

Business and Community Engagement



Case Study: Copyright and Software Design

This publication is aimed at UK further and higher education staff working in areas related to knowledge transfer, work based learning, community links, outreach, CPD, employer engagement, wider participation, and lifelong learning.

It is one of a series of publications produced by JISC Legal to raise awareness of the potential legal issues related to the use of technology by colleges and universities in relation to their business and community engagement activities.

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Introduction

This case study considers some of the copyright issues which can arise when a college or university is engaged to design software or a website for a company.

Background

Rob is a lecturer in the University of Nowhere's computing science department. The department has been trying to build links with the business community and has been heavily marketing the services which it can offer to local businesses.

Stage 1 – Bespoke Software

The department has been approached by a company in relation to two specific projects.

Good Snacks Limited want the University of Nowhere to design and produce new bespoke stock management software for it - the system should capture stock received, monitor stock levels and lead times, and report on production, costs and wastage. It also has to be able to interact with Microsoft office and interrogate the company's supplier/customer database (which is run using Microsoft Access). The company also wishes the University to design a website for them.

Rob has been asked by his head of department to deal with these projects. This type of project is generally managed at a department level - the Commercialisation office usually only gets involved where patents are an issue.

Whilst many institutions have dedicated Commercialisation offices, these offices sometimes tend to focus on patents and trade marks rather than copyright based products or services (i.e. software development, web design, graphic design, training etc).

Copyright work may have significant commercialisation potential - if an institution does not have procedures in place to identify, manage and exploit copyright works, it could be missing out on these commercialisation opportunities. So, for instance, a computing science department may create a new software application which could be of use to the business or social communities. If however there is no internal procedure for identifying that work and assessing its potential, it may never be exposed to the market or may not be exploited to its full potential.

The other benefit of copyright is that protection is immediate – as soon as the work is created, it is protected by copyright. There is no requirement to apply for registration or wait for the right to be approved.

There is also the issue of infringement to consider. The work which is being produced (i.e. software or a website) may incorporate material which belongs to a third party, such as code, text or graphics. If there is no mechanism to check for third party material and obtain clearance (where required), the institution risks being sued for copyright infringement and being the subject of bad publicity.

Stage 2 – The Contract

Rob is quite happy with the software design aspect - after all, in addition to his teaching function, his contract states that his job includes commercial software design. He is not so comfortable however with the web site design as this is not really his area. His plan though is to engage a friend of his, on a consultancy basis, to deal with that part of the project.

He has a quick look over the contract which, to his untrained eye, looks ok. It sets out what the software must be able to do, the company's requirements for the

website, the delivery dates for each stage of project and the price.

The contract states that all intellectual property rights in the stock management software and website will belong to the company and that the institution will do all that is necessary to transfer the rights. There is also a warranty that the software and website will not infringe any third party's rights, with an indemnity in the company's favour to the extent that it incurs any loss or damage as a result of any such infringement. There are also a number of confidentiality provisions covering the project itself, the company's systems and its information and the software.

Where an employee creates a copyright work in the course of his/her employment, that work will belong to the employer. In this case, Rob's job description covers his teaching function, but also extends to commercial software development. So the development work which he carries out for this project will be in the course of his employment and the rights in the software which he creates will belong to the University. If Rob had created the website (rather than engaging Betty to do it) he may have owned the copyright in the site as web design was not part of his job description.

Rob's decision to engage Betty also raises issues of copyright ownership. When you engage a third party to create some work for you, the third party will own the rights in that work. So if you instruct someone to design your organisation's website, that person will own the copyright in that site even though it was designed at your request and you paid for it. Similarly, if you sub contract a particular piece of work to a third party (i.e. the design of graphics for the website), that party will own the rights in the work which they create. Ideally, when a third party is so instructed (either as main or sub contractor), the engaging party should ensure that the consultant transfers the rights to him/her/it by way of an assignment (assignment in Scotland). This means that the engaging party becomes the owner of the rights in question. This is discussed further later in the case study.

The contract should have been reviewed by the University's contracts manager, lawyer or someone from the Commercialisation office. Rob does not have experience of commercial documents of this nature and casting an "untrained eye" over it is not sufficient. Where this type of contract is produced solely by the customer, it will inevitably be heavily weighted in their favour and may place onerous obligations on the institution. At this stage the onus is on the institution to negotiate a more favourable position.

Leaving aside the essentials of the contract (who, what, where, when and how), the provisions mentioned above do have certain implications. The company is requiring that all IP rights in the software and website are assigned to it – in other words, the company wants to acquire ownership of the rights. In this situation the institution should be considering whether it can transfer the rights in this manner (i.e. does it own the relevant rights absolutely) and whether it wants to. For example, it may have used some of its own existing IP (background IP) in the software and/or website. Alternatively, it may wish to use parts of the software and/or the website for teaching purposes or other projects in the future. It would be inadvisable to

simply sign everything away without considering these matters.

Also, the institution is specifically confirming by way of the warranty that the work produced will not infringe any third party's rights – but have any clearance checks been performed? Does the institution know whether any third party material has been used? The institution should only give this (or indeed any) warranty if it is sure of and can verify the issue being warranted.

Stage 3 – Ownership of Work

The project commences and Rob starts work on the software. As the system is being tailored to the company's activities, a large amount of the code is being written from scratch. He does come up against a problem with the reporting facility but he gets round this by "borrowing" some code from a similar project which he was involved in at his previous institution. Thankfully, he had kept a copy of the code, just in case he ever needed it. The final hurdle is to ensure that his new software can interact with Microsoft office and interrogate Microsoft Access. As Rob does not have access to the Microsoft source code, he has to reverse engineer the software to consider its functions and interfaces.

Software is a literary work for copyright purposes. So, in developing this new software, Rob is creating a copyright work. As discussed above, as he is doing this in the course of his employment, the copyright will belong to the University.

There are two principal issues here. Firstly, he has "borrowed" some code from a project which he was involved in at his previous institution – but does Rob have any right to use this code or even have a copy? The code may belong to his previous employers or may have been assigned to a third party (i.e. the party for whom the code was written). In these cases, Rob would only be able to use (or indeed have a copy of) the code if he had been granted some right to that effect. In the absence of any such right, borrowing the code would be an act of copyright infringement. If the code was incorporated into the software being developed for the project, it would render the institution liable for the infringement. It would also breach the warranty given by the University that the software and website will not infringe any third party's rights.

The second issue concerns the reverse engineering of the software to determine the source code. Copyright legislation in the UK does permit decompilation by a "lawful user" where the objective is to ensure that the program being decompiled is interoperable with an independent program which is being created. This is the case even where the licence prohibits decompilation.

So in this case, it may be legitimate for Rob to decompile the Access application to ensure that the software which he is developing for Good Snacks Limited does indeed operate with it. Such decompilation however must be necessary to obtain the information which is required to create the independent program (i.e. it is not readily available to the decompiler) and the

information may not be used for any other purpose.

To benefit from this carve out, the decompiling party must be a lawful user. The legislation defines this as a person who has a right to use the program in question, whether under licence or otherwise. If the version of Access (or indeed any other software) which Rob is using is subject to an academic licence, then his use for commercial purposes will fall out with its scope, in which case he may not be regarded as a lawful user for the activity in question. Such use for a commercial purpose could also expose the institution to an infringement claim.

Stage 4 – Third party Involvement

In the meantime, Rob's friend Betty is working on the website. Rob has agreed to pay her £1000 for the job and they have now shaken on the deal. As Betty is pushed for time, she decides to use some graphics which she found on the internet. Betty also uses some text from another company's website. As the companies do not operate in exactly the same market, she doesn't think that the other company will mind.

Whilst Rob has engaged Betty to design the website, there does not appear to be anything in writing which transfers the copyright from Betty to the institution. Accordingly, Betty would retain the rights in the site when it is created.

This could place the institution in a rather tricky position. The institution has a contractual obligation to the company to transfer the rights - but the rights in the website are owned by Betty, not the institution. Accordingly, the institution would have to try and convince Betty to sign the rights over. If Betty was unwilling to do so, the institution would be in breach of contract and the company would not acquire ownership of the site. Rather, the company would only obtain a very limited implied licence to use the website.

The other issue is that Betty has used graphics and text which may infringe third party copyright. It is not clear whether the graphics were copyright cleared but, judging by Betty's naivety as regards the website text, it is perhaps safe to assume that they were not cleared. This means that the University could be liable for that infringement either directly, if the third party sues the institution directly, or indirectly, to the extent that the University has to indemnify the company for any loss or damage which it incurs as a result of such infringement. Either way, the position from the University's point of view is not an attractive one.

Checklist - Copyright and Software Design

- 1 Don't agree to anything and certainly don't sign anything without authorisation.**
- 2 Seek advice from the relevant department or person in your institution.**
- 3 Make sure that the contract is in writing and that its terms are clear and specific (who, what, where, when, how and how much!).**
- 4 Know who will be involved in the project.**
- 5 Establish who will own the IP which is created during the project.**
- 6 Take steps to secure the rights from those involved (i.e. staff (if out with normal duties), students, consultants).**
- 7 Know what third party material is being used and make sure that you have the right to use it for the project.**
- 8 Know what material is being used or provided by third parties and make sure that they have the right to use it.**
- 9 Be clear about any restrictions on future use of the material and any confidentiality provisions.**
- 10 Be careful with warranties - make sure that you can confirm/verify the issue being warranted.**

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