IP Service Contracts

Issues to Consider
Particulars of Mobile Development
Sample Contract

Chris Koeberle, J.D.

Why Form a Contract?

- Contracts facilitate commerce.

- Without a contract, trades must be simultaneous and instantaneous.

- Contracts let people allocate liability before things go wrong.

- Perhaps most importantly, contracts allow negotiations to take place while each party still believes they have something to gain.

Why Sign a Written Contract?

- Oral contracts are binding, with some exceptions – but they're always a bad plan.

- Written contracts

  - are binding even when oral contracts wouldn't be.

  - provide firm evidence that all parties intended to form a contract.

  - give both parties a chance to contemplate what might go wrong.

What Might Go Wrong? (1/2)

- One party might not perform.
  - Services or goods might not be provided.
  - The buyer might not pay on time.
- Others might object.
  - Creditors might seek to prevent payment.
  - App purchasers might be dissatisfied or sue.
  - Software might infringe on IP rights of others.
- Things might go too well.
  - Dispute over copyright or patent ownership.
  - Ongoing maintenance might last forever.

What Might Go Wrong? (2/2)

- The intent of the contact might become impossible to fulfill.

  - Apple may change their approval policies in such a way that an app can never be approved.

  - Android may fall victim to Oracle's lawsuit.

- One of the parties might get bought out.

- The parties might disagree about what was supposed to be done.

- The contract might become much more expensive than anticipated.

Who Writes the Contract?

- Ideally, a contract is written by an attorney who carries malpractice insurance retained by the party with more money.

- If the contract is ambiguous, it will be interpreted to the benefit of the party who did **not** write it.

- Form contracts are helpful, but be cautious:

  - Minor changes to language can be disastrous.

  - It's not always obvious who benefits from a clause.

Ensuring Performance

- The contract should specify what each party must do, and what happens if they fail.

    - It's best to be as specific as possible about duties.

    - It's also best to specify remedies.

        - If you can put a dollar amount on it, that's best.

        - If not, the remedy should be something the court can order. Courts can order people to hand over property, but generally can't order them to do work.

- Related sections:1.1, 1.4, 1.7, 2, 3, 4

Getting it Done Right (1/2)

- If they don't say anything, contracts are likely to create implicit warranties.
    - These warranties often favor the buyer.
    - Tangible products carry more warranties.
    - Some implicit warranties cannot be disclaimed in all jurisdictions.
    - It's still best to attempt to disclaim all warranties.
- Related sections: 7, 8, 9, 13

Getting it Done Right (2/2)

- For software development, it's better to specify how defects will be addressed.

  - It's difficult to define "defect." If an app meets all the specifications, but incidentally deletes the entire contact list, is it "defective"?

  - Developers would prefer a narrow definition, as in the sample contract.

  - No one intends to ship a product with defects, but should rare intermittent crashes in limited circumstances prevent final approval?

- Related sections: 1.2, 4.4, 4.5, 4.8, 9

Getting it Done on Time (1/2)

- The contract must specify not just a deadline, but what happens if the deadline is not met.

- Late payments generally just accrue late payment fees, and allow development to stop.

- On a fixed price contract, delayed payment and termination of contract may be enough to ensure prompt performance by developer.

- Hourly contracts may need additional incentives to meet schedules.

- Related Sections: 1.5, 2.7, 4.7, 4.8, 4.9

Getting it Done on Time (2/2)

- Many development contracts involve two phases – developing the specification, and then writing the application to that specification.

- This can be handled with two separate contracts, or by attaching the specifications and schedule to the executed contract once they're approved.

- Related Sections: 3

Bringing it to Market

- For mobile app development, the contract should specify who will maintain the app on the relevant markets.

- On the iPhone store, the contract must account for the possibility that the app will not be approved immediately – or ever.

- Any mobile development contract ought to contemplate the possibility that the product will be rendered obsolete.

- Related Sections: 2.1, 4.6

Who Owns What?

- Mobile development can involve copyright, patent, trademark, and trade secrets. Contracts must spell out the rights in each of these.

- The easiest case is to treat all work as a work for hire, and assign all rights to the buyer.

- Often, the developer would prefer to retain rights to libraries and patentable inventions. Narrowly specifying what is included in the libraries may make this an easier sell.

- Related Sections: 1.3, 1.4, 5

Third Parties (1/2)

- If third-party libraries will be used, the contract should detail who is responsible for misuse of those libraries. This might be the buyer.

- The contract should detail what types of lawsuits each party is responsible for and allow that party to participate in its own defense.

- Unexpected situations should be allowed to fall through the cracks – blanket transfer of liability is almost certainly a bad plan.

- Related Sections: 8, 9

Third Parties (2/2)

- For commercially released apps, the end user is also a third party to the contract.

    - Both the buyer and the developer could conceivably be liable to an end user.

    - Unless one party wholly indemnifies the other against end-user complaints, both parties have an interest in a EULA.

    - Even a well-drafted EULA is unlikely to be effective against a minor.

- Related Sections: 9.3

Money

- Even if the intent is for the estimate to be a firm estimate, it's best to include a section similar to 2.2 which allows the developer to ask for more money – this allows the contract to go forward if something unforeseen arises.

- For apps which will be sold to consumers, compensation on a percentage basis might make sense. Be careful with this language – be clear if the percentage is taken before or after the market takes its percentage.

- Related Sections: 1.8, 2, 4.3, 11.1

Confidentiality

- The existence of the contract, its terms, any IP that's needed to develop the product, and any IP created in the course of development may be kept confidential by one or both parties.

- Even if nothing is intended to be confidential, the parties should agree to return each others' proprietary information at the end of the contract.

- Related Sections: 10

Ongoing Maintenance

- From the developer's standpoint, the easiest way to handle it is to treat everything as a new enhancement or modification after final approval.

- With new operating systems and hardware appearing regularly, maintenance after final approval may be costly and involved.

- Third party libraries may also complicate ongoing maintenance.

- Related Sections: 4.2, 4.3

Miscellaneous

- It's best to wrap up as many loose ends as possible.
  - Often, small items like CDs and printouts will change hands. It's best to account for these in the contract, as in section 6.
  - Both parties should require the other to state that they have the right to enter into the agreement, as in section 7.
- Any developer should disclaim lost profits, special and consequential damages, and reserve the right to mitigate damages, as in sections 9.1 and 8.4.

Parting Ways

- Any party who is paying money should have the right to terminate the agreement without cause, given sufficient notice, and a possible payment of a penalty.

- If one party breaches the contract, the other party should be allowed to terminate the contract and still seek other remedies.

- Don't assume that the buyer has to use the software or that the developer won't write other software.

- Related Sections: 2.5, 2.6, 11

When Things Go Wrong

- Some people prefer mandatory arbitration, but it has drawbacks, and in some situations can be more expensive than court.

- A choice of law clause is also helpful, especially if parties reside in different states. However, Texas does not offer particularly favorable law for contracts of this type.

- Again, if things go terribly wrong, it's almost certainly going to court regardless of what the contract says.

- Related Sections: 12