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Ensure Software Ownership and Licence Detail is Agreed in Writing

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An October 2007 Court decision confirms this. For example, don't just talk about getting a licence. Deal with the detail and extent of the licence.

The issues can be complex and legal advice is recommended, at least when setting up standard form agreements.

Overview of the New Zealand Position

Our Copyright Act has default rules about software ownership and licensing[1].

The developer of the software (or the employer where an employee is the developer) is its first owner. The exception is where the developer is commissioned to do the work. Then the commissioner is the first owner.

The first owner can assign its ownership of the software to a third party. Or it can retain ownership and licence others to use the software.

The relevant Copyright Act provisions are default rules, and can be overridden by oral and written agreements.

Unless there is clear written agreement, things can be messy. In the leading New Zealand case[2], our Court of Appeal said (in a passage also applicable to customers of software providers), that the default position under the Copyright Act:

> *… does not diminish the importance of sound industry agreements. On the contrary, developers would be very well advised to protect themselves by agreement, since otherwise the onus will, in practice, be on them to demonstrate the existence and extent of at least prior rights and the limits of any implied licence.*

The October 2007 Judgment: *Meridian v Richardson*

These situations typically play out in complex scenarios, often involving multiple parties and multiple sources of software. A typical software project could have a combination of newly developed code, library code, proprietary software, software provided by the customer, and/or open source software, etc.

The situation in the October 2007 case was also complex[3]. Although this is a UK case, largely the same principles apply here with one exception. The UK legislation does not have the default provision by which someone commissioning development of software owns the software. The UK default position is that the developer owns it. However, the driver to clarify in writing remains unchanged.

The dispute involved integrated financial forecasting software written for multi-national company, GlaxoSmithKline. The code was cut by Kiwi, Peter Aldersley, under contract for IP Enterprises.

Peter Aldersley and others went to work for a firm called Meridian. There was a meeting in January 2006. Meridian claimed that ownership of the software was assigned to it by an express oral term in an agreement made at that meeting.

What happened at the meeting was disputed. Meridian's evidence was decisively rejected

[1] For more detail, see our article "*Intellectual Property in IT Contracts*" http://www.wigleylaw.com/Articles/LatestArticles/IntellectualPropertyInItContracts/

[2] *Pacific Software v. Perry* [2004] 1 NZLR 164.

[3] *Meridian v. Richardson & Ors* [2007] EWHC 2539.

by the Court. There was not an express term by which ownership of the software was assigned to Meridian.

The first key point is to avoid relying on oral agreements as they can be difficult to prove. The fact of the assignment needs to be documented anyway (as required by the Copyright Act). However, the issues around the detail, noted below, remain.

Assignment by an Implied Term

Meridian then claimed that, in all the circumstances, there was an assignment of ownership to it by way of an implied term.

In broad terms, Courts can imply terms to fill in gaps in contracts.

The key point here is that the Courts are generally reluctant to imply terms into contracts. They only do it when implication of a term is **necessary** to give the agreement business effect. Also relevant is whether the Court considers that a bystander at the time of the contract would believe that **both** parties would have considered implication of the term was necessary. It's not enough that just one considered it necessary.

Here, the Court did not imply a term. For matters to play out satisfactorily from a commercial perspective, it was not necessary to imply a term that ownership of the software was assigned to Meridian.

The Implied Term will be limited anyway

One of the key points, made clear in the judgment, is that, even if a term is implied, its impact will be kept to the minimum possible.

Thus, if what is necessary can be achieved by a **licence** of the software, rather than a full transfer of ownership by way of assignment, there will only be a licence.

Even more significantly, that licence would be kept to a minimum if there was an implied term that there is a licence. If a licence is needed only for a particular purpose (for example to service only GlaxoSmithKline in this instance), the licence won't extend beyond that to enable the licensee to develop and use the software in a wider commercial market.

Not only should software ownership and licensing be documented, real care is needed to state exactly who owns what and the extent and nature of the licence. The Copyright Act in this respect largely comprises default provisions and the parties are free to override them in most instances.[4]

Conclusion

Document intellectual property rights carefully, particularly in the initial stages, as these problems tend to surface only when disputes arise. It can be too tempting to take a risk early on and not worry too much about what happens later. For more detail, see our article, *Intellectual Property in IT Contracts.*[5]

These intellectual property rights are amongst the most important terms in contracts for those involved in software (whether as developers, customers etc).

At least when preparing standard form contracts, the complexities are such that it would be prudent to get legal advice.

[4] Note the special position relating to Crown Copyright referred to in our article noted in the first paragraph.
[5] http://www.wigleylaw.com/Articles/LatestArticles/IntellectualPropertyInItContracts/

We welcome your feedback on this article and any enquiries in relation to its contents. This article is intended to provide a summary of the material covered and does not constitute legal advice. We can provide specialist legal advice on the full range of matters contained in this article.

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