

Customer Contracts: the IP minefield part 1 of 3

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This first part of this three part article focusses on ownership of new IP developed for a customer and why it can and should often vest in the software developer. Part 2 will focus on common issues with the licensing of IP, and part 3 will examine the assurances and protections customer contracts commonly require you to provide for IP in the form of warranties and indemnities.

1. If you are a software developer then you're probably familiar with the value and risks attached to intellectual property. You're probably also familiar with reaching the eve of project kick off with a team of developers chomping at the bit, only to have your customer pull out their standard form services agreement.

By the way, we just need to you sign this before things get underway.

Don't worry; it's pretty standard.

2. The terms of a standard customer contract usually offer up a minefield of intellectual property (IP) issues. Ideally of course, it's better to use your own form and avoid this situation in the first place. But that's not always an option. And when it's not, some careful mine sweeping needs to be done.

Ownership of new IP

3. Everyone knows IP can be a valuable commercial asset. IP ownership is usually necessary if you wish to licence, sell and/or protect any related software. But the relative value of IP can be in the eye of the beholder. Or in this case, the eye of the rights holder.

4. Under the Copyright Act 1994, the default position is where someone commissions and pays for the development of new software, they own the copyright. This default position doesn't apply where there is an agreement to the contrary. However a standard customer contract

will almost certainly provide that the customer owns any new IP developed under the agreement. Fair enough, they're paying for it. Or is it?

5. Frequently, software developed for one customer can be reused and enhanced. If a customer contract sets out that the customer will own any new IP, it pays to take stock and test whether that should be the case.

6. We often find that customers are willing to cede ownership to software developers provided they maintain sufficient rights to the new IP. Software developers owning new IP developed for a customer is becoming more acceptable. To illustrate, the retention of ownership by developers is generally backed up by the SSC Guidelines for Treatment of Intellectual Property Rights in ICT Contracts (2008). These Guidelines note that developers are in a better position to commercialise new IP, which can provide increased economic development, and customer ownership is often unnecessary.

7. One key rationale for a software developer, rather than the customer, owning new IP in developed software is that you're probably in the best position to maximise the value of that IP. Your expertise makes you more likely to be able develop a software product from it, licence it to others to utilise, or release it as an open source project back into the development community.

8. From your customer's perspective, if the new IP is also licensed to others they will likely see benefits in improvements made by, and the efficiencies created for, support and maintenance. You could also consider whether it's appropriate

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to provide benefits such as free or discounted additional features and updated releases as they're created for other customers. Offering such commercial benefits where you're retaining ownership, including reduced development costs, can often help appease customer opposition.

9. The key point is that so long as your customer still has sufficient rights to use the new IP, they won't necessarily object to you getting ownership. Customer concerns may be raised, but there are often numerous options to address these (for example, restraints around use of the IP with direct competitors of your customer, and/or a royalty fee arrangement if the IP is re-licensed) without preventing you from taking ownership.

10. Whichever approach is taken to ownership of new IP, it does need to mesh with the licences being granted from all relevant parties. We'll delve into those issues in Part 2.

Conclusion

11. From our experience, it is helpful to have up front discussions with your customer about the ownership of new IP you will develop over the course of a project. If you believe there is a chance your team could further use and develop the new IP that will be developed, but your customer is pushing to own it, then it's worth working this through with your customer to understand why they want ownership. It may be that their requirements, and concerns, can be adequately addressed other contractual and commercial considerations.

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