

# **DREADFUL DRAFTING**

## **The Do's and Don'ts of Licensing Agreements**

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# **DREADFUL DRAFTING**

## **THE DO'S AND DON'TS OF LICENSING AGREEMENTS**

### **1. INTRODUCTION**

We have all experienced the effects of dreadful drafting, either as writer or reader. Today we will examine drafting techniques in a licensing context. We will aim to minimize dreadful drafting by the adoption of tactics designed to produce precisely but understandably written agreements that set out the parties' intended business and legal goals.

Drafting is very personal; some of my suggested tactics may appeal to you, while others will be rejected as being unsuitable either to you or your fact situation. In any event, I hope that this material stimulates us to challenge and exterminate dreadful drafting.

### **2. CASE STUDY**

To assist us, I have developed a case study that may illustrate the tactics to be discussed. For our case study, let us assume the following facts.

1. Devco is a small Alberta software developer<sup>1</sup> and has developed a complex scientific computer program (the "Licensed Software").
2. Interco is a large international corporation based in London, England and has a major office in Houston, Texas; it is a successful international distributor of scientific software.
3. Interco and Devco entered into a license agreement in 1982 concerning an earlier version of the Licensed Software; recently there has been a number of disagreements about the interpretation of the 1982 license agreement.

Using all the negotiating skills known to him,<sup>2</sup> the President of Devco has spent several weeks convincing Interco to market the latest version of the Licensed Software, rather than terminating their relationship.

The President of Devco has written what he considers to be all the pertinent details of the new deal on the back of an envelope and delivers the envelope to our hero, Dreadful Drafter. The details on the envelope are as follows:

- "(a) disputes are settled, it was an unfortunate misunderstanding;
- (b) Interco gets all U.S. and England;
- (c) Best efforts in marketing;
- (d) Interco gets source code so it can provide support;
- (e) Devco gets 5% royalty;
- (f) Devco gets rights to all improvements but Interco can use the improvements it makes;
- (g) no warranties; and
- (h) five year term, renewable."

Let us look over Dreadful Drafter's shoulder as he wrestles with the items on the President's list.

### **3. DREADFUL DRAFTER WRITES A "RELEASE"**

The President's first note reads "disputes are settled, it was an unfortunate misunderstanding". Dreadful Drafter decides that he should make sure that the issues in dispute are not raised again between the parties. No disputes in the future should relate to anything arising out of the 1982 agreement. He decides that to implement this, a release will be required.

#### **3.1 *Dreadful Drafter and his Word Processor's First Draft***

Dreadful Drafter, like most of us, has a library of precedents that are readily available through his word processor. He calls up a standard form of release, adapts it slightly and produces the following provision which has a style familiar to all of us; it is a prime example of "lawyer-talk".<sup>3</sup>

**FIRST DRAFT**

2. Release. (a) Licensor releases, relinquishes, acquits and forever discharges Licensee, its officers, directors, shareholders, employees, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns, of and from any and all debts, obligations, reckonings, promises, covenants, agreements, contracts, endorsements, bonds, specialties, controversies, suits, actions, causes of action, trespasses, variances, judgments, executions, damages, claims, demands, rights, titles, interests, charges, encumbrances, or liens of any kind or sort whatsoever or howsoever arising, in law or in equity, whether known or unknown, whether liquidated or unliquidated, whether in tort or in contract, which they or any of them had, now has, or in the future may have against Licensee, its officers, directors, shareholders, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns, arising out of, for, under, upon or by reason of or in connection with or relating to, directly or indirectly, the 1982 License Agreement or any of the following acts or omissions of Licensee, its officers, directors, shareholders, employees, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns, in connection with or relating to or arising out of or by virtue of any of the following: any loss, cost or damage relating to or arising out of any breach of fiduciary duty, breach of any duty of good faith or fair dealing, breach of confidence, undue influence, duress, economic coercion, conflict of interest, negligence, bad faith, malpractice, intentional negligent infliction of emotional or mental distress, tortious interference with corporate governance or prospective business advantage, breach of contract, deceptive trade practices, libel, slander, conspiracy, any claim of wrongfully marketing the Licensed Software, or the charging, contracting for, taking, reserving, collecting or receiving of interest in excess of the highest lawful rate applicable (i.e. usury) , or any violations of federal or state law, any violations of federal copyright rules, laws or regulations, or any violation of the federal antitrust acts; Licensor further agrees that neither it nor any of its legal representatives or successors, will institute, prosecute or in any way aid in the institution or prosecution of any claim, demand, action or cause of action now existing or hereafter asserted against Licensee, its officers, directors, shareholders, employees, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns, arising out of or by virtue of or in connection with or relating to any of the foregoing.

### 3.2 *Dreadful Drafter's Legalistic Style*

The long long sentence in this release contains 420 words. This sentence "not only talks about too many different things . . . [it] says the same thing too many times, and - for good measure - adds the completely unnecessary. No one, not even the writer, can keep it all straight. . . ".<sup>4</sup>

This peculiar style of legal writing is historic and is perpetuated by habit and standard legal forms. With the development of the word processor, it is all too easy to pull together strings of words without bothering to consider whether they make sense to the drafter or the client.<sup>5</sup> By the third line the reader has fallen asleep, lost all hope of ever finishing the sentence or has let loose with every lawyer joke he knows.

**Tactic: Do not let the word processor produce verbosity.**

### 3.3 *Drafter as Negotiator*

Frequently a person will serve as deal negotiator as well as document producer. Dreadful Drafter may have been an integral part of the negotiations during which he facilitated oral communication and interaction between the parties.<sup>6</sup> Unfortunately, all too often when he starts the draft he assumes a wholly different role, the objectives of which sometimes appear to be to obfuscate rather than facilitate. His written communication becomes verbose and stilted; "LBS" as one of my clients puts it (and the "L" stands for "Legal").

### 3.4 *Communication with Client*

The first draft of a licensing agreement is often designed to communicate with the person instructing the drafter.<sup>7</sup> The drafter usually needs answers to many questions and concerns, for example:

- (a) have I understood your instructions;
- (b) have I expressed your instructions as you intended;

- (c) there are some business issues I note were not discussed; please give me guidance;
- (d) there are business and legal risks; please assess the risk/benefits involved; and
- (e) there are some risks that we should perhaps not even consider at this time; they may be too remote or may even be insulting. Please assess and give guidance.

The drafter normally does not have the authority to answer these questions; only the deal negotiators can answer them. It is obvious in our case study that the Devco President has not fully addressed all the business issues, as we will see in more detail later.

The first draft released to the Devco President must:

- (a) be a document that he understands;
- (b) communicate a request for answers to all the drafter's questions; and
- (c) clarify the unresolved issues.

The Devco President will want the next draft to be designed to favourably but fairly communicate Devco's business position with Interco as negotiators. The licensing relationship is a long-term affair; the negotiators want to keep the number of surprises to a minimum. Better that they spend their energies developing and marketing the Licensed Software than sorting out misunderstandings.

Unfortunately, with the style of the First Draft, the Devco President will not easily understand what is being expressed and will have great difficulty explaining and selling to his negotiating counterpart at Interco the business issues which are expressed in the document .

**Tactic: Recognise drafting as part of the negotiating process.**

### 3.5 *Dreadful Drafter's Second Draft of the Release*

It is clear Dreadful Drafter needs help or he will face client rebellion. When the best precedent available is still incomprehensible to persons who must live with it, it is necessary to implement your anti-dreadful drafting tactics. To determine what is the substance of this release, let us break it down into its individual parts as follows:

#### SECOND DRAFT

#### 2. Release

##### 2.1 Licensor

- (a) releases, relinquishes, acquits and forever discharges
- (b) Licensee, its officers, directors, shareholders, employees, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns,
- (c) of and from any and all debts, obligations, reckonings, promises, covenants, agreements, contracts, endorsements, bonds, specialties, controversies, suits, actions, causes of action, trespasses, variances, judgments, executions, damages, claims, demands, rights, titles, interests, charges, encumbrances, or liens of any kind or sort whatsoever or howsoever arising, in law or in equity, whether known or unknown, whether liquidated or unliquidated, whether in tort or in contract,
- (d) which they or any of them had, now has, or in the future may have
- (e) against Licensee, its officers, directors, shareholders, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns,
- (f) arising out of, for, under, upon or by reason of or in connection with or relating to, directly or indirectly,
  - (i) the 1982 License Agreement, or
  - (ii) any of the following acts or omissions of Licensee, its officers, directors, shareholders, employees, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns, in connection with or relating to or arising out of or by virtue of any of the following:
    - (1) any loss, cost or damage relating to or arising out of any breach of fiduciary duty,
    - (2) breach of any duty of good faith or fair dealing,
    - (11) intentional negligent infliction of emotional or mental distress,
    - (12) tortious interference with corporate governance or prospective business advantage,
    - (13) breach of contract,
    - (14) deceptive trade practices,
    - (15) libel, slander, conspiracy,

- |                           |  |
|---------------------------|--|
| (3) breach of confidence, | (16) any claim of wrongfully marketing the Licensed Software, or   |
| (4) undue influence,      | (17) the charging, contracting for, taking, reserving, collecting or receiving of interest in excess of the highest lawful rate applicable (i.e. usury) , or |
| (5) duress,               | (18) any violations of federal or state law,   |
| (6) economic coercion,    | (19) any violations of federal copyright rules, laws or regulations, or  |
| (7) conflict of interest, | (20) any violation of the federal antitrust acts.  |
| (8) negligence,           |  |
| (9) bad faith,            |  |
| (10) malpractice,         |  |

2.2 Licensor further agrees that neither it nor any of its legal representatives or successors,

- (a) will institute, prosecute or in any way aid in the institution or prosecution
- (b) of any claim, demand, action or cause of action
- (c) now existing or hereafter asserted
- (d) against Licensee, its officers, directors, shareholders, employees, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns,
- (e) arising out of or by virtue of or in connection with or relating to any of the foregoing.

Now we are able to see what principles the release is addressing. This subdividing or sculpturing of the clause makes it, for the reader, both more visually appealing and easier to analyze<sup>8</sup>.

**Tactic: Use paragraph sculpturing for ease of reading and analysis.**

### 3.6 *Dreadful Drafter's Third Draft*

However, the reader still gets lost in the detail of each segment and will have difficulty finding the clause's essential purpose. Using essentially the same words, let us break the clause down even more, using definitions. Here is the Third Draft.

#### THIRD DRAFT

2. Release

2.1 Licensor Releases Licensee of all Claims which it now has or in the future may have against the Licensee.

2.2 The Licensor shall not Prosecute any Claim against the Licensee.

2.3 In this Article 2, the following words shall have the following meanings unless the context otherwise requires:

- (a) "Licensor" means the Licensor, its officers, directors, shareholders, employees, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns.
- (b) "Licensee" means the Licensee, its officers, directors, shareholders, agents, legal representatives, subsidiaries, affiliates, attorneys, successors and assigns.
- (c) "Claims" means all debts, obligations, reckonings, promises, covenants, agreements, contracts, endorsements, bonds, specialities, controversies, suits, actions, causes of action, trespasses, variances, judgments, executions, damages, claims, demands, rights, titles, interests, charges, encumbrances, or liens of any kind or sort whatsoever or howsoever arising, in law or in equity, whether known or unknown, whether liquidated or unliquidated, whether in tort or in contract, arising out of, for, under, upon or by reason of or in connection with or relating to, directly or indirectly, the 1982 License Agreement or any of the following acts or omissions of Licensee Related thereto:
  - (1) any loss, cost or damage relating to or arising out of any breach of fiduciary duty,
  - (2) breach of any duty of good faith or fair dealing,
  - (3) breach of confidence,
  - (4) undue influence,
  - (5) duress,
  - (6) economic coercion,
  - (7) conflict of interest,
  - (8) negligence,
  - (9) bad faith,
  - (10) malpractice,
  - (11) intentional negligent infliction of emotional or mental distress,
  - (12) tortious interference with corporate governance or prospective business advantage,
  - (13) breach of contract,
  - (14) deceptive trade practices,
  - (15) libel, slander, conspiracy,
  - (16) any claim of wrongful marketing the Licensed Software, or
  - (17) the charging, contracting for, taking, reserving, collecting or receiving of interest in excess of the highest lawful rate applicable (i.e. usury), or
  - (18) any violations of federal or state law,
  - (19) any violations of federal copyright rules, laws or regulations, or
  - (20) any violation of the federal antitrust act.

(a) "Prosecute" means prosecute, institute or in any way aid in the institution of prosecution.

(b) "Related" includes arising out of, by virtue of, under, by reason of or in connection with.

(c) "Releases" includes relinquishes, acquits and forever discharges.

Now our business decision-makers may understand the materials; it no longer has that peculiar "lawyer look" about it<sup>9</sup>. At last we can see that the substance of this section is: "Licensor Releases Licensee of all Claims which it now has or in the future may have against the Licensee".

With our help, Dreadful Drafter has a clause that can now be analyzed for its merits. Now that we can read the clause, let us analyze what tactics helped produce the Third Draft.

The use of definitions in the Third Draft allows the drafter to isolate issues for the reader. We can now more readily see the substance of the release, and see who is doing the releasing, whom is being released and what is released. Definitions can help the drafter "achieve clarity and consistency without burdensome repetition"<sup>10</sup>.

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**Tactic:      Use definitions to achieve clarity.**

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### 3.7      ***"Unless the Context Otherwise Requires"***

Section 2.3 starts out ***"In this Article 2, the following words shall have the following meanings, unless the context otherwise requires"***. The last five words negatively influence the definition section. Every time a defined word appears the reader will be required to decide whether the definition applies or whether the "context" of the agreement here or in any other place otherwise requires another meaning. The goal of the use of definitions was to increase precision and the "ease of reading and analysis". Instead the words "unless the context otherwise requires" reduces precision and makes the agreement more difficult to read.

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**Tactic:      Drafting laziness should not detract from precision.**

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### 3.8 **"Expansive Definitions"**

Some "definitions" do not define the meaning<sup>11</sup>; i.e., confine the meaning of the word to certain specifics. Instead, statements often included in the definition section expand the meaning of the words used. The Third Draft talks about the word "Releases" **including** certain things. It does not say that the word "Releases" does not include any other things. Thus the reader has to decide what the word "Releases" means and whether that word adds anything to the list of included items. Sometimes an expansive "definition" is appropriate; more often it gives rise to confusion.

**Tactic:       Wherever possible, design definitions to limit and not expand the meaning.**

### 3.9 **Coupled (Tripled?) Synonyms**

The Third Draft clearly illustrates the long-standing use of strings of synonyms.<sup>12</sup> Here we see well-worn phrases such as **"releases, relinquishes, acquits and forever discharges"**. For many of us, some strings of synonyms always appear together; we would feel incomplete without all the words being there.<sup>13</sup> Sometimes, strings of synonyms are used by drafters who are insecure about the meaning of the individual word, and as a result of their insecurity they include them all.<sup>14</sup> Can we, as Dick suggests, safely reduce "releases, relinquishes, acquits and forever discharges" to "releases"?<sup>15</sup> Similarly, can we use words that have larger scope (such as "affiliates") and eliminate companion words with a narrower but included scope (such as "subsidiaries")?

Dreadful Drafter now should undertake the task of rewriting the release to keep the meat and throw out the filler.

**Tactic:       Eliminate redundant words - less is more.**

3.10 ***Boilerplate Produces a Checklist***

The Third Draft is now useful as a checklist of the issues to be considered in writing the next draft of the release.

**Tactic:      Precedents (however written) are a valuable source when developing checklists.**

### 3.11 ***Long, Long Sentences Increase the Risk of Errors***

The First Draft illustrates the significant risk of error due to its length and the resulting stress placed on the typist. In the definition of "Licensee" in the Third Draft, you can see that the word "employee" was omitted. Dreadful Drafter will have difficulty noticing this error because the error is lost in the mass of words.

Will a court find that the Licensee's employees are not released due to the omission? It may have to if it follows the rule of law that every insertion and omission is done for a reason<sup>16</sup>.

**Tactic:      Avoid verbose, sloppy writing that may produce surprising results.**

**Tactic:      Proofread carefully long, long sentences.**

### 3.12 *Cross References Must be Precise*

In Section 2.2 of the Second Draft, Dreadful Drafter provided that the "*Licensor . . . will not . . . prosecute . . . any claim . . . against Licensee . . . arising out of . . . or relating to any of the foregoing*". In the First Draft this word "foregoing" was the last word of the long, long sentence. Does it refer to the 20 causes of action that are listed in the description of a "claim" or does it refer only to some of them? Does it refer back to anything else? The word "foregoing" does not provide any precise reference back.

Cross-references within an agreement are always a potential source of error, particularly as a document is amended and the references change their position. We do not need to compound the problem by using words that are imprecise and which, many feel, should be dropped from the legal vocabulary.<sup>17</sup>

**Tactic:      Verify cross-references.**

**Tactic:      Forego the use of imprecise old English words.**

### 3.13 *Lists*

In Section 2.3(c) of the Third Draft, Dreadful Drafter compiled a list of claims. This compilation must have exhausted Dreadful Drafter's imagination; but is it sufficiently exhaustive? If anything is omitted, he may suffer from the application of the Latin maxim, *Inclusio unius est exclusio alterius*, (i.e., if you "specify something but not everything in the same category the reader may infer that the unspecified items have been deliberately omitted").<sup>18</sup> You will notice that Dreadful Drafter did not introduce his list with the saving words "including without limitation". Dreadful Drafter using those saving words might now go through his list of 20 causes of action to see if he may safely delete the repetitious or inappropriate ones.

**Tactic:      Phrase lists carefully; avoid application of Latin maxims.**

### 3.14 *User Friendly Language*

Software developers are making great efforts to produce user friendly software and related manuals. Borland International, Inc. has endeavoured to combine user friendly language with complex legal issues in its standard license agreement. Here is an extract from one of Borland's licenses:

#### No-Nonsense™ License Statement

This software is protected by both United States copyright law and international copyright provisions. Therefore, you must treat this software just like a book, except that you may copy it onto a computer to be used and you may make archival copies of the software for the sole purpose of backing-up our software and protecting your investment from loss.

By saying, "just like a book", Borland means, for example, that this software may be used by any number of people, and may be freely moved from one computer location to another, so long as there is no possibility of it being used at one location while it's being used at another or on a computer network by more than one user at one location. Just like a book can't be read by two different people in two different places at the same time, neither can the software be used by two different people in two different places at the same time. (Unless, of course, Borland's copyright has been violated or the use is on a computer network by up to the number of users authorized by additional Borland licenses as explained below.)<sup>19</sup>

My software clients often try to get the technical users to "buy into" the license agreement and push it through the legal department so there will be no delay before they can start using the software. User friendly language permits the technical users to better assess the risks/benefits and guide the lawyers concerning the level of risk assumption that is acceptable.

**Tactic: Use user friendly language if possible.**

### 3.15 *Concise But Precise*

Recently, I was involved in the development of a strategic alliance of many parties where the goal of the drafting style had to be articulated to avoid inconsistency as the various drafters proposed changes to clarify the

business intent. We decided that our drafting should be "concise, but precise, using business English without ambiguity".

Increasingly our clients are demanding "simple" documents. Too often this reflects a desire to remove all legal principles and legal language from the document. As Mellinkoff states in "Rule 5" of his superb book on drafting "Legal Writing: Sense & Nonsense"

RULE 5:           WRITE LAW SIMPLY.  
                      DO NOT PUFF, MANGLE OR HIDE.

The only thing about legal writing that is both unique and necessary is law. To simplify legal writing, first get the law right. You can't simplify by omitting what the law requires or including what the law forbids. The better you know the law the easier to decide what law ought to go in, and what is overkill or window dressing.<sup>20</sup>

**Tactic:       Simple is not stupid: simple expresses the substance of the business and legal intent succinctly.**

### 3.16       *Licensor/Licensee*

In an earlier version of the Third Draft, Dreadful Drafter noticed that Section 2.2 had been typed "The **Licensee** shall not Prosecute any Claim against the **Licensee**. Despite repeated reviews, this error continued; "Licensor" and "Licensee" are not sufficiently visually distinct and errors are almost invited. Occasionally on receiving a long document that uses "Licensee" and "Licensor", I will have it optically scanned into our word processor and replace the words with suitable names or acronyms. Virtually every document will have "Licensor" and Licensee" switched at least once. With the present search and replace word processing facilities, there is no continuing reason to use indistinct words like "Licensee", "Licensor", "Lessee", "Lessor".

**Tactic:       Use distinctive words to describe the parties; avoid both "Licensor" and "Licensee".**

### 3.17 ***Block Capitals***

Many agreements use block capitals for every defined word, for example "LICENSOR" and "LICENSEE". These blocked words frequently BLOCK the communication flow; a feature that should be retained for emphasis has been squandered on a defined word. Using initial upper case letters serves the purpose of distinguishing defined words.

**Tactic: Do not use BLOCK letters for defined words; it BLOCKS the communication flow.**

### 3.18 ***Visual Appeal***

With improved laser printers and libraries of available fonts, Dreadful Drafter could make his document visually attractive as well as comprehensible. Visual appeal may overcome a reader's initial negative reaction to a complex document.

**Tactic: Make your documents visually attractive.**

To the greatest extent possible, I want the licensing documents to assist in the marketing of my client's software rather than being a hindrance to the marketing. The marketing process should never stop.

**Tactic: Market! Market! Market!**

## 4. **DREADFUL DRAFTER WRITES AN "EXCLUSIVITY" CLAUSE**

Dreadful Drafter looks again at his President's second instruction "Devco gets all U.S. and England" and realizes that this refers to the exclusivity of Interco's distribution rights. Dreadful Drafter writes "***Devco hereby grants***

***to Interco the sole and exclusive license to market the Licensed Software in the United States and England."***

#### 4.1 ***Use of Specialized Words***

What does "sole and exclusive" mean to the reader? Does it mean that *Devco* can market the Licensed Software in the United States and in England along with Interco? Can any of *Devco's other distributors* market it in the United States or in England? Can *Devco* license the Licensed Software to a company based in Canada for use in its U.S. offices?

The words "sole and exclusive" selected by Dreadful Drafter do not resolve these issues. Indeed, under Canadian law they are a contradiction of terms<sup>21</sup>. "An exclusive licence gives the licensee the right to exercise the [intellectual property rights] as against all persons, including the licensor. [A] sole licence gives to the licensee the right to exercise the [intellectual property rights] as against all persons except the licensor".<sup>22</sup> It would be better if words such as "sole" and "exclusive" were not used in the grant clause since their specialized legal meaning is not apparent from their ordinary usage.

**Tactic: Be careful with words that have specialized legal meanings.**

#### 4.2 ***Isolate Separate Business/Legal Issues***

Instead of using legal "buzz words", Dreadful Drafter could write a separate section setting out in detail the extent of the "exclusivity" which is granted to Interco. When isolated in its own section, the business issues can be more fully communicated to the business decision makers. Examples of issues to be considered are:

- (a) Will all licenses to Canadian companies require the user to be situate in Canada?
- (b) If other distributors are appointed for other countries within the European Common Market, is it legally possible to restrict these distributors to specific territories within the European Community

or will such restrictions violate the "one market" principles set out in Article 85, the doctrine of exhaustion, or elsewhere?<sup>23</sup>, and

- (c) How will cross-referrals be dealt with by Devco and all its authorized distributors? For example, who provides support, installation, and who delivers the Licensed Software and the related manuals?

**Tactic: Assist the business decision maker; write early drafts to set out the issues.**

#### 4.3 *Consider Footnotes*

In the first draft released to the Devco President, Dreadful Drafter could use footnotes to discuss the risk/benefits of issues raised. This form of communication will let the President more readily understand what issues the drafter is addressing and assess the merits of the various alternatives available.

**Tactic: Use footnotes in early drafts to improve communication with the business decision maker.**

### 5. **BEST EFFORTS**

Dreadful Drafter sees that his President had written "Best Efforts" in marketing and writes "Interco shall devote its best efforts to the promotion and licensing of the Licensed Software".

#### 5.1 *Best Efforts*

"Best Efforts" is often used in agreements, and not always as a result of drafting laziness. It may be used because:

- (a) the parties have developed a trust level between them and do not want to disrupt the relationship by pressing for more precision;

- (b) the parties are unable to predict market acceptance of the product;  
and
- (c) drafters think it has well recognized meaning.

Unfortunately when the trust relationship collapses or the Licensor feels his product is not being adequately exploited, the parties will find out that, although the term "best efforts" has been the subject of frequent litigation, it is uncertain and ambiguous. In Canada there is case law that would indicate that the phrase meant "leave no stone unturned". The words "do not mean second-best endeavours" "they do not mean that the limits of reason must be overstepped with regard to the cost of the service, but short of these qualifications the words mean that the [defendant] must, broadly speaking, leave no stone unturned. . .".<sup>24</sup> A "party that signs a 'best efforts' contract has placed himself in a risky and uncertain situation."<sup>25</sup>

**Tactic:      Avoid the phrase "best efforts"; it may be an invitation to litigation.**

## 5.2      *Reasonable Efforts*

Instead of using "best efforts", Dreadful Drafter decides to use "reasonable efforts". Unfortunately, Dreadful Drafter has made no improvement. There appears to be no Canadian case that defines "reasonable efforts"; likely this phrase is as uncertain and ambiguous as "Best Efforts".

**Tactic:      Use reasonable efforts to avoid the phrase "reasonable efforts" too.**

## 5.3      *Performance*

The parties might be better served if they addressed what "performance" is expected. The agreement may require, in a software context, any one or more of the following:

- (a) [further] research and development to be performed by licensee:
  - (i) improving existing technology;
  - (ii) adding new features;
- (b) funding to be provided by licensee for research and development to be performed by licensor;
- (c) obtaining patents or registering copyright in specified jurisdictions;
- (d) modifying the software for a different platform;
- (e) bundling licensee's technology with licensor's;
- (f) translation of interface or user manuals into another language;
- (g) establishing production facilities for compact discs; firmware; manuals, floppy disks and related packaging;
  - (i) quality controls;
  - (ii) access to sensitive proprietary source code;
- (h) advertising:
  - (i) in what media;
  - (ii) minimum budget;
  - (iii) prior approval of advertising copy by licensor;
- (i) other marketing efforts:
  - (i) inclusion in licensee's products list;
  - (ii) direct mail catalogue;
  - (iii) trade show;

- (iv) salesman;
- (j) training:
  - (i) salesman;
  - (ii) users;
- (k) support:
  - (i) first line of contact with customer;
  - (ii) second level of support:
    - (A) bug fixing;
    - (B) updates;
    - (C) new releases;
  - (iii) timely response;
- (l) assumption of product liability;
- (m) assumption of risk of infringement;
- (n) assumption of obligation to prosecute third party infringers; and
- (n) establishing a distribution network with specified features.

**Tactic: Specify performance requirements.**

## 6. DEVCO GETS 5% ROYALTY

Dreadful Drafter reads his President's notes concerning royalty "Devco gets 5% royalty" and decides that instead of a fixed royalty, Devco is to receive a royalty based on revenues. He writes "**In consideration of Interco**

having the right to distribute the Licensed Software, Interco shall pay to Devco a royalty equal to 5% of net sales."

### 6.1 *"Sales" versus "Revenues"*

Dreadful Drafter has used the word "**sales**". Likely Devco's sophisticated software will be "**licensed**" rather than "sold". Software developers often refer to grants of fully paid perpetual licenses in the vernacular as "sales", but this word is not an appropriate legal word. Devco and perhaps Interco, will want to retain rights to the Licensed Software; a "sale" could deprive them of these rights. "Sales" may be appropriate in licenses of tangible property. Probably Dreadful Drafter too carefully followed a license agreement designed for tangible property; such a precedent could be very misleading in a license of software.

**Tactic: Beware of vernacular; it may change the legal context.**

### 6.2 *Source of Revenues*

Dreadful Drafter tries again and this time uses "5% of gross revenue from **licenses**". He has included only fees for licenses of the Licensed Software granted by Interco to end users. He has not contemplated:

- (a) Interco using the Licensed Software as a consultant or service provider and getting revenue from its own use;
- (b) Interco using the Licensed Software in a joint venture where others gain the benefits of its use;
- (c) consideration for sublicenses granted by Interco to distributors who will market to end users including:
  - (i) initial payments for the right to distribute;
  - (ii) revenues earned from royalties generated by these distributors.

- (d) Interco providing copies to its staff to be used for marketing purposes; and
- (e) Interco providing copies to third parties for the purpose of review and testing.

**Tactic: Define "revenues".**

### 6.3 *Non-Cash Consideration*

Dreadful Drafter has not considered non-cash consideration being paid for the grant of license rights, for examples, by shares in a closely held corporation or by a grant-back to Interco of the right to distribute the sub-licensee's software. How will Interco value non-cash consideration which it might receive from a sub-distributor at the time of granting the rights to that sub-distributor?

**Tactic: Consider the effect of non-cash consideration being included in the royalty base.**

### 6.4 *Exceptions from Revenues*

Dreadful Drafter did not specify what would be excepted from revenues. Will Interco be able to deduct amounts resulting from:

- (a) sales taxes;
- (b) packaging;
- (c) reproduction of user manuals;
- (d) transportation;
- (e) return allowances; and

- (f) commissions.

**Tactic:      Include the Exceptions.**

## 6.5      *Triggering Event*

The event that triggers the royalty right is not stated in Dreadful Drafter's clause. It could accrue:

- (a) when the Licensed Software is copied from the master disk perhaps on to a compact disc or a floppy disk for delivery to a customer;
- (b) when the Licensed Software leaves Interco's premises;
- (c) when Interco invoices the licensee;
- (d) when a customer no longer has any right to reject the Licensed Software; or
- (e) when Interco receives payment.

Devco will want to have the triggering event as early as possible in the distribution process, such as the shipping of the product. Interco will want to use payment as the triggering event to preserve its cash flow.

With software licenses, "receipt" of the consideration is often chosen as the triggering event. Although Devco shares the risk of bad receivables with Interco, this may not be an unreasonable risk since the cost of each copy of software is minimal and this risk may allow wider dissemination of the Licensed Software.

**Tactic:      ROGER!: TRIGGER the ROYalty**

## 6.6 ***Bundling***

Interco may want to market the Licensed Software as a unit with another product it markets (i.e., "bundle" the two products). If there is a single price or license fee, can it be broken down easily to determine Devco's share?

The Licensed Software could be bundled with Interco's hardware or with other software marketed by Interco. The profit margin in the hardware may be very different from the profit margin in the software. The royalty rate might vary depending on the nature of the products bundled.

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**Tactic: Break the Bundle.**

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## 6.7 ***License Fee vs. Support Fee***

Interco could decide to make more profit for itself by increasing the amount it receives for support and other services it provides, keeping all such revenues for itself, and correspondingly reduce the license fee for the Licensed Software. Dreadful Drafter might require Interco to deal with the Licensed Software in good faith and prevent it from obtaining an unfair advantage.

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**Tactic: Avoid predatory pricing.**

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## 6.8 ***Interco's Affiliates***

Dreadful Drafter should contemplate Interco placing a subsidiary between itself and the end user to reduce the royalty payable to Devco. The license agreement might require Interco to deal as if at arm's length with its affiliates. If this is not likely to provide adequate comfort, the License

Agreement might prohibit dealing with an affiliate. A solution that is practicable will have to be tailored for each situation.

**Tactic: Prevent affiliates from scooping profits.**

## 6.9 *Tax Treatment*

Royalties payable from a United States based company to a Canadian based company are generally subject to a withholding tax levied by the United States. However, under Article XII, Section 3 of the Canada-U.S. 1980 Tax Convention, no withholding taxes are levied on "copyright royalties and other like payments in respect of the production or reproduction of any literary...work". Under the *Copyright Acts* of both Canada and the United States, a computer program is defined to be a "literary work". Thus if the royalty was paid on account of Interco's **copying** of the Licensed Software, rather than on account of Interco's **distribution** of the Licensed Software, the withholding tax perhaps could be avoided. (The Canada-U.K. tax treatment has a similar provision).

Note, however, that a guaranteed minimum payment might disqualify the payment from being treated as a "royalty" since the payment is not entirely attributable to the production or reproduction of the literary work. Following this logic, this disqualification might not apply if the failure to attain minimum performance requirements resulted in loss of license or exclusivity rather than payment of money.

The imposition of a withholding tax may be of great significance to Devco if it is not yet paying sufficient Canadian taxes to offset the taxes withheld by the U.S. authorities.

As of January 1, 1995 withholding taxes on computer software payments and royalties for patents and technological information will be

completely eliminated between Canada and the United States, as a result of The Canada-US Treaty Protocol released August 31, 1994.

**Tactic: Tax Plan: Avoid contributing to Government excesses.**

#### 6.10 *Invalidity of Intellectual Property Rights*

For the sake of illustration, let us assume that the value of Devco's software comes from the trade secrets embodied in that software. These trade secrets would be revealed to Interco on the delivery of the source code to it. Let us assume that after Interco integrates the software into its product, Devco's trade secrets become publicly available through a third party's inadvertence. It would seem that a licensee in Canada or the United States might be obligated to continue to pay the royalties for continued use of the trade secrets even though others can readily gain access to them. In the United Kingdom, the obligation to pay the royalty might cease on the essential trade secrets becoming publicly available.<sup>26</sup>

If, however, Devco had obtained a patent in the United States and the license grant was the right to make copies of the Licensed Software under that patent, under U.S. law Interco's obligation to pay royalties would cease upon the patent being established as invalid. I understand the same outcome would apply in the United Kingdom. However, in Canada it is suggested that the licensee would be obligated to continue to pay even though the patent has been established to be invalid unless there is an express clause stating that the royalty should cease to be payable.

Thus, in any agreement, Dreadful Draft should:

- (a) prohibit/permit the licensee to challenge the licensor's intellectual property rights (the related rights vary from country to country and may depend upon the type of intellectual property);
- (b) state whether the royalty remains payable after the intellectual property rights ceases to be effective;

- (c) state whether the royalty is suspended during the challenge period (consider restraint of trade implications);
- (d) state whether the royalty remains payable but must be paid into escrow; and
- (e) state whether the granted rights are lost if payments are withheld and licensee loses its challenge of the licensor's intellectual property rights.

**Tactic: Crown jewels to costume jewellery: whither the royalty?**

## 7. CONFIDENTIALITY OF TRADE SECRETS<sup>27</sup>

Dreadful Drafter looks at his President's next note which says "Interco gets source code so it can provide support".

Dreadful Drafter recognizes that the source code is the version of the Licensed Software understandable by computer programmers. It contains all the program's trade secrets including the algorithms, concepts and underlying ideas, none of which are likely protected by copyright. The best available protection (apart from patent protection) is secrecy, and here Devco is about to show all to Interco. Devco needs to keep control over these secrets.

### 7.1 *Definition of Trade Secret*

Dreadful Drafter realizes he has to define what material is subject to the confidentiality and restricted use provisions. He writes:

***"Confidential Information" means the information described on Schedule A".***

Dreadful Drafter has taken the easy way out - he has left the definition for another person to draw; hopefully, he expects someone who understands the technology to develop the proper wording. Unfortunately, one of the following events is likely to occur:

- (a) Schedule A will not be prepared at all and the agreement will be uncertain at best and entirely unenforceable at worst;
- (b) Schedule A will contain "puffery"; i.e., statements as to quality that could be construed as enforceable express representations;
- (c) Schedule A will be so well prepared and so detailed that it will reveal the trade secrets themselves (but no one will be advised to take measures to maintain in confidence the confidentiality agreement that now reveals all).<sup>28</sup>

**Tactic: Know your technology.**

## 7.2 *Possible Definition*

There is no Canadian statutory definition of a trade secret. However, the style of the definition in the *Uniform Trade Secrets Act* proposed in 1986 by the Alberta Institute of Law Research and Reform may provide some guidance for Dreadful Drafter as he endeavours to draw a definition of Confidential Information. It suggested the following definition:

"trade secret" means information including but not limited to a formula, pattern, compilation, programme, method, technique, or process, or information contained or embodied in a product device or mechanism which

- (i) is, or may be used in a trade or business,
- (ii) is not generally known in that trade or business,
- (iii) has economic value from not being generally known, and

- (iv) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."<sup>29</sup>

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**Tactic: Consider adopting a well-known definition.**

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### 7.3 *Categories of Trade Secrets*

In deciding on the scope of the definition of "confidential information", Dreadful Drafter may want to decide what kind of secrets (perhaps in addition to the source code) he wants to protect. According to the Alberta Institute of Law Research and Reform:

"[t]here are potentially four categories of trade secrets: specific product secrets (such as a chemical formula); technological secrets (that is, knowledge of some process or know-how that nobody else has yet developed); strategic business information (secret marketing information or customer lists); and specialized compilations of information that, in sum, are not publicly known and have unique value on that account".<sup>30</sup>

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**Tactic: Tailor the definition for the circumstances.**

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### 7.4 *Participation*

In the end there is no alternative but for the drafter to become familiar, even in a layman's fashion, with the technology that is to be kept

secret so, at a minimum, he can intelligently review Schedule A to make sure it is appropriate.

**Tactic:        Participate in the drafting of the definition.**

## 7.5        *What is to be Kept Confidential*

To assist the parties to know what information is subject to the confidentiality obligations and which information can be freely used, Dreadful Drafter writes:

***These confidentiality obligations shall apply only to information marked "CONFIDENTIAL".***

Dreadful Drafter realizes that one of the standards the courts look for when determining if information constitutes a protectable trade secret is the care the disclosing party takes to prevent unauthorized disclosure. Professor David Vaver reviewed the Canadian jurisprudence and found that the Courts looked to the following factors when determining whether or not information is a trade secret:

- "(1) the extent to which the information is known outside the business;
- (2) the extent to which it is known by employees and others involved in the business;
- (3) the extent of measures taken to guard the secrecy of the information;
- (4) the value of the information to the holder of the secret, and to his competitors;
- (5) the amount of effort or money expended in developing the information;

- (6) the ease or difficulty with which the information can be properly acquired or duplicated by others;
- (7) whether the holder of the secret and the taker treat the information as secret; and
- (8) custom in the industry concerning this specific type of information".<sup>31</sup>

But is it appropriate to give protection only to information that is marked "CONFIDENTIAL". Consider the following:

- (a) disclosures made orally.<sup>32</sup> Some agreements require that confidentiality must be claimed within a specified time after a disclosure period. Is this a reasonable expectation in practice?
- (b) electronic transmission, where a confidentiality notice may not be apparent;
- (c) disclosures where all information is routinely marked "CONFIDENTIAL" - an abusive abundance of caution. Marking information "CONFIDENTIAL" should not make information secret which is otherwise in the public domain.

**Tactic: Beware of public domain information in a confidential cloak.**

## 7.6 *Contract vs. Trust*

Dreadful Drafter decides to establish a standard of care and writes ***"Interco shall hold all the Confidential Information in trust for Devco"***.

The use of the word "trust" illustrates the clash between the law of trusts and the law of contracts. Under trust law, the trustee holds the property for the beneficiary and may not use the property for his own benefit except as expressly permitted by the trust. A trustee is expected to act for the benefit of the other party at the expense of his own interest. Generally

speaking, such a requirement does not fit the model of North American business reality.<sup>33</sup>

If the trustee breaches his fiduciary duty a court will likely order him to restore the beneficiaries to the position in which they would have been had the duty not been breached.<sup>34</sup> There is trust law that indicates that this would require the payment of restorative amounts no matter how remote or unforeseeable they may be. In contrast, in normal contract law, the awarded damages usually must be foreseeable and closely connected with the breach.

Thus, the use of the word "trust" increases the duties of Interco so that Interco is essentially a guarantor against unauthorized disclosure and, on a breach of the trust, exposes Interco to almost unlimited liability. It is rare that a licensee would be prepared to accept that level of responsibility and exposure to liability.<sup>35</sup>

A recent case of the British Columbia Court of Appeal *Icam v. Ebco* decided November 19, 1993 discussed the remedies that are available for breach of a duty of confidence, summarized as follows:

- (1) A confider may recover damages for breach of contract, or for breach of equitable duty to act in good faith.
- (2) It now appears that the appropriate measure of damages is the sum which puts the confider in the same position "as he would have been if he had not sustained the wrong."
- (3) Depending on the position of the particular plaintiff, that loss may be:
  - (a) the confider's lost profits;
  - (b) the value of a consultant's fee;
  - (c) the market value of information, as between a willing buyer and willing seller;
  - (d) the development costs incurred in acquiring the information;
  - (e) the capitalization of an appropriate royalty;

- (f) the depression in the value of the information in consequence of the breach of confidence.
- (4) Decide which of the six methods is the most appropriate. The confider must decide which of the six methods is the most appropriate to satisfy the underlying principles in assessing damages.
- (5) It would be in error to use more than one.<sup>36</sup>

**Tactic: Consider the appropriate remedies: contract vs. trust.**

## 7.7 *What is Fair*

Devco knows that, even though it has taken all reasonable measures, there is still the possibility of disclosure of its confidential information occurring at its own offices. Should the obligations for retaining the information as confidential be any higher for Interco than they are for Devco? When the goal is to produce a "win-win" agreement, does the licensing drafter have the right to propose a clause that is patently wrong?

**Tactic: In short-fuse negotiations, design the first draft to produce a "win-win" result.**

## 7.8 *The Word "Ensure"*

Intending to be fairer to the Licensee in his next draft of the confidentiality clause, Dreadful Drafter writes "**Licensee shall ensure that the confidential information shall not be disclosed**". He may not have lessened the duty of care. "Ensure" is defined to mean "to warrant; to guarantee ... to secure, make safe ... to insure".<sup>37</sup>

Some drafters use the word "ensure" as if it were equivalent to "endeavour" or "take reasonable measures". The dictionary definition seems

to result in a very high duty of care, almost to the point that there will be absolute liability. Commonplace usage and the dictionary definition seem to be contradictory. Perhaps the drafter should use a more precise word.

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**Tactic: Use "ensure" only when you mean "guarantee" or "insure"; better yet, don't use it at all.**

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### 7.9 *Precautions to be Taken*

Dreadful Drafter tries again. He writes ***"Licensee shall take the same precautions to hold the confidential information in confidence as it takes for its own trade secrets"***

Consider Devco's reaction when it learns that Interco has lost its trade secrets as a result of its normal (but now proven inadequate) protective measures. To avoid this embarrassment, Dreadful Drafter could select an objective standard combined perhaps with Interco's standards if they are known to be high. For example, "Licensee shall take all reasonable measures available to it, and in any event not less than those used to protect its own secrets to keep the confidential information in the strictest confidence".

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**Tactic: Secrecy obligations should include objective standards.**

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### 7.10 *Steps to be Taken*

In a case of highly sensitive information or in the case of a licensee in a foreign jurisdiction which may not have generally adopted standards of secrecy, you might want to set out the reasonable steps Devco requires of Interco. For example, Dreadful Drafter could provide that the reasonable steps shall be:

- (a) physical security of areas where access may be gained to the Confidential Information;

- (b) security measures for electronic storage and transmission of data including or derived from any Confidential Information;
- (c) controls on access to any computer facility and tape or disk library where any Confidential Information may be stored;
- (d) visitor control;
- (e) controls over photocopying Confidential Information;
- (f) document and computer network control systems which limit access to the Confidential Information to employees and agents who have a need to know, which control system provides for a secured method of protection of sensitive data; and
- (g) confidentiality agreements with the Licensee's employees, agents or invitees who are permitted access to Confidential Information.<sup>38</sup>

**Tactic: Consider stating what secrecy measures are required.**

### 7.11 *Duration of Secrecy Obligations*

Dreadful Drafter has not stated how long Interco must maintain the secrecy. Interco will be concerned about the costs of maintaining secrecy and the risk of inadvertent disclosure particularly after an extended period of time. Frequently, drafters pick a figure such as "five years" or "twenty-one years" without much justification. It would be preferable to pick a time period more in line with the anticipated economic life of the trade secrets, or at the minimum, the time it would have taken for Interco to independently develop the technology itself.<sup>39</sup>

Dreadful Drafter has not relieved Licensee's obligations of confidentiality for any portion of the confidential information which enters the public domain. In Canada, it might be permissible to require continued confidentiality even if the secret has been disclosed. This may not be the case in the European Community. For example, grounds for objection under Article 85(1) of the Treaty establishing the European Economic Community will

not arise from a covenant requiring a distributor "not to reveal manufacturing processes or other know-how of a secret character, or confidential information given by the other party during the negotiation and performance of the agreements, as long as the know-how or information in question has not become public knowledge".<sup>40</sup>

**Tactic: Establish and justify the duration of secrecy obligations.**

### 7.12 *Limited Liability*

The Licensee may want to restrict its liability if it has taken all reasonable steps to protect the confidential information but through some inadvertence there has been a disclosure without some clause limiting the Licensee's obligations, it could be exposed to a claim for significant economic damages.

**Tactic: Consider limiting Licensee's liability for inadvertent disclosure.**

### 7.13 *Permitted Use*

As with many confidentiality agreements, Dreadful Drafter has discussed the obligations of secrecy but has not discussed what uses of the confidential information are permitted as well as what uses are restricted. As with any license of technology, the agreement should contemplate what uses are appropriate, such as:

- (a) evaluation of the technology for inclusion in the recipient's product line;
- (b) permitted modifications of the technology;
- (c) disclosure to employees/contractors who have a need to know;
- (d) disclosures required by a governmental body or court order; and

- (e) disclosures to professional advisors.

**Tactic: Specify permitted uses.**

## 8. IMPROVEMENTS

Dreadful Drafter looks at his President's notes and sees the sixth instruction: "We get rights to all improvements but Interco can use improvements it makes."

Dreadful Drafter writes the following clause (which appears to be enforceable in Canada)<sup>41</sup> to give effect to these directions of his President.

***"Interco shall communicate to Devco details of all improvements to the Licensed Software during the term of the license granted by this Agreement. Intellectual property rights to such improvements shall belong to Devco but, during the term of its license of the Licensed Software, Interco shall have the exclusive right to exploit the improvements in the United States and England."***

### 8.1 ***Does the Word "Improvement" Have a Meaning?***

There seems to be little case law on what constitutes an "improvement" and what case law there is provides few clear-cut principles.<sup>42</sup> Examples of improvements to the Licensed Software could be:

- (a) an improvement that enhances the Licensed Software's speed of processing and analyzing the user's data,
- (b) an improvement that provides processing and analytical features that the Licensed Software does not have, or
- (c) a program that performs tasks similarly to the Licensed Software but in a different way.

These improvements range from something that could be included in the computer program, to something that could be a "stand-alone" product, to something that is a different but competitive product. How will Interco know what it is required to disclose and turn over to Devco? What can it do in related areas without being subject to an infringement claim?

Unfortunately Dreadful Drafter gives us no guidance as to what "improvements" Interco is required to disclose and turn over to Devco.

**Tactic: Use words that have precise meanings or the document invites "creative misinterpretation".**

## 8.2 *An Improvement Must "Infringe"*

Some licensing drafters have chosen to say that an improvement that must be communicated is an improvement that infringes the intellectual property rights of the product involved, in this case the Licensed Software. This solution may be appropriate for a product that is the subject of a patent, but may be of little help if the software is protected by copyright. Does the copyright protect:

- (a) only the literal code of the Licensed Software;
- (b) the structure sequence and organization of the Licensed Software;  
and
- (c) the Licensed Software's user interface.

The case law has established that most of the literal code is protected but the case law leaves it unclear what really is protected by copyright. The method of expressing an idea is normally protected under copyright rules unless it has merged with the idea being expressed (the idea not being protected by a copyright). Recently Canadian and American courts have been struggling to "weed out or remove from copyright protection those portions [of a computer program] which . . . cannot be protected".<sup>43</sup> Cases relying on *Computer Associates v. Alta*<sup>44</sup> use the abstraction/filtration method and reject the structure, sequence and organization analysis propounded by

*Whelan v. Jaslow* 797 F 2d 1222. Whether either analytical method is practically sound let alone legally correct remains unsettled and the scope of protection offered by copyright is presently far from clear.<sup>45</sup>

Thus, relying on infringement as a standard for a software improvement provides little certainty to the business decision makers who are involved. It would seem that the word "improvement" will have to be tailored for each agreement.<sup>46</sup> Dreadful Drafter should provide a precise description of the improvements intended by the parties; otherwise a court may be asked to imply what terms were meant by the use of the word "improvement".

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**Tactic:        Define the word "improvement".**

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### 8.3            *Communication of Improvements*

As well, the draft clause does not state when or how details of improvements are to be communicated. Is the communication to be in writing addressed to a stated technical representative or will disclosure in a casual conversation over a beer be sufficient? Does Interco have to disclose details of the improvement as soon as rudimentary details of the improvement are developed or can it wait until it has developed the improvement sufficiently to establish substantial commercial advantage?

Devco's ability to patent any improvement may depend on early disclosure. However Interco may be reluctant to disclose rudimentary ideas especially towards the end of the term of the license.

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**Tactic:        Make the draft answer "how, who, when, what".**

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### 8.4            *Term of Use of Improvement*

The improvement clause must address the term during which each party may use the improvement. Dreadful Drafter stated that Interco had exclusive rights to the improvement in the U.S. and England "during the term

of its license of the Licensed Software". Let us assume that the term of the license of the Licensed Software is ten years and the term of protection for the improvement under copyright rules is 50 years. As drafted, Interco will lose its rights to use the improvement at the end of the ten years. This could cause significant harm if the improvement was a stand alone product with an economic life lasting well beyond the ten years fully protected by copyright and the right to use the improvement being lost on the termination of the right to use the unimproved technology.

**Tactic: Co-relate the term of use of improvements with the term of the underlying license.**

## 8.5 *Only in Canada You Say*

Earlier I mentioned that the improvement clause may be valid in Canada. This is not likely the case either in the United States or England due to their restraint of trade rules. These rules might invalidate any provision which does more than require Interco to grant to Devco a world-wide non-exclusive royalty-free license with the right to grant sublicenses. In Canada we must always be wary that many of our practices may be in violation of rules of other jurisdictions that are designed to promote competition.

**Tactic: Watch foreign anti-restraint of trade rules.**

## 9. **WARRANTIES**

Dreadful Drafter sees that his President also has written on the envelope "no warranties". Dreadful Drafter decides that a disclaimer of all warranties of quality<sup>47</sup> should be included and writes a clause which was (and still may be) a standard in the U.S. software industry:

***"Devco gives no warranties expressed or implied except as specifically provided in this Agreement. WITHOUT LIMITATION, ALL IMPLIED WARRANTIES***

**OF MERCHANTABILITY AND FITNESS FOR A SPECIFIC PURPOSE ARE SPECIFICALLY DISCLAIMED."**

**9.1 A Warranty by Any Other Name**

A disclaimer of "warranties" may be useful in the United States under Section 2 of the Uniform Commercial Code. However, in Alberta, the *Sale of Goods Act* (Alberta), if it applies, refers to implied "conditions" of merchantability and fitness for a particular purpose.<sup>48</sup> The same words are used in Ontario's<sup>49</sup> and England's<sup>50</sup> sale of goods legislation.

**Tactic: Design warranties that are "fit for the purpose".**

**Tactic: Avoid clauses drafted for the specific rules of other jurisdictions.**

**9.2 You Wanted It To Work?**

It is a moot point whether any of the *Sale of Goods Act* (Alberta), Section 2 of the Uniform Commercial Code<sup>51</sup>, or the English *Sales of Goods Act, 1979* applies to computer programs which are not mass marketed.

None of these pieces of legislation was designed to cover software.<sup>52</sup> The attempts to force software into the unaccommodating legislative schemes produce potentially absurd results. Is the software a "good" if conveyed to the client on a disk but not a "good" if conveyed electronically with no physical copy being delivered?<sup>53</sup>

A prudent licensing drafter might want to assume that the sale of goods legislation applies. It is rare that the implied warranties are appropriate for products (particularly computer programs) licensed by a specifically designed licensing agreement. Accordingly, Dreadful Drafter was correct to disclaim the implied warranties of quality but should structure the disclaimer using words appropriate for Alberta, the United States and England, and at least refer to all

"representations, warranties and conditions (expressed or implied, oral or written)".<sup>54</sup>

**Tactic: Tailor warranties for each technology transfer.**

### 9.3 *Disclaimer "Fundamentally Breaches its Essential Purpose"*

The Devco President said there shall be "no warranties". However, the courts in Alberta, United States and England are not favourably predisposed to accept complete disclaimers of warranties of quality of goods, particularly if the bargaining powers of the two parties are not equal.<sup>55</sup> Alberta courts look to see if there is a "breach" going to the root of the contract.<sup>56</sup> American courts speak of the agreement "failing of its essential purposes"<sup>57</sup> or of "unconscionability"<sup>58</sup>, and English courts look to the *Unfair Contract Terms Act, 1977*, to see if the exclusion of warranties of quality are "reasonable".<sup>59</sup>

Devco will have to decide whether there are sufficient grounds to justify the exclusions of warranties of quality so it can survive arguments of breach going to the root of the contract, failure of essential purpose, unconscionability or unreasonableness. If there is any reasonable risk, Devco should consider providing a few basic warranties designed to prevent opening the door wide to a damage claim.

**Tactic: Be satisfied that a total disclaimer of warranties of quality is appropriate.**

### 9.4 *Basic Warranties of Quality*

Dreadful Drafter decides that he should provide some basic warranties of quality. He writes "***Devco warrants that the Licensed Software shall function if used in accordance with the user manual***".

Dreadful Drafter has not specified any standard of quality. Did he mean that it would function in accordance with the specifications expressed in

the user manual? Or is use in accordance with the user manual a condition precedent to the warranty?

Dreadful Drafter should precisely set out the standards of quality. He might want to consider:

- (a) What standards of quality will be used:
  - (i) Are there presently developed functional specifications? Are these specifications clearly and precisely written?
  - (ii) If the functional specifications are not yet developed, how will they be approved so they can be used as standards of quality?
- (b) Will there be acceptance tests and if so, how will they be designed?
- (c) Who will perform the acceptance tests? Where? At whose expense? What periods of rectification are allowed? What are the consequences of acceptance tests not being passed?
- (d) Will there be conditions precedent to a warranty claim? Is it fair for the licensee to lose its remedies if a condition precedent is not satisfied?
- (e) How will the parties resolve disputes over quality?
- (f) What are the remedies of breach of warranty? Are there any limitations on liability?

**Tactic: Specify standards of quality.**

## 9.5 *Conditional Warranties*

Let us assume that Dreadful Drafter wanted to make the warranty conditional upon the Licensed Software being used in accordance with the user

manual. Often the benefits of warranties are available only upon the satisfaction of various conditions precedent. All too frequently, however, the conditions precedent have no correlation with the error that is actually encountered. Did the failure to operate in accordance with the user manual actually cause the quality defect which was encountered? Is it unreasonable to have the warranty voided for the non-satisfaction of an irrelevant condition precedent?

**Tactic: Correlate conditions precedent to a warranty to the quality defect.**

## 9.6 *Back-Up Remedy*

Dreadful Drafter might have written as his warranty "***Devco warrants that the Licensed Software, when installed, shall perform in accordance with the Functional Specifications [defined elsewhere]. All other warranties expressed or implied, including all implied warranties of merchantability and forms for a specific purpose, are specifically disclaimed.***"

Consider Devco being unable to install the Licensed Software due to technical errors. A court will be eager to hold that the only warranty is ineffective, and therefore the disclaimer is ineffective.<sup>60</sup> Dreadful Drafter failed to provide any back-up remedy in the event that Devco's warranties all proved to be ineffective.

Some agreements provide for the possibility that the basic warranties provided are found to be unreasonable or do not cover the breach that actually occurs.<sup>61</sup> This concern is especially significant when the only warranties provided are to repair or replace the defective product. These agreements go on to provide a "backup remedy", such as payment of an amount pre-agreed to be liquidated damages or payment of the Licensee's direct damages up to a maximum dollar amount.<sup>62</sup>

**Tactic: Consider providing a back-up remedy.**

## 10. TERM AND TERMINATION

Dreadful Drafter sees the last note from his President: "five year term, renewable" and writes ***"This agreement shall take effect as of February 1, 1992 and shall continue in effect until January 31, 1997 and thereafter for successive periods of five years."*** He then proceeds to include the usual provisions that the agreement will terminate on insolvency, unremedied breach, or ***"upon 12 months notice from either party."***

Does the agreement terminate January 31, 1997? Note that Dreadful Drafter did not provide that the agreement will renew automatically after every five year period unless terminated by either party at the end of the fifth year. Thus the five year term is irrelevant; the term will not expire after five years but keep running for an indefinite period until either party gives the 12 months notice. The Courts will not read in different conditions of termination when termination has been provided for in a license.<sup>63</sup>

Frequently, agreements provide for a long term such as "five years" or "life of the patent" but subsequently provide for termination after the expiration of a shorter period following one of the parties giving notice to the other. In these agreements, for all practical purposes, the term that the parties can rely on for business purposes is only the shorter term. The business decision maker could be deceived by the reference to the longer term.

**Tactic: State clearly the effective term of the agreement.**

### 10.1 *License Exceeding Patent Term*

Dreadful Drafter should keep in mind that in Canada, parties may contract for the term of a license of technology to exceed the term of its patent

protection.<sup>64</sup> In contrast, the U.S. anti-restraint of trade rules may limit the obligations under a simple patent license to the term of the patent protection.

**Tactic: Determine if the applicable law will allow for the obligations under a license agreement to exceed the term of statutory (e.g., patent, copyright) protection.**

## 10.2 *Terminating Events*

Dreadful Drafter provided that the "agreement" itself shall terminate upon the happening of certain events. What happens to all the rights and remedies after termination of the Agreement? A better approach for Dreadful Drafter might be to determine all the rights and obligations in the agreement that require termination and then draft a termination clause for each group of similar rights and obligations. The converse of this approach is to consider what provisions of the agreement shall "survive" termination of the agreement.<sup>65</sup>

**Tactic: Define the terminating events for each right and obligation.**

## 10.3 *Consequences of Termination*

Dreadful Drafter could now consider the consequences of the termination, including:

- (a) the Licensee ceasing to use the Licensed Software;
- (b) the Licensee ceasing to use the Licensor's trademarks and logos;
- (c) the Licensee returning to the Licensor all copies of the License Software in its possession;
- (d) if the Licensee does not have the right to return all copies of the Licensed Software which are on hand for the purposes of resale,

consider what right the Licensee has to dispose of its inventory. Rules in the United Kingdom and the United States might require such a right of disposition;

- (e) if the Licensee has the right to dispose of inventory on hand at termination, the Licensor might want to have the right to perform an audit of this inventory. Otherwise, the Licensed Software might be reproduced surreptitiously following termination, and the Licensor would have no way of separating pre-termination copies from copies made after the termination;
- (f) the Licensee paying all royalties earned pre-termination and, if the Licensee has the right to sell its inventory, after termination; and
- (g) the Licensor having a right to audit the Licensee's books and premises to satisfy itself that it has been paid in full and that the Licensee has ceased to use and reproduce the Licensed Software.

---

<b>Tactic:</b> <b>Consider the consequences of termination.</b>
---

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#### 10.4      ***Bankruptcy***

Most license agreements provide for termination in the event of bankruptcy of the licensee. Some bankruptcy legislation may render that type

of termination provision ineffective and give the trustee in bankruptcy the right to assume or reject the license agreement.<sup>66</sup>

The *Canadian Bankruptcy Act* has recently been amended by the addition of Section 65.1 that provides that a license agreement may not be terminated by reason only that the licensee is insolvent nor for failure to pay royalties preceding the filing of the bankruptcy documents. Termination can still be affected if royalties are not paid that accrue subsequent to the filing of the bankruptcy documents.

---

**Tactic:**      **Draft termination on bankruptcy provisions specifically for the relevant applicable bankruptcy laws.**

---

## 11.            **INCLUSIVE LANGUAGE**

Dreadful Drafter included in his boiler plate, at the end of the agreement, a standard provision with an interesting typographical error: ***"words importing the masculine gender shall include the feminine and neutered gender."***

This word "neutered" might apply to my "Garfield" sized ex-Tom cat. It would seem to have little other application.

Increasingly, drafters are endeavouring to use "inclusive" language to avoid a masculine bias.<sup>67</sup> With today's word processing capabilities, there is no excuse to use the masculine when the feminine could just as easily be used. I am often surprised to see the masculine used when my client is feminine. Unfortunately writing genderless English is very difficult<sup>68</sup> and this bias may never be overcome. The use of "you" and "we" in documents may help.

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**Tactic:**      **Strive for inclusive language.**

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12. **CONCLUSION**

Drafters of licensing agreements should facilitate open communication, prevent misinterpretation and prevent unintended business and legal results. Instead of Dreadful Drafting, licensing drafters can produce precise and comprehensible agreements.

13. **AUTHOR'S NOTE**

If you have comments on my material or if you have examples of dreadful drafting you would like to see included in a later version, please contact me, John T. Ramsay at (403) 267-8183 or fax (403) 264-5973.

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## ENDNOTES

1. Alberta, fortunately, has very little statutory or case law regulating software licensing and has a significant number of software developers working in a global economy.
2. His success may be attributed to his adoption of the method of negotiations described in "Getting to Yes, Negotiating Agreements Without Giving In", Roger Fisher and William Ury of the Harvard Negotiation Project, Penguin Books.
3. Section 2(b) of the draft will be the release of the Licensor by the Licensee; the release must be bilateral.
4. David Mellinkoff, *Legal Writing: Sense & Nonsense*, (St. Paul, Minnesota, West Publishing Co., 1982) (hereinafter "Mellinkoff") at p. 130.
5. Mellinkoff, at p. 58.
6. See R. Goldscheider, "The Environment of Licensing Negotiations: From a Lawyer's Point of View" in R. Goldscheider and G.J. Maier, eds., *1989 Licensing Law Handbook* (New York: Clark Boardman, 1989) (hereinafter "Goldscheider and Maier") p. 3 at p. 4.
7. R.C. Dick, Q.C., *Legal Drafting*, 2nd ed. (Toronto: Carswell, 1985) (hereinafter "Dick") at p. 8.
8. See Dick, at p. 117 where he lists six conventional rules for paragraph sculpturing.
9. Mellinkoff, at p. 1.
10. See Dick, at p. 73, quoting from R. Dickerson, *The Fundamentals of Legal Drafting* (Boston and Toronto: Little, Brown and Company, 1965) at p. 98. Dick provides a helpful discussion of the various types of definitions.
11. Mellinkoff, at p. 26.
12. See Dick, at p. 125.
13. Mellinkoff says at p. 126: "The explanations for wordiness in legal writing do not justify keeping it that way."
14. Dick suggests at p. 126 that this insecurity may result from inadequate training. This is true to some extent, but many adequately trained and skilled drafters still suffer from this insecurity.
15. Dick provides, at pp. 126-7, a list of "couplets" and "triplets" which could be reduced to a single word. The usual drafting jingles that surround the word "releases" is included in that list.
16. Mellinkoff, at p. 18.

18. Mellinkoff, at p. 19.
17. Mellinkoff, at p. 187.
19. Reproduced with the permission of Borland International, Inc. Another company has produced what they call the "Bloodthirsty License Agreement" and the following is an extract from that agreement (I would give credit if I knew where it came from):

***Bloodthirsty License Agreement***

*This is where the bloodthirsty license agreement is supposed to go, explaining that Interactive EasyFlow is a copyrighted package, sternly warning you not to pirate copies of it and explaining, in detail, the gory consequences if you do.*

*We know that you are an honest person, and are not going to go around pirating copies of Interactive EasyFlow; this is just as well with us since we worked hard to perfect it and selling copies of it is our only method of making anything out of all the hard work.*

*If, on the other hand, you are one of those few people who do go around pirating copies of software you probably aren't going to pay much attention to a license agreement, bloodthirsty or not. Just keep your doors locked and look out for the HavenTree attack shark.*

***Honest Disclaimer***

*We don't claim Interactive EasyFlow is good for anything - if you think it is, great, but it's up to you to decide. If Interactive EasyFlow doesn't work: tough. If you lose a million because Interactive EasyFlow messes up, it's you that's out the million, not us. If you don't like this disclaimer: tough. We reserve the right to do the absolute minimum provided by law, up to and including nothing.*

*This is basically the same disclaimer that comes with all software packages, but ours is in plain english and theirs is in legalese.*

*We didn't really want to include any disclaimer at all, but our lawyers insisted. We tried to ignore them but they threatened us with the attack shark ... at which point we relented.*

20. Mellinkoff, page 100.
21. D.G. Henderson, Q.C., "Patent Licensing: Problems from the Imprecision of the English Language" (1970), 4 Ottawa L. Rev. 62 at p. 66 (hereinafter "Henderson").
22. *Ibid.*
23. C. Reed, "Limiting Risks in International Transactions: UK and EEC" (1991) Centre for Commercial Law Studies, University of London, at p. 21 ff. (hereinafter "Reed").

24. *CAE Industries Ltd. v. R.* (1982), [1983] 2 F.C. 616 at 638, 639 referring to *Sheffield Dist. Ry. Co. v. Great Central Ry. Co.* (1911), 27 T.L.R. 451. There seems to be no distinction between best efforts and best endeavours for this purpose. This case law is totally out of line with commercial expectations in technology transfer agreements.
25. Shifley, Charles W. & Hulbert, Bradley J., "'Best Efforts' May Not Be The Best Advice", 9 March 1992, Vol. XXVII No. 1, *les Nouvelles* 37 at 39. This article provides an interesting analysis of "best efforts" clauses providing a summary of legal decisions, practical examples of difficulties caused by the phrase and suggested improvements.
26. *Forms and Agreements on Intellectual Property and International Licensing*, 3rd Edition, L.W. Melville, Clark Boardman, Callaghan, New York, 1979, Revised 1993, Para 4.17 at p.4-28.
27. For a checklist of what to include in a confidentiality agreement, see the Checklist attached as Appendix A 2.A to the chapter on "Canada", *Worldwide Trade Secrets Law*, Volume 1 at A 2-1, Clarke Boardman Callaghan, 1993 (the Canadian chapter being co-authored by John T. Ramsay and Francois Grenier).
28. See John H. Woodley, "Taking Care of Trade Secrets: Controlling and Exploiting", *Trade Secrets in Law and Practice*, The Law Society of Upper Canada, 1989, C-1 at C-4.
29. Institute of Law Research and Reform, "Trade Secrets", Report No. 46 (Edmonton: Institute of Law Research and Reform, 1986) at 157.
30. *Ibid* at p. 6.
31. David Vaver, "What is a Trade Secret", in *Trade Secrets in Law and Practice*, The Law Society of Upper Canada, 1989 A-1 at A-18.
32. For a case that illustrates the difficulty of determining who made what oral disclosure and who has obligations as a result of that disclosure, see *Alphanet Telecom Inc. et al v. Delrina Corporation et al*, [1994] O.J. No. 455, a March 7, 1994 decision of the Ontario Court of Justice. This case also involves a discussion of what information enters into the public domain.
33. Quoted from the annotation to *International Corona Resources Ltd. v. LAC Minerals Ltd.*, 44 B.L.R. 1 at 9.
34. *Taylor v. Gill* (1991), 78 Alta. L.R. (2d) 349 (Q.B.).
35. Richard A. Brait, an active LES member with Northern Telecom Canada Limited, Mississauga, Ontario disagrees with me in his excellent article "The Unauthorized Use of Confidential Information", 18 C.B.L.J. 323, at 371. In order to permit full restitution through the constructive trust remedy, he would recommend the use of the word "trust". Even if a confidant was prepared to accept the exposure to full liability that Brait is advocating, it is my position that the duty of care imposed by the trust relationship is

- excessive. Additionally, once the confidant has taken the reasonable measures described in Section 7.10 of this material, he should be free of a liability resulting from an inadvertent disclosure of the confidential information, a position supported by Brait.
36. [1994] 3 WWR 419 at 425, 426.
  37. The Shorter Oxford English Dictionary, Vol. I (New York: Oxford University Press, 1973) at p. 663.
  38. J.T. Ramsay, "Drafting Confidentiality Agreements in Canada" (1989) 4 I.P.J. 157 at 175 (hereinafter "Ramsay").
  39. Restraint of trade rules may restrict the duration of the requirement to maintain secrecy to this latter period of time.
  40. Commission Notice of 18 December 1978 concerning its assessment of certain subcontracting agreements in relation to Article 85(1) of the EEC Treaty, Section 3 as printed in the EEC Block Exemptions Regulations Handbook, Licensing Executives Society, Publications Committee, November 1989, page 53.
  41. *National Broach & Machine Co. v. Churchill Gear Machines Ltd.*, [1967] R. Pat. Cas. 99 (H.L.), cited in Henderson at p. 74.
  42. See Henderson, at p. 71. See also *PRC Realty Systems v. National Association of Realtors, Inc.* 766 F. Supp 453 (E.D. Va 1991) at p. 459.
  43. *Delrina Corp. v. Triolet Systems Inc.* 47 C.P.R. (3d) 1 at p. 37, Ont. Ct., Gen. Divi., 1993.
  44. 2d Circuit U.S. Court of Appeals, 982 F 2nd at 705.
  45. See "Reverse Engineering of Computer Software: A Trap for the Unwary?" by Philip J. McCabe, The Computer Law Association Bulletin, Vol. 9 No. 2 p. 4 at p. 10-11.
  46. The art of the drafter is taxed by the need to differentiate between bug fixes, corrections, improvements of existing functionality (e.g., speed), addition of new functionality (e.g., supporting writing to optical disc (revisions, new versions, new releases, accessories, port-overs (e.g., from IBM PC to Macintosh) upgrades to new versions or releases of operating systems. Section c.5. Software Licensing Compendium, volume 1 - "Packaged Software License Provisions", Third Edition, American Intellectual Property Law Association, 1992, edited by "Fish and Richardson", Boston MA and Washington, D.C.,
  47. Let us assume that Dreadful Drafter has handled elsewhere warranties of title and non-infringement and any statutory rights to reject the Licensed Software.
  48. R.S.A. 1980, c. S-2, ss. 17(2) and 17(4).
  49. Sale of Goods Act, R.S.O. 1990, c. S-1, s. 15.
  50. Sale of Goods Act, 1979 (U.K.), 1979, c. 54, s. 14.

51. For examples of the many articles and cases discussing this issue, see W.P. Andrews, Jr., "Limiting Risks in International Transactions: Current Legal Issues in United States Domestic Transactions for Computer Goods and Services (Address to the World Study Committee on Computer Contracting, Part of the Charge to that Study Committee Computer Law Congress, April 18-20, 1991)", (Andrews).
52. The National Conference Commissioners on Uniform State Laws in 1987 appointed a Study Committee on Computer Contracting, Part of the Charge to that Study Committee was to recommend whether or not any legislation specifically for computer contracts should take the form of amendments to Article 2, a new article within the ambit of the Code, or a free standing statute. See "UCC Survey: Developments on the Fringe". The Business Lawyer 146, August 1991 at p. 1812.
53. "UCC Survey: Software Transactions on Uniformity". The Business Lawyer; Vol. 46, August 1991 at p. 1829 (hereinafter "UCC Survey").
54. Working Draft No. 3.0 of the Model Software License Provisions developed by American Bar Association Section on Patent and Trademark and Copyright Law, Committee on Computer Program of which J.T. Ramsay was one of the committee members (the "Model Software Agreement") provides in Section 6.06 the following:

**"LICENSOR DISCLAIMS ANY AND ALL OTHER WARRANTIES, CONDITIONS, OR REPRESENTATIONS (EXPRESS OR IMPLIED, ORAL OR WRITTEN) WITH RESPECT TO THE LICENSED SOFTWARE OR ANY PART THEREOF, INCLUDING ANY AND ALL IMPLIED WARRANTIES OR CONDITIONS OF TITLE, NONINFRINGEMENT, MERCHANTABILITY, OR FITNESS OR SUITABILITY FOR ANY PURPOSE (WHETHER OR NOT LICENSOR KNOWS, HAS REASON TO KNOW, HAS BEEN ADVISED, OR IS OTHERWISE IN FACT AWARE OF ANY SUCH PURPOSE), WHETHER ALLEGED TO ARISE BY LAW, BY REASON OF CUSTOM OR USAGE IN THE TRADE, OR BY COURSE OF DEALING. IN ADDITION, LICENSOR EXPRESSLY DISCLAIMS ANY WARRANTY OR REPRESENTATION TO ANY PERSON OTHER THAN LICENSEE WITH RESPECT TO THE LICENSED SOFTWARE OR ANY PART THEREOF."**

Copies of this valuable resource can be obtained for a nominal amount from myself or the editor, D.C. Toedt III, Arnold, White & Durkee, 750 Bering Drive, Suite 200 (77057), P.O. Box 4433, Houston, Texas 77210-4433.

If English law applies, Devco could not disclaim a warranty to the effect that Devco has the right to sell/supply. See Reed, at p. 14, citing Section 12 of the Sale of Goods Act, 1979, note 36, above and Section 7 of the Supply of Goods and Services Act (1982) (U.K.), 1982, c. 29. Canadian readers should review *Fording Coal Ltd. v. Harnischfeger Corp. of Canada*, B.C.C.A., 6 B.L.R. (2d) 157 (1991) where the implied warranties were not adequately specifically disclaimed.

55. In a recent case, the court had no problem accepting a complete disclaimer contained in a signed contract where the licensee, Firestone, was a large sophisticated corporation. See *Bridgestone/Firestone Inc. v. Oracle Corp.*, No. C-91-1420-DLJ, 2 CCH Computer Cases, para 46,519 (U.S. Dist. Ct. N.D. C.A. 8/1 1991, as digested by Software Law

56. *Bank of British Columbia v. Turbo Resources Ltd.* (1983), 148 D.L.R. (3d) 598 (Alta. Court of Appeal), Oct/Nov 1991 at p. 211.
57. UCC 2-719 (2) as mentioned by UCC Survey, p. 1851.
58. See UCC 2-719(3) as mentioned by Andrews at p. 14. With the U.S. law in mind the Drafter should consider the various tests for unconscionability articulated under Section 2-719(3) as referred by Andrews at p. 14.
59. See Reed, at p. 14. With English law in mind, the drafter should review the standards of "unreasonable" as set out in Schedule 2 of the Unfair Contract Terms Act, 1977.
60. See *Hawaiian Telephone Company v. Microform Data Systems*, 829 F. 2d 919 (9th Cir. 1987).
61. For example, see the Model Software Agreement, Section 6.07.
62. *Ibid.*
63. Ronald B. Coolley, "Importance of Termination Clauses", *les Nouvelles*, December 1990, 169 (hereinafter "Coolley"), referring to *Nicholas Laboratories, Ltd. v. Almay, Inc.*, 723 F. Supp 1015 at 1017-1018 (S.D.N.Y. 1989), *aff'd* 900 F. 2d 19 (2d Cir 1990).
64. Henderson, at p. 79, citing *British Repetition Ltd. v. Formento Ltd.*, [1961] R. Pat. Cas. 222 (Ch.).
65. Coolley, at p. 169.
66. Coolley, at p. 171.
67. Dick, at p. 167.
68. Dick, at p. 167.