

# SOFTWARE AND IP DISPUTES

22 October 2020

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# WHY IS THIS IMPORTANT?

- There is now a **greater reliance** on technology and software than ever before. Every business is dependant on software in some way.
- A **greater number of disputes**, particularly in challenging times where businesses are having to be flexible and adapt.
- **Software is often at the heart of business projects**. Many businesses are looking to enforce their legal rights, to protect their position and the investments they have made.
- An increasing number of clients are **receiving audit requests** and/or **under-licensing allegations** from suppliers, often in cases where their use of software has changed as a result of COVID-19 (for example, remote working).

# WHAT TO WATCH OUT FOR

## IP & SOFTWARE CLAIMS

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graph TD; A[IP & SOFTWARE CLAIMS] --> B[Employee Claims]; A --> C[Partner Claims]; A --> D[Supplier Claims];
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### Employee Claims

- Ownership of IP claims
- Software/ IP developed in previous employment
- Restrictive covenants

### Partner Claims

- Lack of contract/ clear terms
- Restrictive contractual terms/ obligations
- Ownership of IP

### Supplier Claims

- Licensing / Use
- Maintenance & Support
- Audits
- Updates to contractual terms

# TOP 5: FREQUENTLY ASKED QUESTIONS

1. Our business has paid for software to be developed - do we now own it?
2. An employee is claiming that he/she owns our software – is that right?
3. Our software provider says that we don't have enough licences to cover our use, and that we need to pay £X for additional/premium licences. What should we do?
4. We have received an audit request from a software provider. What actions should we take?
5. Our software provider says they will switch off the software unless we pay up. Should we pay or resist?

# SOFTWARE

- What is software? Often interpreted as meaning a computer programme
- A **set of instructions** which a computer uses to **carry out acts or functions**
- The key aspect of software is **source code**. Needed to fully understand a programme, to correct bugs and to allow interface with other programs
- **Source code is protected by copyright** as a literary work under the CDPA 1988. Copyright also protects design materials for computer programmes
- Other IP rights are also relevant to software, particularly **trade marks, design rights** and **confidential information**
- Focus of today's session will be on copyright and the importance of contractual protection

# COPYRIGHT: OVERVIEW

- **Originality:** author's own intellectual creation, created through his/her own skill, judgment and individual effort - must not have copied it from other works (s.1(1)(a), CDPA 1988)
- Copyright protects **expression, not ideas**
- Ideas and principles which underlie any element of a computer program (e.g. functionality) are not protected by copyright
- **Creator owns copyright**, absent assignment
- **Employer owns copyright**, if created in the course of employment (s. 11(2) CDPA 1988)
- Software **supplier/consultant owns copyright** - unless the contract says otherwise

# COPYRIGHT INFRINGEMENT

- **Owner** of a copyright work has **exclusive right** to copy work and/or adapt work
- **Copyright infringement – qualitative test** (*Designers Guild Limited v Russell Williams (Textiles) Limited, Designers Guild Ltd [2001]*): assessing what has been copied based on the skill, design and coding that went into the piece of code alleged to have been copied
- **Infringement** could include **reproducing** work in any material form or **storing** work by electronic means. **Copying can be inferred** if infringement is striking
- Loading or running a computer program can also amount to unauthorised copying
- **Certain acts are permitted** (e.g. backup copies for lawful use, decompilation if necessary to create another program to operate with the first and study/testing to determine ideas/principles)



# CONTRACTUAL PROTECTION

- **Contractual provisions** will usually govern IP ownership
- Important to **consider ownership position at the outset** of a project, particularly in relation to bespoke software (customer portals or apps). How will the software be used in the longer term?
- Does the contract provide for an **assignment or licence**? If a licence – what is the scope? (perpetual, exclusive, transferable, permitted use?)
- What is the Court's approach if there is **no written contract**? It is very rare for a Court to imply an assignment (*Destra Software Ltd –v- Comada (UK) LLP & others*). A Court may imply a licence but this will be narrowly construed (*Clearsprings Management Limited v (1) BusinessLinx Limited and (2) Mark Hargreaves PMCLR February 2006*). Will this be sufficient?
- Contractual protection is vital

# CASE STUDY 1: OWNERSHIP – THIRD PARTY DEVELOPER

- Customer asks third party developer to create and maintain bespoke software and customer portal based on customer's instructions. 10 year relationship.
- Customer sells software to its own clients via website
- No signed contract (drafts only), items for work charged for on time basis
- Payment dispute
- Developer purports to terminate contract on 2 weeks' notice and sues for copyright infringement and breach of contract
- Customer retains source code on its servers and modifies code
- Developer launches competing system using same code

## Key Questions:

- Who owns the copyright in the software?
- Can the customer stop the developer using the bespoke software?
- Is the customer infringing copyright?
- What is the practical implication of this dispute?

## CASE STUDY 2: OWNERSHIP - EMPLOYEE

An **employee develops a basic software tool** as part of academic research. The employee introduces the software to their new employer and continues to develop it. The software tool is then recognised as commercially valuable, and the employee claims ownership.

### Key questions:

- Who owns copyright? (Employer v Employee)
- What do employment terms say? Employee contract / handbook
- Evidence?
- When / where was it created?
- Where is it stored?

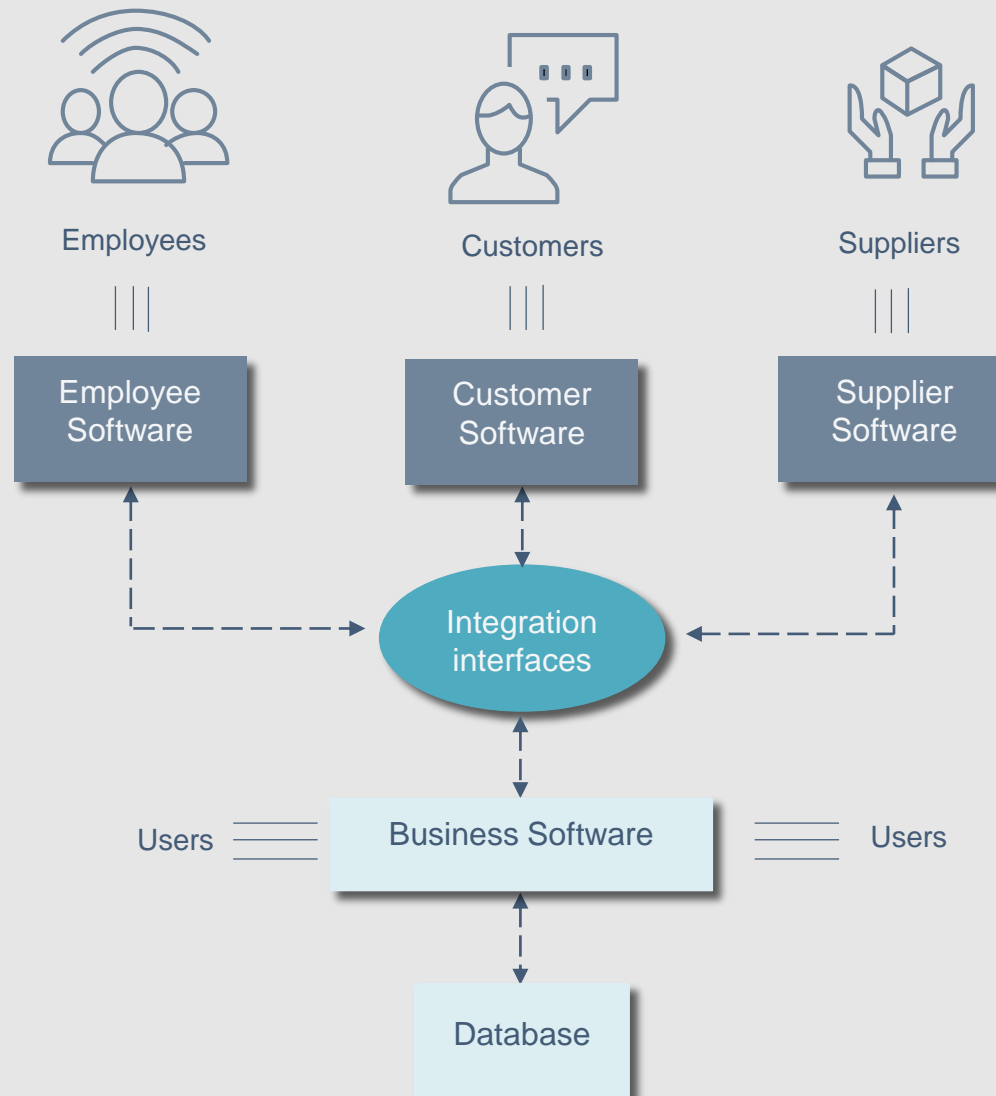
# SOFTWARE LICENCES: OVERVIEW

- **Every business that uses software** will have software licences
- It's vital to **understand your licence terms**. Metrics are often based on use, volume and/or location. **Different metrics will often apply** to different pieces of software
- The costs of the licences to operate your IT estate could be **£ millions – but beware of being overcharged**
- Compliance is **frequently audited by suppliers** and claims based on alleged licence deficiencies can be substantial
- COVID-19 has significantly changed the ways that many businesses use their software. Does your use align with the contractual terms that you have in place?

# SOFTWARE LICENCES: KEY CONSIDERATIONS

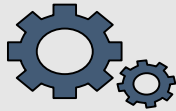
- What **contractual terms** do you have in place with your supplier?
- Do the same terms apply to all of your software, or have updated terms been agreed through further orders? **Incorporation is key.**
- It is important to establish the **nature of the software/licences**:
  - Off-the-shelf / minimal configuration?
  - What is permitted use? Is it important to track against actual use?
  - What licence model is used? How many users? What is the volume?
  - What is the enterprise? Is it unrestricted?
- Consider **indirect use.**

# INDIRECT USE OF/ACCESS TO SOFTWARE/DATA



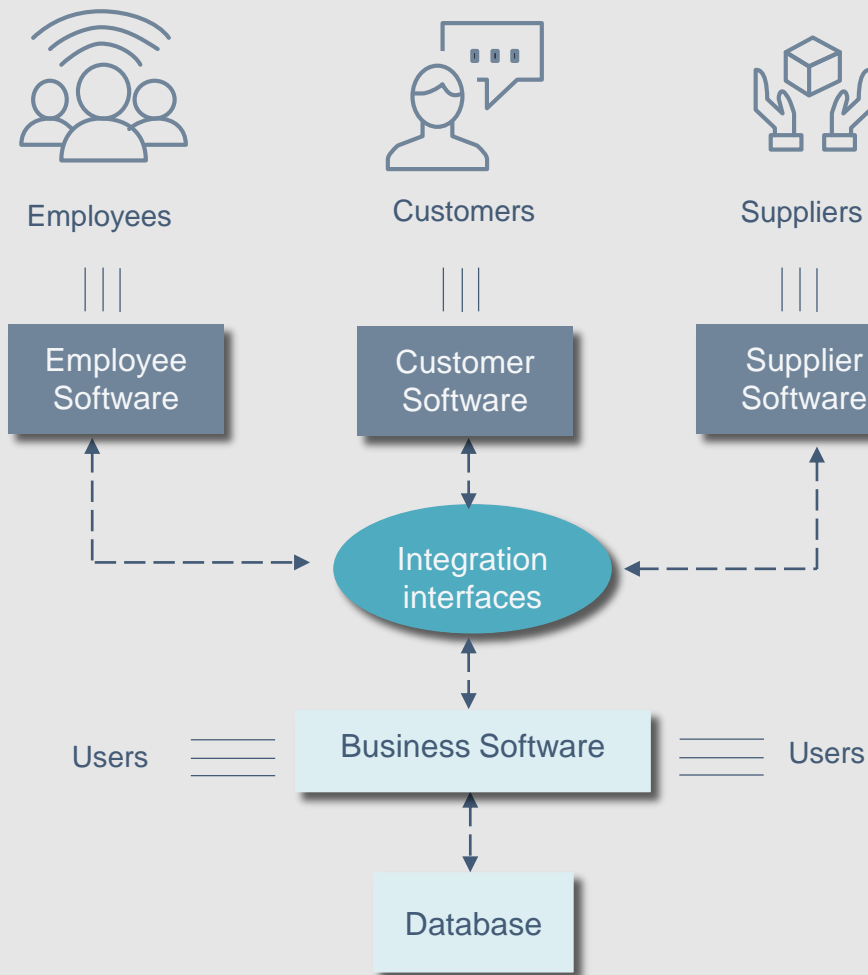
# LANDMARK CASE ON SOFTWARE UNDERLICENSING: SAP -V- DIAGEO

## ISSUES



- Original contract
- Variations/updates
- Additional orders
- Third party software/consulting arrangements
- Audits – internal and external
- Conduct/payment profile
- Licence/user categories
- Flex/transfers
- Prices/discounts
- Support and maintenance fees
- Configuration(s)
- User/data issues
- Local/global co-ordination
- Trusted advisor/Roadmap engagement
- Future planned development/integration/roll out

## Indirect Use/Access of Software/Data



## SOLUTIONS



- Initial contract drafting
- Team briefing
- Internal governance/roles and responsibilities
- Comms co-ordination
- Ongoing project management
- Regular review of/advice on user/volume/structure management
- Contract renegotiation/variatioins/updates
- Legal assessment of current estate and/or future plans
- Audit request handling – internal and external
- Disclosure/data request response
- Behind the scenes guidance/risk reduction
- Protection of internal review/external consulting
- Dispute escalation/resolution

# AUDITS

- Software suppliers typically include a **clause in the contract** which allows **regular auditing** of the licensee's use of the software
- Case law is clear that audits should not be used as **“fishing” expeditions**. Scope should be limited to verification of use. Does the proposed **scope of audit align with the contractual terms** in place? What about **confidential information**?
- Carefully consider volume/location/simultaneous number of licenses being used. Are there steps that can and should be taken ahead of an audit?
- Audits conducted by the supplier or a third-party audit partner (onsite or remotely).



# CASE STUDY 3: AUDITS

A supplier exercises an audit right in the contract, and seeks information from a junior member of the customer's team, which is provided. The supplier then alleges that more than £10m is owed, based on the alleged use of software – and threatens litigation.

## Key Questions:

- Is the information provided by the team member correct?
- Is the supplier's understanding of your IT architecture correct?
- What is the correct contractual position?
- Is this the first audit? Have previous audits / negotiations taken place?
- Are there any clauses in the contract that you can use for leverage?
- Commercial leverage?

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# AUDITS: KEY CONSIDERATIONS

- The **contract is the starting point** for any dispute/negotiations
- Treat audit requests and information requests carefully, with **agreed lines of communication**
- Review earlier discussions/outcomes
- Involve **technical teams** as early as possible
- Take time to understand how the software is actually being used
- Consider whether **reconfiguration/remix rights** can be used

# WHEN SOFTWARE PROVIDERS INCREASE THE PRESSURE

- Business depend on software operating correctly
- Software providers could threaten to turn off software/lock the customer out of access to data, if payment is not made swiftly, where infringement / underlicensing is alleged
- Aggressive tactic / recognition of software dependence
- **Payment** = business continuity
- **Non-payment** = business disruption / reputational damage / possible financial ruin? Not necessarily

## CASE STUDY 4: THREAT TO SWITCH OFF / LOCK OUT

- A retail business purchases **software to operate its tills/self service check-outs**, together with software and maintenance services. Ownership of the business changes hands.
- The **licence fees continue to be paid** by the business on a monthly basis, and the supplier continues allowing the business to use the software and continues providing maintenance/support.
- The supplier subsequently alleges copyright infringement and **threatens to remotely switch off its software** unless a further payment is made as a **one-off "licence" fee**.
- If the supplier switches off the software, the **business will be unable to process/conclude purchases** in any of its stores nationwide.

## CASE STUDY 4: OUTCOME

- A **switch-off** would severely disrupt the business' operations, preventing it from concluding sales and damaging its reputation.
- The business has no alternative but to seek an **urgent mandatory injunction** to require the software provider to keep the software running.
- The injunction is granted and **prevents the IT supplier from pursuing its threatened action**, ensuring business continuity.
- The business negotiates a **variation to the existing contract** between the parties (with greater clarity) on **favourable terms**, including continued technical support and maintenance and streamlined future transition to an alternative supplier.

# THREAT TO SWITCH OFF: KEY CONSIDERATIONS

- Key questions for the Court:

- Is there a serious issue to be tried?
- Will damages be an adequate remedy?
- Balance of convenience?

- Practical considerations:

- Involve the legal team and internal technical team ASAP
- What is the nature of the threat and what is the deadline?
- Can the vendor switch off the software? What is the risk to the business?
- Contract vs allegations – do they marry up?
- Sufficient detail to the allegations? Do we understand the position? Can the software vendor be talked down (with legal input)?

# TOP 5 TIPS: WHAT YOU NEED TO KNOW



- Get a signed contract. **Revisit the contract** regularly to see if it is **still fit for purpose** for your IT requirements.
- **Don't assume** that, because you paid for bespoke software, you own the software or have an exclusive licence to use it.
- **Beware of automatic monitoring/auditing software** that can detect unauthorised access.
- Get a **clear understanding** of **how software is being used** by the business and whether changes are required.
- Make sure IT knows that they must **contact Legal team prior to responding to supplier requests**. Don't simply pay up or seek to negotiate/concede ground until/unless you have sought legal advice.



***Questions?***



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