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## FUNDAMENTALS OF SOFTWARE LICENSING

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### I. INTRODUCTION

This article addresses some of the fundamental issues that licensors and licensees confront in the negotiation and drafting of software license agreements. It focuses on non-mass market agreements, as most "retail" software is governed by non-negotiable "shrinkwrap" licenses. n1 Nonetheless, the principles of software licensing are the same for both shrinkwrapped and custom developed software. The structure and context of every software license is different depending on the needs of the parties. This article discusses some of the most important issues and includes a model license agreement. n2

Section II of this article examines how the license and sale of intellectual property rights applies to software. Section III analyzes the specific terminology used in a license grant, including the impact the terminology has on the rights of the licensor and licensee, and presents other clauses that both the licensor and licensee should consider. This section also discusses entering into escrow agreements and presents other important issues to consider, such as the "work made for hire" doctrine and export issues.

Section IV discusses the essentials of confidentiality provisions and trade secret laws when dealing with software. Section V describes the history of attempts to apply U.C.C. Article 2 to software licensing and introduces provisions of the proposed Article 2B. Section VI suggests recommended resource materials.

Section VII presents a model Master Software License and Services

[\*3] Agreement that is referred to throughout this article and is annotated with comments relating to the importance of particular clauses. Additional model agreements for situations commonly encountered in software licensing and referenced in the agreement in Section VII are available at <http://www.fplc.edu/PROFIDEA.htm>. n3

## II. LICENSE V. SALE

### A. *The First Sale Doctrine*

The theory of the first sale doctrine under the Copyright Act is that an individual who purchases an authorized copy may use and resell that particular copy free of any restraint by the copyright owner. n4 A copyright owner's authorized sale of an item "exhausts" his exclusive distribution and display rights, such that the purchaser may use, resell or display that item free of any claim of infringement. n5 In short, the first sale doctrine addresses a *copy* owner's rights as opposed to the *copyright* owner's rights.

The first sale doctrine does not apply, however, to the separate exclusive rights of copying, derivative work preparation and public performance. n6 The first sale doctrine only applies to a *copyright owner's* exclusive rights of distribution and public display in its copyrighted work which are "automatically" conveyed to the buyer or the copy owner. n7 Section 106(3) of Title 17 provides that a copyright owner has the exclusive right to distribute and to authorize distribution of copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending. Sections 106(3) and (5) describe the types of works to which these exclusive rights specifically

[\*4] apply. For example, the exclusive right to display only applies to "literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work," while sound recordings are omitted. n8

The first sale doctrine is limited, however, in its applicability to copyrighted works such as sound recordings and computer software when software is licensed. n9 For computer software, section 109(b) of title 17 of the United States Code limits the first sale doctrine and the rights of copy owners in three ways. First, adaptations may not be transferred without permission of the copyright owner. Second, copies authorized to be made under section 117 may be transferred without permission of the copyright owner only as part of a transfer of all rights in the underlying program. The distribution right conveyed to the buyer does not, for example, include the right to make further copies for resale. Third, it provides that the owner of a copy of computer software cannot lend or rent that copy to third parties without permission from the copyright owner. n10

Known as The Computer Software Rentals Amendments Act of 1990, section 109(b) also addresses computer program rentals. It provides that, unless authorized by the owner of the copyright in a computer program, n11 no person in possession of a particular copy of a computer program may, for the purposes of direct or indirect commercial advantage, dispose of or authorize the disposal of the possession of that computer program by rental, lease, or lending, or any similar act. The transfer of possession of a lawfully made copy of a computer program by a nonprofit educational institution to another nonprofit education institution, or to its faculty, staff, and students is not considered to constitute the rental, lease, or lending for direct or indirect commercial

[\*5] purposes under section 109(b). n12

Section 109(d) further limits the scope of application of the first sale doctrine by providing that, unless authorized by the copyright owner, the provisions of sections 109 (a) and (c) do not extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan or otherwise, without also acquiring ownership of it.

### ***B. Transfer of Intellectual Property Rights***

The two means of conveying intellectual property rights are assignments n13 and licenses. n14 Assignments and licenses apply to intangible property rights while a "sale" applies to the transfer of tangible property. n15 The First Sale Doctrine, which applies to the sale of a copy of software, provides that such sale conveys certain rights to the buyer in the purchased software, namely the buyer's right to resell the software. n16 This right is in derogation of the overall copyright and it is also "automatically" transferred to a new buyer if the software is resold. n17 In practice, the sale of software is typically not a "sale" within the meaning of section 109, but rather a license accompanied by a license agreement describing the rights that will or will not be conveyed to the buyer (which may be greater or lesser than would be conveyed under the sale of a copy).

An assignment is an absolute conveyance of the intangible rights and equates to a "sale," with the caveat that a sale typically only conveys the absolute right of distribution and, subject to certain exceptions, the right to display and use. n18 A "sale" does not include, for example, the rights of performance or preparation of derivative works rights.

Similar to an assignment, an exclusive license is a transfer of copyright ownership n19 even if limited in time of place of effect. Under the Copyright Act, transfer of an exclusive license is considered to be a

[\*6] conveyance of copyright ownership to the extent granted in the license. n20

In short, entering into a license agreement in which the licensor reserves title is not a sale for purposes of the Copyright Act. For example, a licensee cannot distribute the licensor's software without authorization from the licensor, because the licensor is still the owner of the intellectual property. n21

### **III. GRANT OF LICENSE**

This section discusses terminology, significant clauses, escrow agreements, and other issues to consider with the grant of a license for software. Unless otherwise indicated, all parenthetical clause references refer to the corresponding clauses of the model Master Software License and Services Agreement presented in Section VII.

#### ***A. Terminology of the License Grant (Clause 3.1)***

A typical grant clause in a software license contains the following wording:

Subject to the provisions of this Agreement, Licensor grants to Licensee a perpetual, personal, non-assignable, non-transferable, nonexclusive object code license to use the Software solely for Licensee's internal business purposes in the United States.

Each of the terms in the above software license grant has a specific meaning which fundamentally impacts the rights of the licensor and licensee as discussed below.

#### **1. Definition of the "Licensee"**

The definition of the "Licensee" referred to in the grant clause above is quite important for both financial and legal reasons. For financial reasons, the licensor may want to restrict the definition of licensee. The broader the definition of the licensee, the more entities or individuals who will have access to and use of the licensed software, thus reducing the potential license fees a licensor may receive. Some license agreements allow affiliates of the licensee to utilize the licensed software. Many such agreements define "affiliates" to include only the licensee's parent company and those subsidiaries at least 51% owned by the licensee

[\*7] or its parent to limit the use of the licensed software.

It is also important to distinguish between allowing the "use" of the licensed software by a third party and allowing the licensee to "assign" the license to another entity. With assignment, the assignor relinquishes its license and right to utilize the software. The assignor's right to use the licensed software is transferred to the assignee, preventing both entities from using the software at the same time. Allowing both the licensee and its affiliates to utilize the licensed software may allow numerous distinct legal entities to utilize the software simultaneously, subject to any restrictions on the number of users or other constraints in the license agreement. Having such multiple users for a set license fee may limit the licensor's revenues.

For legal reasons, the definition of the licensee should be restricted to ensure compliance with United States export laws. If a licensee and its affiliates are granted simultaneous use of the licensed software, or have an unencumbered right to assign the license, and/or use is not restricted to the United States, the licensee's or its affiliate's use of the software outside of the United States may violate the United States export laws if the appropriate export licenses have not been obtained. Furthermore, use of the licensed software outside of the United States may be governed by the laws of a foreign jurisdiction with which the licensor is unfamiliar, and which may not afford the licensor the same benefits and protections as the laws of the United States.

## **2. Term of License (Clause 5)**

When the term of the license begins and how long the term of the license lasts are important considerations for the licensee and licensor. The term of the license should begin on delivery of the licensed software, rather than acceptance of the licensed software, otherwise the licensee may be under no legal obligation or restriction as to the use of the software prior to acceptance. While many licensees are concerned with the concept of the license beginning upon delivery, the licensee is nevertheless protected because beginning the term of the license upon delivery does not indicate acceptance of the software or an obligation of the licensee to pay for the license.

The length of the term in the grant clause set forth above is perpetual. While shrinkwrapped software licenses traditionally have had a perpetual term, other software licenses have had a more limited term, e.g., five or ten years. Today, the distinction is less important as most software is obsolete within ten years, and licensors routinely grant perpetual licenses in recognition of the rapid obsolescence of software in general. If the license fails to state a term, under the Copyright Act, the term of the license will automatically be 35 years from the date of its

[\*8] execution. After the 35 year period expires, the license is terminable at will by the licensor for a period of five years. n22 The licensor must give the licensee, however, advance written notice of at least two but not more than ten years before the effective date of termination. n23

If the license is not terminated, it will continue in effect for the remaining term of the copyright which protects the software being licensed. n24 Assuming it is an anonymous work or work made for hire, the term of the copyright will be either 75 years from the date of the software's first publication, or 100 years from the date of the software's creation, whichever expires first. n25 Note that under section 2-309(3) of the U.C.C., a contract (e.g., a license) is terminable at will with reasonable notice to the non-terminating party.

### **3. Use Restrictions (Clause 3.1)**

Most licensors place restrictions on the licensee as to how the licensed software may be used. In the model grant clause the restrictions on use are indicated with the terms "personal," "internal business purposes only" and "nonexclusive." The principle reason for restrictions on how the software may be used is financial. As a result most restrictions on use will be reflected as an element of price.

Most license grant clauses include the term "personal" and state that the licensed software may be used for the licensee's "internal business purposes only." The primary objective of this wording is to limit the licensee's use of the licensed software to the licensee's specific business needs, and to prevent the licensee from using the software to operate a service bureau, a data processing center or from using the software in outsourcing. It is prudent to state the licensee's permitted use clearly in the license agreement to avoid a subsequent dispute over the licensee's interpretation of the license agreement.

The term "nonexclusive" is necessary in a grant clause to indicate that the licensor reserves the right to license the same software to other licensees. This is important as some licensees request exclusive use of the licensed software if they believe the software provides them with a competitive advantage. This is especially likely if the licensee paid for the development of the software or educated the licensor about the need for such software in a particular industry.

Other common limitations on use of the software include limiting

[\*9] use of the software to a particular central processing unit ("CPU"), to one class of computer only, or to a specific geographic site. n26 This allows the licensor to charge the licensee a transfer or upgrade fee if the licensee wants to change the CPU, the class of machine, or the site where the software is utilized. Some licensors base the license fee on the application involved; n27 others restrict the number of users who can access their software at any one time. This type of restriction is common in a clientserver, network environment.

Occasionally a licensor may grant an exclusive license. Exclusive licenses are uncommon because they prevent the licensor from relicensing the software and receiving additional license fees. Under the Copyright Act, exclusive licenses must be in writing. n28 An oral exclusive license creates an implied nonexclusive license. n29

#### **4. Geographic Restrictions (Clause 3.1)**

In addition to limitations on how the software may be used, geographic restrictions on where the software may be used should also be considered when drafting software license agreements. Most licensors limit the use of software to a specific country or site, for example, to the United States or "Licensee's Wilmington, Delaware site." The grant clause set forth earlier limits the use of the software to the United States.

Restricting the geographic location may allow the Licensor to charge an additional license fee for each additional geographic location or site as well as each foreign affiliate or user not at the authorized site. The failure to limit the use of the software to a particular country or geographic site may also give rise to a number of export issues. For example, licensing software to a Mexican company which has a subsidiary or affiliate in Cuba would violate the Trading with the Enemy Act if such software was used in Cuba. Furthermore, the use of such software outside of the United States may be governed by the laws of a foreign jurisdiction with which the licensor is unfamiliar and/or which does not grant the same protections to the licensor as the laws of the United States.

Geographic scope limitation is closely tied to intellectual property rights indemnification. The intellectual property rights indemnification provision of a license agreement is another important concern. As discussed in Section III.B.3 of this article, the licensor should limit the licensor's indemnification to intellectual property infringement

[\*10] in the United States and the country in which the licensed software will be used. Failure to include a geographic restriction for the licensed software's use may expand the scope of indemnification granted by the licensor.

### **5. Assignability/Transferability (Clause 3.2)**

Depending on the type of license granted, a licensee may or may not be able to assign the license granted to it. The grant clause set forth earlier specifies that the license is non-assignable and non-transferable. In general, a nonexclusive software license is not assignable unless the license agreement expressly provides that it may be assigned. n30 Under general contract law, contract rights are freely assignable so long as such assignment does not materially change the duties of the parties, unless otherwise agreed. n31 A nonexclusive license is merely a contractual promise not to sue the licensee. The promise is personal to the licensee and cannot be transferred. n32

On the other hand, if an exclusive license closely resembles an assignment of the underlying intellectual property, the license generally will be assignable by the exclusive licensee, unless the license agreement expressly provides otherwise. n33 An exclusive license that does not resemble an assignment, e.g., an exclusive license to market the software, is arguably a nonassignable license. n34 Therefore, an exclusive license may convey only certain rights to the licensee, which is similar to the buyer's rights to resell and use the software under the First Sale Doctrine. n35 An exclusive licensee is considered to be a copyright owner only to the extent of the exclusive rights granted by the license. n36

From the licensor's standpoint, the license should contain language that the license is not transferable by merger, consolidation, operation of law or otherwise. This will allow the licensor to charge a transition fee if the licensee is acquired by another company or in the case of an outsourcing transaction. If the license agreement does not contain explicit language defining assignment to include mergers,

[\*11] consolidations and operation of law, a court may not consider those as constituting an assignment because the assignment did not arise through a formal written agreement. n37 Furthermore, language that makes any attempted assignment or assignment without the licensor's consent void is necessary to prevent the transfer. Without such language, a court may allow the assignment to be concluded and award the licensor monetary damages. n38 As stated above, copyright law appears to conflict with general contract law on this matter.

## **6. Object Code and Source Code Licenses (Clause 3.1)**

Object code is the binary, machine-readable version of the software. Object code allows the licensee to operate the software but does not enable the licensee to make enhancements or modifications to the software or create derivative works. Source code is the human-readable set of statements in a computer language which, when processed by a compiler, assembler or interpreter, become executable by a computer. Source code allows the licensee to maintain the software, to make modifications and/or enhancements to the software, and to create derivative works.

If a licensee purchases a source code license, the licensee theoretically does not need further assistance from the licensor because the licensee has the ability to maintain, as well as to modify and/or enhance the software, or create derivative works from it. Consequently, most licensors refuse to sell source code licenses. Those that do sell source code licenses usually charge a significant premium for a source code license, usually at least three times the price of an object code license. In granting a source code license, the licensor should restrict the licensee from licensing any derivative works, enhancements, or modifications the licensee creates. A smart licensor will also ask for a royalty free license with the right to sublicense for any enhancements, derivative works or modifications developed by the licensee. It is important to note that derivative works will generally be owned by the copyright owner unless conveyed. n39 Finally, the standard limitations on use of the software discussed in Section III.A.3 of this article should be imposed on the licensee.

## **[\*12] 7. Irrevocable License (Clause 3.1)**

Licenses often want the term "irrevocable" included in the license grant to ensure that after they accept the software and pay for the license, the licensor has no basis to revoke the license. The term "irrevocable" implies permanency, however, and causes concern for licensors. This concern is alleviated by prefacing the license grant with the phrase "*Subject to the provisions of this Agreement . . .*" This wording conditions any permanency on the licensee's meeting the terms of the license, thus eliminating the licensor's concerns.

### ***B. Significant Clauses***

In addition to the specific terminology used in the license grant clause, there are several other significant clauses that both the licensor and licensee should consider including in a software licensing agreement. These clauses include representations and warranties and warranty disclaimers, general indemnification, intellectual property indemnification, limitation of liability, breach and termination, governing law and forum, and arbitration/alternative dispute resolution.

#### **1. Representations and Warranties and Warranty Disclaimer**

##### ***a) Representations and Warranties (Clause 18.1)***

Representations and warranties are not always synonymous and may have different consequences in terms of liability. A representation creates a legal risk that the licensor's sales puffery may lead to a claim of fraud in the inducement. n40 Damages for such fraud may include the amount paid under the license agreement minus any benefits obtained; the cost of cover; extra labor expenses; the expense related to obtaining different computer services; the costs associated with installing and removing hardware; program conversion costs; and the costs of equipment maintenance, as well as the risk of the rescission of the license agreement without the necessary legal protections for the licensor. n41 In such cases, the license agreement's merger clause may be voided allowing previously excluded statements to be considered. n42

[\*13] On the other hand, damages for breach of warranty may result in merely a reduction in price, i.e., the difference in value between what was warranted and what was delivered. n43 A customer may also seek rejection under section 2-601 n44 of the Uniform Commercial Code (U.C.C.) or revocation of acceptance under section 2-608 n45 of the U.C.C. In cases where the licensor fails to cure defects, the licensee may recover as much of the price as has been paid. n46 If the licensor fails to deliver, the licensee may purchase reasonable substitute software and recover the difference between the cost of obtaining the substitute software and the contract price. Alternatively, the customer may recover damages for non-delivery equal to the difference between the market price and the contract price of the software at the time when the licensee learned of the breach. n47 As such, a licensor should never make representations, only warranties. Most licensees are willing to accept a warranty instead of a representation, and believe one is as good as the other.

For software licenses, there are a number of standard warranties which a licensor may make. A licensor may warrant that the licensor has valid title to the software being licensed, that the licensor has the right to grant the license including the license to any third party software, that the software will operate substantially in conformance with the functional specifications and/or current documentation, and that, except as documented, there are no trap doors, time bombs or disabling devices. Some licensors may also give a "no knowledge" warranty with respect to viruses. n48 The licensor may also warrant that all services will be rendered in a professional and workman like manner. This obligation also arises under the common law. n49 It is also customary for the licensor to state that the operation of the licensed software will not be uninterrupted or error free. n50

**[\*14] b) *Disclaimer of Warranties (Clause 18.4)***

As permitted under section 2-316 n51 of the U.C.C., the licensor should disclaim all warranties except those expressly made in the license agreement. If the licensor does not disclaim all other warranties, the licensor would be potentially liable for the failure of the licensed software to be merchantable or fit for the purpose for which it is intended by the licensee. n52 Section 2-316(2) of the U.C.C. requires that any warranty disclaimers related to merchantability must mention the word merchant-ability in writing and must be conspicuous, while those relating to fitness for a particular purpose must be in writing and conspicuous.

In any license agreement, it is also important to include a provision granting the licensee a monetary refund if a "repair or replace" remedy fails of its essential purpose. Such remedies should be stated to be exclusive. Liability for special, incidental and consequential damages should also be excluded. n53 If a court finds that the licensor's warranty "failed of its essential purpose," i.e., the licensor did not provide the licensee with a viable remedy, some courts will void the licensee's contractually agreed-to exclusion of consequential damages, potentially creating unlimited liability on the licensor's behalf. n54

**c) *Length of Warranty (Clause 18.1)***

The length of the warranty period for the licensed software is an element of price. The industry standard is to provide a 60 or 90 day warranty effective on the date of delivery or date of acceptance of the software. It is important to recognize when the warranty begins. Many licensors state that the warranty begins on the date of installation or shipment. This is potentially troublesome for the licensee as the warranty may expire prior to acceptance and thus should not be agreed to by the licensee. The equitable solution is to have the warranty run from

[\*15] the date of acceptance. If the licensee requires a warranty longer than the standard warranty offered by the licensor, the licensor can provide one for an increased price. Generally, 12 months of maintenance is priced at an amount equal to 15 to 18 percent of the total license fee including any enhancements and modifications. Some licensors include the first year's maintenance in the initial license fee.

Licensors must be careful to limit the length of any warranty they give. Many licensees request a one-year warranty. This creates a hidden risk for the licensor as, during the warranty period, the licensee may terminate the license agreement and seek a refund if the licensor is in material breach. During a maintenance period provided under a properly-worded and separate maintenance agreement, however, the licensee would only receive a refund of the maintenance fee if the licensor was in material breach. Thus, a prudent solution is for the licensor to grant, e.g., a 60 day warranty and ten months free maintenance under a separate maintenance agreement. At least one major software company provides no warranty period and instead gives the licensee a 90 day period in which to evaluate and test the software prior to acceptance. At the end of the 90 day period, the potential licensee can either accept the software "as is" without a warranty or reject the software without obligation.

#### **d) *The Year 2000 Issue***

The Year 2000 issue will be a major problem, not only for licensees but potentially a huge liability for licensors. The majority of software programs in use today were programmed to accept only the last two digits of the year in the date fields. In 2000, when users enter "00", most programs will be unable to assimilate this information, which could lead to a complete failure of any time-sensitive programs.

A licensee may bring a potential claim under contract and tort theories. Contract claims will be based most likely on the breach of an express or implied representation or warranty, or the breach of an implied warranty. Implied warranties include the warranties of merchantability (fitness for an ordinary purpose) and fitness for a particular purpose (made known to the licensor).

The greatest protection for a licensor is to avoid making any express warranties. A general disclaimer, while providing protection, however, will not limit liability for breach of an express warranty. Furthermore, a disclaimer of an implied warranty is invalid if it is unconscionable or if the customer's remaining remedy fails of its essential purpose. n55 The applicable statute of limitations also offers potential protection to a licensor. Most statute of limitations run four or less

[\*16] years, thus, most licensors of software licensed prior to 1996 are protected for problems arising in the year 2000 or beyond. n56

All licensees should include a Year 2000 warranty in their license agreements. Licensees should carefully review and, if possible, extend the statute of limitations contained in their license agreement. Finally, all licensees should review their existing licenses to determine their potential liability, if any.

Licensors should disclaim all Year 2000 warranties if their software is not compliant. To that end, licensors should ensure now that their software will not have a Year 2000 issue. In addition, they should carefully review limitation of liability and disclaimer provisions in their license agreements to ensure they are protected. Finally, all licensors should conduct an audit of their existing licenses to determine the extent of their liability, if any. This is especially important if the licensor has provided "turn key" solutions. n57

## **2. General Indemnification (Clause 15)**

Indemnification clauses usually address liability for personal bodily injury and/or property damage caused by one party to a third party, or the other party including the other party's employees or agents. Although the right of indemnification may arise under common law, the inclusion of indemnification clauses contractually protects the parties from liability for such injury and/or damages. n58 Moreover, failure to include an indemnification clause may limit an injured party's recovery under the laws of those states that have not adopted the doctrine of comparative negligence and still recognize the doctrine of contributory negligence. A correctly-worded indemnification clause will also allow for the recovery of attorney's fees which traditionally are not recoverable in a legal action.

The indemnification provisions contained in a license agreement should provide for the protection of both parties. The interaction between the license's indemnification provisions and the indemnifying party's insurance policies should be closely scrutinized as the waiver of a party's insurance company's right of subrogation may raise its insurance rates.

Traditionally, there has been no dollar limit on indemnification for personal bodily injury or personal property damages. In consumer

[\*17] transactions, such limits may be held to be against public policy. n59 As such, the limitation of liability clause discussed later in Section III.B.4. of this article often contains "carve out provisions" excluding the license agreement's indemnification provisions.

### **3. Intellectual Property Indemnification (Clause 14)**

An intellectual property indemnification clause protects a licensee if a third party brings a claim that the licensee's use of the licensed software violates the third party's intellectual property rights. The defense of such suits can be costly, even if the licensor eventually prevails, and may prevent the licensee from using the software the licensee needs to operate its business. Thus, the licensor should carefully limit the indemnity the licensor offers, while the licensee should make sure the licensee obtains the protection it needs to operate its business.

From the licensor's perspective, the indemnification clause should be limited to *existing* United States intellectual property rights at the time the license agreement was executed. This eliminates any right to indemnification for intellectual property rights created subsequent to the grant of the license. This also limits indemnification only to those United States intellectual property rights, thereby significantly limiting the licensor's risk. For foreign transactions, indemnification should be limited to the United States and the country in which the software will be used. At the same time, any foreign indemnification should be granted only after sufficient due diligence has been performed with respect to the product market in the particular foreign country and even then it should be limited solely to patent and copyright indemnification since a number of foreign jurisdictions have "first to file" trademark laws that encourage manipulation of the rights of foreign trademark owners.

Including the phrase "finally awarded" in the indemnification clause limits the licensor's obligation to make payments to the licensee only when all appeals have been exhausted. The licensor should also be careful to limit indemnification to a specific licensee and not a broad class of entities such as "the licensee and its affiliates" or "the licensee and its customers." Most agreements provide that the licensor will not indemnify the licensee when the licensor modified the licensor's software on the licensee's direct instructions or when the claim arises from commercially available third-party software.

Industry standard language in software licenses provides that, upon notice of a claim, the licensor will, at its option, either make the licensed software non-infringing, obtain a license to use such software

[\*18] from the party trying to enforce its rights, or provide functionally equivalent software. Alternatively, at the licensor's option, the licensor may refund the license fee to the licensee upon notice of the claim. The licensor typically also agrees to undertake the defense of the claim and indemnify the licensee, provided the licensee tenders the defense and cooperates with the licensor's defense. In addition, the licensee must promptly notify the licensor of any claim the licensee becomes aware of. These remedies are usually in full satisfaction of the licensor's liability to the licensee.

A licensee must make sure it is comfortable with the indemnification language contained in its license agreement especially if the software is important to the operation of the licensee's business, as the licensee may receive only a refund of its license fee in the event of a claim of infringement. Similarly, if the licensee insists on removing the licensor's option to refund the license fee in satisfaction of an infringement claim, the licensor must be comfortable with the concept that it could be forced to expend its entire net worth seeking a work around or a license for a functionally similar software package.

#### **4. Limitation of Liability**

##### **a) *Cap on Monetary Liability (Clause 16.2)***

Every software license should include a limitation of liability clause, as the failure to include a limitation of liability clause potentially subjects the licensor to unlimited liability. Although the licensee may not want to accept limits on the licensor's liability, it is unreasonable for a licensor to risk the licensor's entire company on a single license. Depending on the type of license agreement, the licensor's liability is usually limited to either the total dollar amount of the license agreement, the amount of money received by the licensor from the licensee in a set time period, or a predetermined amount. A smart licensee will also limit its own liability. This limitation is a point many licensees forget to make. However, a smart licensor will carve out breach of intellectual property rights from this limitation of the licensee's liability.

Like many of other software licensing issues, the amount of the cap on monetary liability is an element of price. While most licensors limit their liability to the amount received from the licensee, many licensors are willing to increase the limit of their liability in return for an increased license fee from the licensee. The traditional tradeoffs for increasing the limit of liability are that the licensor's price must rise in response to the increased risk because the licensor's original price was based on the initially stated cap on liability. In trying to quantify the increased price, some licensors state that they must purchase additional

[\*19] errors and omissions insurance.

Consequential damages for personal bodily injury cannot be limited in some circumstances n60 and a limitation of liability may not be valid for tort claims of gross negligence, willful or intentional acts, misrepresentation or fraud. n61 Further, there is usually no limitation of liability for intellectual property infringement, personal property damage or violations of the license agreement's confidentiality provisions. Moreover, the cap on monetary liability must not be so low as to be considered unconscionable or it may not be upheld in a court dispute. n62 Also, the limit on consequential damages may be removed if the limited warranty is deemed to have failed its essential purpose. n63

In accordance with section 2-316(2) of the U.C.C., most jurisdictions require that a limitation of liability be conspicuous. n64 While "conspicuous" is defined in section 1-201(10) of the U.C.C., n65 whether or not a particular disclaimer is conspicuous is subject to the interpretation of the court. Printing a disclaimer in block letters has been held to be sufficient. n66

**b) *Disclaimer of Consequential Damages (Clause 16.1)***

Under section 2-719(3) of the U.C.C., n67 parties to a contract may exclude consequential and incidental damages, provided such exclusions are not unconscionable and there are no other explicit exceptions. An issue exists, however, as to whether exclusion of consequential damages is

[\*20] valid when a remedy fails of its essential purpose. n68

Unlike section 2-316 of the UCC, which imposes a conspicuousness requirement for disclaimers of warranty related to merchantability and fitness, section 2-719(3) does not contain a conspicuousness requirement. Comment 3 to section 2-719(3) which discusses exclusion of consequential damages, also fails to address conspicuousness. None-theless, to err on the side of caution, any such disclaimer should be conspicuous to avoid a court imposing such a requirement and potentially voiding any limitation of liability. n69

**c) *Reducing the Statute of Limitations (Clause 16.1)***

Traditionally, a statute of limitations bars a potential plaintiff from bringing a claim after a set period of time after the action which gave rise to the claim first arose. n70 Most states have statutorily codified this time period as three or four years. n71 Section 2-725(1) of the U.C.C. provides for a four year statute of limitations after the cause of action has accrued, but allows the parties to reduce the statute of limitations to one year. n72 By agreeing to a period less than the statute of limitations, the licensor may reduce the time period in which the licensee may bring a claim, thus limiting the licensor's risk and, consequently, the licensor's liability. A smart licensee will make such clause mutual to also reduce the licensee's liability.

**5. Governing Law and Forum (Clause 28)**

While most parties desire to be governed by the forum and laws of their own jurisdiction, the choice of governing forum and law is not always a "fall on your sword" issue in domestic software licenses. Many licensors are anxious to avoid Texas as it has strong consumer protection laws, while favored jurisdictions include New York which generally

[\*21] benefits licensors.

To settle any forum dispute, some software license agreements contain language that the forum will be the licensor's choice as stated in the license if the licensee elects to arbitrate or litigate and that the forum will be the licensee's choice if the licensor elects to bring an action. An added benefit of this language is that this serves to discourage parties from bringing claims.

This solution is not applicable however to the choice of a governing law clause as there must be one pre-agreed governing law to interpret the contract prior to any action being commenced. For an international contract, it is imperative to utilize the laws of the United States or United Kingdom because most countries do not have developed software laws or case law. An exclusive forum selection clause is also important as most local courts have a bias against foreign licensors and do not always have the same level of competency as the judiciary in the United States.

## **6. Arbitration/Alternative Dispute Resolution**

In general, licensors should carefully consider whether to accept arbitration for the resolution of any disputes. Arbitration in some ways is quicker than the court system but may be slower for certain important issues. For example, a licensee would not want to arbitrate whether a licensor must indemnify the licensee for an alleged intellectual property infringement. Alternatively, a court can quickly issue an injunction in the licensor's favor if the licensee breaches the terms of the license grant. n73

Arbitration may benefit a breaching party due to the potentially greater time period needed to reach a resolution than in a court of law. Arbitration, however, has disadvantages such as that an entity must disclose its claims in arbitration. This puts a licensor at a disadvantage assuming the licensee is in breach. Also, under arbitration all actions must be by mutual agreement which allows one party to potentially delay the proceedings if it chooses.

## **7. Breach and Termination (Clause 6)**

The termination provisions of a license agreement are extremely important from both the licensor's and licensee's perspectives because each party has different concerns about the ability to terminate the license agreement and the rights of each party upon termination.

**[\*22] a) *The Licensee's Breach***

The licensor is very concerned with the protection of its intellectual property and, to a lesser degree, receiving payment. While a "cure period" of thirty days is standard for most breaches by a licensee, most licensors seek to include a provision allowing the licensor to immediately terminate the license or obtain an injunction if the licensee violates any of the terms of the license grant or the confidentiality provisions of the license agreement. The basis for immediate termination stems from the licensor's desire to immediately stop misuse of its software or confidential information because these breaches cannot be cured. Other issues such as payment, which are not so critical and can be easily cured, are subject to a standard 30 day cure period.

The licensee wants to make sure the licensor can only terminate the license and take possession of the software for a *material* breach. In addition, the licensee should carefully consider any self-help measures the licensor seeks to include in the license and any language regarding the licensor's ability to disable the software without liability. Many licensees insist that the license contain a provision allowing the licensee to use the software until any dispute is resolved.

**b) *The Licensor's Breach***

Except for breaches of the confidentiality provisions, almost all breaches by the licensor are subject to a cure period which is usually no less than thirty days. Furthermore, the licensee's right to terminate the license agreement for breach should be for the licensor's *material* breach only.

Software, especially customized software, is often very complex. Thus, it may require quite some time to diagnose a problem, code the solution, and then install and test the software. The licensee can protect itself from resulting late delivery by including a provision for liquidated damages should the licensor fail to deliver the software in a timely manner or the software fail to operate in accordance with the functional specifications. The amount of liquidated damages, however, must not be so high as to be considered unconscionable or it will be unenforceable. n74

In addition to timeliness, licensees should be very concerned with the results of termination for the licensor's *material* breach in failing to deliver the contracted software. In such an event, the licensee is faced with a dilemma: the licensor has not delivered a working product, but if the licensee terminates the agreement its business may be severely affected. As such, many licensees want the option of either receiving the

[\*23] software's source code to complete the project itself or the right to receive monetary damages, or both. To ensure the licensee receives the source code if the licensor breaches the agreement, most licensees insist on the execution of an escrow agreement. While an escrow agreement will ensure the release of the software's source code to the licensee, as described in the next section, receipt of the source code does not necessarily solve the licensee's problems.

### *C. Escrow Agreements*

Escrow agreements are usually entered into to protect the licensee by providing the licensee with access to the licensed software's source code in the event of a material breach of the license agreement by the licensor, failure of the licensor to properly maintain the software or offer maintenance, or if the licensor is found bankrupt/insolvent. Some licensees also seek to include language in the license agreement that in the event of a dispute the licensor must place all advance license payments in escrow until the software has been accepted or the dispute resolved.

Releasing the source code to the licensee, however, does not necessarily solve the licensee's problems. It may take some time for the licensee to understand the operation of the software and make the software system operational. Furthermore, placing completely documented software in escrow does not immediately allow a licensee to support the system. In actuality, the source code is probably of little value without an employee/programmer of the licensor to support it and explain the software's operation to the licensee. Finally, there is the administrative burden on the licensee to see that the licensor has indeed placed a working copy of the source code and documentation in escrow and has also escrowed all enhancements, modifications, etc.

Use of the licensed software's source code released under an escrow agreement should still be subject to the terms of the license agreement and should be restricted solely to maintaining the licensee's copy of the software for the licensee's internal purposes only. In addition, strict confidentiality restrictions should apply. From the licensee's perspective, the licensee should have the automatic right to receive the source code without having to arbitrate or invoke the escrow agreement.

In response to the concern of the software industry, U.S. bankruptcy law was amended to protect licensees in the event of a licensor's bankruptcy. Under section 365 of the United States Bankruptcy Law Code, n75 a licensee's rights to intellectual property which is the subject of the license cannot be unilaterally terminated as a result of the

[\*24] licensor's bankruptcy. n76

#### ***D. Other Issues to Consider***

##### **1. Work Made For Hire Doctrine**

United States law holds that the copyright in a work is initially vested in the person who creates it. n77 Therefore, an independent contractor, as the "author" of a product, usually retains all copyrights to that product unless he or she assigns the rights to a buyer. n78 Absent any assignment, the buyer is only deemed to hold a nonexclusive license. n79 Such a limited and nonexclusive license to use the work may place a buyer at a severe disadvantage vis-a-vis its competitors. A contractor, for instance, could potentially disclose a buyer's proprietary information in licensing the work to others and thereby nullify any competitive advantage the employer gained by commissioning the work. In addition, as the "owner" of the copyright in the work, a contractor could limit a buyer's right to use or distribute the work if such use is outside the scope of the original commission.

An independent contractor retaining ownership in software specified and funded by the buyer may seem counterintuitive. A buyer may invest large sums of money and significant technical input in a project only to find that the contractor claims ownership of the work when the project results in a commercially saleable product. Courts have attempted to soften the effect of this situation by implying a fully paid-up license in the employer to use the software for all purposes intended in the contract and, importantly, to modify the software as necessary to support those uses. n80 While these softening interpretations help avoid the harsh results of the rule granting ownership to independent contractors, the courts ultimately hold that, absent an explicit assignment to the employer, the independent contractor owns software produced pursuant to contractual arrangement. Notably, independent contractors rarely demand additional consideration or concessions for such assignments. Failure to secure an assignment from a contractor may result in the loss of a significant asset to the employer, especially where a product may

[\*25] have commercial value apart from the internal use contemplated by the employer.

There are instances where a company will be presumed to be the owner of a commissioned work under the so-called "work made for hire" doctrine. In the United States an employer may be considered the original author of a commissioned work if the work qualifies as work made for hire under the Copyright Act. n81 Section 201 of the Copyright Act provides that "in the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright." n82 Classifying the work as work made for hire determines not only the initial ownership of copyright, but also the copyright's duration, n83 the owner's renewal rights, n84 termination rights, n85 and the right to import certain goods bearing the copyright. n86 Work made for hire is defined as:

(1) a work prepared by an employee within the scope of his or her employment; or (2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. n87

Since computer software does not automatically fall within one of the nine types of works enumerated in *17 U.S.C. § 101*, writing a software program will generally qualify as work made for hire only if it was "prepared by an employee, within the scope of his or her employment." n88 An independent contractor, however, will not usually qualify as an

[\*26] "employee" within the meaning of the Copyright Act.

In *Community for Creative Non-Violence v. Reid* ("CCNV"),<sup>89</sup> the Supreme Court stated that an artist, who was commissioned by a non-profit organization to create a sculpture, was an independent contractor and not an employee within the meaning of the Copyright Act, even though the non-profit organization directed enough of the sculptor's work to ensure that he produced a sculpture that met their specifications. The United States Supreme Court later<sup>90</sup> unanimously generalized *CCNV* as the appropriate standard for defining an employee outside of the copyright area as well. If the independent contractor does not qualify as an employee, the employer can only gain title to the work product of the contractor by having the contractor execute an assignment transferring his or her ownership rights in the work to the employer.<sup>91</sup>

Therefore, in order to be guaranteed sole and exclusive ownership of the copyright, a buyer would be well advised to have the contractor execute an assignment transferring the contractor's entire right, title and interest in the work to the buyer.<sup>92</sup> If a contractor previously executed an agreement without an assignment clause, the employer should have a comprehensive assignment agreement executed by the contractor listing the consideration the contractor is receiving for signing the assignment agreement.<sup>93</sup>

## **2. Export Issues**

### **a) *General***

Under the revised export regulations which took effect on April 24, 1996, an individual may "undertake transactions subject to the

[\*27] Export Administration Regulations n94 ("EAR") without a license or other authorization, unless the regulations affirmatively state such a requirement." n95 Although the substance of the EAR remains largely unchanged, the Bureau of Export Administration ("BXA") has adopted a position similar to many European governments that anything not prohibited is allowed, in contrast to BXA's previous position that everything is prohibited unless an exception exists. The BXA's position under the new regulations that licenses are not required for most shipments to Canada and shipments to U.S. territories, possessions and commonwealths, remains unchanged from the previous version.

**b) Definitions under the EAR**

Section 734.2(b)(1) n96 of the EAR defines "export" as:

- (i) an actual *shipment* or *transmission* of items subject to the Export Administration Regulations out of the United States; or
- (ii) *release* of technology or software subject to the Export Administration Regulations to a foreign national in the United States.

Section 734.2(b)(2) n97 of the EAR defines "export of technology or software" as:

- (i) any *release* n98 of technology or software subject to the Export Administration Regulations in a foreign country; or
- (ii) any release of technology or software subject to the Export Administration Regulations to a foreign national.

**[\*28] c) *Export of Software and Technology***

The first step in exporting any software or technology is to determine whether an export license is needed. Under 15 C.F.R. § 736.2(b), n99 the exporter must consider the applicability of ten general prohibitions to determine whether the exporter's software or technology requires a license under the EAR. The software or technology will fall into one of three categories:

(1) No License Required. If software or technology to be exported is either not subject to the EAR or does not require a license as a result of one of the ten general prohibitions under section 736.2(b), n100 the software or technology is considered to be No License Required or "NLR."

(2) License Exceptions. If the software or technology requires a license under the EAR, the exporter should determine whether a license exception is available. A license exception is the authorization to export under specific conditions that would otherwise require a license. n101 For software and technology, two potential license exceptions are available under section 740. n102

(2)(a) *Technology and Software Under Restriction* ("TSR"). Section 740.3(d) n103 allows export of software and technology, subject to national security controls, upon receipt of a letter of assurance. This license exception is similar to the old general license "GTDR" -- General Technical Data Restricted.

(2)(b) *Technology and Software-Unrestricted* ("TSU"). Section 740.8 n104 of the EAR provides a license exception for certain "Operation Technology" and software, permitting their export without a license. This license exception covers certain mass market software such as software sold over the counter through mail order transactions and telephone call transactions, sales technology, and software updates. "Operation technology" is defined as "the minimum technology necessary for the installation, operation, maintenance (checking), and repair of those products that are lawfully exported or re-exported under a

["\*29] license, License Exceptions or NLR." n105 This License Exception is similar to the old general license "GTDU" -- General Technical Data Unrestricted.

(3) If a License Exception does not exist, the exporter must apply for a license under 15 C.F.R. § 748. n106

### **3. Ownership of Custom-Developed Software (Clauses 3.2, 3.5)**

Ownership of software developed by the licensor for a specific customer is often a contentious issue. Usually, the licensee claims ownership based upon the fact that the licensee has paid the licensor to develop the software and that the software would not have been otherwise developed. The licensor desires to retain ownership to keep the integrity of its software (i.e., the licensor does not want its customers owning portions of its software, especially parts of the program's core code) and to potentially profit from relicensing the custom piece of software.

This issue is often resolved by having the licensor retain ownership of the custom developed portion of the licensor's software and having the licensor pay the licensee a royalty based on future license fees received by the licensor from relicensing the custom portion. Another potential solution is to have the licensee retain ownership of the custom software and grant to the licensor the right to market the custom software and have the licensor pay a royalty to the licensee for each license sold.

These are not the only solutions. If the licensor is solely concerned with the licensee owning part of the licensor's core code, the licensee can retain ownership of the custom portion without the right of sub-license or assignment. Another alternative, but one which is less attractive, is to have the licensor and licensee jointly own the custom software. This would allow each party to market the software to whomever it chooses, while at the same time having the right to make modifications and enhancements. This alternative may be detrimental to the licensor as the licensee may license the software to the licensor's direct competitors. Under joint copyright ownership, however, each owner has a duty to account to the other. n107 This approach, however, is probably unrealistic because most likely the custom portion is of no value unless it is licensed in conjunction with the rest of the software. Other alternatives include having the licensor give the licensee a significant

[\*30] price discount to recognize the intrinsic value the licensor will receive by retaining ownership.

#### **4. Functional Specifications**

The software's functional specifications are the technical architecture that the software must meet once it has been developed to the licensee's requirements. Functional specifications should be extremely detailed and should be agreed upon prior to contract signature, as they will determine the cost and extent of the effort exerted by the licensor in the software's development. If the functional specifications have not been agreed upon in detail, it is impossible for the licensor to determine with confidence the price of the development effort because the development effort's scope has not been limited or fixed.

A significant amount of litigation has arisen as a result of agreements being executed containing general language that "the parties shall negotiate in good faith the functional specifications immediately upon execution of this Agreement." After execution, a dispute often arises because the parties are unable to agree on the functional specifications given that the licensor is now limited by a price constraint which does not apply to the licensee. The licensee is also at risk because the licensee does not have a document detailing delivery for this fixed price.

The prudent methods of contracting to solve this problem are to: (1) enter into a two-phase contract with a first phase consisting of a fixed price engagement to draft the functional specifications, assuming that the parties can agree on the functional specifications, and once agreed a second phase consisting of the development effort at a fixed price; (2) jointly develop the functional specifications prior to execution of a fixed price contract; or (3) enter into a time and materials contract. The first option is less attractive to the licensor because once the functional specifications have been agreed to, the potential licensee can "shop" the functional specifications with other potential developers/licensors to get the best price. The second alternative is less attractive to the licensor's business people who want to obtain a binding commitment from the licensee and do not want a long, drawn-out process to reach a final agreement during which time the licensee could select another developer/licensor. The third option, from the licensee's perspective, does not provide the price protection needed to protect against cost overruns. Finally, the parties must decide whether the licensed software when delivered or accepted meets the functional specifications or the current documentation for the licensed software.

## **[\*31] 5. Acceptance and Acceptance Test Procedures (Clause 17)**

The concept of acceptance and the corresponding acceptance test procedures are extremely important in custom software development contracts. Off-the-shelf shrinkwrap licenses deem acceptance to have occurred with the opening of the cellophane surrounding the box containing the software or, alternatively, with the use of the software. While uncertain, the enforceability of off-the-shelf acceptance has recently been upheld. n108

With custom software, the concept of acceptance is not difficult to understand. In practice, however, acceptance is difficult to ascertain because at the time the license agreement is executed the functional specifications for the software often have not been agreed to. Thus it is difficult, if not impossible, to agree on the acceptance tests if the parties do not know what will be needed to test the software, much less know what the software will look like in the completed product. Furthermore, there is the question of what level of "bugs" is acceptable.

The acceptance test procedures should be objective in nature such that an independent third party should be able to determine whether the licensed software has satisfied the tests. Any acceptance test procedures should be mutually agreed to by the parties to ensure fairness. The licensor usually drafts the test's procedures protocol document given its familiarity with its own software and submits this document to the licensee for its approval. The licensee then either accepts the document or suggests potential modifications which the licensor must agree to.

Software is considered imperfect by its nature and bugs will always exist in a program's code. Consequently, most agreements contain language that the software will "substantially conform" to the functional specifications or "comply in all material respects." Thus, many agreements classify and delineate the levels of errors and then quantify how many of each level are acceptable. n109

Like off-the-shelf software licenses, custom software contracts should include a provision that the use of the software in a commercial context shall be deemed acceptance. Otherwise, the customer may have an incentive not to accept the software while receiving all commercial benefits of the software from its use. n110

## **[\*32] 6. Specific Performance (Clause 16.1)**

Most smart licensees try to include the remedy of specific performance in their license agreement. Sections 2-711 and 2-716 of the U.C.C. n111 specifically identify specific performance as an acceptable remedy. Licensors are hesitant to include this remedy because, if included, a licensee may be able to force the licensor to deliver the software regardless of cost. Given that software development often experiences large cost overruns, the risk to the licensor is great if this remedy is included. Smart licensees also seek to include a statement that they are entitled to specific performance to force the licensor to place its software in escrow or release the software from escrow if the license agreement requires the licensor to do so, as well as to enforce the license agreement's indemnification provisions.

Licensors should carefully consider the risks when the licensee seeks to include the right to "equitable relief" in the license agreement. While the equitable remedy of injunctive relief for breach of the agreement's confidentiality provisions is important to include, "equitable remedies" may be broader than necessary and so should be limited solely to injunctive relief. Licensors should try to include a provision that, upon the licensor's breach of the warranty, the licensee shall be entitled to monetary damages only or that the licensee is not entitled to obtain an equitable remedy.

## **7. Maintenance**

Maintenance provisions may function somewhat like an extended warranty. Maintenance provisions, however, should be separate and distinct from the warranty in the license agreement and ideally should be in a separate agreement. This is important due to the difference in the licensor's liability for breach of the warranty contained in the license agreement and breach of the maintenance agreement. Under some license agreements the warranty begins on acceptance. Under others, acceptance does not occur until the expiration of the warranty.

During the warranty period, the licensee may terminate the license agreement if the software does not meet the functional requirements or perform in accordance with the license's other requirements, allowing the licensee to potentially receive a refund of the entire license fee. During the maintenance period, the licensee can terminate the maintenance contract if the software does not meet the functional specifications; however, the licensee can only receive a refund of the maintenance fee provided the maintenance provisions are contained in a

[\*33] separate agreement.

Maintenance charges are generally set at the rate of 15 to 18 percent of the license fee. Some licensors calculate the maintenance fee on the aggregate of the license fee plus the cost of any enhancement or modifications made by the licensor, while other licensors consider any enhancement or modifications to be consulting services or professional services and are not included in the base for calculating the maintenance fee. In addition, the licensor usually agrees to maintain only the one or two most recent versions of the software because of the difficulty of keeping track of all the many different versions of its software and whether they are compatible. Finally, most maintenance agreements void any obligation to maintain the software if the licensee has modified the software in any way, or if any problems with the software are a result of any negligent or unauthorized actions by the licensee. Many agreements also provide that if the licensor ceases to provide maintenance, the licensor will provide the licensee with a copy of the software's source code so that the licensee can maintain the source code itself.

One issue of great concern to licensors is when the licensee seeks to maintain the software by allowing independent third parties access to the software. Licensors are often concerned that these independent third parties may be their competitors who will learn the licensor's trade secrets or siphon off the licensor's maintenance revenue, which is usually a significant portion of its profits. n112 This area is very risky as it potentially exposes the licensor to several antitrust concerns. n113

#### **IV. CONFIDENTIALITY PROVISIONS AND TRADE SECRET LAWS**

##### ***A. Proprietary Information Clauses and Agreements (Clause 12)***

Proprietary information agreements, which are also known as confidentiality agreements or non-disclosure agreements, are essential when dealing with intellectual property. While trade secrets are often protected under state trade secret laws, which are usually based on the Uniform Trade Secrets Act ("UTSA"), proprietary information agreements provide an added level of protection. While it is not required that this legal protection appear in a separate agreement from the license agreement, it is preferable that such a separate and distinct agreement exist. A separate agreement avoids any claim that the parties' confidentiality

[\*34] obligations do not survive the termination of the license agreement. This is especially important for the licensor.

It is important to make sure that the agreement provides that all software shall be considered proprietary and confidential, regardless of whether or not it is marked as such. This is important because although most agreements require confidential and proprietary information to be marked, the media (disk or tape) containing the software will usually not be marked by the programmer who may be unfamiliar with the confidentiality agreement or the importance of marking the media.

### ***B. Trade Secret Laws***

In addition to the contractual protection provided by a proprietary information agreement, most proprietary information is also protected under the relevant state trade secret laws, almost all of which are derived from the UTSA. n114

State trade secret laws offer broader protection than copyright laws because the trade secret laws apply to concepts and information which are both excluded from protection under federal copyright law. n115 Information eligible for trade secret protection includes computer code, n116 program architecture, n117 and algorithms. n118 Mathematical algorithms are also protectable under patent law. n119

Under the UTSA for information to be found to be a trade secret it must meet a two-pronged test. First, information must fit into the Act's broad definition of "trade secret" which includes "information,

[\*35] including a formula, pattern, compilation, program, device, method, technique or process." n120 Second, such information must derive actual or potential economic value from not being known and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use. Further, such information is subject to reasonable efforts by the owner to maintain its secrecy. n121

The UTSA defines "misappropriation" to mean (i) acquisition of a trade secret by a person who knows or has reason to know the trade secret was acquired by improper means, or (ii) disclosure or use of a trade secret without express or implied consent by a person who improperly acquired knowledge of the trade secret, or who at the time of disclosure or use, knew or had reason to know that the trade secret had been improperly acquired, and there was an obligation to maintain its confidentiality. n122

A trade secret owner is entitled to receive injunctive relief and damages n123 for the misappropriation of its trade secrets. n124 Such damages include the actual loss caused by the misappropriation and any unjust enrichment arising as a result of the misappropriation that is not taken into account in computing any actual loss. n125 A court may also award attorney's fees if willful and malicious misappropriation exists. n126

A majority of courts have held that claims based on trade secret laws are not preempted by federal copyright law. n127

## **V. PROPOSED UNIFORM COMMERCIAL CODE ARTICLE 2B**

### ***A. General***

Article 2 of the U.C.C. applies to "transactions in goods" and is

[\*36] the fundamental law applied in commercial transactions. n128 At the time Article 2 was adopted in 1951, the use of software was not foreseen and certainly was not a significant part of commercial business transactions as it is today. As such, business people and lawyers have not had a uniform law to look to in commercial transactions involving software. This has created uncertainty as to how business disputes involving software should be resolved.

Software is neither fish nor fowl as it is bought and sold like a good but yet it is not a tangible product. In the past, to determine whether Article 2 of the U.C.C. would apply to a particular transaction courts looked to whether a software transaction was primarily the sale or license of software, in which case software has been found to be a good, or the provision of services such as software development. n129 If the contract is primarily for the provision of a software program, the U.C.C. will apply. The trend has been to recognize that the U.C.C. governs software transactions, n130 including those transactions involving customized software. n131

The application of Article 2 of the U.C.C. to software transactions creates significant unforeseen liability for the licensor. n132 Numerous sections of Article 2 on their face appear to be inapplicable to software or at least fail to recognize the nature of software. For example, the perfect tender rule under section 2-601 would require that the software tendered by the licensor be in total conformity with the contract. n133 Yet it is uniformly acknowledged that software by its nature is imperfect. As such, while there has been a great desire for a uniform law to address software licensing and add certainty in commercial transactions, there has been a great hesitancy to apply Article 2 as it currently exists.

**[\*37] B. *History of Attempts to Apply U.C.C. Article 2 to Software Licensing***

**1. The Massachusetts Model**

In 1990 a committee headed by Stephen Y. Chow, in conjunction with the Business Law Section of the Massachusetts Bar Association drafted a model U.C.C. Article 2B to serve as a discussion point for adapting the U.C.C. to software licensing. The committee created a completely new article by modifying those sections of Article 2 which it thought were inapplicable to software while maintaining the majority of Article 2. Although this article was widely circulated, there was no attempt to adopt it under Massachusetts law or elsewhere.

**2. The Hub and Spoke Approach**

As a result of the increasing need for a uniform law for software licensing, the National Conference of Commissioners for Uniform State Laws ("NCCUSL") began to create plans to adapt Article 2 to software. The committee discussed utilizing a hub and spoke approach to apply U.C.C. Article 2 to software licensing.

Under a hub and spoke approach, existing U.C.C. Article 2 would serve as a "hub" and from that hub, spokes, i.e., those portions of U.C.C. Article 2 that needed to be amended for software licensing such as the perfect tender rule, would protrude. In August of 1995 after reviewing several drafts of a revised Article 2 utilizing the hub and spoke approach, the NCCUSL Conference board decided not to pursue the hub and spoke approach but instead to support a totally new Article 2B to directly address software licensing. n134

***C. Present Status***

Presently, the NCCUSL is again discussing a proposed U.C.C. Article 2B. This completely new article is drafted along the lines of the Massachusetts model. This new Article must be approved in final form and then voted on by the full NCCUSL. Once approved, individual states will decide whether to adopt the proposed U.C.C. Article 2B into law. n135

The NCCUSL drafting committee will meet February 21-23,

[\*38] 1997, to discuss the draft and direct any necessary revisions or refinement. After the February 1997 meeting, the proposed Article 2B will be considered at the NCCUSL's July 1997 annual meeting for its second and final reading. Thus the Article could be ready for consideration by the individual states in the middle of 1997.

#### ***D. Provisions of Interest in Proposed Article 2B***

The following discussion is based on the September 1996 draft of the proposed Article 2B and may change significantly when the next draft is issued.

##### **1. Scope of Proposed Article 2B**

The September 4, 1996, proposed draft follows the general outline of Article 2 but incorporates the concept of *transactions in information*. The authors of Article 2B sought to preserve the freedom of contract, while at the same time reflecting existing commercial practices. The result is an attempt to promote certainty and uniformity of result. Proposed Article 2B is not intended to be a regulatory consumer protection statute.

Article 2B would apply to transactions in "licenses of information and software contracts, and to any related agreement to support, maintain, develop, or modify software or licensed information." n136 If a transaction involves both information and goods, Article 2B will apply to the information portion and Article 2 or 2A to the goods portion. n137 If Article 2B is in conflict with other U.C.C. articles, Article 2B will not apply to the extent the other article governs. n138

Article 2B will not apply to individual employment contracts or performance of entertainment service contracts. Article 2B will also not apply to intellectual property licenses, including licenses for trademarks, trade dress, trade names, patents, and similar intellectual property rights, to the extent the intellectual property license is not related to software or databases. n139 Furthermore, Article 2B will not govern the sale or lease of computer programs not developed for a particular transaction and embedded in goods. n140 Finally, Article 2B will not preempt Federal copyright or patent law because it addresses only commercial terms of a

[\*39] transaction. n141

## **2. Formation and Authentication of Electronic Contracts**

### **a) *General***

The proposed Article 2B addresses electronic contracts in detail, focusing on the formation and authentication of such contracts. As to formation, the proposed draft utilizes the term "record" instead of "writing" which is used in Article 2 because the term "writing" loses its meaning with electronic transmissions and electronic correspondence. n142

### **b) *Authentication***

Similarly, electronic contracts can not be executed, but instead must be authenticated. n143 The proposed draft allows authentication in any manner with the necessary intents to be acceptable as long as it is reasonable. n144 Ray Nimmer, the reporter for the Drafting Committee on Article 2B, has written that "Article 2B adopts the view that electronic contracts can be formed without human choices being made to offer and accept a particular transaction and that notice can occur without a human review of the subject matter."

### **c) *Assent***

Assent is indicated if, after having an opportunity to review the record, the party signs, authenticates or engages in affirmative conduct that the record conspicuously provides or the circumstances clearly indicate that will constitute acceptance. Also required for assent is that the party had an opportunity to decline to sign, authenticate or engage in the conduct after having an opportunity to review the record. n145 The mere retention of the information without objection is not a manifestation of assent. n146

### **[\*40] 3. Standard Form and Mass Market (Shrinkwrap) Licenses**

#### **a) *Standard Form Licenses***

Proposed section 2B-102(34) of the U.C.C. defines "Standard Form" as "a record prepared by one party in advance for general and repeated use which substantially consists of standard terms and is used in the transaction without negotiation of, or changes in, the substantial majority of the standard terms." n147

Under section 2B-307(a), a party adopts the terms of a standard form if before or within a reasonable time after beginning to use the information pursuant to an agreement or commencing performance, a party manifests assent. n148 This position recognizes that standard forms are widely in use and accepted today. This is in conflict with the Restatement (Second) of Contracts which provides for the enforcement of standard forms except "where the other party has reason to believe that the party manifesting such assent would not do so if he knew the writing contained a particular term." n149 In these cases, such terms are not included in the agreement.

#### **b) *Mass Market Licenses***

Mass market licenses n150 are considered to be a subset of standard form licenses. Shrinkwrap licenses for off-the-shelf products, such as word processing programs, are considered to be mass market licenses.

Under section 2B-308(a) of the U.C.C., a party adopts the terms of a mass market license, if before or within a reasonable time after beginning to use the information pursuant to an agreement or commencing performance, the party manifests its assent to the form. Even if such is given, the contract would not include terms that create an obligation or impose limitations that are (1) not consistent with customary industry practice and such that a reasonable licensor should know that a reasonable licensee would refuse to accept if the terms were brought to its attention,

[\*41] or (2) in conflict with the previously-negotiated terms of an agreement of the parties. n151 A term excluded under section 2B-308(b) becomes part of the contract, if the party who did not prepare the form manifests assent to such term. n152 Furthermore, the licensor has the burden of proving customary industry practice. n153

#### **4. Material Breach**

Proposed section 2B-601 of the U.C.C. n154 utilizes the concept of material breach rather than that of total conformity under the perfect tender rule of section 2-601 of the U.C.C. n155 This change recognizes the problems inherent in utilizing a perfect tender standard with software. The use of a material breach standard does not, however, excuse an imperfect tender because non-conforming tender is considered to be a breach of the contract. But, unlike a material breach, an immaterial breach under section 2B-601 does not allow a party to void or avoid contract obligations. Rather, it allows an injured party to receive financial compensation for the less than perfect delivery. For minor breaches, the licensee's remedy is compensation for lost value. n156

The material breach concept is similar to the substantial performance doctrine in equity which protects parties that perform their obligations in all material respects, such that their compensation may not be forfeited by technical, inadvertent or immaterial omissions or defects. n157

#### **5. Warranties and Performance Obligations**

##### **a) *Express Warranties***

Under proposed section 2B-402(a) of the U.C.C., an express warranty is created not only by any affirmation of fact, promise, or description of information made by the licensor, but also by any sample, model, or demonstration of a final product that is made a part of the basis of the bargain between the licensor and licensee. n158 Such samples or models create an express warranty that the performance of the information

[\*42] will reasonably conform to the performance that the model, sample, or demonstration illustrates, taking into account any differences between such model, sample or demonstration and the information as it would be used as would be apparent to a reasonable licensee. n159

**b) *Implied Warranties***

**i) *Quality of Product***

Proposed section 2B-403 of the U.C.C. creates two implied warranties for the quality of software programs: one for mass market licenses and one for non-mass market licenses. n160 For mass market licenses, a licensor who is a merchant with respect to computer programs licensed via mass market licenses, is deemed to have warranted that the computer program and the media containing such program are "merchantable." To be merchantable, the program and the tangible media containing the program must: (1) pass without objection in the trade under the contract description; (2) be fit for the ordinary purposes for which it is distributed; (3) substantially conform to any promises or affirmations made on the container, documentation or label, if any; (4) in the event of multiple copies, consist of copies that are of even kind, quality, and quantity for each unit; and (5) be adequately packaged and labeled for the circumstances involved. n161

For non-mass market licenses, if the licensor is a merchant with respect to software of that kind, the licensor is deemed to have warranted that the media will be of merchantable quality and the software will perform in substantial conformance with any documentation or specifications directed to the quality of performance of the software that has been provided by the licensor or agreed to by the parties at or prior to delivery. n162

**ii) *Expertise of Licensor***

Proposed section 2B-405 of the U.C.C. provides that if a licensor, at the time of contract execution, has reason to know of a particular purpose for which the information is required and that the licensee is relying on the expertise of the licensor, the licensor will be deemed to have made an implied warranty that the licensor will make a reasonable and workmanlike effort to achieve those objectives and

[\*43] purposes. n163 The licensor is deemed to warrant that the information will meet the objectives and purposes if, from all the circumstances, it appears that the licensor agreed not to be paid in full unless the information fulfills the licensee's purposes.

### **iii) Information and Services**

Proposed section 2B-404(a) of the U.C.C. provides that except for certain limited circumstances, if a licensor who is a merchant provides services, access, informational content, data processing, or similar services, the licensor is deemed to warrant that the licensor has exercised reasonable care and workmanlike effort to ensure there is no inaccuracy, flaw or other error in the information content from the collection, compilation, transcription, or transmission of the information. n164

#### **c) Modifications of Subject Matter**

Under proposed section 2B-407 of the U.C.C. the modification of a computer program by the licensee voids any warranties, express or implied, regarding the performance of the modified copy of the software unless the licensor agreed otherwise. n165 A modification is deemed to have occurred if a licensee knowingly alters, or adds code to, the computer program. n166

#### **d) Third Party Beneficiaries of Warranty**

Under proposed section 2B-409(a) of the U.C.C. a warranty made for the benefit of a licensee extends to those persons for whose benefit the licensor intends to supply the information and for whose use the licensor intends the information to be used by. n167 At the same time, an exclusion, limitation or modification of a warranty which is effective against the licensee is also effective against any beneficiary under section 2B-409. n168

## **6. Gap Fillers**

Like Article 2 of the UCC, Article 2B contains a number of "gap fillers." If unstated, a license conveys a non-exclusive license. n169 License

[\*44] grants are interpreted under ordinary principles of contract interpretation. n170 A grant by the licensor of "all possible rights" or "all possible uses" covers all uses considered by the parties as well as all future uses. n171 Subject to certain limitations, a license grant conveys all rights within the licensor's control which are necessary for the licensee to utilize the rights expressly transferred in a manner anticipated by the parties at the time of the agreement. n172 A continuous access contract grants a right of access for the duration of the license to the information as modified from time to time. n173

If the license does not contain a restriction as to location, the number of uses permitted or the purpose of the use, the licensee may use the software for any purpose, in any location that is reasonable for any number of times. n174 If a restriction exists, use of the software that exceeds such restriction is a breach of contract. n175 A license of digital or similar information transfers rights for a single user at a single time to use the information on a single machine. n176 A licensee can make a reasonable number of back up copies. n177

An agreement that does not specify its duration is indefinite in duration. n178 If an agreement that is indefinite in duration involves the sale of a copy of information, an unrestricted transfer of information, or a delivery of a mass market license, the license is perpetual subject to termination for the breach by either party. n179 All other agreements, including support and service agreements, have a reasonable duration, terminable on reasonable notice to the other party. n180

## **7. Remedies**

### **a) *Non-Material Breach***

Under the proposed section 2B-702 of the U.C.C., if a party

[\*45] commits a non-material breach, or if the aggrieved party elects to a material breach so elects, the aggrieved party may recover (i) any unpaid license fees for performance accepted, (ii) direct damages measured as the losses resulting in the ordinary course resulting from the breach as determined in any reasonable manner, together with incidental damages less expenses and costs saved as a result of the breach and (iii) exercise any rights or remedies provided in the license agreement. n181

**b) Licensee's Material Breach**

Under the proposed section 2B-709 of the U.C.C., in the event the licensee commits a material breach, the licensor may elect to recover damages under the following measures. The licensor may be entitled to recover damages in the amount of either (i) the accrued and unpaid license fees and royalties and the present value of the total license fees and royalties for the then-remaining contract term, less the present value of the costs and expenses saved as a result of the licensee's breach and the present value of any incidental damages as of the date of entry of the judgment or (ii) the present value of the profit and general overhead which the licensor would have received from full performance by the licensee, plus the present value of any incidental damages all determined as of the date of entry of the judgment. n182 Alternatively, the licensor may be entitled to recover damages in the amount of accrued and unpaid license fees as of the date of entry of any judgment for performances accepted by the licensee but unpaid to the licensor. Under another option, the licensor may be entitled to recover those damages available for non-material breach under § 2B-702. n183

**c) Licensor's Material Breach**

Under the proposed section 2B-714 of the U.C.C., in the event the licensor commits a material breach, the licensee may elect to recover under the following measures. n184 The licensee may recover as damages (i) the present value, as of the date of the breach, of the market value of any performance not provided, less the present value as of that date of the license fees for the performance, for the remaining contract term, plus any extensions available as of right as well as the present value of incidental damages resulting from the breach as of the date of the entry of the judgment. Alternatively, the licensee may recover those damages

[\*46] available for non-material breach under § 2B-702. If the licensee has accepted performance and has given timely notice of any defect in performance, the licensee may recover the present value, at the time and place of performance, of the difference between the value of the performance accepted and the value if there had been no defect, not to exceed the contract price, together with the present value of the incidental damages, as of the date of the entry of the judgment. n185

Any damages must be reduced by the amount of expenses and costs saved as a result of the licensor's breach. If further performance is not anticipated, damages must be reduced by any unpaid license fees that relate to performance by the licensor which has been received by the licensee. Also if further performance is not anticipated, damages must be increased by the amount of any license fees already paid that relate to the performance of the licensor which has not been received by the licensee. n186

#### **d) Consequential Damages**

Article 2B takes an unusual position on consequential damages making this type of damages unavailable unless mutually agreed to by the parties. n187

#### **8. Self-Help**

Self-help is allowed only in very limited circumstances. Under proposed section 2B-712 of the U.C.C., a licensor may proceed with self-help only when there is a material breach of the entire contract and action (self-help) may be taken without foreseeable breach of the peace, risk of injury to persons or significant damage to or destruction of information or property of the licensee. n188 Limitations on a licensor's right to act without judicial process may not be waived by the licensee prior to default.. n189

Presently, at least one court has upheld a licensor's right to remotely deactivate a licensee's software for breach of the license's payment provisions. n190 The Central District Court of California has held, however, that disabling devices/codes may violate the Computer Fraud

[\*47] and Abuse Act, 18 U.S.C. § 1030. n191

## VI. RECOMMENDED RESOURCE MATERIALS

- . Beutel, *Contracting for Computer Systems Integration*, Michie.
- . Douglas and Binder-Arain, *Computer and Information Law Digest*, Warren, Gorham & Lamont.
- . Feldman, *Drafting Effective Contracts*, Aspen Law and Business.
- . Gordon, *Computer Software: Contracting for Development and Distribution*, John Wiley and Sons.
- . Hancock, *Data Processing Agreements*, Business Laws, Inc.
- . Nimmer, *The Law of Computer Technology*, Warren, Gorham & Lamont.
- . Raysman and Brown, *Computer Law*, Law Journal Seminars Press.
- . Ridley, Quittme yer, and Matuszeski, *Computer Software Agreements*, Warren, Gorham & Lamont.
- . *Software Transactions*, Business Laws, Inc.
- . Useful newsletters include *The Computer Lawyer* and *The Commercial Contracts Newsletter*, both published by Aspen Law & Business Phone: (800) 638-8437.

## **[\*48] VII. MODEL AGREEMENT**

### **MASTER SOFTWARE LICENSE AND SERVICES AGREEMENT**

THIS MASTER SOFTWARE LICENSE AND SERVICES AGREEMENT is made this day of \_\_\_, 1996, by and between \_\_\_, a corporation with its address at \_\_\_ (hereinafter "Licensor") and \_\_\_, a corporation with its offices at \_\_\_ (hereinafter "Customer").

. *Who is the Customer?*

. *Who are the appropriate contracting entities?*

. *Is the contracting entity stable and able to pay Licensor or is a parent guaranty needed?*

. *Consider which address you will use for Licensor as it may have tax implications for Licensor*

### **BACKGROUND**

Licensor has developed and owns certain proprietary software for use in the communications industry. Customer desires to obtain licenses to use such software and Licensor desires to license such software to Customer on the terms and conditions set forth herein.

. *The "Background" should slightly favor Licensor to show that Customer desired to conduct business with Licensor*

IN CONSIDERATION of the foregoing and the mutual covenants set forth herein, and intending to be legally bound, the parties agree as follows:

#### **1. DEFINITIONS**

The following words shall have the following meanings when used in this Agreement:

1.1 "Affiliate(s)" or "Affiliate Company" shall mean those companies that are initially listed on Appendix A attached hereto, which

[\*49] may be amended from time to time with the prior written consent of an authorized executive officer of Licensor.

*. Think about who is going to be able to use the Software and how its affects Licensor's revenues and pricing. A Customer may want to provide software to all of its "Affiliates" including those overseas. Licensor wants to restrict the license to the Customer alone or the Customer's then existing "Affiliates" who are listed on the attached Appendix. By listing the Affiliates any potential misunderstanding as to who is included is avoided. The Customer may not add an entity to the list of Affiliates without Licensor's permission. The breadth of this definition is an element of price.*

1.2 "Critical Error(s)" shall mean a failure of the Software which severely impacts Customer's ability to provide service and which cannot be temporarily eliminated through the use of a "Bypass" or "Work Around."

1.3 "Error(s)" shall mean a failure of the Software to substantially conform to the user documentation and operating manuals furnished by Licensor or the specification governing said Software which failure materially impacts operational performance or functional performance.

1.4 "Functional Specifications" shall mean those specifications to which the Software shall conform as set forth in each order attached hereto.

*. The Functional Specifications should be set out in detail prior to execution of an order to avoid later disagreements. Agreement in advance may not be feasible, however, depending on the nature of the development undertaken by Licensor. Any plan should be objective in nature to protect Licensor.*

1.5 "License(s)" shall mean any personal, non-exclusive, non-transferable, non-assignable license or licenses for Customer's internal use only granted by Licensor to Customer to use the Software or Software Products under this Agreement.

1.6 "Object Code" shall mean the binary machine readable version of the Software.

**[\*50]** 1.7 "Services" shall mean the work done by Licensor in support of the Software and Software Products, including but not limited to installation services, training, consulting, support, telephone support, and such other services as may be defined in an accepted order.

1.8 "Site" shall mean a Customer's computer facility located in one specific geographic location.

1.9 "Software" shall mean the object code version of all Licensor programs, data, routines, etc., with Customer's specified enhancements for the particular Software licensed by Customer as identified in each particular order.

1.10 "Software Acceptance Plan" shall mean that plan set forth in Exhibit 2 to each particular order, attached hereto.

*. The Software Acceptance Plan should be set out in detail prior to execution of an order to avoid later disagreements. Agreement in advance may not be feasible, however, depending on the nature of the development undertaken by Licensor. Any plan should be objective in nature to protect Licensor.*

1.11 "Software Products" shall mean all physical components, other than Software, that are offered by Licensor, including but not limited to, documentation, magnetic media, job aids, templates and other similar devices.

1.12 "Source Code" shall mean those statements in a computer language, which when processed by a compiler, assembler or interpreter become executable by a computer.

*. The Definitions section is very important as this is where the customer may try to insert a definition which has a favorable implication late in the Agreement based upon its use. For example, many customers try to define the Agreement to include the RFP. This is dangerous as the deliverables may have changed since Licensor responded to the RFP or Licensor may never have intended to meet certain requirements of the RFP and listed such requirements in the "Exceptions" portions of Licensor's RFP response. If the RFP and RFP response are included in the Agreement the two documents may*

[\*51] *be inconsistent, leading to potential problems of interpretation.*

## 2. ORDERS

Customer may place orders for Software, Software Products and Services, subject to the terms of this Agreement by execution and submission to Licensor of an order substantially in the form of Appendix B, attached hereto, which may be amended from time to time. All orders acceptable to Licensor shall be executed by Licensor and returned to Customer by Licensor within three (3) weeks from Licensor's receipt of the order. All orders shall be deemed to incorporate the terms and conditions of this Agreement and any amendments hereto. In the case of any conflicts between the terms of this Agreement and any particular order, the terms of the particular order shall prevail. All typed, stamped, or preprinted portions of Licensor's and Customer's orders or acknowledgments or other communications shall not be binding upon the parties unless mutually agreed upon by authorized representatives of the parties in writing. Such mutually agreed upon writings shall prevail over this Agreement for that specific order only.

*. This is a master agreement with work orders attached to it. A master agreement saves time by not having to negotiate a new contract for each project as the master agreement contains the "boiler plate" terms and conditions which will apply to all transactions. The work orders become very important because in the case of a conflict between the master agreement and the work order, the terms and conditions of the particular work order supersede the master agreement.*

## 3. LICENSE

3.1 Subject to the provisions of this Agreement as well as the payment of all applicable license fees for the term of such license, Licensor grants Customer and Customer accepts a limited, personal, nonexclusive, non-transferable, non-assignable Object Code license to use the Software and Software Products for Customer's internal use only in the United States on the Central Processing Units ("CPUs") set forth in each particular order and to the extent ordered by Customer. Licensor agrees to provide Customer with associated Software Products and Services subject to the provisions of this Agreement.

*. Customer - Who is the Customer?*

**[\*52]** . *License - Licensor "licenses" its software, Licensor does not "sell" it. "Selling" indicates a transfer of ownership meaning the Customer could potentially "resell" the software to a third party.*

. *Limited - Customer has only limited rights in the software.*

. *Personal - Use of the software is "personal" to the Customer only.*

. *Non-exclusive - Other customers may receive a similar license to use the same software.*

. *Non-transferable - The Software cannot be transferred to other entities.*

. *Non-assignable - The Software cannot be assigned to other entities.*

. *Object code - No source code is being licensed. Customer will receive object code only.*

. *Internal use - The Software cannot be used for outsourcing, timesharing, service bureaus, etc.*

. *United States - To avoid export issues and the potential diversion of the software, the Customer may use the software only in the United States.*

. *The entire license grant is preceded by the clause "Subject to the provisions of this Agreement" which allows Licensor to terminate the license grant if the Customer breaches the individual terms of the Agreement.*

. *Most of these issues are pricing issues. For example, while Licensor may not initially grant a source code license which will limit Licensor's ability to earn revenue from maintaining the software or developing enhancements, Licensor will license source code for an appropriately larger license fee.*

3.2 All Software and Software Products used in, for or in connection with the software, parts, subsystems or derivatives thereof (the "System"), in whatever form, including, without limitation, source code, object code, microcode and mask works, including any computer programs and any documentation relating to or describing such Software or Software Products, such as, but not limited to logic manuals and flow charts provided by Licensor, including instructions for use of the Software or Software Products and formulation of theory upon which the Software or Software Products based, are furnished to Customer only under a personal, non-exclusive, non-transferable non-assignable Object Code license solely for Customer's own internal use.

[\*53] 3.3 Except as provided in this Agreement, no license under any patents, copyrights, trademarks, trade secrets or any other intellectual property rights, express or implied, are granted by Licensor to Customer under this Agreement.

3.4 Customer shall not and shall not permit its Affiliates or any third party to translate, reverse engineer, decompile, recompile, update or modify all or any part of the Software or merge the Software into any other software.

*. Section 3.4 restricts the Customer from modifying or enhancing the Software. It is essential this paragraph remain in the Agreement, otherwise the Customer (and potentially the Customer's other vendors) would under the Sega, Atari and Bateman decisions have the right to reverse engineer the Software to create its own interfaces, etc. It is also important that the Customer is forbidden from merging the Software with other software, which in turn may create a new work which could be copyrighted in the Customer's name.*

3.5. All patents, copyrights, circuit layouts, mask works, trade secrets and other proprietary rights in or related to the Software are and will remain the exclusive property of Licensor, whether or not specifically recognized or perfected under the laws of the jurisdiction in which the Software is used or licensed. Customer will not take any action that jeopardizes Licensor's proprietary rights or acquire any right in the Software, the Software Products or the Confidential Information, as defined in Section 12 herein below. Unless otherwise agreed on a case-by-case basis, Licensor will own all rights in any copy, translation, modification, adaptation or derivation of the Software or other items of Confidential Information, including any improvement or development thereof. Customer will obtain, at Licensor's request, the execution of any instrument that may be appropriate to assign these rights to Licensor or perfect these rights in Licensor's name.

*. Section 3.5 provides that even if the Customer created a derivative work, in contradiction to Section 3.4, Licensor will have sole and exclusive ownership of such work.*

3.6 Customer shall not allow any third party to have access to the Software or Software Products without Licensor's prior written consent.

*[\*54] . Section 3.6 prevents the Customer from utilizing outside contractors and consultants from utilizing or working on the software. This protects Licensor from the Customer hiring Licensor's competitors or outsourcing the software and its maintenance.*

#### 4. TERM OF AGREEMENT

The term of this Agreement shall commence upon the execution of this Agreement, and shall continue for \_\_\_ years and thereafter may be terminated by either party upon at least ninety (90) days prior written notice to the other, or at any time upon the breach of this Agreement or any order by either party.

*. This "term" relates to the term of the master agreement although the term of the individual licenses granted by the work orders may be different.*

#### 5. TERM OF LICENSES

Subject to the limitations contained in this Agreement, the term of each individual License granted under this Agreement begins on the date of delivery of the Software, and shall terminate on the date set forth on the order that requested such license, unless earlier terminated as provided in this Agreement.

*. The term of the "License" must begin on "delivery" and not on "acceptance" otherwise the Customer would be under no legal obligations as to the use of the Software prior to "acceptance." Binding the Customer to the terms of the license upon delivery does not indicate the Customer's acceptance or create an obligation for the Customer to pay the applicable license fee.*

#### 6. TERMINATION OF AGREEMENT AND/OR LICENSE

6.1 LICENSOR shall have the right to terminate this Agreement or any order and, at its option, take possession of the Software and Software Products, if (a) in Licensor's reasonable judgment, Customer's financial condition does not justify the terms of payment specified above, unless Customer immediately pays for all Software, Software Products and Services which have been delivered, and pays in advance for the balance of Software, Software Products and Services

[\*55] remaining to be delivered during the term of this Agreement; (b) Customer makes an assignment for the benefit of creditors, or a receiver, trustee in bankruptcy or similar officer is appointed to take charge of all or any part of Customer's property or business; (c) Customer is adjudicated bankrupt; or (d) Customer neglects or fails to perform or observe any of its obligations under this Agreement and such condition is not remedied within thirty (30) days after Customer's receipt of written notice by Licensor to Customer setting forth Customer's breach. Notwithstanding anything contained in this Agreement or any order, Licensor shall have the right to immediately terminate this Agreement without notice if Customer breaches Sections 3, 12 or 13 or otherwise misuses the Software in contravention of this Agreement.

*. Licensor must have the immediate right to terminate the Agreement without granting a cure period if the Customer breaches the Agreement by misusing the software. This position is justifiable because a cure period cannot "absolve" the breach.*

6.2 In the event Licensor shall be in material breach or default of any of the terms, conditions, or covenants of this Agreement or any order, and such breach or default shall continue for a period of ninety (90) days after the receipt of Customer's written notice to Licensor setting forth Licensor's breach, Customer shall have the right to cancel this Agreement or any such order placed by Customer without any charge, obligation, or liability whatsoever, except as to the payment for Software, Software Products, and/or Services already received and accepted by Customer.

*. Licensor must have a time period in which to "cure" any defaults. The time period must be long enough to allow Licensor to be able to do so. Given the nature of software, this period can be no less than 30 days.*

6.3 Upon termination, cancellation or expiration of this Agreement or any order, Customer shall, without request by Licensor, immediately return all papers, materials and property of Licensor held by Customer. In addition, each party will assist the other in the orderly termination of this Agreement or any order and in the transfer of all property, tangible and intangible, as may be necessary for the orderly, non-disrupted business continuation of each party.

*[\*56] . All Licensor documentation should be returned by the Customer to Licensor without Licensor having to request that the documentation be returned.*

6.4 Within ten (10) days of the termination, cancellation or expiration of any order or License granted hereunder, Customer shall, upon Licensor's request, certify in writing that all copies of the Software, in whole or in part, have been removed from its production libraries. Concurrent with this certification, Customer will return to Licensor all documentation, Software and Software Products required by Licensor to be returned or Customer's project manager will certify to Licensor that such documentation, Software and Software Products have been destroyed.

*. If the Customer requires a "termination for convenience" clause, the clause must be carefully worded to clearly state how the termination fee will be determined. In such a case, the Customer must pay for work completed, Licensor's termination costs and Licensor's lost profit. The Licensor business person must determine whether the Customer should compensate Licensor based on Licensor's costs (a cost plus model) or on a percent complete (of the project) basis. In either case, the Agreement should provide that Licensor is entitled to recover Licensor's lost profit or at least a pro rata portion of the lost profits.*

## 7. OBLIGATIONS THAT SURVIVE TERMINATION

The parties recognize and agree that their obligations under Sections 8, 12, 14, 15, 16 and 28 of this Agreement survive the cancellation, termination or expiration of this Agreement and any particular order or License. These same Sections shall apply for the duration of Customer's use of Software licensed under the license granted in Section 3 or any order.

*. The obligations of the parties that will survive termination of the Agreement, i.e., payment to Licensor, confidentiality, limitation of liability, governing law etc. should be specifically listed because these obligations would otherwise "terminate" with the Agreement. As a result, Licensor may be unable to get paid or protect its proprietary information since the Agreement is no longer in existence and thus the Customer is no longer bound by the terms of the Agreement .*

## [\*57] 8. LICENSE FEES

8.1 The fees for the Software, Software Products, and Services ordered hereunder, including any applicable discount and payment schedules, shall be set forth in each particular Order, attached hereto.

8.2 The machine class of each Software License, where applicable, shall be determined at the time of order, in accordance with Licensor's then current price list as may be amended from time to time [and initially set forth in Appendix C]. Unless Customer moves the Software to a higher class Central Processing Unit ("CPU"), said machine class shall not change for any existing License and Licensor shall not restructure machine classes or License fees in any way that will cause an increase in any License fees for Licenses already acquired by Customer, other than in accordance with this Section.

*. Pricing should be determined by the type of license granted.*

*. Licensor must have the ability to amend its pricing, otherwise the Customer may claim the price is fixed for the duration of the license or the Agreement.*

8.3 If Customer moves the Software to a higher machine class CPU, Customer shall notify Licensor in writing thirty (30) days prior to the move and shall incur and pay an upgrade charge that will be the difference between the License fee charged for functionally identical Software placed on the higher class CPU, after any associated discounts are applied, and the License fee paid by Customer for the Software being moved.

8.4 If Customer desires, subject to obtaining Licensor's prior written consent, to operate the Software subsequent to a change in control of Customer, other than with the designated CPU's or other than at Customer's site identified in the order, Customer will be required to pay Licensor a transfer fee according to Licensor's then-existing fee structure.

*. Section 8.4 allows Licensor to charge the Customer a transfer fee for a change of control.*

## [\*58] 9. TERMS OF PAYMENT

Licensor shall invoice Customer for Software, Software Products, and Services based upon the terms described in each particular order.

Licensor may charge Customer a one and one-half percent (1 and 1/2%) monthly finance charge to be calculated monthly with respect to all outstanding amounts not paid within thirty (30) days following the date of Licensor's invoice(s), but in no event shall any finance charge exceed the maximum allowed by law.

*. Licensor must have the right to charge interest on unpaid balances, otherwise the Customer would have no motivation to pay its bills on time. If a dispute occurs, Licensor may be unable to charge the Customer interest while the dispute is being resolved or afterwards if Licensor is successful in its claim.*

## 10. TAXES

There shall be added to the charges provided for in this Agreement amounts equal to any taxes, whether federal, state, or local, however designated, that may be validly levied or based upon this Agreement or upon the Software, Software Products and Services furnished hereunder, excluding, however, taxes based on or measured by Licensor's net income, and any taxes or amounts in lieu thereof paid or payable by Licensor in respect of the foregoing. Taxes payable by Customer shall be billed as separate items on Licensor's invoices and shall not be included in Licensor's prices. Customer shall have the right to have Licensor contest with the imposing jurisdiction, at Customer's expense, any such taxes that Customer deems are improperly levied.

*. The Customer as the purchaser should pay all taxes except taxes on Licensor's income. If the Customer claims a tax exemption it must produce the appropriate documentation to prove its exemption.*

## 11. TRAINING

If requested by Customer, Licensor shall provide, at Licensor's then existing price, instructors and the necessary instructional material, at mutually agreed upon locations and times, to train Customer's personnel in the operation and use of the Software furnished hereunder.

**[\*59] 12. PROPRIETARY INFORMATION**

Each party acknowledges and agrees that any and all information emanating from the other's business in any form is "Confidential Information", and each party agrees that it will not, during or after the term of this Agreement, permit the duplication, use, or disclosure of any such Confidential Information to any person not authorized by the disclosing party, unless such duplication, use or disclosure is specifically authorized by the other party in writing prior to any disclosure. Each party shall use reasonable diligence, and in no event less than that degree of care that such party uses in respect to its own confidential information of like nature, to prevent the unauthorized disclosure or reproduction of such information. Without limiting the generality of the foregoing, to the extent that this Agreement permits the copying of Confidential Information, all such copies shall bear the same confidentiality notices, legends, and intellectual property rights designations that appear in the original versions and party shall keep detailed records of the location of all Confidential Information.

For the purposes of this Section, the term "Confidential Information" shall not include: information that is in the public domain; information known to the recipient party as of the date of this Agreement as shown by the recipient's written records, unless the recipient party agreed to keep such information in confidence at the time of its receipt; and information properly obtained hereafter from a source that is not under an obligation of confidentiality with respect to such information. Notwithstanding anything contained in this Agreement, all Software shall be considered proprietary and confidential regardless of whether it is marked. The provisions of this Section 12 shall survive termination or expiration of this Agreement, for any reason.

Notwithstanding the previous paragraphs, all information provided by either party to the other under this Agreement shall be kept confidential in conformance with and subject to the terms of a certain Proprietary Information Agreement dated \_\_\_\_, 1996 by and between the parties hereto.

*. A separate proprietary information agreement should be executed in conjunction with the Agreement as it will be more complete and better protect Licensor's interest.*

**[\*60] 13. REPRODUCTION OF MANUALS, DOCUMENTATION, OBJECT CODE AND SOURCE CODE**

13.1 Manuals and Documentation. Customer shall have the right, at no additional charge, to reproduce solely for its own internal use, all original manuals and documentation furnished by Licensor pursuant to this Agreement and any order, regardless of whether such manual or documentation is copyrighted by Licensor. All copies of manuals or documentation made by Customer shall include any proprietary notice or stamp that has been affixed by Licensor. Licensor shall furnish for each License purchased by Customer, and at no additional charge to Customer, one (1) copy of the relevant documentation sufficient to enable Customer to operate the Software. All documentation shall be in the English language.

*. Licensor does not make money from copying its manuals, thus Licensor is not concerned that the Customer makes copies so long as the Customer incorporates Licensor's protective notices.*

13.2 Object Code. One copy of the Object Code may be reproduced by Customer, at no additional charge, only for back-up or archival purposes. Customer shall notify Licensor in writing of its methods and procedures for archiving the Object Code prior to doing so.

13.3 Source Code. Upon purchase of a Source Code License, one additional copy of the Source Code may be reproduced by Customer, at no additional charge, only for back-up or archival purposes. Customer shall notify Licensor in writing of its methods and procedures for archiving the Source Code prior to doing so.

*. When a Customer buys a Source Code license it buys only one copy of the Source Code with the right to make a backup copy for archival purposes. The Customer must buy a second copy of the Source Code if it wants to modify the Source Code while using the original copy in production.*

*. The Customer is prohibited under Section 3.4 from reverse engineering the Software.*

#### [\*61] 14. PATENT AND OTHER PROPRIETARY RIGHTS INDEMNIFICATION

14.1 The following terms apply to any infringement or claim of infringement of any existing United States patent, trademark, copyright, trade secret or other proprietary interest based on the licensing, use, or sale of any Software, Software Products and/or Services furnished to Customer under this Agreement or in contemplation hereof. Subject to the limitations contained in this Agreement, Licensor shall indemnify Customer for any loss, damage, expense or liability, including costs and reasonable attorney's fees, finally awarded, that may result by reason of any such infringement or claim, except where such infringement or claim arises solely from Licensor's adherence to Customer's written instructions or directions which involve the use of merchandise or items other than (1) commercial merchandise which is available on the open market or is the same as such merchandise, or (2) items of Licensor's origin, design or selection; and Customer shall so indemnify Licensor in such excepted cases. Each party shall defend or settle, at its own expense, any action or suit against the other for which it has indemnification obligations hereunder. Each party shall notify the other promptly of any claim of infringement for which the other is responsible, and shall cooperate with the other in every reasonable way to facilitate the defense of any such claim.

*. This section addresses intellectual property rights infringement by Licensor's software.*

*. The infringement is limited to existing United States intellectual property. With foreign transactions indemnification should be limited to the United States and the country in which the software will be used.*

*. "Finally awarded" limits Licensor's obligation to pay until all appeals have been exhausted.*

*. Licensor must be careful to limit indemnification to a specific entity and not a broad class of entities, i.e., all Affiliates of Customer.*

14.2 If the indemnifying party fails to assume the defense of any actual or threatened action covered by this Section 14 within the earlier of (a) any deadline established by a third party in a written demand or by a court and (b) thirty (30) days of notice of the claim, the indemnified party may follow such course of action as it reasonably deems necessary to protect its interest, and shall be indemnified for all costs reasonably incurred in such course of action; provided, however,

[\*62] that the indemnified party shall not settle a claim without the consent of the indemnifying party.

*. This language allows a party to undertake its own defense itself if the indemnifying party fails to do so.*

14.3 In addition, in the event an injunction or order shall be obtained against Customer's use of any item by reason of any such infringement allegation or if, in Licensor's sole opinion, the item is likely to become the subject of a claim of infringement or violation of any existing United States patent, copyright, trademark, trade secret, or other proprietary right of a third party, Licensor will, without in any way limiting the foregoing, in Licensor's sole discretion and at Licensor's expense either: (a) procure for Customer the right to continue using the item; (b) replace or modify the item so that it becomes non-infringing, but only if the modification or replacement does not, in Licensor's reasonable sole opinion, adversely affect the functional performance or specifications for the item or its use by Customer; or (c) if neither (a). nor (b). above is practical, remove the item from Customer's Site and refund to Customer any license fees paid by Customer less a pro rata portion for periods of use subsequent to removal, and release Customer from any further liability under the applicable order.

*. Licensor always needs the option to refund the Customer's money if Licensor cannot alter the software to make it noninfringing or obtain a license for the Customer to use the Software, otherwise Licensor could potentially be obligated to provide a software fix/license regardless of cost or Licensor's ability to do so.*

*. Traditionally, there is no limitation of liability for patent indemnification claims.*

14.4 In no event shall Customer be liable to Licensor for any charges after the date that Customer no longer uses the item because of actual or claimed infringement.

## 15. INDEMNITY

Subject to the limitations contained in this Agreement, Licensor agrees to indemnify and hold harmless Customer, and Customer agrees to indemnify and hold harmless Licensor respectively, from any liabilities, penalties, demands or claims finally awarded (including the costs, expenses and reasonable attorney's fees on account thereof) that may be

[\*63] made by any third party for personal bodily injuries, including death, resulting from the indemnifying party's gross negligence or willful acts or omissions or those of persons furnished by the indemnifying party, its agents or subcontractors or resulting from use of the Software, Software Products and/or Services furnished hereunder. Licensor agrees to defend Customer, at Customer's request, and Customer agrees to defend Licensor, at Licensor's request, against any such liability, claim or demand. Customer and Licensor respectively agree to notify the other party promptly of any written claims or demands against the indemnified party for which the indemnifying party is responsible hereunder. The foregoing indemnity shall be in addition to any other indemnity obligations of Licensor or Customer set forth in this Agreement.

*. This section addresses personal injury, property damage, and economic injury. The first clause limits Licensor's liability to the amounts set forth in Section 16 (i.e., to the amount of money received from the Customer). For public policy reasons many jurisdictions forbid tortfeasors from limiting their liability for personal injuries in consumer transactions.*

*. "Finally awarded" limits Licensor's obligation to pay the Customer until all appeals have been exhausted.*

*. An indemnification clause allows a recovery in those states which recognize the doctrine of contributory negligence and not the doctrine of comparative negligence. It also allows for the recovery of attorneys fees which are usually not recoverable.*

## 16. LIMITATION OF LIABILITY

16.1 LICENSOR SHALL NOT BE LIABLE FOR ANY (A) SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES, INCLUDING LOSS OF PROFITS, ARISING FROM OR RELATED TO A BREACH OF THIS AGREEMENT OR ANY ORDER OR THE OPERATION OR USE OF THE SOFTWARE, SOFTWARE PRODUCTS AND SERVICES INCLUDING SUCH DAMAGES, WITHOUT LIMITATION, AS DAMAGES ARISING FROM LOSS OF DATA OR PROGRAMMING, LOSS OF REVENUE OR PROFITS, FAILURE TO REALIZE SAVINGS OR OTHER BENEFITS, DAMAGE TO EQUIPMENT, AND CLAIMS AGAINST CUSTOMER BY ANY THIRD PERSON, EVEN IF LICENSOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; (B) DAMAGES (REGARDLESS OF THEIR NATURE) FOR ANY DELAY OR FAILURE BY LICENSOR TO PERFORM ITS

**[\*64] OBLIGATIONS UNDER THIS AGREEMENT DUE TO ANY CAUSE BEYOND LICENSOR'S REASONABLE CONTROL; OR (C) CLAIMS MADE A SUBJECT OF A LEGAL PROCEEDING AGAINST LICENSOR MORE THAN TWO YEARS AFTER ANY SUCH CAUSE OF ACTION FIRST AROSE.**

*. Licensor should disclaim all "speculative" and "third party" damages. Damages recoverable by the Customer should be limited to Customer's actual direct damages. The Uniform Commercial Code does not require that any disclaimer be "conspicuous" although this requirement may be imposed by the courts. Therefore this section should be in large block letters.*

*. Licensor will not be liable for any damages suffered by the Customer's customers or any other third party.*

*. By requiring claims be brought within 2 years, Licensor limits its risk/liability by shortening the statute of limitations which may be up to 12 years.*

**16.2 NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, LICENSOR'S LIABILITIES UNDER THIS AGREEMENT, WHETHER UNDER CONTRACT LAW, TORT LAW, WARRANTY OR OTHERWISE SHALL BE LIMITED TO DIRECT DAMAGES NOT TO EXCEED THE AMOUNTS ACTUALLY RECEIVED BY LICENSOR PURSUANT TO THE PARTICULAR ORDER FROM WHICH SUCH DAMAGES AROSE.**

*. Licensor seeks to limit its liability under both contract and tort theories which have different statutes of limitations and different bases for which a recovery can be made.*

*. Licensor must limit its liability (to the amount received from the Customer) or it could potentially be liable for Licensor's entire net worth. Traditionally, there is no limitation of liability for patent indemnification claims and for consumer transactions personal bodily injury.*

*. Limitation of liability is an element of price. Licensor has based its pricing on limiting Licensor's liability at the amount received from the Customer, or alternatively 1X contract value. If the Customer wants a higher limitation of liability, Licensor can raise its limit of liability but: (a) the license fee must increase because Licensor is now bearing more risk; or (b) Licensor must buy errors and omissions insurance and charge the Customer for the cost.*

*[\*65] . It is important to retain a default remedy provision, otherwise a court may find Licensor's warranty "failed of its essential purpose" (i.e., did not provide the Customer with an adequate remedy) and void Licensor's limitation of liability and disclaimer for consequential damages.*

## 17. ACCEPTANCE OF SOFTWARE AND SOFTWARE PRODUCTS

17.1 Licensor and Customer shall jointly conduct Software and Software Products acceptance tests during the installation process at a Customer designated location(s) during a thirty (30) day acceptance period. The acceptance period will commence once the Software is operational in the Customer designated location(s). The Software and Software Products shall (1) materially comply with the provisions of the order; (2) function substantially in accordance with Licensor's specifications; (3) be compatible and substantially conform to user documentation and operating manuals furnished by Licensor; and (4) substantially comply with a mutually agreed upon Software Acceptance Plan that shall be developed and agreed to in writing by Customer and Licensor prior to installing the Software in the first Customer designated location. Licensor will assume the responsibility for the initial preparation of the Software Acceptance Plan.

17.2 If, during the acceptance period, Customer determines that the Software and/or Software Products do not substantially meet the above requirements, Customer shall so notify Licensor in writing, specifying in detail the area of noncompliance. Licensor shall use its good faith efforts to correct all conditions that prevent the Software and/or Software Products from substantially meeting the requirements within fifteen (15) calendar days following receipt of notice from Customer. If all Customer reported conditions that prevent the Software and/or Software Products from substantially complying with the acceptance criteria are not corrected by the end of acceptance period, the Customer will notify the Licensor, in writing, within two (2) calendar days following the end of the acceptance period identifying the specific areas of non-compliance. Failure to notify Licensor in writing will constitute acceptance of the Software and/or Software Products. Upon receipt of written notice of non-compliance an extension period of sixty (60) calendar days begins which will supply Licensor with the time necessary to correct the deficiencies identified in the notice. Within five (5) days after such sixty (60) day period the Customer will provide written notice to Licensor indicating Customer's acceptance of the Software and/or Software Products, Customer's desire to extend the

**[\*66]** "extension period" or the Customer's intent to terminate this Agreement without penalty or further financial obligation.

17.3 Notwithstanding anything contained herein, or any order to the contrary, Customer shall be deemed to have accepted the Software if Customer uses the Software in the operation of Customer's business prior to accepting the Software.

*. The Agreement must provide that use of the Software in the operation of the Customer's business constitutes acceptance. Otherwise there is no incentive for the Customer to start or complete acceptance test procedures. If the Customer is using the software in conducting its business the software most likely meets the Customer's requirements.*

## 18. WARRANTY AND WARRANTY DISCLAIMER

*. Because Section 2-316 of the UCC requires that warranty disclaimers be "conspicuous" this paragraph is broken into several shorter paragraphs to allow ease of reading and comprehension and Section 18.4 which contains the actual disclaimer is in block letters.*

18.1 Except as provided below, Licensor warrants that it owns all rights, title and interest in and to the Software and Software Products, or that in the case of any third party software that it has the right to grant a sublicense to use such third party software, that all Software and Software Products shall substantially conform to the Functional Specifications set forth in each order, and that the Software and Software products shall be free from material defects in workmanship and materials that prevent them from substantially meeting the aforementioned criteria. Licensor further warrants that any Services provided by Licensor under this Agreement shall be performed in a workmanlike manner and in accordance with the prevailing professional standards of the software industry. This warranty coverage shall include any modifications made to the Software by Licensor. Such warranty shall extend for sixty (60) days from acceptance. This warranty shall survive inspection, test, acceptance, use and payment.

*. Licensor carefully limits what it warrants. Licensor only warrants that (1) Licensor owns the Software or has the right to license the software, (2) the software substantially conforms to the functional specifications, and (3) the software is free from*

*[\*67] material defects in workmanship and materials. By using the phrases "substantially conforms" and "material defects", Licensor allows itself a small level of error as software by its nature is imperfect.*

*. Licensor's warranty is sixty (60) days. Warranty is an element of price. If the Customer wants a one year warranty, Licensor can provide one at an increased price.*

*. Avoid stating "Licensor represents and warrants". A "representation" creates a legal risk that Licensor might be held to have "misrepresented" (which is fraud) its software leading to stronger penalties.*

18.2 Licensor does not warrant that the operation of the Software or the operation of the Software Products will be uninterrupted or error free.

18.3 In the event of any breach of the warranties set forth in this Agreement, Licensor's sole and exclusive responsibility, and Customer's sole and exclusive remedy, shall be for Licensor to correct or replace, at no additional charge to Customer, any portion of the Software or Software Products found to be defective; provided, however, that if within a commercially reasonable period Licensor neither corrects such defects nor replaces the defective Software or Software Products, then Customer's sole and exclusive remedy shall be to receive direct damages not to exceed the license fees paid to Licensor for use of the defective Software or Software Products. In the event of any breach of any provision of this Agreement other than the warranties set forth in this Agreement, Customer's sole and exclusive remedy shall be to receive direct damages not to exceed the amounts received by Licensor pursuant to the particular order from which such damages arose. For the avoidance of doubt, Customer's monetary remedies for any breaches of any provision of this Agreement (including, without limitation, the warranty provisions) shall not, in the aggregate, exceed an amount equal to the amounts actually received by Licensor from Customer.

18.4 EXCEPT AS SET FORTH IN THIS SECTION 18, LICENSOR MAKES NO EXPRESS OR IMPLIED REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE SOFTWARE, SOFTWARE PRODUCTS OR SERVICES OR THEIR CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE OR USE BY CUSTOMER. LICENSOR FURNISHES THE ABOVE WARRANTIES IN LIEU OF ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING THE WARRANTIES OF

**[\*68] MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.**

*. UCC Section 2-316 requires all warranty disclaimers to be "conspicuous." Therefore the disclaimer should be in capital block letters.*

*. If Licensor does not disclaim all other warranties, Licensor may be liable for certain implied warranties including the failure of the software to function as the Customer thought it would.*

18.5 Any and all warranties shall be void as to Services, Software or Software Products damaged or rendered unserviceable by (1) the acts or omissions of non-Licensor personnel; (2) misuse, theft, vandalism, fire, water, or other peril; and (3) moving, relocation, alterations or additions not authorized by Licensor.

*. Licensor will not be liable for a breach of warranty if the Customer was the cause of any such breach.*

*. It is important to note that there is a difference between warranty and maintenance. Warranty is much more comprehensive including modifying the software to make it work. Maintenance involves only maintaining an ongoing operating system to a lesser standard. Breach of the maintenance provisions will usually result in a refund of the maintenance fees paid to Licensor but a breach of warranty may entitle Customer to a refund of all development and services fees paid to Licensor, which is a much greater amount.*

**19. RIGHT TO MOVE**

Any Software License may be temporarily transferred to a backup computer while the licensed computer is inoperative or for emergency testing purpose. The backup computer may be at the same Customer Site, another Customer Site, or an off-site location under emergency conditions and after sufficient advance notice has been given to Licensor of the name and location of the off-site operator. Customer may redesignate the Site or the CPU on which the Software will be used for ongoing operations with Licensor's consent. Customer shall be permitted concurrent operation at the new and old Site or CPU for not more than thirty (30) days and such operation will require no additional fees. Customer shall provide Licensor written notice of the redesignation within a reasonable length of time of the Software being moved to the

[\*69] new Site or CPU. In the event Licensor consents to the Customer moving the Software to another Customer Site or CPU, or Customer assigning the Software licensed under this Agreement, Licensor agrees that it shall continue the warranty and assist in its transfer to such other Site, CPU or assignee.

## 20. ERROR CORRECTION UNDER WARRANTY

20.1 During the warranty period, Customer will notify Licensor verbally of Errors, and provide written notification to Licensor within seventy-two (72) hours of such verbal notification. Licensor shall provide Customer with a telephone number which is answered from 9:00 a.m. to 6:00 p.m. Washington, D.C. Time, Monday through Friday, except for Licensor holidays. Customer shall have access via this telephone number to individuals who shall accept Error reports and are qualified to assist Customer with the verification of suspected Errors and who may provide solutions for said Errors. Customer shall be provided with a telephone number which is answered for all hours outside of Monday through Friday, 9:00 a.m. to 6:00 p.m. Washington, D.C. Time by individuals who shall accept Error reports.

20.2 During the warranty period, Licensor shall use its good faith efforts to immediately correct any Critical Errors affecting Customer's continued business use of the Software after Licensor's notification of the Error. Licensor will use its good faith efforts to correct all other Errors within twenty (20) days after Licensor's notification of the Error.

## 21. CUSTOMER PREPARATION

If the Software or Software Products are to be installed by Licensor, the Customer shall have all things in readiness for installation, including, but not limited to, other equipment, connections and facilities for installation at the time the Software or Software Products are delivered. In the event the Customer shall fail to have all things in readiness for installation on the scheduled installation date, the Customer shall reimburse Licensor for any and all expenses caused by Customer's failure to have things in readiness, unless Customer has notified Licensor at least thirty (30) business days prior to the scheduled installation date. Customer agrees to provide and bear the cost of all communications costs incurred by Licensor from the Customer site and the costs of a dedicated dial up communications facility equipped with 56KB Hayes compatible modem for the purposes of remote access and support by the Licensor

[\*70] consultant or phone support group. In addition, Customer shall fully cooperate with Licensor during the term of this Agreement.

## 22. ASSIGNMENT

Customer may not assign or transfer its interests, rights or obligations under this Agreement or any order by written agreement, merger, consolidation, operation of law or otherwise, without the prior written consent of an authorized executive officer of Licensor. Any attempt to assign this Agreement by Customer shall be null and void. Furthermore, for the purposes of this Agreement the acquisition of an equity interest in Customer of greater than 25 percent by any third party shall be considered an "assignment."

*. Licensor must limit the ability of the Customer to assign the Agreement to avoid losing potential license fees. In a merger or acquisition, the entity being acquired will seek to assign its pre-merger contracts to the acquiring party to avoid paying a transfer or license fee. By stating that any assignment is "void" a court will not allow the assignment. In the absence of such language the court will allow the assignment and award Licensor monetary damages even though the Agreement states it may not be assigned without Licensor's permission.*

## 23. AMENDMENTS, MODIFICATIONS OR SUPPLEMENTS

Amendments, modifications or supplements to this Agreement or any order shall be permitted, provided all such changes shall be in writing signed by the authorized representatives of both parties, and all such changes shall reference this Agreement and identify the specific articles or sections of this Agreement or the particular order that is amended, modified or supplemented.

## 24. INDEPENDENT CONTRACTOR

All work performed by Licensor in connection with the Software, Software Products and/or Services described in this Agreement shall be performed by Licensor as an independent contractor and not as the agent or employee of Customer. All persons furnished by Licensor shall be for all purposes solely Licensor's employees or agents and shall not be deemed to be employees of Customer for any purpose whatsoever. Licensor shall furnish, employ and have exclusive control of all persons

[\*71] to be engaged in performing Services under this Agreement and shall prescribe and control the means and methods of performing such Services by providing adequate and proper supervision. Licensor shall be solely responsible for compliance with all rules, laws and regulations relating to employment of labor, hours of labor, working conditions, payment of wages and payment of taxes, such as employment, Social Security, and other payroll taxes including applicable contributions from such persons when required by law.

## 25. COMPLIANCE WITH LAWS

Licensor and Customer each shall comply with the provision of all applicable federal, state, county and local laws, ordinances, regulations and codes including, but not limited to, Licensor's and Customer's obligations as employers with regard to the health, safety and payment of its employees, and identification and procurement of required permits, certificates, approvals and inspections in Licensor's and Customer's performance of this Agreement.

## 26. SECURITY, ACCESS AND SAFETY REQUIREMENTS

Licensor shall instruct its employees, agents and subcontractors that they shall comply with Customer's security, access and safety requirements for the protection of Customer's facilities and employees while on Customer's premises.

## 27. RELEASES VOID

Neither party shall require waivers or releases of any personal rights from representatives of the other in connection with visits to Licensor's and Customer's respective premises. No such releases or waivers shall be pleaded by Licensor or Customer or third persons in any action or proceeding against an employee.

## 28. GOVERNING LAW

The validity, construction, interpretation and performance of this Agreement shall be governed by and construed in accordance with the domestic laws of the State of Maryland except as to its principals of conflicts of laws and the parties hereto irrevocably submit to the jurisdiction and venue of the Federal District Court for the District of Maryland to resolve any disputes arising hereunder or related hereto.

*[\*72] . Licensor would like the Agreement to be governed by the laws of Maryland although there is some flexibility as to the particular state law. It is also important to have the venue (the location of any trial) be in Maryland. Some states such as Texas favor the Customer while others such as New York favor the Licensor.*

*. Licensor wants to avoid arbitration or alternative dispute resolution (ADR) because arbitrators tend to "split the baby". In addition, it may be very difficult to get an immediate injunction to halt the misuse of Licensor's Software. Advantages of arbitration are quicker resolution, lower cost, and lower profile.*

*. Think carefully before including language that any software or services delivered to Customer will be considered "goods" under the Uniform Commercial Code. There may be unintended consequences to Licensor, i.e., the "perfect tender" rule.*

## 29. WAIVER OF BREACH

No waiver of breach or failure to exercise any option, right or privilege under the terms of this Agreement or any order on any occasion or occasions shall be construed to be a waiver of the same or any other option, right or privilege on any other occasion.

*. This provision states that if Licensor fails to enforce any of its rights now, Licensor is not prohibited from enforcing such rights at a later date.*

## 30. FORCE MAJEURE

Neither party shall be responsible for any delay or failure in performance of any part of this Agreement to the extent that such delay or failure is caused by fire, flood, explosion, war, embargo, government requirement, civil or military authority, act of God, act or omission of carriers or other similar causes beyond its control. If any such an event of force majeure occurs and such event continues for ninety (90) days or more, the party delayed or unable to perform shall give immediate notice to the other party, and the party affected by the other's delay or inability to perform may elect at its sole discretion to: (a) terminate this Agreement or the affected order solely upon mutual agreement of the parties; (b) suspend such order for the duration of the condition and obtain or sell elsewhere Software, Software Products, or Services

[\*73] comparable to the Software, Software Products, or Services to have been obtained under the order; or (c) resume performance of such order once the condition ceases with the option of the affected party to extend the period of this Agreement up to the length of time the condition endured. Unless written notice is given within thirty (30) days after the affected party is notified of the condition, option (c) shall be deemed selected.

*. All force majeure clauses must be carefully reviewed to ensure that the Customer cannot automatically terminate the Agreement. It is preferable that the Agreement be put on hold until the force majeure dissipates.*

### 31. SEVERABILITY

If any of the provisions of this Agreement or any order shall be invalid or unenforceable under the laws of the jurisdiction where enforcement is sought whether on the basis of a court decision or of arbitral award applicable to the entire Agreement or order, such invalidity or unenforceability shall not invalidate or render unenforceable the entire Agreement but rather the entire Agreement or order shall be construed as if not containing the particular invalid or unenforceable provision or provisions and the rights and obligations of Licensor and Customer shall be construed and enforced accordingly.

### 32. NOTICES

All notices, demands, or other communications herein provided to be given or that may be given by any party to the other shall be deemed to have been duly given when made in writing and delivered in person, or upon receipt, if deposited in the United States mail, postage prepaid, certified mail, return receipt requested, as follows:

Notices to Licensor:

Notices to Customer:

Attn:

Attn:

With a required copy to:

Attn: General Counsel

or to such address as the parties may provide to each other in writing from time to time.

**[\*74]** . *Always include the business person and legal department in the notices to avoid any notice "falling through the cracks."*

*. By requiring a second copy be delivered to the General Counsel, Licensor limits the risk that a notice could be misplaced or lost.*

*. All notices should be effective upon receipt, not mailing, because the notice may get lost in the mail or delayed, potentially allowing the Customer to terminate the Agreement without Licensor ever knowing it was in breach.*

### 33. RISK OF LOSS

Risk of loss or damage to Software and/or Software Products licensed by Customer under this Agreement shall vest in Customer when the Software and/or Software Products have been received by Customer, or its representative, provided that such loss or damage is not caused by Licensor, its employees or agents.

### 34. BACKGROUND, ENUMERATIONS AND HEADINGS

The "Background," enumerations and headings contained in this Agreement are for convenience of reference only and are not intended to have any substantive significance in interpreting this Agreement.

### 35. INCORPORATION OF APPENDICES AND ORDERS

Appendices [A, B, and C] referred to in this Agreement and attached hereto and all orders attached hereto are integral parts of this Agreement and are incorporated herein by this reference.

### 36. SPECIFICATIONS

Licensor reserves the right, without prior approval from or notice to Customer, to make changes to the Software and Software Products and to substitute Software and Software Products reflecting those changes provided the Software and Software Products delivered substantially conform to the new specifications.

*. Licensor reserves the right to make periodic non-material changes in the specifications, otherwise Licensor may be unable to make any changes without breaching the Agreement.*

**[\*75] 37. THIRD PARTY SOFTWARE**

Customer shall have sole responsibility to obtain and pay for any third party software necessary or desirable to operate the Software.

*. Licensor will not provide any third party software unless the cost of third party software was included in Licensor's pricing.*

**38. ENTIRE AGREEMENT**

This Agreement, the orders, appendices and subordinate documents referenced in this Agreement constitute the entire agreement between the parties with respect to the subject matter contained herein, superseding all previous agreements pertaining to such subject matter, and may be modified only by an amendment executed in writing by the authorized officers of both parties hereto. All prior agreements, representations, warranties, statements, negotiations, understandings and undertakings are superseded hereby and Customer hereby represents and acknowledges that in entering into this Agreement it did not rely on any representations or warranties other than those explicitly set forth in Section 18 of this Agreement. Both parties hereto represent that they have read this Agreement, understand it, agree to be bound by all terms and conditions stated herein, and acknowledge receipt of a signed, true and exact copy of this Agreement.

*. This statement prevents the Customer from trying to hold Licensor to any statements by Licensor's salespeople or those contained in Licensor's RFP response that are not specifically included in the Agreement.*

*. The acknowledgment that Customer did not rely on any representations or warranties other than set forth in Section 18 attempts to avoid any liability for tort claims as well as contract claims.*

IN WITNESS WHEREOF, the parties have executed this Agreement under seal as of the day and year first written above.

*. An actual corporate "seal" is not necessary as the word (seal) is legally valid because many corporations no longer have actual "seals". The use of a "seal" in Maryland extends the statute of limitations from the three to twelve years.*

WITNESS/ATTEST:

CUSTOMER

By: (seal)

ATTEST:

LICENSOR:

By: (seal)

- [\*76]** . *To be legally binding, persons signing for the Customer and Licensor must be authorized and have "signing authority."*
- . *Always use "By" and your title to limit personal liability by indicating you are signing in your corporate capacity.*
  - . *"Attest" is used for a corporate licensee, "witness" for an individual licensee.*
  - . *Check the date of the form to make sure the draft you begin with is the most recent.*

#### [SCHEDULES]

The Schedules are very important as they contain the crucial details of the Agreement, i.e., payment, deliverables, acceptance test procedures etc. The deliverables should be very detailed and not a high level requirements document. **Do not under any circumstances fail to read or understand the schedules.**

#### OTHER COMMON CLAUSES/ISSUES

. *Time is of the essence. This clause states that Licensor will deliver the Software on time. If Licensor is even one minute late, the delay is considered material allowing the Customer to terminate the Agreement and collect damages from Licensor.*

. *Liquidated damages. Liquidated damages are a pre-determined estimate of damages the Customer will incur by Licensor's breach which eliminates the requirements that the Customer prove its damages. Once the Customer demonstrates that the Agreement was breached; the payment of the agreed to damages would be made potentially from a non-refundable bond placed by Licensor.*

. *Insurance. Most Customers require Licensor to provide a certificate of insurance evidencing Licensor has the required insurance from an acceptable company. Language should also be included that Licensor*

*[\*77] has the right to self-insure. Finally, do not waive Licensor's/Licensor's insurer's right of subrogation (the right of Licensor or its insurer to sue any co-tortfeasor for their pro-rata portion of any damages award) the waiver of this right raises Licensor's insurance rates.*

#### APPENDIX A

##### CUSTOMER AFFILIATES

[List Affiliates]

Customer may from time-to-time designate additional Affiliates to be eligible under this Agreement subject to any additional license fees required under this Agreement and the prior written consent of Licensor.

#### APPENDIX B

##### FORM OF SOFTWARE LICENSE AND SERVICES ORDER

Order No.

1. REFERENCE TO AGREEMENT: This Order is subject to the provisions of a certain Master Software License and Services Agreement, between, \_\_\_ (the "Customer") and Licensor dated \_\_\_, 1996.

#### 2. LIST OF SOFTWARE AND CHARGES:

Customer agrees to license the following Software and purchase the following Services from Licensor:

OPERATING SYSTEM: \_\_\_, RELEASE: \_\_\_ TYPE OF LICENSE: \_\_\_ QTY &  
PRODUCT DESCRIPTION: \_\_\_ LICENSE FEE: \$ \_\_\_

3. LICENSE TERM: The license granted to Customer under this Order shall begin the date the Software is first installed and continue for (\_\_\_) years.

4. LENGTH OF WARRANTY AND SCHEDULED START DATE: Sixty (60) days commencing upon acceptance of the Software by

[\*78] Customer. The warranty period for any Software module(s) or Enhancement(s) not delivered at the time of initial implementation will commence upon acceptance of such Enhancements or Software.

Customer agrees that all software modules as defined in the Functional Specifications Document (Exhibit 1) will be tested for acceptance in accordance with Section 17 of this Agreement and the Software Acceptance Plan (Exhibit 2) attached hereto.

5. PAYMENT TERMS: Customer shall pay Licensor for the License and other fees according to the following schedule:

50% upon execution of this Work Order No. \_\_\_\_  
40% upon Delivery  
10% 30 days after Acceptance

6. SOFTWARE DELIVERY ADDRESS:

Attn:

7. INVOICE ADDRESS:

Attn:

8. LICENSOR'S SPECIFICATIONS WITH WHICH THE SOFTWARE SHALL COMPLY: The Software will comply with the terms of this Agreement and the "Functional Specification Document" as specified in Exhibit 1 attached to this Order.

9. INSTALLATION PROVISIONS: System hardware, system software and network communications installation provisions per the manufacturer's specifications shall be provided by Customer.

10. SYSTEM HARDWARE, SYSTEM SOFTWARE AND NETWORK COMMUNICATIONS: All system hardware, system software, and network communications will be provided by Customer.

11. SERVICES TO BE PROVIDED BY LICENSOR:

12. TRAINING MANUALS AND DOCUMENTATION: One set of training materials and user manuals will be provided by Licensor to Customer. Customer may reproduce these materials in accordance with Section 13 of this Agreement.

[\*79] 13. CPU IDENTIFICATION: In conformance with Section 8 of this Agreement, the Software shall be operated solely on the following CPU: CPU No:

IN WITNESS WHEREOF, the parties have executed this Order under seal as of the day and year set forth below.

LICENSOR:

CUSTOMER:

BY:

Name, Title

BY:

Name, Title

DATE:

DATE:

Exhibit 1 - Functional Specification Document

Exhibit 2 - Software Acceptance Plan

The salesperson must decide whether Licensor will provide pricing in advance or whether all prices will be at Licensor's current rate.

APPENDIX C

PRICE SCHEDULE

Prices as of \_\_\_, 1996

## I. SOFTWARE

### A. LICENSES

1. Term of Licenses Available: Licensor may offer Customer a Software License for any term listed in this Section. Such License shall continue for the period of time indicated, so long as Customer is not in default under this Agreement. The provisions for each term are as follows:

i. Perpetual. For payment of a one-time perpetual License fee, Customer shall be granted a perpetual License to use the Software for ninety-nine (99) years or until discontinued by Customer in accordance with this Agreement.

[\*80] ii. Annual. For payment of an annual License fee, Customer shall be granted a one (1) year License to use the Software. Customer shall notify Licensor in writing at least thirty (30) days in advance of the pending expiration if Customer desires to discontinue said License. Otherwise, said annual License will be automatically renewed for another term of one (1) year until discontinued by Customer in accordance with this Agreement. If perpetual Licenses are offered by Licensor, Customer may elect to convert an annual License to a perpetual License by providing Licensor thirty (30) days written notice in advance of the perpetual License effective date and Customer shall receive a credit in the amount of fifty percent (50%) of all annual license fees already paid for the particular License being converted. Such credit shall be applied toward payment of the perpetual License fee then currently in effect under this Agreement.

iii. Monthly. For payment of a monthly License fee, Customer shall be granted a License to use the Software on a monthly basis until discontinued by Customer in accordance with this Agreement. If Customer elects to convert a monthly License to a perpetual or annual License, Customer shall so notify Licensor in writing by providing Licensor thirty (30) days written notice in advance of the perpetual or annual License effective date. Customer shall receive a credit in the amount of fifty percent (50%) of all monthly License fees paid for the particular License being converted. Such credit shall be applied toward payment of the perpetual or annual License fee then currently in effect under this Agreement.

2. Types of Software Licenses Available: The types of Licenses that may be offered by Licensor to the Customer are as follows:

i. Corporate License. A Corporate License grants Customer, including all Affiliated Companies listed, the right to duplicate the Software and Software Products for use at as many Customer locations and on as many leased Central Processing Units ("CPU's") as Customer desires. Customer shall pay only one (1) Corporate License fee for this type of license. If Customer orders Software Maintenance for Software under a Corporate License, then Customer shall pay only one (1) Software Maintenance fee for said Software.

ii. Site License. Each Site License grants Customer the right to use the Software on any or all CPU's located at the

[\*81] facility indicated on the Order as the Site License address. Customer must obtain a separate Site License for each site where the Software is located.

iii. CPU License. Each CPU License grants Customer the right to use the Software on a single CPU designated by type and serial number. A separate CPU License is required for each CPU on which the licensed Software will be used.

3. LICENSE FEES: A one time perpetual "Right To Use" Site License for \_\_\_ [FILL IN PRICE SCHEDULE].

## II. SERVICES

A. SYSTEM INSTALLATION: This support service option provides initial Software installation as follows:

Prices for system installation include instructor and training materials. Licensor's reasonable and customary travel expenses will be billed separately.

1. Installation Charges. The installation cost for the Customer is a one time fee of \$ \_\_\_ exclusive of all reasonable and customary travel charges. An invoice for this fee will be sent once Licensor begins the installation process. Should the installation exceed the time period specified herein, due to elements beyond Licensor's control, an additional charge of \$ \_\_\_ per week will be applicable.

B. TELEPHONE SUPPORT: Licensor maintains a group of highly trained phone support specialists who will be familiar with your application. If there is a problem or even a question that requires our attention, we can remotely access your system through the telephone line and modem that was installed with the system. This capability allows us to assist you as if we were sitting locally in the service center. Licensor's phone support specialists can resolve system problems, answer questions, dispatch a hardware support team, or assist your field consultant in support activities.

This support service provides a reasonable number of calls to Licensor's telephone support organization from a single point of contact at each installed location. This group will assist Customer in testing, evaluating, diagnosing, and directing Customer personnel via telecommunication to make the Software function substantially in accordance with

[\*82] the installed generic release specification. The phone support group will report all Software bugs to the appropriate Licensor personnel and can report suspected hardware problems to the appropriate Customer Contact.

Under this support service option, Licensor will receive phone calls from Customer representatives during the hours of 8:00 A.M. to 7:00 P.M. Eastern Standard Time, Monday through Friday excluding Licensor holidays.

1. Telephone Support Charges: The Telephone Support cost for the Customer is a one time fee of \$ \_\_\_ exclusive of all reasonable and customary travel charges. An invoice for this fee will be sent once Licensor begins the Telephone Support process. Should the Telephone Support exceed the time period specified due to elements beyond Licensor's control, an additional charge of \$ \_\_\_ per week will be applicable.

C. CONSULTING SUPPORT: This support service option provides a dedicated consultant to assist the Customer with Software questions, work with local users on establishing site specific operational procedures, assume all table maintenance responsibility, discuss system enhancement alternatives, provide follow up training, and work with Customer to prepare Software user guides.

After initial training is completed and daily on-site support is no longer needed, Licensor will continue to be responsive to Customer's needs by maintaining a Licensor consultant dedicated to your account. The consultant will answer any questions that arise, assist in problem resolution and made any necessary table modification. Customer will have up to thirty (30) hours a month of consultant availability included in the basic monthly charge. Consultant hours used in excess of thirty per month will be billed at the rate of \$ \_\_\_ /hour. All reasonable and customary travel expenses incurred by Licensor in rendering such services will be billed separately.

1. Customer Support Charges: The Customer Support charges for the Customer is a one time fee of \$ \_\_\_ exclusive of all reasonable and customary travel charges. An invoice for this fee will be sent once Licensor begins the Customer Support process. Should the Customer Support exceed the time period specified due to elements beyond Licensor's control, an additional charge of \$ \_\_\_ per week will be applicable.

[\*83] D. FOLLOW UP TRAINING: This support service option will provide follow up training to assist Customer in the use of Software and Software Products. Two classes of follow up training are available. [DESCRIBE TRAINING]. Training \$ \_\_\_ /year.

E. ENHANCEMENTS:

1. Generic Releases: Licensor will price Generic Releases consisting of Customer requested software enhancements in accordance with the price schedule specified in this Appendix C. Once a Generic Release has been priced, Customer will receive a proposal for the release which will be valid for thirty (30) days. The proposal will consist of a price quote and a delivery interval from the time the Licensor receives written approval to begin work from Customer. Licensor will not begin work on any Generic Release until receiving written authorization from Customer to proceed with the development activity. Licensor will use the lowest rate possible when multiple enhancements are requested for a specific generic release. Licensor's reasonable and customary travel charges will be invoiced separately.

2. Generic Release Charges: Licensor will provide prices for all Enhancement requests in accordance with the following schedule of charges:

i. Hourly rate - \$ \_\_\_ per hour. This applies to anything less than eight hours. The minimum is four hours.

ii. Daily rate - \$ \_\_\_ per day. This applies to anything less than forty hours. The minimum number of hours at this rate is eight.

iii. Weekly rate - \$ \_\_\_ per week. This applies to anything less than 160 hours and greater than 39 hours.

iv. Monthly rate - \$ \_\_\_ per month. This rate is for 160 hours; anything beyond 160 hours will be billed at the rate of \$ \_\_\_ per hour. Licensor will use the lowest rate possible when multiple enhancements are programmed at one time.

### [\*84] III. HARDWARE

A. SYSTEM HARDWARE: Customer will supply all necessary system hardware to run the Software in Customer designated locations. The selection of system hardware will be contingent upon Licensor approval. This includes, but is not limited to, computer hardware, peripheral devices, modems, and cables. Licensor agrees to assist Customer in the selection of suitable system hardware necessary to operate the Software. Customer will acquire all hardware maintenance services necessary to support the Software implementation. Licensor agrees to work with Customer to provide all Software modifications necessary to support upgrades or changes to Customer owned hardware within a mutually agreed upon time frame.

B. HARDWARE MAINTENANCE: Customer is responsible for all ongoing maintenance charges for all system hardware.

### IV. SYSTEM SOFTWARE

A. SYSTEM SOFTWARE: Customer will supply all necessary system software to run the Software in Customer designated locations. The selection of system software will be contingent upon Licensor approval. This includes, but is not limited to, operating system software, communications software, and firmware, and other system software which may facilitate the use of the Software. Licensor agrees to assist Customer in the selection of suitable system software necessary to operate the Software. Customer will acquire all system software maintenance services necessary to support the Software implementation. Licensor agrees to work with Customer to provide all Software modifications necessary to support upgrades or changes to Customer supplied system software within a mutually agreed upon time frame.

B. SYSTEM SOFTWARE MAINTENANCE: Customer is responsible for all system software maintenance.

### V. NETWORK COMMUNICATIONS

A. NETWORK COMMUNICATIONS: Customer will supply all networking required to implement the Software. All networking will be contingent upon Licensor approval. This includes, but is not limited to, data circuits, communications equipment, modems, and cabling. Licensor agrees to assist Customer in the determination of network communication requirements necessary to implement the Software.

[\*85] Customer agrees to provide all network communications maintenance services required to support the Software implementation. Licensor agrees to work with Customer to provide all Software modifications necessary to support upgrades or changes to Customer supplied Networking within a mutually agreed upon time frame. All Software modifications will be provided as part of a Generic Release for a fee that is calculated based upon the price schedule listed in this Appendix B as amended from time to time. The Generic Release programming activity will begin upon receiving written authorization from Customer complete with all necessary technical information on the new network architecture. Customer agrees to provide and bear the cost of a dedicated dial up communications facility equipped with 56K Hayes Compatible modem at Customer's CPU hardware for the purposes of remote access and supporting the Licensor's consultant or phone support group.

B. NETWORK COMMUNICATIONS MAINTENANCE: Customer is responsible for all network communications maintenance.

## VI. MISCELLANEOUS

A. PRICE CHANGES: All prices set forth in this Appendix B are subject to change upon thirty (30) days prior written notice to Customer.

B. OTHER COSTS: Customer agrees to pay all of Licensor's reasonable, actual, out of pocket costs, including but not limited to travel expenses incurred by Licensor in project management, system analysis and consulting during the term of this Agreement, such expenses will be billed to Customer separately at cost.

n1 Shrinkwrap licenses derive their name from the practice of providing them on or in a shrinkwrap package which also contains the software and documentation. The validity of shrinkwrap licenses is the subject of much debate, but is beyond the scope of this article. For a discussion of the validity of shrinkwrap licenses, *compare ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1161 (7th Cir. 1996) (shrinkwrap agreement related to CD-ROM directly held binding) *with Arizona Retail Sys. v. Software Link, Inc.*, 831 F. Supp. 759 (D. Ariz. 1993) (shrinkwrap agreement held non-binding). See also Gary H. Moore & J. David Hadden, *On-Line Software Distribution: New Life for "Shrinkwrap" Licenses?* THE COMPUTER LAWYER, April 1996, at 1; *Recent Legal Developments in Shrink Wrap License Agreements*, COMPUTER L. STRATEGIST, April 1996, at 1; Clifford Miller, *The Enforceability of Shrinkwraps as Bare Intellectual Property Licenses*, THE COMPUTER LAWYER, August 1992, at 15.

n2 D. C. Toedt III in conjunction with the Computer Programs Committee of the Information Division of the Section of Intellectual Property Law of the American Bar Association has created a model license which, although voluminous, is quite thorough and educational. For a detailed discussion and a copy of this model license, see D. C. Toedt III, *The Model Software License Provisions: Precursor to a Gap-Filling Uniform License Statute?* 18 RUTGERS COMPUTER & TECH. L.J. 521 (1992). The license is available by contacting Mr. Toedt at (713) 787-1408.

n3 The following model forms are available: A) Software Maintenance and Services Agreement, B) Consulting Agreement, C) Assignment Agreement, D) Escrow Agreement, and E) Software License, Maintenance and Subscriber Billing Services Agreement.

n4 *See 17 U.S.C. § 109(a)* (1994). *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

n5 *See 17 U.S.C. § 109(a)* (1994). "Notwithstanding the provisions of Section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." *Id.*

n6 *See 17 U.S.C. § 106* (1994) (setting forth five separate and distinct exclusive rights); *See, e.g., Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 280, 11 U.S.P.Q.2d (BNA) 1548, 1552 (4th Cir. 1989); and *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59, 64, 230 U.S.P.Q. (BNA) 869, 872 (3d Cir. 1986). *See also 17 U.S.C. § 109(e)* (1994), which, as a response to Red Baron, provides a video game performance and display exception to the First Sale Doctrine.

n7 *17 U.S.C. §§ 109(a),(c)* (1994).

n8 *17 U.S.C. § 106(5)* (1994).

n9 *17 U.S.C. § 109(b)* (1994). *See Allen-Myland, Inc. v. International Business Machines Corp.*, 746 F. Supp. 520, 16 U.S.P.Q.2d (BNA) 1817 (E.D. Pa. 1990) (first sale doctrine does not apply to computer programs).

n10 *See Microsoft v. Harmony Computers & Elec., Inc.*, 846 F. Supp 208, 31 U.S.P.Q.2d (BNA) 1135 (E.D.N.Y. 1994) (unauthorized distributor of software not entitled to protection under first sale doctrine because owner licensed not sold software to distributor's supplier); *Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 36 U.S.P.Q.2d (BNA) 1028 (9th Cir. 1995) (software sold to customers subject to *17 U.S.C. § 117* protection while copies that are licensed are not), *cert. denied*, 116 S. Ct. 1015 (1996).

n11 A "computer program," as referred to in *17 U.S.C. § 109(b)*, includes any tape, disk, or other medium embodying such program.

n12 *See generally Step-Saver Data Sys., Inc. v. Wyse Technology*, 939 F.2d 91, 96 n.7 (3d Cir. 1991).

n13 *17 U.S.C. § 101* (1994).

n14 *17 U.S.C. § 201(d)(2)* (1994).

n15 *17 U.S.C. § 202* (1994). *See also Chamberlain v. Cocola Assoc.*, 958 F.2d 282, 23 U.S.P.Q.2d (BNA) 1153 (9th Cir. 1992).

n16 *17 U.S.C. § 109(a)* (1994).

n17 *17 U.S.C. § 117* (1994).

n18 *MacLean Assoc. v. William M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769, 21 U.S.P.Q.2d (BNA) 1345 (3d Cir. 1991).

n19 17 U.S.C. § 201(d)(2) (1994).

n20 *Id.*

n21 Relational Design & Technology, Inc. v. Brock, Civ. A. No. 91-2452-*EEO*, 1993 WL 191323 (D. Kan. May 25, 1993).

n22 17 U.S.C. § 203(a)(3) (1994).

n23 17 U.S.C. § 203(a)(4)(A) (1994).

n24 17 U.S.C. § 203(b)(6) (1994).

n25 17 U.S.C. § 302(c) (1994).

n26 *See* Clauses 8.2, 8.3 in the model agreement in Section VII.

n27 For example, Oracle often grants a license for a specific application only.

n28 17 U.S.C. § 101 (1994).

n29 17 U.S.C. § 204(a) (1994). *See Gracen v. Bradford Exch.*, 698 F.2d 300, 303, 217 U.S.P.Q. (BNA) 1294, 1297 (7th Cir. 1983).

n30 Transfer rights must be specifically granted to the licensee. *See, e.g., Harris v. Emus Records Corp.*, 734 F.2d 1329, 222 U.S.P.Q. (BNA) 466 (9th Cir. 1984).

n31 *See* U.C.C. § 2-210 (1995).

n32 *See* RAYMOND T. NIMMER, THE LAW OF COMPUTER TECHNOLOGY § 7.09 (revised ed. 1992).

n33 *See In re Sentry Data, Inc.*, 87 B.R. 943 (Bankr. N.D. Ill. 1988).

n34 *Id.*

n35 *See* 17 U.S.C. § 117 (1994).

n36 *Id.*

n37 A related issue in outsourcing is allowing third party contractors to access and maintain the software. *See* Sections III.D.7 and IV of this Article for a discussion of this issue.

n38 *See* RESTATEMENT (SECOND) OF CONTRACTS § 322(2) and cmt. b (1979).

n39 17 U.S.C. §§ 201(d)(2), 103(a) (1994).

n40 *See* RESTATEMENT (SECOND) OF TORTS § § 525, 526, 552C (1977).

n41 *See Applied Data Processing, Inc. v. Burroughs Corp.*, 394 F. Supp. 504 (D. Conn. 1975), and *Clements Auto. Co. v. Service Bureau Corp.*, 298 F. Supp. 115 (D. Minn. 1969), *aff'd as modified*, 444 F.2d 169 (8th Cir. 1971).

n42 *See Financial Timing Publications, Inc. v. Compugraphic Corp.*, 893 F.2d 936, 943-44 (8th Cir. 1990).

n43 *See* U.C.C. § 2-714(2) (1995).

n44 U.C.C. § 2-601 (1995). This is known as the "perfect tender rule."

n45 U.C.C. § 2-608 (1995).

n46 See U.C.C. § 2-711(1) (1995).

n47 See U.C.C. § § 2-711(1), 2-713 (1995).

n48 See generally Vicky H. Robbins, *Vendor Liability for Computer Viruses and Undisclosed Disabling Devices in Software*, COMPUTER LAW., July 1993, at 20.

n49 See, e.g., *Marcus v. Lee S. Wilbur & Co.*, 588 A.2d 757 (Me. 1991).

n50 See Clause 18.2 in the model agreement in Section VII. For a general discussion of computer warranties, see Robert A. Feldman, *Warranties and Computer Services: Past, Present and Future*, COMPUTER LAW., February 1993 at 1.

n51 U.C.C. § 2-316 (1995).

n52 See U.C.C. § § 2-313, 314, 315 (1995).

n53 See U.C.C. § 2-719 (1995).

n54 See U.C.C. § 2-719(2) (1995) and Section III.B.4.(b) of this Article. For a more detailed discussion on the effects of representations and warranties on software licensing, see Stephen J. Dutton, *Warranties, Time-Bombs and Other Risk Allocation Issues*, COM. L. ADVISER, Sept. 1993, at 69-02; Marc S. Friedman & Mary J. Hildebrand, *Computer Litigation: A Buyer's Theories of Liability*, COMPUTER LAW., Dec. 1987, at 34; Douglas E. Philips, *When Software Fails: Emerging Standards of Vendor Liability Under the Uniform Commercial Code*, 50 BUS. LAW. 151 (1994). See also Herbert J. Hammond, *Limiting and Dealing with Liability in Software Controls*, COMPUTER LAW., June 1992, at 22.

n55 U.C.C. § 2-719(2) (1995); U.C.C. § 2-302 (1995).

n56 See, e.g., U.C.C. § 2-725 (1995).

n57 For a more in depth discussion, see Honig & Grossman, *The Cost of the Millenium*, 12 CORP. COUNS. Q. 41 (1996); *Beware the Year 2000: Defusing a Software Time Bomb*, 11 CORP. COUNS., Oct. 1996, at 1.

n58 *Novak v. BASF Corp.*, 869 F. Supp. 113 (N.D.N.Y. 1994).

n59 U.C.C. § 2-719(3) (1995).

n60 See U.C.C. § 2-719(3) cmts. 1, 3 (1995).

n61 See Amelia H. Boss & William J. Woodward, *Scope of the Uniform Commercial Code; Survey of Computer Contracting Cases*, 43 BUS. LAW. 1513 (1988).

n62 U.C.C. § 2-719 cmt. 1 (1995).

n63 See, e.g., *McKernon v. United Technologies Corp., Sikorsky Aircraft Div.*, 717 F. Supp. 60 (D. Conn. 1989), and Section III.B.4(b) of this article, *infra*, for a more detailed discussion.

n64 U.C.C. § 2-316(2) (1995). See, e.g., *Estey v. Mackenzie Eng'g, Inc.*, 902 P.2d 1220 (Or. 1995).

n65 U.C.C. § 1-201(10) (1995).

n66 *Window Headquarters, Inc. v. MAI Basic Four, Inc.*, Nos. 91 Civ. 1816 (MBM), 93 Civ. 4135 (MBM), & 92 Civ. 5283 (MBM), 1994 WL 673519 (S.D.N.Y. Dec. 1, 1994); *but cf. Sierra Diesel Injection Serv., Inc. v. Burroughs Corp.*, 656 F. Supp. 426 (D. Nev. 1987) (disclaimer in bold type not conspicuous when it appeared on reverse of contract), *aff'd*, 874 F.2d 653 (9th Cir. 1989).

n67 U.C.C. § 2-719(3) (1995).

n68 *Compare Bishop Logging Co. v. John Deere Indus. Equip. Co.*, 455 S.E.2d 183 (S.C. Ct. App. 1995) (permitting consequential damages even when remedy failed of its essential purpose) *with McNally Wellman Co. v. New York State Elec. & Gas Corp.*, 63 F.3d 1188 (2d Cir. 1995) (allowing consequential damages despite contractual exclusion when remedy failed of its essential purpose) *and International Fin. Servs. v. Franz*, 534 N.W.2d 261 (Minn. 1995) (consequential damage exclusion enforceable notwithstanding failure of remedy's essential purpose).

n69 *See generally Krupp PM Eng'g v. Honeywell, Inc.*, 530 N.W.2d 146 (Mich. 1995).

n70 *See, e.g., Alexander v. Perkin Elmer Corp.*, 729 F.2d 576 (8th Cir. 1984).

n71 *See, e.g., CAL. CODE* § 337 (1996) (four years), and *MD. CODE ANN.* § 5-101 (1996) (three years).

n72 U.C.C. § 2-725(1) (1995).

n73 For a discussion of obtaining an injunction, *see Marc S. Friedman & Carianne LaMotta, When Protecting Software Through an Injunction, How Do You Spell Relief? COMPUTER LAW.*, March 1994, at 18.

n74 *See* U.C.C. § 2-718 cmt. 1 (1995).

n75 *11 U.S.C.* § 365(n) (1994).

n76 *See* David E. Bartlett, *Effects of Bankruptcy on Licensing Under 11 U.S.C. § 365(n)*, *J. PROPRIETARY RTS.*, July 1993, at 20.

n77 *17 U.S.C.* § 201(a) (1994).

n78 *17 U.S.C.* § 201(d) (1994).

n79 *See Effects Assoc., Inc. v. Cohen*, 817 F.2d 72, 2 U.S.P.Q.2d (BNA) 1718 (9th Cir. 1987), *aff'd*, 908 F.2d 555, 15 U.S.P.Q. 2d (BNA) 1559 (9th Cir. 1990), *cert. denied*, 498 U.S. 1103 (1991).

n80 *See, e.g., Aymes v. Bonnell*, 47 F.3d 23, 33 U.S.P.Q.2d (BNA) 1768 (2d Cir. 1995).

n81 *17 U.S.C.* § 201(b) (1994).

n82 *Id.*

n83 *17 U.S.C.* § 302(c) (1994).

n84 *17 U.S.C.* § 304(a) (1994).

n85 *17 U.S.C.* § 203(a) (1994).

n86 *17 U.S.C. § 601(b)(1)* (1994). *See also* 1 MELVIN D. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT § 5.03[A]* 5-10 (1990).

n87 *17 U.S.C. § 101* (1994).

n88 *See id.*

n89 *490 U.S. 703* (1989).

n90 *See also Nationwide Mut. Ins. Co. v. Darden, 503 U.S. 318, 322* (1992).

n91 *CCNV* at 750.

n92 *See* <http://www.fplc.edu/PROFIDEA.htm> for a model Consulting Agreement with an assignment clause.

n93 *See* <http://www.fplc.edu/PROFIDEA.htm> for a model Assignment Agreement. For a more detailed discussion of the issues involved with the use of independent contractors from an international perspective, *see* H. Ward Classen & Marc R. Paul, *Benefiting from High-Tech Offshore Independent Contractors*, *INT'L. COMPUTER LAW.*, Nov. 1994, at 2. For a discussion of domestic concerns, *see* H. Ward Classen et al., *Increasing Corporate Competitiveness by Utilizing Independent Contractors*, *COMPUTER L. ASS'N. BULL.*, No. 1 1996, at 3, and Herbert R. Schulze, *Watch Out What You Wish For - You May Get Your Wish or Ownership Issues Continued: More on Applying the Work Made for Hire Doctrine to Computer Programmers*, *COMPUTER L. ASS'N. BULL.*, No. 2 1993, at 12.

n94 The Export Administration Regulations are issued by the Department of Commerce and administered by the Bureau of Export Administration ("BXA") to implement the Export Administration Act of 1979, as amended.

n95 *61 Fed. Reg. 12734, 12754* (1996) (to be codified at 15 C.F.R. § 736.1).

n96 *61 Fed. Reg. 12734, 12746* (1996) (to be codified at 15 C.F.R. § 734.2(b)(1)).

n97 *61 Fed. Reg. 12734, 12746* (1996) (to be codified at 15 C.F.R. § 734.2(b)(2)).

n98 The term "release," as used in the definition of "export of technology or software," is defined in section 734.2(b)(3) of the EAR to mean "(i) Visual inspection by foreign nationals of U.S. origin equipment and facilities; (ii) Oral exchanges of information (with foreign nationals) in the United States or abroad; or (iii) The application to situations abroad of personal knowledge or technical experience acquired in the United States." *61 Fed. Reg. 12734, 12746* (1996) (to be codified at 15 C.F.R. § 734.2(b)(3)).

n99 *61 Fed. Reg. 12734, 12754* (1996) (to be codified at 15 C.F.R. § 736.2(b)).

n100 *Id.*

n101 *61 Fed. Reg. 12734, 12768* (1996) (to be codified at 15 C.F.R. § 740.1(a)).

n102 *Id.*

n103 *61 Fed. Reg. 12734, 12768* (1996) (to be codified at 15 C.F.R. § 740.3(d)).

n104 *61 Fed. Reg. 12734, 12768* (1996) (to be codified at 15 C.F.R. § 740.8).

n105 *61 Fed. Reg. 12734, 12768 (1996)* (to be codified at 15 C.F.R. § 740.8(a)(1)).

n106 *61 Fed. Reg. 12734, 12812 (1996)* (to be codified at 15 C.F.R. § 748).

n107 1 MELVIN B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 6.12[A] (1990). *See also Oddo v. Ries, 743 F.2d 630, 222 U.S.P.Q. (BNA) 799 (9th Cir. 1984).*

n108 *See ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 39 U.S.P.Q.2d (BNA) 1161 (7th Cir. 1996)* and *supra* note 1.

n109 *See Appendix A to the Model Software Maintenance and Services Agreement, available at <http://www.fplc.edu/PROFIDEA.htm>, for an example of the classification of errors.*

n110 *See Clause 17.3 in Exhibit A.*

n111 U.C.C. § § 2-711, 2-716 (1995).

n112 *See, e.g., Hodge Business Computer Sys., Inc. v. U.S.A. Mobile Communications, Inc., II, 910 F.2d 367, 15 U.S.P.Q.2d (BNA) 1903 (6th Cir. 1990).*

n113 *See David O. Johanson and Ron S. Zollman, Computer Maintenance Raises Antitrust Issues, NAT'L. L. J., May 20, 1996, at C40, col.3.*

n114 *See, e.g., California: CAL. CIV. CODE § § 3426 et seq. (West 1995); Maryland: MD. CODE ANN., COM. LAW I § 11-1201 et seq. (1995); Pennsylvania: 18 PA. CONS. STAT. § 3930 (West 1995) (amended Oct. 16, 1996). New York, however, has not adopted the Uniform Trade Secret Act.*

n115 *See 17 U.S.C. § 102(b) (1994).*

n116 *See, e.g., Trandes Corp. v. Guy F. Atkinson Co., 996 F.2d 655, 663, 27 U.S.P.Q.2d (BNA) 1014, 1020 (4th Cir. 1993), cert. denied, 510 U.S. 965 (1993); University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 183 U.S.P.Q. (BNA) 705 (5th Cir. 1974); Integrated Cash Management Services, Inc. v. Digital Transactions, Inc., 732 F. Supp. 370, 13 U.S.P.Q.2d (BNA) 1397 (S.D.N.Y. 1989), aff'd, 920 F.2d 171, 17 U.S.P.Q.2d (BNA) 1054 (2d Cir. 1990).*

n117 *See, e.g., Trandes, 996 F.2d at 661, 27 U.S.P.Q.2d (BNA) at 1019; Computer Assoc. Int'l, Inc. v. Bryan, 784 F. Supp. 982 (E.D.N.Y. 1992).*

n118 *See, e.g., Vermont Microsystems v. Autodesk, Inc., 88 F.3d 142, 39 U.S.P.Q.2d (BNA) 1421 (2d Cir. 1996); Micro Consulting, Inc. v. Zubeldia, 813 F. Supp. 1514, 1534 (W.D. Okla. 1990), aff'd without opinion, 959 F.2d 245 (10th Cir. 1992).*

n119 *Arrhythmia Research Technology v. Corazonix Corp., 958 F.2d 1053, 22 U.S.P.Q.2d (BNA) 1033 (Fed. Cir. 1992); In re Iwahashi, 888 F.2d 1370, 12 U.S.P.Q.2d (BNA) 1908 (Fed. Cir. 1989).*

n120 UTSA § 1(4) (1985).

n121 UTSA § 1(4) (1985); *see, e.g., MD. CODE ANN., COM. LAW I § 11-1201(e) (1995).*

n122 UTSA § 1(2) (1985); *see, e.g.*, MD. CODE ANN., COM. LAW I § 11-1201(c) (1995).

n123 UTSA § 2 (1985).

n124 UTSA § 3 (1985).

n125 UTSA § 3 (1985); *see, e.g.*, MD. CODE ANN., COM. LAW I § 11-1203 (1995).

n126 UTSA § 4(iii) (1985); *see, e.g.*, MD. CODE ANN., COM. LAW I § 11-1204 (1995).

n127 *See, e.g.*, *Bishop v. Wick*, 11 U.S.P.Q.2d (BNA) 1360 (N.D. Ill. 1988); *Brignoli v. Balch, Hardy & Scheinman, Inc.*, 645 F. Supp. 1201 (S.D.N.Y. 1986); *but see Computer Assoc. Int'l v. Altai, Inc.*, 775 F. Supp. 544, 20 U.S.P.Q.2d (BNA) 1641 (E.D.N.Y. 1991). For a general overview of trade secret issues, *see* Gale R. Peterson, *Trade Secrets in an Information Age*, 32 HOUS. L. REV. 385 (1995) and Jeff C. Dodd, *Rights in Information: Conversion and Misappropriation Causes of Action in Intellectual Property Cases*, 32 HOUS. L. REV. 459 (1995).

n128 *See* U.C.C. § 2-102 (1995).

n129 *See, e.g.*, *Micro-Managers, Inc. v. Gregory*, 434 N.W.2d 97, 100 (Wis. Ct. App. 1988).

n130 *See, e.g.*, *Advent Sys. v. Unisys Corp.*, 925 F.2d 670, 674-75 (3d Cir. 1991); *RRX Indus. v. Lab-Con, Inc.*, 772 F.2d 543, 546 (9th Cir. 1985); *Triangle Underwriters, Inc. v. Honeywell, Inc.*, 604 F.2d 737, 742-43 (2d Cir. 1979).

n131 *See, e.g.*, *Advent* at 674; *Colonial Life Ins. Co. v. Electronic Data Sys. Corp.*, 817 F. Supp. 235, 239 (D.N.H. 1993). *See also* Note, *Computer Programs as Goods Under the UCC*, 77 MICH. L. REV. 1149 (1979).

n132 *See* Douglas E. Phillips, *When Software Fails: Emerging Standard of Vendor Liability Under the Uniform Commercial Code*, 50 BUS. LAW. 151 (1994).

n133 *See generally* Raymond T. Nimmer et al., *License Contracts Under Article 2 of the Uniform Commercial Code: A Proposal*, 19 RUTGERS COMPUTER & TECH. L.J. 281 (1993).

n134 For a general discussion of the hub and spoke concept, *see* Raymond T. Nimmer, *Intangibles Contracts: Thoughts of Hub, Spokes and Reinivigorating Article 2*, 35 WM. & MARY L. REV. 1337 (1994) and Robert E. Feldman, *A New Draft of U.C.C. Article 2: A High Tech Code Takes Forum*, COMPUTER LAW., February 1995, at 1.

n135 A copy of the most recent draft of the proposed Article 2B dated September 4, 1996, is available from the University of Houston Law School's World Wide Web Home Page at <http://www.lawlib.uh.edu/ucc2b/>.

n136 U.C.C. § 2B-103(a) (Proposed Draft Sept. 4, 1996).

n137 U.C.C. § 2B-103(c) (Proposed Draft Sept. 4, 1996).

n138 U.C.C. § 2B-103(b) (Proposed Draft Sept. 4, 1996).

n139 U.C.C. § 2B-103(d) (Proposed Draft Sept. 4, 1996).

n140 *Id.*

n141 *See* U.C.C. § 2B-104 (Proposed Draft Sept. 4, 1996).

n142 *See* U.C.C. § 2B-102(29) (Proposed Draft Sept. 4, 1996).

n143 *See* U.C.C. § 2B-110 (Proposed Draft Sept. 4, 1996).

n144 *Id.*

n145 U.C.C. § 2B-112(a) (Proposed Draft Sept. 4, 1996).

n146 U.C.C. § 2B-112(b) (Proposed Draft Sept. 4, 1996).

n147 U.C.C. § 2B-102(34) (Proposed Draft Sept. 4, 1996).

n148 U.C.C. § 2B-307(a) (Proposed Draft Sept. 4, 1996).

n149 RESTATEMENT (SECOND) OF CONTRACTS § 211 (1979).

n150 In the proposed U.C.C. Article 2B, a "mass market" license is defined as "a standard form (i) used in a transaction in a market setting that, for the particular type of information is characterized primarily by transactions involving consumers as licensees and whose terms and quantity are characteristic of consumer contracts in that market; (ii) used in a transaction with a consumer licensee; or (iii) a contract for support other services associated with a transaction in paragraph (i) or (ii)." U.C.C. § 2B-102(25) (Proposed Draft Sept. 4, 1996).

n151 U.C.C. § 2B-308(b)(1)-(2) (Proposed Draft Sept. 4, 1996).

n152 U.C.C. § 2B-308(c) (Proposed Draft Sept. 4, 1996).

n153 U.C.C. § 2B-308(f) (Proposed Draft Sept. 4, 1996).

n154 U.C.C. § 2B-601 (Proposed Draft Sept. 4, 1996).

n155 U.C.C. § 2-601 (1995).

n156 U.C.C. § 2B-601 cmts. 4-6 (Proposed Draft Sept. 4, 1996).

n157 *See, e.g., Fort Washington Resources v. Tannen, 901 F. Supp. 932 (E.D. Pa. 1995).*

n158 U.C.C. § 2B-402(a) (Proposed Draft Sept. 4, 1996).

n159 U.C.C. § 2B-402(a)(2) (Proposed Draft Sept. 4, 1996).

n160 U.C.C. § 2B-403 (Proposed Draft Sept. 4, 1996).

n161 U.C.C. § 2B-403(a) (Proposed Draft Sept. 4, 1996).

n162 U.C.C. § 2B-403(b) (Proposed Draft Sept. 4, 1996).

n163 U.C.C. § 2B-405 (Proposed Draft Sept. 4, 1996).

n164 U.C.C. § 2B-404(a) (Proposed Draft Sept. 4, 1996).

n165 U.C.C. § 2B-407 (Proposed Draft Sept. 4, 1996).

n166 *Id.*

n167 U.C.C. § 2B-409(a) (Proposed Draft Sept. 4, 1996).  
n168 U.C.C. § 2B-409(c) (Proposed Draft Sept. 4, 1996).  
n169 U.C.C. § 2B-310(a) (Proposed Draft Sept. 4, 1996).  
n170 U.C.C. § 2B-310(b) (Proposed Draft Sept. 4, 1996).  
n171 U.C.C. § 2B-310(b)(1) (Proposed Draft Sept. 4, 1996).  
n172 U.C.C. § 2B-310(b)(2) (Proposed Draft Sept. 4, 1996).  
n173 U.C.C. § 2B-311(a) (Proposed Draft Sept. 4, 1996).  
n174 U.C.C. § 2B-312(a) (Proposed Draft Sept. 4, 1996).  
n175 U.C.C. § 2B-312(b) (Proposed Draft Sept. 4, 1996).  
n176 U.C.C. § 2B-313(a) (Proposed Draft Sept. 4, 1996).  
n177 *Id.*

n178 U.C.C. § 2B-315 (Proposed Draft Sept. 4, 1996).  
n179 U.C.C. § 2B-315(1) (Proposed Draft Sept. 4, 1996).  
n180 U.C.C. § 2B-315(2) (Proposed Draft Sept. 4, 1996).  
n181 U.C.C. § 2B-702 (Proposed Draft Sept. 4, 1996).  
n182 U.C.C. § 2B-709(a) (Proposed Draft Sept. 4, 1996).  
n183 *Id.*

n184 U.C.C. § 2B-714 (Proposed Draft Sept. 4, 1996).  
n185 U.C.C. § 2B-714(a) (Proposed Draft Sept. 4, 1996).  
n186 U.C.C. § 2B-714(b) (Proposed Draft Sept. 4, 1996).  
n187 U.C.C. § 2B-701(a) (Proposed Draft Sept. 4, 1996).  
n188 U.C.C. § 2B-712(a) (Proposed Draft Sept. 4, 1996).  
n189 U.C.C. § 2B-712(b) (Proposed Draft Sept. 4, 1996).

n190 *See American Computer Trust Leasing v. Jack Farrell Implement Co.*, 763 F. Supp. 1473 (D. Minn. 1991), *aff'd*, 967 F.2d 1208 (8th Cir. 1992).

n191 *See North Texas Preventative Imaging v. Eisenberg*, No. CV 96-71 Att. S. (C.D. Ca. Aug. 19, 1996).