

Software and the Law

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Intellectual Property Rights (IPR)

Contracts and Liabilities

Intellectual Property

Intellectual property is intangible

I can steal your intellectual property by copying it or even just reading it – you still have it

Types of Intellectual Property

- Copyright covers documents, pictures, music and computer programs
- Patents protect inventions
- Trade marks identify manufacturers and suppliers

Intellectual Property Rights (IPR)

IPR exists in various forms and is protected in various ways

Trade marks and patents were subject to laws based on the Paris Convention, 1883

Copyright law is based on the Berne Convention, 1886

Copyright

Copyright protects the copyright owner by requiring their permission to:

- Make copies including downloading web pages
- Giving copies to the public whether or not free
- Adapt a work – including translation to another language

These rights last for 70 years after the author's death

There are no rights against using or publishing identical work provided it is not copied (unlike patent rights) – eg software algorithms

Copyright law allows one copy of software for backup purposes

Programs can be decompiled to find errors or interface other code to it

You can sell your right to use a program

Licensing

Employers own the copyright of work carried out by employees unless some prior agreement exists

Owners of software usually provide *licenses* for other people

These may be to use it or sell it etc

Copyright Legislation

Main act is Copyright, Design and Patents Act, 1988 as amended by

Copyright (Computer Programs) Regulations, 1992,

Copyright and Rights in Databases Regulations, 1997 and

Copyright and Related Rights Regulations, 2003

Patents

Patents are granted by a state to safeguard an inventor from other people exploiting their invention without permission

UK Patents Act, 1977 allows a patent if an invention is:

- New
- Involves an inventive step
- Capable of industrial application
- Not in a specifically excluded area

Exclusions

Patents Act, 1977 excludes:

- Scientific theories
- Mathematical methods
- Literary, dramatic, musical or artistic work
- Presentation of information
- Scheme, rule or method for performing a mental act, playing a game or doing business or a *program for a computer*

Patent Process

Patents must be obtained (unlike copyright)

Granted by national Patent Offices

European Patent Office and World

Intellectual Property Organisation simplify the process of obtaining patents in multiple countries

Enforcing a patent is often difficult and very expensive which seriously disadvantages small companies up against multinationals

Software Patents

US Patent and Trade Mark Office refused to grant patents on software until 1981

US Supreme Court ordered the award of a patent on a piece software which

- Is part of patentable device
- Controls a process that has some physical effect
- Processes data arising from the physical world

In Europe there is no clear position as the European Commission's proposal were made unusable by amendments by the European Parliament

Background

It is unreasonable to deny a patent on a device because it is partially implemented in software which if implemented entirely in hardware would be allowed. Patents encourage investment in research by creating corporate assets and hence shareholder value

However allowing patents on software would be likely to restrict innovation by small companies because of pressure from large ones and vast amounts of software already exist about which details are at best sketchy for a “prior art” defence. Finally the industry has done fine so far without!

Trade Marks

All major businesses have trademarks by which they identify themselves and especially their products and services

Trade Marks Act, 1994 made it an offence to:

- To use an unauthorised trademark
- Sell goods bearing an unauthorised trademark
- Import or export goods bearing an unauthorised trademark
- Having, in the course of business, goods bearing an unauthorised trade mark

Passing Off

Trademarks do not need to be registered to have some protection

Civil courts can be used to prevent and seek damages for “Passing off” – making a product which looks like another (better) product

Trademark registration is a better protection since it involves a criminal offence

Domain Names

Originally just a short hand way to find a web site, domain names are now almost as important as a trademark.

They regularly feature in advertising and e-commerce.

A new form of “passing off” was created by third parties registering trademark names as domain names – cyber squatting

Following a 1999 WIPO report, ICANN established a Uniform Domain Name Dispute Resolution Policy (UDRP) which includes specific provisions against cyber squatting

In 2001 this was extended to include non trademark names, such as individual people or geographic areas, being used by people with no connection with the name. This is trickier than trademarks since there is no international framework to underpin deliberations.

What is a Contract?

An agreement between two or more parties

- legal or natural persons

Subject to:

- All parties intending to make a contract
- All parties being legally competent
- Must be a “consideration” – ie a “deal” for all parties

Software Contracts

- Bespoke systems
 - Fixed price
 - Time and materials
- Consultancy and Contract Hire
- Outsourcing and Offshoring
- Licence Agreements

Fixed Price Contracts for Bespoke Systems

Three parts to a typical contract

1. Short Agreement – specifies parties and states that anything written or said before is NOT part of the contract
2. Standard Terms and Conditions
3. Set of Schedules or Annexes specifying
 - What is to be delivered
 - When
 - What payments are to be made
 - Etc.

What is to be Produced?

Contract refers to the standard Terms
Standard Terms refer to Requirements
Specification
Specification needs to set out detailed
requirements of the client
It should be complete, consistent and
accurate
However this is very difficult to achieve

Requirements Drift

Requirements may evolve during project

How can we incorporate changes?

Contracts must provide for changing the specification including

- Charging for making changes
- Possibly amending performance specifications and related acceptance testing

What is Delivered?

Contracts are usually for an installed system and so can include:

- Source code
- Command files to build and install code
- Documentation of design and code
- Reference, training and operations manuals
- Software toolkit
- Training of systems staff, users etc
- Supply of test data and results

Ownership & Confidentiality

Contracts should state legal rights of parties to finished work at the end of the project

Usually the software house passes ownership of everything to the client

Building IT systems for a client leads to both parties obtaining confidential information about each others businesses and business methods.

Each party normally promises to respect the others confidential information

Payment Terms

Normally the standard terms & conditions will apply, typically:

Payment within 30 days of invoice or if payment is delayed the contractor may terminate the contract or charge surcharge such as base lending rate + 2%

Payment for a project will be staged – not least to pay the staff salaries - such as

- Initial payment of 15%
- Staged payments up to 65% of total projected cost
- 25% on acceptance
- 10% “retention” payable at end of warranty period

Delays and Changes - 1

Clients failing to meet obligations on time lead to delays and additional costs for supplier

Contract must provide for calculating cost of unrecoverable delays

Typically Annex to contract will give day rates for staff and extra charges will be agreed at progress meetings

Such payments are a frequent cause of legal disputes!

Delays and Changes - 2

Delays can be caused by Suppliers and incur Penalty Charges

Contracts will have delivery schedules

Over-runs can lead to deductions from the fee of a cash sum per week

Not often used because:

- Suppliers not keen!
- Suppliers will inflate the (fixed) bid price
- Serious delays can lead to suppliers walking away since no further payments are due

Over-runs reduce suppliers profit margins and this is usually sufficient incentive to deliver on time

Client's Obligations

Contracts must specify what client must provide:

- Documentation of activities relevant to project
- Access to relevant staff
- Machine facilities, network links etc
- On site facilities and support

Project Management

Parties must agree on:

- Software supplier's design and development methods
- Quality assurance methods to be used
- Progress meetings and reporting
- Project managers and client contacts

Acceptance and Warranty Period

Acceptance procedures must be defined at the outset

At start of Acceptance, client should provide a fixed set of acceptance tests and expected results

Client cannot add extra tests later – thus delaying completion unreasonably - except by mutual agreement

Warranty periods are normally 90 days – within which errors will be corrected free of charge

Subsequent “maintenance” is usually on a time and materials basis

Other clauses

Indemnity – each party may cause the other to infringe a third parties rights so both parties indemnify each other against any liability

Termination – contracts may need to be terminated and conditions must be set in advance and cover finance, notice, ownership of the incomplete work

Arbitration – commonly the Presidents of the BCS or IEE are named as arbitrators in contracts and both maintain lists of suitable experts

Applicable Law – under which legal jurisdiction is the law written, eg English, Scottish, US states etc

Consultancy and Contract Hire

Contract Hire involves supplying staff to a client to work on a project managed by the client – “body shop”. Similar to freelance or contract work.

Consultancy operates on a similar basis although they often specify a requirement. Issues to be covered in contracts are:

- Confidentiality
- Terms of reference
- Liability
- Ownership of final report

Time and Materials or Cost Plus

Similar to fixed price bespoke contract but charged on hours worked

Why would client accept such a contract?

- Suppliers won't tender for a fixed price
- Work insufficiently specified

Risk can be managed by having agreed milestones and termination clauses

Risks are shared between client and supplier

Outsourcing and Offshoring

IT services have always been purchased from third parties, such as computer bureaux, software package suppliers, software houses

In early 1990s some companies and government departments handed over the whole of their IT departments to third parties such as EDS and Accenture

Experience has been varied but many commercial companies discovered that

- Fast IT innovation gave them competitive advantage
- While outsourcing meant predictable running costs, development costs soared and
- Lead times for new developments were too long

Some organisations have brought their IT (all or some) back in house

Recently growing competition from Indian and other IT service suppliers moving complete IT functions out of the UK

Licence Agreements

When you buy software, you buy a copy of the software and the right to use it

Restrictions are placed on its use, for example:

- Single user licence, eg computer game
- Server licence for limited number of users
- Site licence to cover all users of system

Defective Software

Software almost invariably contains bugs

Suppliers try to limit their liability

Unfair Contract Terms Act 1977 prevents
such a defence against death or personal
injury

Defective Software

Sale of Goods Act 1979 and Supply of Goods and Services Act 1982 apply to software

Sale of Goods Act requires that a product is “fit for purpose” but applies to consumer sales only – not business sales

Also it has never been established in the UK that software comes under the heading of “goods” although it is assumed “shrink wrap” would be covered

Supply of Goods and Services Act 1982 would apply to all sales but only requires “reasonable skill and care” which would be hard to disprove in court

Summary

We have looked at:

- Contracts for the supply of software
- Considerations around the supply of software
- Legal use of software
- Intellectual Property Rights
- Software patents
- Trade marks and their protection