp., 297 A.2d 433, 436 (Del. Ch. 1971), *aff'd* 297 A.2d 437 (Del. 1972) (distribution to licensees under confidentiality agreements did not destroy secret).

8. *See, e.g.*, AMY EHRLICH, THE RANDOM HOUSE BOOK OF FAIRY TALES 3 (1985) (adapted from original by Hans Christian Anderson).

9. *See* THEODORE F.T. PLUCKNETT, A CONCISE HISTORY OF THE COMMON LAW 528-29 (5th ed. 1956). Plucknett traces the principle of freedom of alienation to developments that occurred about the year 1200. *Id.*

10. Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373, 404 (1911); *see also* Meyer v. Estes, 41 N.E. 683 (Mass. 1895); *see generally* Beley v. Naphtaly, 169 U.S. 353, 363 (1898); A. JAMES CASNER & W. BARTON LEACH, CASES AND TEXT ON PROPERTY 1075-82 (lst std. ed. 1951 & Supp. 1959) (citing cases); 61 AM. JUR. 2D *Perpetuities and Restraints on Alienation* § 100 (1981)(citing cases).

11. *See Dr. Miles Medical Co.*, 220 U.S. at 404.

12. *See* 11 U.S.C. § 365(f)(1) (1988) (authorizing trustee or debtor in possession to assign any executory contract that the Bankruptcy Code allows them to assume, notwithstanding any provision in the contract or applicable law that "prohibits, restricts or conditions the assignment of such contract.") There are some limitations on this power. *See infra* note 71.

13. 17 U.S.C. § 109(a) (1988) ("the owner of a particular copy . . . lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . ."). Section 109 contains certain restrictions on the right of alienation, which are not here relevant.

14. "[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."

the Uniform Commercial Code.[15] It serves a variety of societal interests, including: promoting free commerce in goods; avoiding resale price maintenance and other restraints of trade; preventing springing interests that could defeat the rights of an owner; providing creditors a means of recovery on debts; and promoting competition.[16] As the United States Supreme Court stated in *Keeler v. Standard Folding Bed Co.*,[17] "[t]he inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration."[18]

Software is ordinarily made available in the form of some moveable, tangible embodiment, such as diskettes or tapes. If A transferred title to these chattels to B, B could transfer good title in the chattels to a person who had not agreed to hold them in confidence, even if such a transfer violated an obligation owed by B to A.[19] Like the little boy in The Emperor's New Clothes who dared to say that the emperor had no clothes on,[20] the purchaser might lawfully tell the secret and thus destroy the basis for the developer's rights.[21]

To get around the conflict between the need for non-disclosure on the one hand, and the right of alienation on the other, lawyers invented the software license. The notion is to purport to give the user of the software none of the indicia of ownership. Lack of ownership avoids the "restraint on alienation" problem because the user never has more than a bailment of the copy of the software. Unless the bailee is a merchant who deals in goods of that kind,[22] a mere bailee does not have the power to transfer good title to a chattel.[23] Thus, carefully drafted software licenses never "sell" anything to the user, not even the copy of the program that is delivered to the user.[24]

Keeler v. Standard Folding Bed Co., 157 U.S. 659, 666 (1895) (holding that purchaser of articles manufactured by patentee may re-sell the articles in a territory which the patentee had granted exclusive rights to another person).

15. U.C.C. § 2-403(1) (1978) ("A person with voidable title has power to transfer a good title to a good faith purchaser for value.").

16. *See, e.g.*, CASNER & LEACH, *supra* note 10, at 1080 (quoting Meade v. Dennistone, 196 A. 33 (Md. 1937) ("restraints take property out of commerce . . .")).

17. 157 U.S. 659 (1895).

18. *Id.* at 667.

19. *See* U.C.C. § 2-403(1) (1978) ("A purchaser of goods acquires all title which his transferor had or had power to transfer . . . ."); *see also* RCA Mfg. Co. v. Whiteman, 114 F.2d 86, 89 (2d Cir.) ("Restrictions upon the uses of chattels once absolutely sold are at least prima facie invalid; they must be justified for some exceptional reason, normally they are 'repugnant' to the transfer of the title."), *cert. denied*, 311 U.S. 712 (1940).

20. *See* EHRLICH, *supra* note 8, at 3.

21. See *infra* Part II.B for a discussion of the question whether a purchaser of a copy could be held to his seller's agreement not to disclose it.

22. *See* U.C.C. § 2-403(2) (1978).

23. *Id.*

24. *See* Miles R. Gilburne & Ronald L. Johnston, *The Protection and Enforcement of Trade Secrets in Software and High Technology Information*, *in* DANIEL T. BROOKS & MICHAEL S. KEPLINGER, SOFTWARE PROTECTION: CURRENT DEVELOPMENTS IN COPYRIGHT AND PATENT AND THEIR RELATIONSHIP TO TRADE SECRET 225, 239 (1982) ("[I]n light of policies against restraints on alienation, restrictions on use or disclosure of a licensed product are more likely to be enforceable than with respect to a sold product.").

With this addition, one has all of the ingredients of the classic software license.[25] The license recites that the licensed program is a valuable trade secret of the vendor, the use or disclosure of which without the vendor's permission would cause irreparable injury. Indeed it would: lawful disclosure by any licensee would break one link in the chain of nondisclosure obligations on which trade secret protection hangs. The license further recites that the vendor retains all right, title and interest in the copy of the program that is being provided to the user. This finesses the restraint on alienation problem. The license permits the licensee to use the program, but only to the extent provided in the agreement. Finally, the agreement is signed by the licensee, to ensure its enforceability.[26]

In most cases, the retention of "title" in the "licensor" is little more than a legal fiction. Although the license purports to create a reversionary interest in the licensor at the termination of the license, few if any copies of licensed software are ever returned to their licensors. Even when a license terminates, the license will ordinarily provide that the licensee may certify that it has destroyed all copies of the licensed program in its possession as an alternative to returning the program. In reality there are very few instances in which this is actually done. Instead, the licensee assumes practical ownership of a copy, under the legal fiction that its possession is a mere bailment.

Once lawyers persuaded software developers that they could not sell their programs like books and instead had to demand that their customers sign onerous license agreements as a condition to access to the software, the floodgates were opened for lawyers to pile into the agreements all protections they could think of for their clients. Warranty disclaimers, limitations on liability, noncompetition covenants and clauses indemnifying the vendor against third party claims all seemed to be insignificant if the customer were already willing to sign a rather burdensome license agreement to gain access to the software.

The next section of this Article will demonstrate that the software license recreated one of the most ancient forms of property ownership.

II. THE FEUDAL NATURE OF SOFTWARE LICENSING

A. *Characteristics of the Feudal System*

As we have seen, the computer software license was an effort to separate a right of possession from the right of alienation. The latter right was not always a feature of our law. In feudal times, title to real property could

25. See *infra* Appendix for a representative computer software license agreement.

26. "Shrink wrap" agreements included in the packaging of computer software are not signed; as a result there are nagging worries about their enforceability. At least one state has a statute that makes such agreements enforceable. *See* LA. REV. STAT. ANN. 51:1963-65 (West 1987). Portions of that statute, however, were found to be preempted by the Copyright Act. Vault Corp. v. Quaid Software Ltd., 655 F. Supp. 750, 762-63 (E.D. La. 1987) (statute provisions allowing software licensor to prohibit acts of licensee which are permitted under § 117 of Copyright Act were preempted and license provisions forbidding such acts were unenforceable), *aff'd*, 847 F.2d 255 (5th Cir. 1988).

not be passed without the consent of the lord of whom it was held.[27] The chain of title descended vertically from the Crown, rather than temporally from one's predecessors in interest.[28] The Crown held all land as "lord paramount."[29] The Crown granted "tenures" in exchange for certain duties or services.[30] The grantee could grant "subtenures," also called "subinfeudations."[31] If he did, the grantee became a "mesne lord" with respect to persons holding of him.[32] Land so held of another was known as a "feud," "fief" or "fee." The process continued through the layers of society (sometimes seven or eight of them in all) until it reached the persons who actually created the avails of the land, the "tenants paravail."[33]

An important feature of the feudal system was the personal nature of the relation between lord and tenant or vassal. The relation was created through the ceremonies of "homage" and "fealty" by which the lord and tenant bound themselves to one another.[34] Vassals owed duties of military or other service (including in some cases payment of money) to their lords.[35] The lords also enjoyed the "incidents" of homage, relief, wardship and marriage, aids and escheat.[36] The lords, in turn, owed duties of protection to vassals. Plate 1 summarizes the feudal system of land tenure.

27. CASNER & LEACH, *supra* note 10, at 251; PLUCKNETT, supra note 9, at 539. This statement may represent Norman views imposed on a rather different English custom. *Id.* at 517, 539-40.

28. There is some question whether "feudalism" as a unified doctrine ever existed throughout Europe. *See, e.g.*, PLUCKNETT, *supra* note 9, at 509 ("All these characteristics of feudalism . . . are subject to infinite variation in every quarter of Europe . . . .")

29. GLEASON L. ARCHER, THE LAW OF REAL PROPERTY 20 (2d ed. 1927).

30. *Id.*; HERBERT THORNDIKE TIFFANY, A TREATISE ON THE MODERN LAW OF REAL PROPERTY AND OTHER INTERESTS IN LAND 13 (Carl Zollmann, abr. ed. 1940).

31. ARCHER, *supra* note 29, at 20; TIFFANY, *supra* note 30, at 14.

32. TIFFANY, *supra* note 30, at 14.

33. *Id.*

34. *Id.* at 18; PLUCKNETT, *supra* note 9, at 507.

35. CASNER & LEACH, *supra* note 10, at 253-54; PLUCKNETT, *supra* note 9, at 531-32.

36. CASNER & LEACH, *supra* note 10, at 254-56.

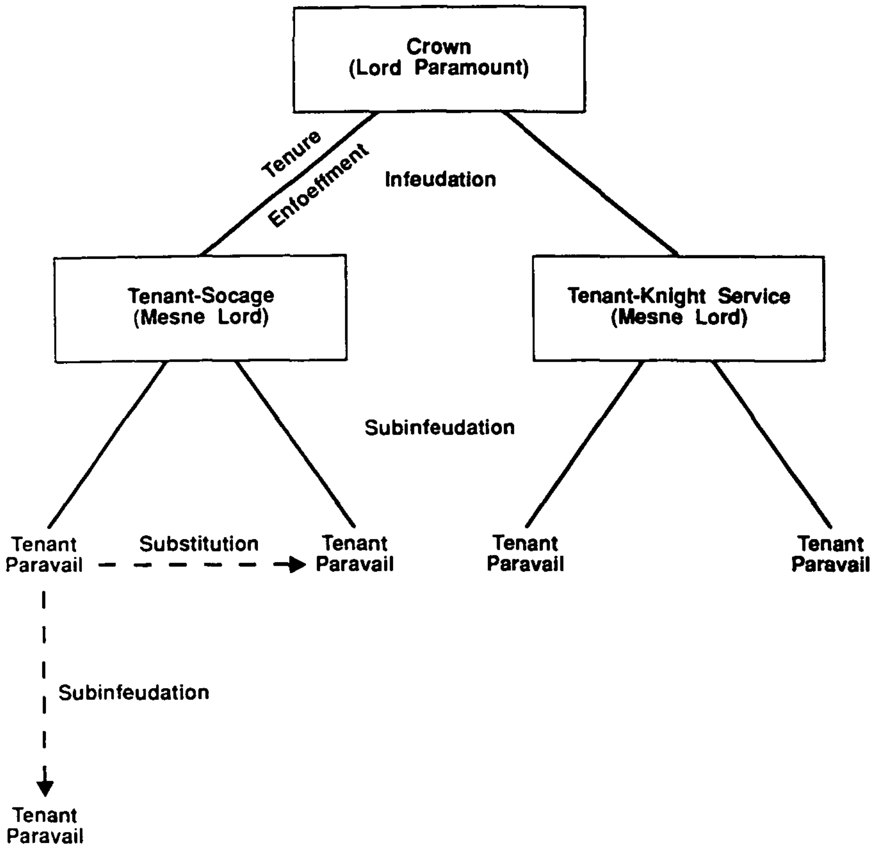

PLATE 1

There were two means of alienation in the feudal system.[37] One was the creation of a subinfeudation.[38] A second was the substitution of one tenant for another.[39] Either of them was potentially damaging to the ability of the tenant's lord or lords to realize the value of the services and incidents that were due them. "In the case of substitution the incoming tenant might be poor, dishonest, or unfriendly . . . ."[40] Subinfeudation undermined the lord's ability to realize the value of the incidents of "wardships, relief, marriage and escheat."[41]

To prevent these threats to the lords' interests, the practice in Normandy was to require every subinfeudation and every substitution to be confirmed by the tenant's lord and by every superior lord.[42] This requirement was never clearly adopted in England, at least with respect to

37. *See* PLUCKNETT, *supra* note 9, at 538; CASNER & LEACH, *supra* note 10, at 259.
38. *See* PLUCKNETT, *supra* note 9, at 538; CASNER & LEACH, *supra* note 10, at 259.
39. *See* PLUCKNETT, *supra* note 9, at 538.
40. *Id.*
41. *Id.* at 538-39; TIFFANY, *supra* note 30, at 20.
42. PLUCKNETT, *supra* note 9, at 539-40.

subinfeudation.[43] As a result tenants in England were able to use subinfeudation to realize the value of their holdings, while defeating almost entirely the ability of their lords to realize more than nominal value from their seignories.[44] The nobility acted repeatedly to remedy the problem.[45] The third Great Charter (1217) stated, "No freeman henceforward shall give or sell so much of his land that the residue shall be insufficient to support the service due in respect thereof to the lord of the fee."[46] More importantly, the celebrated Statute Quia Emptores[47] abolished altogether the practice of subinfeudation of an entire fief.[48] In exchange, however, it ratified the process of substitution of one tenant for another.[49]

The Statute Quia Emptores has sometimes been cited as the wellspring for the common law's hostility to restraints upon alienation.[50] In fact, as we have seen, English law and practice had favored alienation to a greater extent than Norman law since a time that antedated the Magna Carta.[51] Furthermore, the Statute Quia Emptores actually abolished an important form of alienation—the practice of subinfeudation of the tenant's entire fief.[52] The Statute Quia Emptores did, however, expressly permit any tenant in fee simple to sell part or all of his tenancy by substitution without his lord's permission,[53] and without payment of any fee to the lord.[54] The substituted tenant or tenants would hold directly of the lord.[55] Although the substituted tenant might be less reliable than the one he had chosen, the lord always had recourse to his right of forfeiture if there were a default in the new tenant's rendering of service to the lord.[56]

43. *Id.* at 540; TIFFANY, *supra* note 30, at 19-20. Plucknett suggests that substitution without the lord's consent may have occurred in England, while Casner and Leach definitively rule it out. *Compare* PLUCKNETT, *supra* note 9, at 540 *with* CASNER & LEACH, *supra* note 10, at 259.

44. PLUCKNETT, *supra* note 9, at 539. A tenant could, for example, deprive his lord of the value of the incident of wardship by selling the right to occupy his land for a substantial sum (none of which would go to the lord) and then subinfeud the purchaser for a nominal sum—"a rose at midsummer." *Id.* If the tenant died leaving a minor heir, the lord could collect only the rose until the heir reached majority. *Id.*

45. *See id.* at 540.

46. *Id.* (quoting the third Great Charter (1217)); *see also* TIFFANY, *supra* note 30, at 19-20. Although designed to protect lords against loss of rights through alienation, Plucknett and Tiffany agree that this clause had little effect. *See* PLUCKNETT, *supra* note 9, at 540; TIFFANY, *supra* note 30, at 20. In any event, it was superseded in 1290 by the celebrated Statute Quia Emptores, 18 Edw. 1, ch. 1 (1290) (Eng.). *Id.*

47. 18 Edw. 1, ch. 1 (1290) (Eng.).

48. Casner and Leach note that the prohibition on subinfeudations was achieved by interpretation of the statute, as it did not appear in the text. CASNER & LEACH, *supra* note 10, at 260.

49. *See* PLUCKNETT, *supra* note 9, at 540.

50. *See* ARCHER, *supra* note 29, at 25.

51. *See* PLUCKNETT, *supra* note 9, at 539-41.

52. *See* ARCHER, *supra* note 29, at 25; PLUCKNETT, *supra* note 9, at 540; TIFFANY, *supra* note 30, at 20-21. Subinfeudation of a part of a tenancy, for example by the creation of a life estate or an estate for years, continued to be permitted. TIFFANY, *supra* note 30, at 21.

53. *See* CASNER & LEACH, *supra* note 10, at 260.

54. *See id.*

55. *See* PLUCKNETT, *supra* note 9, at 540; TIFFANY, *supra* note 30, at 20-21.

56. CASNER & LEACH, *supra* note 10, at 253. By contrast, if a tenant subinfeuded his entire fief to another and then defaulted in his services to his lord, the fief would forfeit to

The Statute Quia Emptores represented a significant step in the conversion of property from one in which the personal relationship of vassalage dominated to one in which the personal relationship took second place to ownership of the land itself.[57] By abolishing the creation of new enfoeffments, the Statute Quia Emptores led directly to the eventual abolition of the feudal system as a whole.[58]

B. *Feudal Characteristics of Software Licensing*

The system of software distribution under license is analogous to the feudal system of land tenure. The computer program constitutes a trade secret owned entirely by the program's developer. The developer discloses the secret to distributors, who enter into a personal contract with the developer. The contract recites that the secret still belongs to the developer (licensor) and binds the distributors to maintain the secrecy of the program, and to pay certain royalties or other amounts to the developer. The developer, in return, promises to defend the title to the software. The distributors—mesne lords, in feudal terminology—enter into sublicenses with end users. These end users—who derive benefit from the intellectual property as tenants paravail—bind themselves to the distributors on terms analogous to the distributors' contracts with the developer. Neither the distributor nor the end user is permitted to alienate its rights, either by sublicense or substitution, without the consent of the licensor.

As in the case of feudal ownership of real property, the personal relationship between intellectual property licensor and licensee is considered a vital part of the relationship. Both copyright and patent licenses[59] have traditionally been considered mere covenants not to sue, personal to the named licensee, and not assignable by the licensee without the consent of

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the lord, but the lord would be bound by the terms of the subinfeudation. If the subinfeudation required only the payment of a "rose at midsummer," that is all the lord would receive. PLUCKNETT, *supra* note 9, at 539. The fact that such an obvious ruse could be used to defeat the services due to a feudal lord suggests the view that the feudal system was never completely implemented in England.

57. CASNER & LEACH, *supra* note 10, at 260.

58. *See* PLUCKNETT, *supra* note 9, at 540-41; TIFFANY, *supra* note 30, at 21. The statute's prohibition against subinfeudation—which was probably intended to shore up the feudal system by protecting the incidents of lordships—actually contributed to its demise. The tenancies of mesne lords regularly terminated as a result of causes such as escheat (reversion to the lord for lack of a surviving heir). With no new infeudations being created, the feudal pyramid was inexorably flattened and, in the seventeenth century, it was abolished altogether. *See* PLUCKNETT, *supra* note 9, at 540-41; TIFFANY, *supra* note 30, at 21.

59. United States law seldom distinguishes between the assignability of copyright licenses and patent licenses. For example, in Harris v. Emus Records Corp., 734 F.2d 1329 (9th Cir. 1984), the court decided the transferability of a copyright license primarily by analogy with decisions relating to patent licenses. *Id.* at 1333-34. It cited only two cases regarding transferability of copyright licenses, both without discussion, and one of the cited cases was itself decided by reliance on patent decisions. *Id.* at 1333 (citing Ilyin v. Avon Publications, 144 F. Supp. 368, 372 (S.D.N.Y. 1956) (copyright licensee had no right to assign its privilege)); *cf.* Mills Music v. Cromwell Music, 126 F. Supp. 54, 61-62 (S.D.N.Y. 1954) (deciding assignability of copyright license by analysis of whether contract involved "a relationship of personal credit and confidence." (quoting Paige v. Faure, 127 N.E. 898, 899 (N.Y. 1920))).

the licensor.[60] There is a strong sense that persons who create copyrightable or patentable property select their licensees with care, and should not suffer to have a different licensee imposed on them by assignment of the license. To bolster this principle, software licenses typically provide that they are personal in nature and not assignable or sublicensable without the consent of the licensor.[61] Plate 2 summarizes the typical system of software usage. The parallels to the feudal system of land use are striking.[62]

60. *Harris*, 734 F.2d at 1333-34 (citing Hapgood v. Hewitt, 119 U.S. 226, 233 (1886)); Unarco Industries, Inc. v. Kelley Co., 465 F.2d 1303 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973)) (holding that trustee in bankruptcy did not have power under prior law to transfer a nonexclusive copyright license, and relying on established patent authority); *see* PPG Industries, Inc. v. Guardian Indus. Corp., 597 F.2d 1090, 1093-94 (6th Cir.), *cert. denied*, 444 U.S. 930 (1979); *Ilyin*, 144 F. Supp. at 372 (applying traditional approach); *Mills Music*, 126 F. Supp. at 61-62; *see also* 3 NIMMER ON COPYRIGHT, *supra* note 3, §§ 10.01[C][4], 10-02[B][4]; 3 PETER D. ROSENBERG, PATENT LAW FUNDAMENTALS § 16.01[1][b] (2d ed. 1991).

61. *See infra* Appendix, § 3. There is a trend toward provisions allowing transfer of the licenses of "off the shelf" software. The implications of such transfer, and of transfers to which the licensor has not consented, are discussed later in this Article.

62. A further point of similarity is that the system of software licensing is, to a varying extent, a fiction that is only occasionally enforced in reality. Thus, for example, non-assignment clauses are frequently disregarded in practice, without any complaint from the licensors.

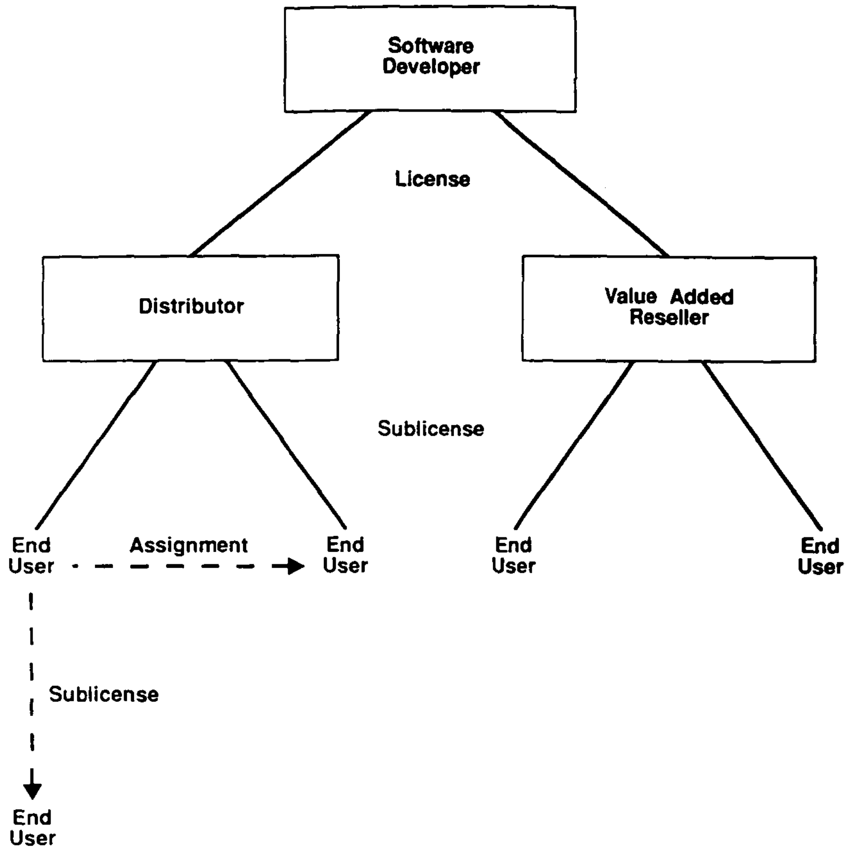

PLATE 2

If one accepts that modern software licensing has taken a form that is analogous to the feudal system of land tenure, it is worth inquiring whether the pressures that undid the feudal system might not have analogues at work in the context of software licensing. In particular, one would expect to find a growing tendency to consider licensed rights in computer software (or, for that matter, other embodiments of intellectual property) to be alienable property of the licensee, rather than a personal privilege granted to the licensee by the licensor. That would lead, in turn, to commercial resistance against restraints on alienation, and even cases holding that agreed-to restraints on alienation are unenforceable.

All three processes are already underway. To begin with, the traditional principle that a patent or copyright license is personal to the licensee is no longer followed in all jurisdictions.[63] The alternate line of authority springs from the decision of Justice Traynor in *Farmland Irrigation Co. v. Dopplmaier.*[64] Beginning with the observation that earlier fed-

63. *See infra* notes 64-73 and accompanying text.
64. 308 P.2d 732 (Cal. 1957).

eral common law limiting the assignability of patent licenses was not binding following *Erie R.R. Co. v. Tompkins*,[65] Justice Traynor found no reason to exempt patent licenses "from a general rule adapted to facilitate the freest possible transfer of valuable contract rights . . . ."[66] The court held that assignability should be determined by asking, as to each license, whether "the duties imposed upon [the licensee] may be of such a personal nature that their performance by someone else would in effect deprive the [licensor] of that for which he bargained,"[67] or whether "assignment would materially impair the [licensor's] chance of obtaining the performance he expected."[68]

The easiest case for permitting an unconsented assignment would be a reorganization of a business, in which the use of the licensed product by the successor in interest is in practical terms indistinguishable from that of the original licensee. For example, in *Synergy Methods, Inc. v. Kelly Energy Systems*,[69] Judge Pettine allowed the assignment of a technology license in connection with a merger.[70] A harder case occurs when the licensee is to perform substantial services on behalf of the licensor, as, for example, in the case of a distributorship agreement. The assignee might be less capable of performing these services than the original licensee was, thus depriving the licensor of the benefit of the bargain. Even this consideration might be overcome, however, in reorganization proceedings where the success of a debtor's reorganization might well depend on its ability to transfer valuable licensed rights to a successor entity.[71] Thus, the bank-

65. 304 U.S. 64 (1938).

66. *Dopplmaier*, 308 P.2d at 740.

67. *Id.*

68. *Id.* at 741.

69. 695 F. Supp. 1362, 1366 (D.R.I. 1988) (quoting Trubowitch v. Riverbank Canning Co., 182 P.2d 182, 188 (Cal. 1947) (Traynor, J.)) (validity of a transfer resulting from a change in the form of the licensee's business "depends upon whether it affects the interests of the parties protected by the nonassignability of the contract.").

70. *Contra* PPG Industries, Inc. v. Vanguard Indus. Corp., 597 F.2d 1090, 1093-94 (6th Cir.), *cert. denied*, 444 U.S. 930 (1979).

71. The Bankruptcy Code authorizes a trustee or debtor in possession to assign any executory contract that the Code allows them to assume, "*notwithstanding a provision in an executory contract or . . . in applicable law*, that prohibits, restricts or conditions the assignment of such contract," subject only to an obligation to provide "adequate assurance of future performance" to the other party. 11 U.S.C. § 365(f) (1988) (emphasis added). The trustee/debtor-in-possession is barred from nonconsensual assumption of leases and licenses only to the extent that "applicable law excuses [the licensor] . . . from accepting performance from or rendering performance to an entity other than the debtor or debtor in possession, whether or not such contract . . . prohibits or restricts assignment of rights or delegation of duties." 11 U.S.C. § 365(c)(1)(A) (1988). Therefore if a software licensee were in bankruptcy and the license were held not to be "personal" in nature, as seems quite possible, the licenses could be transferred without the licensor's consent, even if they contained antiassignment clauses. *See, e.g., In re* Taylor Mfg., Inc., 6 B.R. 370 (Bankr. N.D. Ga. 1980).

There is authority in the First and Fifth Circuits, however, which holds that the Bankruptcy Code permits assumption and assignment in spite of "state laws that enforce contract provisions prohibiting assignment"; by contrast, laws "that forbid assignment even when the contract *is* silent . . . are to be heeded." *In re* Pioneer Ford Sales, Inc., 729 F.2d 27, 28-29 (1st Cir. 1984) (invalidating assignment of franchise agreement because state statute required franchisor's consent to transfer); *accord In re* Braniff Airways, Inc., 700 F.2d 935, 943 (5th Cir. 1983) (assignment of airline's airport lease disapproved without airport's consent because District of Columbia Code and FAA regulations required such consent). The Sixth Circuit Court of Appeals held that a trustee or debtor in possession in bankruptcy has no greater ruptcy court in *Matter of Sentry Data, Inc.*[72] held that a software distribution agreement was transferable without the licensor's consent because it was not personal in nature.[73]

At the same time that the personal nature of the license relationship has come under question, software licensees have bargained for, and won, more of the indicia of ownership. Today, it is common for a licensee to negotiate for a "fully paid up, royalty free, perpetual" license to use a basic item of software. Although it is probably unnecessary,[74] language of this kind increases the licensee's comfort level that the vendor's bankruptcy cannot trigger a forfeiture of the licensed rights, which may be vital to the operation of the licensee's business. Even if the vendor's pricing strategy contemplates a stream of payments rather than a single, up front payment, the vendor can accommodate this request because it can tie a stream of payments to "updates" and "maintenance" of the software, rather than to the basic right to use it.

A factor contributing to vendors' tolerances for such perpetual licenses is the expanded scope of copyright and patent protection for software. The original justification for going to the trouble of a licensing agreement was to protect the software as a trade secret because other forms of protection were at best of doubtful validity through the early 1970s.[75] Since that time, the United States Copyright Act has been amended to extend copyright protection explicitly to computer programs;[76] the European Communities have adopted a Directive requiring all member states to protect computer programs under copyright;[77] and the courts, particularly in the United States, have gone overboard in their zeal to accord programs protection at least equal to that given books and other copyrighted works.[78] Furthermore, patents are increasingly per-

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power to transfer a copyright license than a licensee that is not in bankruptcy. Harris v. Emus Records Corp., 734 F.2d 1329, 1334 (6th Cir. 1984). However, the vitality of the Harris decision is doubtful. It was grounded in limiting language that appeared in the old Bankruptcy Act but not in the current Bankruptcy Code. "Section 70(a)(5) of the Bankruptcy Act provides for the transfer of all assets which the bankrupt 'could by any means have transferred . . .' prior to the petition for bankruptcy." *Id.* at 1334.

72. 87 B.R. 943 (Bankr. N.D. Ill. 1988).

73. *Id.*

74. Amendments to the Bankruptcy Code that were enacted in 1988 effectively prevent an intellectual property license from terminating the licensee's right. *See* Thomas M.S. Hemnes, *Computer Software Licensing After the Enactment of the Intellectual Property Bankruptcy Protection Act*, COMPUTER LAW., No. 10, Oct. 1988, at 7, 9.

75. *See supra* notes 3-5 and accompanying text.

76. 17 U.S.C. § 117 (1988).

77. Council Directive 91/250, art. 1, 1991 O.J. (L 122) 42, 44.

78. *See, e.g.*, Whelan Assoc. v. Jaslow Dental Lab., Inc., 797 F.2d 1222, 1238-40 (3d Cir. 1986) (holding copyright extends to the "structure, sequence, and organization" of a program), *cert. denied*, 479 U.S. 1031 (1987); Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1249 (3d Cir. 1983) (holding copyright protection extends to machine-readable code), *cert. dismissed*, 464 U.S. 1033 (1984); Lotus Dev. Corp. v. Paperback Software Int'l, 740 F. Supp. 37, 68 (D. Mass. 1990) (holding Lotus 1-2-3's user interface contains copyrightable elements). These cases have recently been questioned. The *Whelan* court's "structure, sequence, and organization" formula was not followed in Computer Assoc. Int'l v. Altai, Inc., 775 F. Supp. 544, 559 (E.D.N.Y. 1991). *Lotus* arguably extends copyright protection beyond that given to books in Baker v. Selden, 101 U.S. 99, 107 (1879), which held that a method of double entry book-keeping, manifested in the forms, charts, and columns printed in a trea-

ceived as available for computer software,[79] according rights that are arguably much deeper than those available under copyright.[80]

In the relaxed atmosphere encouraged by such broad noncontractual protection for software, it is easy to overlook the fact that a "fully paid up, royalty free, perpetual" license is virtually indistinguishable from the sale of a copy. To return to the real estate model, a deed conveying the perpetual right to use a parcel is considered a conveyance of fee simple, and clauses in the conveyance purporting to restrict its alienation or attachment are void under the rule of the Statute Quia Emptores.[81] It seems likely that, given an appropriate case, a court would explode the fiction that a fully paid up, royalty free, perpetual license is not a sale.

In the context of Article 2 of the Uniform Commercial Code, the fiction is regularly disregarded. In *Communications Groups, Inc. v. Warner Communications Inc.*,[82] the court held that installation by the plaintiff of its specially designed computer software involved a transaction of movable, tangible and identifiable products or "goods" under the U.C.C.[83] The court disregarded language in the agreement purporting to retain title in the licensor and characterizing the agreement as a "license," in part because the licensee paid a one-time perpetual license fee.[84] The court concluded that Article 2 of the U.C.C. governed the transaction.[85]

If the license is merely a sale in disguise, then the clauses in the "license" agreement prohibiting subsequent transfer by the "licensee" are nothing more than unenforceable restraints on alienation.[86] Ironically, in adopting a feudal model for software licensing, lawyers for vendors thus sowed the seeds of its own demise. Just as the Statute Quia Emptores undermined the feudal system, its latter-day progeny, the Copyright Act, pat-

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tise, was not copyrightable. *See also* Ronald Abramson, *Why Lotus-Paperback Uses the Wrong Test And What the New Software Protection Legislation Should Look Like*, COMPUTER LAW., No. 8, Aug. 1990, at 6-7; D. Lee Antton & Gary M. Hoffman, *Copyright Protection and Innovation: The Impact of Lotus Development v. Paperback Software*, COMPUTER LAW., No. 8, Aug. 1990, at 1, 3.

79. *See* SOMA, *supra* note 4.

80. Unlike copyright, patent protects against the independent creation of the same invention. *Compare* 35 U.S.C. § 271 (1988) (defining exclusive rights of patentee) *with* 17 U.S.C. § 106 (1988) (defining exclusive rights of copyright holder).

81. ARCHER, *supra* note 29, at 113.

82. 527 N.Y.S.2d 341 (N.Y. Civ. Ct. 1988).

83. *Id.* at 345-46; *see also* Advent Sys. Ltd. v. Unisys Corp., 925 F.2d 670, 675 (3d Cir. 1991) (computer software is a "good" within the meaning of the Pennsylvania version of the Uniform Commercial Code); RRX Indus., Inc. v. LAB-CON, Inc., 772 F.2d 543, 546 (9th Cir. 1985) (computer software system was a "good" rather than a service, for purposes of the California Commercial Code). *But see* United States v. Brown, 925 F.2d 1301, 1307 (10th Cir. 1991) (computer program was intangible intellectual property, and as such, did not constitute goods, wares, merchandise, securities or monies within the meaning of the National Stolen Property Act).

84. *Communication Groups*, 527 N.Y.S.2d at 345. Oddly, the court reasoned that this made the transaction a lease, rather than a sale. In this regard, the court's reasoning was probably result-oriented. Notwithstanding the U.C.C.'s statement that it only applies to sales, courts have often applied it to leases where the lease has no termination date or the lessee has continued, uninterrupted use of the leased item at the end of the lease. *See* L. J. KUTTEN, COMPUTER SOFTWARE: PROTECTION/ LIABILITY/LAW/FORMS, § 1.11[2], at 1-27 (1993).

85. *Communication Groups*, 527 N.Y.S.2d at 345.

86. *See supra* notes 9-17 and accompanying text.

ent law, the common law and the Bankruptcy Code,[87] lie in wait to challenge restraints on alienation imposed in a modern transaction, particularly if the transaction is a sale masquerading as a foeffment.

In at least one case, the restraints failed. In *First Nationwide Bank v. Florida Software Services*,[88] two software vendors had licensed computer software programs to two savings and loan institutions ("S&Ls").[89] The licenses were each for five years, and required both up-front license fees and quarterly payments.[90] As is customary, the vendors' licenses required the licensees to hold the software in secrecy and confidence,[91] and prevented the licensees from transferring or assigning their interests in the software without the consent of the vendors.[92]

The S&Ls followed their own custom by becoming insolvent. Their assets were acquired by the plaintiff in the action, First Nationwide Bank, under procedures established by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA").[93] The licenses were in effect at the time of the acquisition, and First Nationwide continued to use the licensed software and to make the quarterly payments through the end of the license terms.[94] The vendors objected to such use on the ground that it violated the anti-assignment provision of the license agreements.[95] They rather ungenerously offered consent, however, if the bank paid additional license fees totaling almost $2 million (the original license fees had totaled about $750,000).[96]

The court refused to enforce the anti-assignment clause of the license agreements, on two grounds: 1) permitting the assignment did not "infringe on any substantive right of [the vendors]";[97] and 2) requiring the bank to pay an additional license fee "is contrary to the general contract principles of good faith and fair dealing."[98]

The "general contract principles of good faith and fair dealing" are not a satisfying explanation for the court's decision. The insolvent banks knowingly accepted licenses that were not assignable. Presumably, they might have bargained for assignable licenses, and paid a higher price for the privilege of assignment. The court permitted them to transfer more rights than they had, without paying the toll that a right to transfer might

87. *See supra* notes 11-15 and accompanying text.

88. 770 F. Supp. 1537 (M.D. Fla. 1991).

89. *Id.* at 1539.

90. *Id.* The court's opinion does not state whether the quarterly payments were for the right to use the software, for maintenance, or both.

91. *Id.* at 1540. The court's opinion notes that the banks had access to the vendors' "trade secrets." *Id.*

92. *Id.* at 1539.

93. Act of August 9, 1989, Pub. L. No. 101-73, 1989 U.S.C.C.A.N. (103 Stat.) 183 (amending 12 U.S.C. § 1821).

94. 770 F. Supp. at 1540. When the vendors refused to accept the quarterly payments, the bank started depositing them into the court. *Id.*

95. *Id.*

96. *Id.* at 1539-40.

97. *Id.* at 1541. To the extent that this conclusion requires an interpretation of FIRREA, it is beyond the scope of this paper.

98. *Id.* at 1542.

have required. Does that order not violate the "principles of good faith and fair dealing" as least as much as the licensors' insistence on an arguably inflated transfer fee?

One might argue that the licensors sought to obtain, in effect, a windfall from the licensees' misfortune in becoming insolvent. However, this argument also falls short of the mark. It is the essence of contract law that one may insist on the benefit of a bargain, even if its enforcement results in an unexpected profit.

The court's comments only have force if one believes that the licensors did in fact receive the benefit of their bargains. As has been noted, the court based its conclusion on the finding that the use was permitted to the original licensees, and that there had been no disclosure beyond that permitted by the original licensees. In fact, there had been a new disclosure, even if access to the program following the reorganization was limited to the same employees who had access before. After the reorganization, those persons were employed by a new entity First Nationwide, which therefore gained access to the programs to the extent that a corporation can ever have access to any form of information. However, it is clear that the court had in mind what one might call the "objective" extent of disclosure of the trade secrets—i.e. how many people knew and used it—not the legal identity of the employer of those people.

In other words, the court's result seems correct, and its comment about "good faith and fair dealing" appropriate, if one believes that the identity of the licensee is immaterial to the license transaction. As long as the licensee paid the homage the license required of it (i.e., did not exceed the licensee's scope of use and non-disclosure provisions), the licensor cannot complain if the homage is paid by original Licensee A or by Licensee B.

The elimination of the personal nature of the relation between lord and tenant was, as we have seen, one of the fundamental changes wrought by the Statute Quia Emptores. After the Statute Quia Emptores, a lord could not complain if the identity of his tenant changed.[99] So also, under the rule of *First Nationwide*, the identity of a software licensee is not a material part of the vendor's bargain.[100] It is the performance of the contract that counts, regardless of the identity of the person performing it.

Under the Statute Quia Emptores, the substituted tenant held directly of the lord, who could, in turn, proceed directly against the substituted tenant for satisfaction of the terms of the fief. Whether a software vendor could proceed directly against the transferee of a licensee's rights was not resolved in *First Nationwide*. It is this question to which we now turn.

II. ALIENATION AND EQUITABLE SERVITUDES

The *First Nationwide* court was assisted in reaching its result because the assignment of the license did not result in any expansion of the

99. *See supra* notes 49-57 and accompanying text.
100. *See supra* notes 88-98 and accompanying text.

software's use or disclosure of the vendors' trade secrets to individuals other than the ones who had access to the trade secrets under the original agreement.[101] By the time the case was decided, the licenses had expired, and the bank's respective obligation to comply with licenses was not at issue.[102] In many cases, these favorable conditions would not exist. Assuming that *First Nationwide* represents the vanguard of what might become a typical holding, the next question is whether restrictive covenants imposed on licensees might be enforceable against transferees of the software, even if clauses that prevent outright transfer are not. This question intertwines with the difficult issue of the enforceability of "equitable servitudes" on movable property.[103] If the licensor cannot enforce material terms of the license against the transferee, then the argument for enforcing the restraint on alienation is improved. At the same time, if the restraint on alienation fails, the argument for enforcing the servitude becomes more compelling.

For our purposes, an equitable servitude may be defined as any limitation or condition on the use of property short of a prohibition against its transfer or alienation.[104] Servitudes are very common in real estate, comparatively rare in the case of chattels, and ubiquitous in software licensing.[105] Virtually every software license imposes restrictions on the use of the licensed software.[106] At a minimum, the license will ordinarily require the licensee to hold the software in confidence, to make copies or derivative works only for specified purposes, and to restrict its use to certain computers and locations.[107]

Equitable servitudes have a considerably shorter history than restraints on alienation. Their origin is ordinarily traced to the 1848 case of *Tulk v. Moxhay*,[108] decided by the English Court of Chancery. In *Tulk v. Moxhay*, the plaintiff owned property in Leicester Square.[109] He conveyed the "Leicester Square Garden or Pleasure Ground" containing an "equestrian statue then standing in the centre thereof, and the iron railing and stone work round the same"[110] to one Elms, who covenanted that he and his heirs and assigns would maintain the Pleasure Garden and grant the

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101. First Nationwide Bank v. Florida Software Serv., 770 F. Supp. 1537, 1540 (M.D. Fla. 1991).

102. *Id.* at 1541.

103. Zechariah Chafee addressed the issue of the enforceability of "equitable servitudes" in two articles: Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 HARV. L. REV. 945 (1928) [hereinafter Chafee I]; Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 HARV. L. REV. 1250 (1956) [hereinafter Chafee II].

104. *See* Chafee I, *supra* note 103, at 946-48.

105. Based on personal knowledge and conversations with convey, assign, and commercial attorneys in author's law firm.

106. In some cases, the licensors have attempted to extend the reach of their restrictive covenants very far indeed. In Lasercomb Am. v. Reynolds, 911 F.2d 970 (4th Cir. 1990), for example, the license agreement between a software developer and its licensee included a 99-year noncompetition provision that forbade the licensee from attempting independently to implement the idea which the developer's program expressed. *Id.* at 978.

107. *See, e.g., infra* Appendix § 3.

108. 2 Ph. 774 (1848).

109. *Id.*

110. *Id.*

plaintiff's tenants access to it.[111] The Pleasure Garden was eventually conveyed to the defendant, who proposed to build on it.[112] The Court of Chancery affirmed an injunction preventing Elms' successor from doing so.[113]

Tulk v. Moxhay exemplifies the basic requirements for equitable enforcement of a servitude against a subsequent purchaser—that is, for the covenant to "run" with the land.[114] First, there must be notice of the servitude.[115] In real estate, notice is invariably satisfied by including the servitude in the deed, which is recorded and becomes part of the title record that a purchaser is assumed to have examined before purchasing the parcel.[116] Second, there must be a "dominant tenement" that benefits from the servitude, or at least a "scheme" from which the party seeking to enforce the covenant will benefit.[117] In *Tulk v. Moxhay*, the plaintiff owned several of the houses that formed Leicester Square, and the houses' occupants were entitled to use the Pleasure Garden under the terms of the servitude.[118] Their benefit from the servitude is obvious. Third, the servitude must satisfy some appropriate purpose appurtenant to the dominant tenement, and must not impose a "new and unusual" incident on land ownership.[119] This may be translated into a requirement that the servitude must be something of the sort that a purchaser of property might ordinarily expect to find, and not something that would impose an extraordinary or bizarre burden on the purchaser. In *Tulk v. Moxhay*, the obvious purpose was to enhance the value of properties in Leicester Square by preserving a park-like enclosure that the plaintiff's tenants could enjoy. Thus, one purchasing a park-like area in an otherwise residential neighborhood might reasonably expect that there is some reason why no one has previously built on the park. In later cases, particularly in the United States, this third requirement has been supplemented with the

111. *Id.*

112. *Id.* at 775.

113. *Id.* at 779.

114. The precise holding of *Tulk v. Moxhay* was that equity would enforce a servitude that would not "run" with the land as a matter of law. CASNER & LEACH, *supra* note 10, at 1117 n.13. In England, covenants would "run" as a matter of law only if there were a tenurial relation between the original covenantor and covenantee. CHARLES M. HAAR & LANCE LIEBMAN, PROPERTY AND LAW 9589 (2d ed. 1985). Under this rule, the covenant in *Tulk v. Moxhay* would not have "run" at law because it was contained in a deed conveying fee simple as opposed to a deed conveying a tenancy. This limitation is not applicable in the United States where, as has been noted, the feudal or tenurial system of land ownership was never effectively established. Thus, for example, in Neponsit Property Owners' Ass'n v. Emigrant Indus. Sav. Bank, 15 N.E.2d 793, 795 (N.Y. 1938), the court enforced a covenant contained in a deed that was not in the nature of a leasehold. Although technical differences between covenants running at law and at equity may remain, they are both beyond this Article's scope, and not immediately pertinent to the possible extension of the real property principles to the field of intellectual property licensing discussed in the text.

115. *See, e.g.*, Smith v. Wedgwood Builders Corp., 590 A.2d 186, 189 (N.H. 1991) (notice requirement in statute not met). For these requirements, see generally CASNER & LEACH, *supra* note 10, at 1115-32.

116. *Smith*, 590 A.2d at 190 (bona fide purchaser has duty to investigate).

117. *See* Werner v. Graham, 183 P. 945, 947 (Cal. 1919).

118. 2 Ph. at 774.

119. Norcross v. James, 2 N.E. 946, 949 (Mass. 1855).

principle that the servitude cannot violate public policy.[120] Thus, for example, a servitude that prevents the sale of property to persons of a particular race is unenforceable.[121]

The law of equitable servitudes never found a stable home in the general law of chattels.[122] Attempted servitudes on chattels frequently took the form of manufacturers' efforts to control the price at which, or territories in which, articles of commerce could be sold by distributors and retailers.[123] Such restrictions were almost universally perceived as unlawful restraints on alienation.[124] Chafee argues convincingly that this rationale fails completely to appreciate the distinction between "conditions which totally restrain alienation by enabling the seller to recover the sold property" and those "which merely give the seller some measure of equitable control over its disposition in the hands of later owners, who never cease to retain the property."[125] Nevertheless, he concedes that there are significant differences between a servitude on a chattel and one on land.[126] The principal differences Chafee cites are these: (1) "Land remains in the same hands for comparatively long periods of time and is transferred after an elaborate investigation of the title, whereas chattels are ordinarily sold with rapidity";[127] (2) "restrictions on land [use] arise from the desire to protect a neighborhood as a rough unit. . . [for which there is no analogue in chattels]";[128] and (3) restrictions on land "do not endure forever, but lapse when the preservation of the desired neighborhood standard can no longer be accomplished."[129] With chattels it is very difficult to define a "dominant tenement" that is benefitted by the servitude. Chafee postulates that the manufacturer's business and marketing scheme should suffice to fill this role.[130] However, this consideration is probably more than counterbalanced by the fact that the benefit to the manufacturer is in direct conflict with the interest of distributors, retailers and consumers in paying a lower price for the manufacturer's goods.[131] By contrast, many equitable servitudes on land are mutual in nature: all of the members of a

120. *See, e.g.*, Shelley v. Kraemer, 334 U.S. 1, 21 (1948) (court would not enforce covenant that promoted racial inequality).

121. *Id.* at 23.

122. Chafee I, *supra* note 103, at 977-87, 1011-13 *passim.* Chafee pointed to "the [countervailing] economic claims of consumers and independent wholesalers and retailers, [and] the immense judicial labor required for a satisfactory development of the operation and limits of the proposed device." *Id.* at 1013.

123. *See id.* at 980-82 (summarizing and citing cases).

124. *Id.*

125. *Id.* at 983.

126. *Id.* at 985.

127. *Id.*

128. *Id.*

129. *Id.*

130. *Id.* at 964, 986.

131. This interest forms the basis for the antitrust principle that resale price maintenance schemes are *per se* unlawful. *See* Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373, 408-09 (1911). Although Chafee questions the economic basis for this ruling, he seems ultimately to have resigned himself to the strength of the interests represented by "consumers and independent wholesalers and retailers." *Compare* Chafee I, *supra* note 103, at 988-995 *with id.* at 1013.

neighborhood are both burdened and benefitted by the set of restrictions.[132]

The important question for our purposes is whether intellectual property licensing in general, and software licensing in particular, is more like real property, where equitable servitudes are widely enforced, or chattels, where they are not. To analyze this question, it is useful to distinguish among the types of restrictions that software vendors commonly seek to impose on their licensees. Although a complete survey would be beyond the scope of this paper, it is possible to describe and analyze a few broad categories.

The first of these categories might be described as restrictions that are necessary to preserve the commercial value of the software. The most obvious are confidentiality obligations that are required to preserve trade secret protection for the licensed software.[133] There is a compelling argument that restrictions in this first category should "run" with the licensed right and be enforceable against transferees of the original licensee who take with notice of them. In the first place, it is easy to determine a dominant tenement that is benefitted by the servitude: the vendor's trade secret.[134] Second, the vendor can easily provide for notice by including a simple statement on the diskettes or other media that contain the program, and by causing the program to display a proprietary rights notice when the software is first turned on. Third, the restriction is hardly novel or unexpected. It serves the appropriate purpose of preserving the value of the software not only for the vendor, but for all of its other licensees. All licensees presumably paid for the right to use the software, and their investments would be made worthless if the software became freely available to the public without charge.

Restrictions on the scope of the licensee's use, such as limitations to use on a single central processing unit, or on a network of defined location, should probably fall into the same enforceable category.[135] Again, such restrictions are entirely within the realm of what a purchaser of com-

132. *See, e.g.*, Snow v. Van Dam, 197 N.E. 224, 226 (Mass. 1935). The servitude in *Tulk v. Moxhay* was an exception to this principle, since it burdened only the Pleasure Garden parcel, while benefitting all of the other parcels on Leicester Square. Nevertheless, as the court noted in that case, "nothing could be more inequitable than that the original purchaser should be able to sell the property the next day for a greater price, in consideration of the assignee being allowed to escape from the liability which he had himself undertaken." 2 Ph. at 776-77.

133. *See supra* note 7.

134. Chafee argues that a patent or copyright should also provide a dominant tenement supporting a servitude. *See* Chafee I, *supra* note 103, at 998. But the courts have been less than enthusiastic in enforcing patentees' and copyright proprietors' efforts to create servitudes. *Id.* at 999-1005. There is, however, a distinctive difference between the confidentiality required to support a trade secret and the price, territorial and other restrictions attempted by patentees and copyright holders. Copyrights and patents arise by statute, and copyright holders or patentees will retain substantial rights even if restrictions on resale price or territory are not enforced. By contrast, a trade secret will lose its protected status if enforceable confidentiality obligations are not imposed on all who lawfully come into possession of the secret.

135. A variation on such a restriction would be a license term that requires the licensee to pay an additional license fee for expanded use.

puter software would expect to find. Without such restrictions, every licensee would be entitled to unlimited use, and it would be impossible to establish a price for the software. Furthermore, restrictions on the licensee's scope of use are consistent with statutory limitations on the rights of the owner of a copy under the Copyright Act[136] and with the rights of the purchaser of a patented article under patent law.[137] Thus, to the extent that licensed rights become more freely transferable, public policy, as adumbrated in the copyright and patent laws, would seem to support enforcement of the restrictions.[138]

Other covenants contained in many software licenses are more problematic. Suppose, for example, that the original licensee has agreed to cross-license its own technology to the software vendor, to assist the vendor in performing research and development, or to indemnify the vendor for claims of third parties to whom the licensee provides goods or services using the licensed software. Such covenants frequently form an important part of the bargain in licensing transactions, and it would be just as inequitable to allow a transferee of the licensed rights to take free of them as it would have been to allow the transferee of Elms' parcel to take free of the restrictions Elms had agreed to in *Tulk v. Moxhay*. On the other hand, covenants of this type are not usually essential to preserve the trade secret status or commercial value of the licensed software.[139] In addition, they are almost always novel, unpredictable, and unexpected, and a transferee's ability to meet such obligations is likely to be wholly different from that of the original licensee. If, for example, part of the consideration for the license was a cross-license from the original licensee, a transferee who was not a successor to the original licensee's business would probably lack the technology sought to be cross-licensed. In this event, the licensor would lose a fundamental part of the benefit of its original bargain.

Some novel executory obligations may fail for reasons of public policy. For example, the licensor in *Lasercomb America, Inc. v. Reynolds*[140] sought to prevent its licensee from competing with the licensed product for a period of 99 years.[141] The Fourth Circuit Court of Appeals found this burden so onerous that it refused to entertain the licensor's action for copyright infringement against the original licensee.[142] *A fortiori*, this re-

136. 17 U.S.C. § 109(b) (1988), *amended by* 17 U.S.C. § 109(b)(1) (Supp. IV 1992).

137. *See* DONALD S. CHISUM, PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT § 16.03[2] (1991).

138. Another class of covenants that should probably "run" with the software are warranty limitations and limitations on liability. Subject to important public policy restrictions, such covenants (to the extent that they constitute covenants of the licensee at all) commonly "run" with chattels, as a result of the decline of privity of contract in the field of product liability. *See, e.g.*, MASS. GEN. LAWS ANN. ch. 106, § 2-318 (West 1990). There is no reason to suppose that they should not also "run" with license software rights.

139. *See supra* notes 5-8 and accompanying text (requirements for trade secret protection).

140. 911 F.2d 970 (4th Cir. 1990).

141. *Id.* at 973.

142. *Id.* at 979. This rationale required an extension of very thin existing precedent, and has been justifiably criticized on the ground that "it permits the misuse defense to be collaterally asserted by a willful infringer not personally injured by the copyright holder's conduct." Philip Abromats, *Anticompetitive Software Licensing Restrictions as Copyright Misuse*, 10 SOFTWARE

striction should not be enforceable against a transferee of the licensed software.

Even if restrictions falling into this third category do not violate an obvious public policy, there is nevertheless a strong argument that they do not meet the criteria for enforcement of an equitable servitude. This brings us back to the question with which we began this section of this paper. The *First Nationwide* court based its refusal to enforce a restraint on the alienation of licensed software rights on a finding that the transferee had complied with all material covenants of the software license.[143] This led to the question whether the software licensors in *First Nationwide* could have enforced those covenants against the transferees if there had been a default. If the analogy to equitable servitudes on real property holds, the author concludes that restraints of the type imposed in *First Nationwide* would have been enforceable against the transferees, even in the absence of their express consent, as long as they had notice of the restraints. The restraints, which limited use of the software and protected against public disclosure, were typical, predictable, and essential to the protection of the licensed software rights.[144] The enforceability of the restraints supports the conclusion that the license should be transferrable because the licensor is no worse off after the transfer than it was before.

On the other hand, the analogy to equitable servitudes suggests that many complex and novel restrictions and covenants would not be enforceable against subsequent transferees. This in turn suggests that restraints on alienation of a license that contains such restrictions and covenants should be enforced. In such a case, the relation between licensor and licensee is truly personal in nature because no one but the particular licensee is likely to be in a position to satisfy the terms of the license. The software license then retains its tenurial quality. The licensee should no more be permitted to transfer its rights without the consent of the licensor than a Twelfth Century tenant should have been able to transfer his land without the consent of his lord.

It thus appears that the question of what rights in computer software should be freely alienable depends in important measure on the question of whether the licensor can enforce the terms of the license against the transferee. If the traditional criteria for enforcement of an equitable servitude against transferees are met—the existence of a dominant tenement, notice, and absence of novelty[145]—then the terms should be enforceable against a transferee and the argument for enforcing a restraint against transfer fails. However, if the license imposes terms that are enforceable against the original licensee, but that otherwise do not meet the criteria for enforcement of a servitude, then the argument for enforcing the restraint is compelling.

PROTECTION 3 (1991). *See also* Christina Ambrosio & Roni Schneider, Note, *Copyright Misuse . . . Getting Defensive:* Lasercomb America, Inc. v. Reynolds, 6 J. LEGAL COMM. 181 (1990).

143. *See supra* notes 97-98 and accompanying text.

144. *See supra* notes 90-92 and accompanying text.

145. *See supra* notes 104-132 and accompanying text.

Conclusion

We began this inquiry by asking why computer software is licensed at all. The explanation is that the practice arose at a time when the only effective means of protecting rights in software was by trade secret law, and most software was tailor-made for a particular application. To accommodate these facts, lawyers re-created a system of software exploitation that is surprisingly analogous to the feudal system of land tenure that existed in England and Normandy prior to the Statute Quia Emptores. In each case, the system is characterized by personal obligations flowing between licensor (lord) and licensee (tenant) and restraints on alienation by the licensee (tenant) without the consent of the licensor (lord).

The feudal system of land tenure could not be sustained indefinitely. It was always partly fictional, was inconsistent with English traditions that encouraged free alienability of land rights, and, to the extent that it had been required as a quasi-military means of securing land use, became unnecessary as the legal framework for land ownership stabilized. The Statute Quia Emptores, which permitted alienation of tenures by substitution of a new tenant without the consent of the feudal law, both manifested and accelerated its demise.

Computer software licensing is following a very similar course. Originally justified by the necessity of protecting software as a trade secret, software licensing now appears to be both unnecessary, in light of expanding copyright and patent protection, and inconsistent with the general right of alienation that appears in the common law, the Copyright Act, patent law, the Bankruptcy Code and the Uniform Commercial Code. Furthermore, the personal nature of software programming services has given way to widespread commerce in software as a basic commodity. These changed circumstances have placed pressure on restraints on alienation that are a hallmark of traditional software licensing.

To keep current with the changing environment, courts will need to address the question of whether, and to what extent, restrictive covenants, short of outright prohibition on alienation, should be enforceable against transferees of licensed software rights. Real estate law governing the "running" of equitable servitudes provides a useful guide to the sorts of covenants that should be enforceable against transferees and those that should not. Where the material covenants in a license "run" under these criteria, there will be a strong argument against the enforcement of outright restraints on alienation. These will generally be circumstances in which the license does not impose restrictions on the licensee other than those affecting the scope of use, nondisclosure, and warranties' limitations. Where, on the other hand, the license imposes complex obligations such as cross-licenses, the covenants will not "run." In combination with covenants that do not "run," license terms limiting restraints on alienation should be enforced.

APPENDIX

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DATE:_________ AGREEMENT NUMBER:________________
LICENSEE NAME:____
LICENSEE BILLING ADDRESS:_______________________________

* *

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LICENSEE ____

BY ____

TITLE ____

[NAME OF LICENSOR] ___________________________________

BY ____

TITLE ____

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____

II. *DESIGNATED SYSTEM*[3]: ________________________

SYSTEM TYPE (Model Number): ______________________

OPERATING SYSTEM/VERSION: ______________________

SYSTEM SERIAL NUMBER: __________________________

SYSTEM/ID: ___________________________________
(in hexadecimal notation)
LOADING MEDIA: ____________________________
LOCATION OF SYSTEM[4]: _____________________

____

____

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LICENSEE ______________________________

BY ______________________________

TITLE ______________________________

[NAME OF LICENSOR]

BY ______________________________

TITLE ______________________________

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