

## **Commercial Exploitation of Computer Software Developed at Government Expense**

[CEL Agreement No. CEA/0633/17/18]

Project Team Details:

This AGREEMENT is made the [.....] day of [.....] 20[.] BETWEEN THE SECRETARY OF STATE FOR DEFENCE (hereinafter called 'the Ministry') of the one part and [.....] whose registered office is situated at [.....] (hereinafter called 'the Contractor' which expression where the context so admits or requires shall include its successors in title) of the other part.

WHEREAS:

- (1) By virtue of conditions of (a) Contract(s) between the Contractor and the Ministry the Contractor has developed certain Computer Software for the Ministry and is the beneficial owner of all Intellectual Property Rights therein;
- (2) By virtue of the conditions of said Contract(s) the Contractor is permitted to commercially exploit said Computer Software provided that it first agrees with the Ministry the sum or sums which should reasonably be paid to the Ministry having regard to the amount paid or payable to the Contractor by the Ministry under the Contract(s) and other relevant Contracts.
- (3) The parties hereto have agreed that the aforementioned sum or sums payable and the conditions governing payment thereof shall be as set forth in the following Agreement.

**IT IS HEREBY AGREED AS FOLLOWS:**

### **Definitions**

1. In this Agreement the following terms shall have the following meanings:
  - a. 'The Contract(s)' means Contract Number(s) [.....] between the Ministry and the Contractor for the [.....].
  - b. 'Contract(s) Software' means the computer program or part thereof generated under the Contract(s) and including any adaptation, extraction, translation, modification or enhancement thereof and any associated documentation such as program user guides.
  - c. the 'Contractor' includes any subsidiary company or associated company of the Contractor.
  - d. 'Sale' means any sale transaction, lease or hire of, or the grant of an end-user licence in respect of, the Contract(s) Software in whole or in part by the Contractor, and derived terms such as 'selling' shall be construed accordingly.
  - e. 'Bureau Services' - means a service whereby the benefit of the Contract(s) Software is provided to a customer for gain, without transfer of the Contract(s) Software to the customer.
  - f. 'Leviable Transaction' means any transaction giving rise to levy under this agreement, and shall include a transaction for the supply of the Contract(s) Software and the grant of licences and shall also include a transaction for Bureau Services.

g. The 'Contractor's selling price' means the price for which the Contractor invoices its customer before the deduction of any discounts but excluding such of the following elements as are applicable and can be identified to the satisfaction of the Ministry;

- (1) freight costs and insurance;
- (2) packaging not developed at UKG expense;
- (3) the cost of ECGD servicing and other sales finance charges;
- (4) any charges relating to MOD inspection;
- (5) installation and commissioning costs incurred where installation and commissioning formed no part of the work under the Contract(s) but excluding the cost of providing any warranty;
- (6) Agent's fees and commissions;
- (7) Value Added Tax where applicable.

Provided that any element of Profit which the Contractor has included in the above items (1) to (7) shall not be so included.

h. 'Profit' other than for the purposes of the above proviso to sub-clause (g) above means the difference between the Contractor's selling price and the allowable costs as prescribed by the Ministry for the purpose of the Sale in question provided such difference is a positive sum.

### **Sales and Licences**

2. Should the Contractor sell any Contract(s) Software or any material reproducing the Contract(s) Software other than for any purpose set out in Clause 8 hereof the Contractor shall pay to the Ministry:

- a. A levy for the use of the Intellectual Property Rights enshrined in the Contract(s) Software including copyright to be calculated at [...] % of the Contractor's selling price.
- b. A share of the profits on any Leivable Transaction for which the Contractor's gross receipts exceed £15M in value (for which purpose contemporaneous Leivable Transactions of the same Contract(s) Software to the same customer will count as one Leivable Transaction), said share to be agreed between the Contractor and Ministry before the transaction contract is entered into. The threshold of £15M may be increased from time to time by the Ministry, in relation to future transactions to take into account inflation.

3. Should the Contractor grant a licence to reproduce the Contract(s) Software and to enable the Licensee to sell the Contract Software(s) or should the Contractor assign or otherwise dispose of its rights in the Contract(s) Software, the Contractor shall pay the Ministry a levy calculated at [...] % of the gross receipts of the Contractor in money by way of royalties, licence fees or otherwise in respect thereof.

Provided that:

- a. The Contractor shall not assign or grant an exclusive licence or otherwise dispose of its rights in the Contract(s) Software without the prior written consent of the Ministry, which consent shall not be unreasonably withheld. It will be a condition of consent that the terms of the said assignment or said exclusive licence or disposition shall be

## OFFICIAL-SENSITIVE-COMMERCIAL

consistent with the terms and conditions of this Agreement and that before entering into an Agreement to assign or grant an exclusive licence or otherwise dispose of its rights in the Contract(s) Software the Contractor shall ensure that the proposed assignee or the proposed exclusive licensee enters into an agreement with the Ministry reserving to the Ministry the rights granted to it in the Contract(s);

- b. Where the consideration comprises wholly or in part some benefit other than money the levy shall, in lieu of or in addition to such payments (as the case may be), consist of or include a sum representing [.....] % of what may be reasonably regarded as the value of the said benefit; and
  - c. The Contractor shall not grant any licence or make an assignment or otherwise dispose of its rights in the Contract(s) Software where there is no consideration, or only nominal consideration, without first agreeing with the Ministry what levy (if any) should reasonably be paid to the Ministry in respect of such licence assignment or disposition of rights.
4. If the Contractor uses the Contract(s) Software to develop other computer software, and the Contractor wishes to enter into a Sale involving the computer software as developed, then the Contractor shall notify the Ministry prior to the said Sale, and the levy due upon the said Sale shall be agreed upon between the Ministry and the Contractor.
5. The Contractor shall not place in the public domain or disclose to a third party the Contract(s) Software nor any computer software developed by use of the Contract(s) Software without first notifying the Ministry and agreeing with the Ministry the amount of levy that shall be payable in respect of such placement or disclosure.
6. Where an agreement for the maintenance of the Contract(s) Software between the Contractor and another party for a fee also includes the supply of the Contract(s) Software not separately invoiced, a levy calculated in accordance with this Agreement will be due on that proportion of the maintenance fee which represents a reasonable price for the Supply of the Contract(s) Software.
7. Subject to Clause 8 below payment of levy is deemed to include payment for the use of any Intellectual Property Rights owned by the Ministry (or in the case of copyright, administered for commercial exploitation by the Ministry) which is in the Contractor's possession and is necessary in connection with the Sale or other transaction giving rise to levy under this Agreement.
8. This Agreement does not provide a right to use or include payment for the use of any Intellectual Property Rights (or in the case of copyright, administered for commercial exploitation by the Ministry) which are administered and managed on behalf of the Ministry by the Meteorological Office.
9. It shall be the sole responsibility of the Contractor to ensure that it has secured adequate rights from any third party to use and exploit elements of the Contract(s) Software in which the Intellectual Property Rights are owned by such third party.
10. No levy shall be payable in respect of;
- a. the supply of the Contract(s) Software to the Ministry;
  - b. the supply of the Contract(s) Software under any transactions with the Ministry's Agents or its contractor or sub-contractor where the Contract(s) Software can be clearly identified as being supplied to meet the requirements of the Ministry.

**Sales or Licensing of Adaptations, Extraction's, Translations, or Enhancements of the Contract(s) Software.**

11. Sales involving, or licences to reproduce, adaptations, extraction's, translations or enhancements of the Contract(s) Software shall attract levy in accordance with this Agreement unless the Ministry agrees that an allowance may be made for software that was not developed at UK Government expense.

**Contract Software for Contractor's Own Use.**

12. Without prejudice to Clause 3 above unless the Contract(s) Software is subsequently sold, no levy shall be due where the Contractor reproduces the Contract(s) Software solely for its own research or development purposes or for its own demonstration or sales promotion purposes. Contract(s) Software reproduced and used by the Contractor for any other purpose shall attract levy at normal rates in accordance with Clauses 2 to 6 hereof.

**Abatement of Levy**

13. Where, in the circumstances of an individual Sale, the Contractor considers that the effect upon its selling price of inclusion of levy rates calculated in accordance with Clause 2 would be such as to prejudice its chances of completing the Sale or would result in an unreasonably low profit, it shall be open to the Contractor before the Sale contract is entered into to seek the approval of the Ministry to an abatement scheme in accordance with the provisions of Clauses 15 and 16 herein. Provided that the Contractor's Cost Accounting System is adequate in the opinion of the Ministry to provide the statements for allowable costs necessary to implement the scheme such approval shall not be unreasonably withheld.

14. The abatement scheme shall generally determine levy on the basis of outturn profitability of the Sale in question expressed as a percentage of the allowable costs as prescribed for this purpose by the Ministry and shall apply as follows:

- a. The first 5% of profit on cost shall be retained by the Contractor.
- b. The remaining profit, without upper limit, shall be shared between the Ministry and the Contractor in the ratio of 1:1 until a total profit of 25% on cost has been reached, and thereafter in a ratio to be agreed between the Ministry and the Contractor.

15. Once a request to apply the abatement scheme has been approved by the Ministry it shall not thereafter be revised by either party for the Sale in question. The Contractor shall provide on request and in a specified form a certified statement of costs and profitability and such facilities as may be necessary for the Ministry, if it is so desired, to verify the statement. Where the value of the sale is less than £500,000 any abatement levy may at the discretion of the Ministry be settled (before the Sale Contract is entered into) on the basis of the expected outturn profitability provided the request for abatement is supported by adequate evidence and reasonable notice is given to the Ministry.

16. Where an abatement scheme has been approved in accordance with Clauses 13 to 15 of this Agreement the Contractor shall be liable for an interim payment of levy in accordance with the provisions of Clause 20 of this Agreement at one-half the appropriate unabated levy rate unless the Ministry agrees otherwise. A final adjustment to or from the Ministry shall be made as soon as it is practicable after completion of the Sale. The Ministry reserves the right to review and alter interim rates of levy from time to time and agrees to carry out such a review upon request by the Contractor.

### Cancelled Orders

17. Where a Sale is cancelled and the Contractor has received any payments, whether from its customer or otherwise, which it is entitled to retain, in respect of work done or in hand, or in respect of any claim arising out of the cancellation, levy shall also be due on a fair and reasonable basis having regard to the reasonable costs and claims which the Contractor may have to meet therefrom. The Contractor shall notify any such cancellation to the Ministry Project Team named in the Contract and shall provide such information as may be necessary or reasonably required for the determination of the levies payable under this clause. If a sale is entered into which involves any Contract(s) Software or any adaptation, extraction, translation or enhancement thereof which was involved in the said cancelled Sale levy will again be due on the above-mentioned basis.

### Accounting

18. The liability of the contractor to the Ministry for any sum due under this Agreement shall accrue:

- a. in respect of sales on the date of delivery;
- b. in respect of cancelled Sales, six months after the date of termination or such longer period as may be agreed between the Contractor and the Ministry;
- c. in the case of licences, assignment or other disposition of rights in the Contract(s) Software on the date of receipt by the Contractor of each payment.

19. The Contractor shall prepare statements which contain information concerning every Sale, licence, assignment or disposition of rights or other Leviable Transaction in respect of which levy accruing during the period to which the statement relates is payable, and in particular shall specify:

- a. the nature of the Leviable Transaction (making clear under which of the Clauses 2 to 12 hereof it falls), and the date thereof and the name and address of the other party or parties thereto;
- b. in the case of a Sale the number of copies of the Contract(s) Software sold, the selling price and in any other case, the gross receipts in money by the Contractor and the nature and value of any consideration other than money in respect thereof;
- c. in the case of any other Leviable Transaction, the gross receipts in money by the Contractor and the nature and value of any consideration other than money in respect thereof;
- d. any other matters relevant to determining the levy payable;
- e. the sum (to the nearest pound) computed to be payable by the Contractor to the Ministry in respect of each transaction (including a provisional sum in any case in which the sum depends upon a reasonable figure yet to be agreed with the Ministry).

20. The Contractor shall supply to Defence Business Services Finance-Commercial Exploitation Arrangement Team, 1<sup>st</sup> Floor, Walker House, Exchange Flags, Liverpool L2 3YL, two copies of the Statement at six monthly intervals commencing with the first Sale or licensing, assignment or disposition of rights arrangements.

21. The statement shall be provided not later than two months after the close of the period to which it relates and 'nil' statements shall thereafter be provided whenever appropriate. Where there are 'nil' returns over a number of years and no evident prospect of a future leviable activity or receipt the Contractor should approach the Ministry Project Team commercial officer regarding future reporting arrangements.

22. Each statement shall be accompanied by a payment covering the accrued levy calculated by the Contractor to be due and set out in the statement (plus VAT where applicable). Invoices in

respect of any other accrued levy will be issued to the Contractor by Defence Business Services Finance-Commercial Exploitation Arrangement Team. Payments (including VAT where applicable) shall be made to the Secretary of State for Defence at the address to which statements are to be supplied, or at the address stated on the invoice, as appropriate.

23. Should the Contractor fail to provide Statements within a reasonable time the Ministry reserves the right to assess the levy payable and to recover the same.
24. Two copies of an annual certificate that the sum reported on the Statements are correct and complete in accordance with the Contractor's books of account and records, or that no Sale has been made or licence assignment or disposition of rights in the Contract Software granted or other Leivable Transactions entered into, shall be obtained by the Contractor from its auditor and shall be forwarded to Defence Business Services Finance-Commercial Exploitation Arrangement Team not later than six months after the end of the Contractor's financial year.
25. The Contractor shall maintain proper books of accounting records at its premises and shall make them available for inspection at all reasonable times by the representatives of the Ministry and of the National Audit Office for the purpose of verifying that the terms and conditions of this Agreement are being complied with.
26. Whenever under this Agreement any sum of money shall be recoverable from or payable by the Contractor, the same may be deducted from any sum then due, or which at any time thereafter may become due, to the Contractor under any contract with the Ministry or with any Department of Her Majesty's Government.
27. The Contractor shall notify the Ministry Project Team named in the Contract(s), quoting the number of the Contract, of details of all transactions involving the Contract(s) Software as set out in (a), (b) and (c) below:
- a. Immediately it becomes apparent to the Contractor that a Sale (or contemporaneous Sale of the same software to the same Contractor) which is of value above £15M (or such higher value as may be notified by the Ministry from time to time) to the Contractor may arise, and the Contractor shall notify the said Ministry Project Team of the estimated value.
  - b. In the event of negotiations for the grant of a licence, assignment or other disposition of rights relating to the Contract(s) Software, immediately a draft licence, assignment or other such document pertaining to the said disposition has been prepared, and shall supply a copy of the said document to the Ministry Project Team.
  - c. Immediately it becomes apparent to the Contractor that any change in the situations referred to in sub-clause (a) and (b) of this clause is likely to occur.

#### **Export Licence**

28. Nothing in this Agreement shall be construed as relieving the Contractor from responsibility for:
- a. obtaining the necessary export licences as applicable to any overseas sale;
  - or
  - b. obtaining any necessary release for security restrictions in force for the Contract(s) Software.

29. The Contractor is advised to consult the Director Exports and Commercial Strategy Policy Team, Level 5, Zone N, MOD Main Building London SW1A 2HB, on a case by case basis, before making offers to sell or licence the Contract(s) Software overseas.

**Arbitration**

30. All disputes, differences or questions between the parties to this agreement with respect to any matter arising out of or relating to this Agreement shall be referred to the arbitration of two persons (one to be appointed by the Ministry and one by the Contractor) or their Umpire, in accordance with the Arbitration Act 1996\*\*.

**Law**

31. This Agreement shall be construed as a contract made in England\*\* and shall be subject to English Law\*\*.

(\*\* Amend as necessary should Scots Law apply – you should model the revision on DEFCONs 529A and 530A, omitting from the latter references to other conditions and matters on which the MOD's decision is final.)

Signed:  
(MOD Contracts)

Signed:  
(Contractor)

Date:

Date:

\* Delete words in parentheses as appropriate