

WEDGE INFORMATION TECHNOLOGY LAWYERS
ANATOMY OF A LICENSE

DESCRIPTION

NOTES

PART I. INFORMATION REQUIRED BEFORE DRAFTING A LICENSE

1. DEFINED TERMS

- a) Specify the name of Licensor.
- b) Specify the name of Licensee.
- c) Specify the contact information for Licensor.
- d) Specify the contact information for Licensee.
- e) Identify the Software and the components.
- f) Identify the Confidential Information.
- g) Identify the Documentation and specify whether technical or user documentation (or both) are included with the Software.
- h) Identify the Source Code and specify whether it is included with the Software.
- i) Identify Acceptance Test criteria relative to the Software.
- j) Ascertain whether the Software has any disabling code. If there is disabling code, notices of such code should be conspicuously placed throughout the License and on the Software and Source Code itself.

2. TERMS OF LICENSE

- a) Identify whether the license is revocable or irrevocable.
- b) Identify whether the license is exclusive or non-exclusive.
- c) For exclusive licenses, specify, in some detail, the grounds for terminating the license.
- d) Specify the entities who are entitled to use the Software.

PART II. NECESSARY CLAUSES IN A LICENSE

1. TERMS OF LICENSE

- a) Specify whether the license is transferable or non-transferable.
- b) For transferable licenses, specify that the original licensee must destroy the old copy.
- c) Set out general prohibitions against reverse engineering, disassembling or decompilation and the creation of derivative works.
- d) If source code is to be licensed, additional restrictions are required such as:
 - a requirement that the Licensee enter into confidentiality agreements with all employees and sub-contractors
 - stringent confidentiality provisions;
 - an obligation of the Licensee to maintain a copy of unmodified versions of source code if the Licensee alters the original source code in any manner; and
 - an obligation of the Licensee to provide a copy of any source code modifications to the Licensor.

2. PAYMENT TERMS

- a) Usually, the Licensor will invoice the Licensee for payment on the occurrence of a specified event, for example:
 - on delivery of the Software; or
 - on installation of the Software; or
 - on acceptance of the Software.
- b) Specify the time within which the payment must be made.
- c) Specify an annual interest rate for overdue amounts.
- d) Specify who is to pay for taxes and duties. Usually, the Licensee bears the tax and duty liability.

3. CONFIDENTIALITY

- a) Include a general prohibition on disclosing and misusing Confidential Information.
- b) Specify that the Confidential Information is proprietary to the Licensor.
- c) Set out the obligation of the Licensee to keep all Confidential Information

confidential.

- d) Set out the obligation of the Licensee to retain all Confidential Information in confidence.
- e) If Source Code is licensed, include the following provisions:
 - Set out a restriction on copying the Source Code;
 - Set out a restriction on disclosing the Source Code;
 - Set out the obligation of the Licensee to keep Source Code secure;
 - Specify the right of the Licensee to place a copy of Source Code in escrow.

4. OWNERSHIP

- a) Include a Licensor limited warranty of clear title relative to the Software for the benefit of the Licensee. The warranty should specify that the Licensor has all necessary rights to license the Software or Source Code to the Licensee.
- b) Include a general statement of the Licensor's ownership rights in the Software and Source Code. If applicable, specify that the Licensor owns any modifications to the Software and the Source Code.
- c) Specify that the Licensee is restricted from interfering with the Licensor's ownership rights.
- d) Specify that the Licensor will indemnify the Licensee relative to infringement claims and include the following provisions:
 - The Licensor will defend the Licensee and reimburse the Licensee for any damages resulting from a claim of infringement.
 - If the Licensee can no longer use the Software as a result of an infringement claim, the Licensor will either obtain for the Licensee the continued right to use the Software or modify the Software so it no longer infringes.
 - Specify that the indemnity does not apply if liability arose due to modifications made by the Licensee.
- e) If Source Code is licensed, also include the following provisions:
 - The Licensee is to notify the Licensor of any unauthorized use of Source Code.
 - The Licensee is to cooperate with the Licensor in preventing unauthorized use of Source Code.
 - Specify that the Licensee is prohibited against removing proprietary

notices from the Source Code.

- Specify the limited circumstances under which the Licensee can make copies of Source Code (e.g. solely for backup purposes).

5. SERVICES

- a) Specify that any Software-related support or maintenance services are to be dealt with separately in another Agreement or alternatively specify the extent of Software-related support or maintenance services in a Schedule to the License Agreement.
- b) Specify if the Licensor is to provide any installation services. Describe the installation services.
- c) Specify if the Licensor is to provide any training services. Describe the training services.

6. WARRANTY

- a) Include a warranty of functionality with the following elements:
 - Specify the length of the warranty term;
 - Specify when the warranty starts (i.e. on Acceptance, or on installation for example;
 - Include an express warranty that the Software performs in accordance with documentation. Specify whether compliance is assessed relative to either the technical or the user documentation;
 - Specify the remedy for the Software's non-compliance with the documentation. For example, specify that the Licensor will use reasonable efforts to remedy non-compliance.
 - Specify the remedy if the Licensor is unable to remedy the Software's non-compliance with the documentation. For example, the Licensor will refund the license fee payment and use reasonable efforts to find a replacement.
 - For Source Code, include an express warranty that an executable version of the Software can be compiled from the Source Code.
- b) Include a warranty of services, if applicable, with the following elements:
 - Include an express warranty that the services will be carried out in a

manner compatible with industry standards.

- Specify the remedy. For example, specify that the services will be re-performed so that they are compatible with industry standards.
- c) Exclude the statutory implied warranties. In Canada, the provincial *Sale of Goods Act*s are applicable. In the U.S., the state *Uniform Commercial Code* adoptions are applicable.
- Exclude any implied warranties, representations, conditions and guarantees.
 - Specify that exclusions are relative to merchantability, fitness for purpose, durability, correspondence to sample, design, condition and quality.
 - Include a general statement of what is not warranted. For example, specify that no warranty is provided that the Software meets the business purposes or requirements of the Licensee.
- d) Expressly state that all the warranties are void if any action of or misapplication of the Software by the Licensee caused damage to the Software.
- e) Expressly exclude any of Licensor's liability for "indirect damages". Indirect damages are damages that are indirectly related to failure of the Software (e.g. loss of business profits due to downtime) as opposed to direct damages (e.g. cost of fixing the Software or of supplying a functional equivalent).
- f) Set limits on the Licensor's liability. Although direct damages cannot be excluded, they can be limited.
- Specify that the limits are relative to actions in contract and in tort.
 - The limit should be for an identifiable sum that is reasonable given the value of the license, for example, the limit could be the annual license fee.
 - Specify a limitation period, i.e. a time within which the Licensee may assert their rights.
- g) Specify that each term in the warranty is separately enforceable so that if one provision is deemed to be unenforceable (for example, by operation of consumer protection legislation), the other terms of the warranty will still be enforceable.

7. RENEWAL AND TERMINATION

- a) Specify the term for which the License subsists.

- b) Specify the conditions of renewal terms such as:
- the notice period for renewals;
 - the terms and conditions for renewal;
 - whether renewal is to be automatic.
- c) Specify grounds for termination. Some common grounds include:
- bankruptcy of the parties;
 - insolvency of the parties;
 - material default of the parties; and
 - non-acceptance of the Software.
- d) Specify the events to occur on termination. One typical requirement is that the Licensee returns to the Licensor all copies of the Software, or Source Code, if applicable.

8. GENERAL CLAUSES

- a) Whole Agreement/Complete Agreement - This provision will reiterate the parties' understanding that no other representations or other documents (e.g. sales presentations, product glossies) are part of the License and that the entire Agreement between the Licensor and Licensee are contained in the License.
- b) Force Majeure - This provision specifies that certain events will excuse each party from performance of their contractual obligations. The parties may choose to either specify a circumscribed list of events or establish a general definition.
- c) Governing Law - This provisions sets out the jurisdiction and the law applicable to the interpretation of the License.
- d) Assignment - This provision specifies whether the License is assignable and if so, to whom and under what conditions the License may be assigned.
- e) Survival - This provisions specifies which clauses in the License shall survive the termination of the License. For example, confidentiality and restrictions on use of Source Code clauses are usually deemed to survive termination.

9. SIGNATURE SECTION

- a) Include a signature block for the Licensor and Licensee.

|