

# Clearsprings Management Ltd v Businesslinx Ltd and Hargreaves

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On 14 July 2005, Mr Christopher Floyd QC, sitting as a deputy judge of the High Court in London, handed down his judgment in a case brought by Clearsprings Management Ltd ("CSM") against Businesslinx Ltd ("BL") and Mr Mark Hargreaves.<sup>1</sup>

The hearing was on a preliminary issue only. The question was whether a software development agreement ("Agreement") between CSM (customer) and BL (developer) included an implied term assigning copyright in the software to CSM, or alternatively, granting CSM a wide, exclusive licence, including the right to commercialise and sub-license the software.

## Background

CSM provides accommodation and related services to asylum seekers, and has a substantial contract with the British Home Office. BL is a small software development company operated by Mr Hargreaves.

The facts of the case date back to 1999. BL was at that time writing and experimenting with database software that enabled users to access, modify and create database information via a web interface. CSM was looking for an IT solution that would allow remote staff to access data stored centrally, and agreed with BL that BL would write a customised version of the software for CSM's requirements. The software was to be known as "CMIS" or Clearsprings Management Information System ("CMIS"). BL provided a fixed price estimate of GBP30,000, which identified the CMIS modules to be written. The estimate made no mention of the copyright position.

Work started in 2000, and BL and CSM worked closely together as the project progressed over the subsequent months. CSM provided substantial

information and consultation regarding its internal business processes to BL in order to allow CMIS to be successfully tailored to reflect these business processes. Ultimately, the project took over four years to complete and represented an investment of over GBP1.1 million. Much of BL's work was performed on a time and materials basis.

## Dispute

The dispute revolved around CSM's contention at the end of the project that there was an implied term in the Agreement that:

- a) ownership of all existing and future copyright in CMIS had been assigned by BL to CSM; or
- b) CSM had an exclusive, perpetual, irrevocable, royalty-free licence of the copyright in CMIS, including the right to sub-license CMIS for commercial purposes.

BL accepted that CSM should have a licence to use CMIS, and that BL was effectively prohibited from selling or licensing CMIS as a whole to third parties because it comprised elements of CSM's procedures and information specifically contributed by CSM for incorporation into CMIS.

However, BL disputed the existence of any other implied terms. In particular, BL asserted that CMIS was an implementation of its existing software suite and comprised elements of code from that existing software. BL maintained it would never have agreed to an assignment or exclusive licence because doing so would impair its ability to reuse important code in its future business.

Evidence revealed that the parties had discussed the question of copyright ownership at various times. On the basis of this evidence, CSM argued that copyright had already been

transferred to it, or that the parties had always intended for it to pass to CSM. Mr Hargreaves asserted that at no time was an assignment of copyright ownership or exclusive licence in his contemplation, and that any possible transfer of copyright ownership was something that remained to be negotiated.

Although there was significant oral and written evidence in relation to, amongst other things, meetings, email exchanges and invoices submitted by BL, the court was unable to identify one, single contractual document comprising all the relevant terms governing the relationship between CSM and BL. The deputy judge took the view that the initial estimate formed the basis for the relationship.

## Judgment

The court held that BL had not assigned copyright in CMIS to CSM, but by implication of law, CSM had been granted a non-exclusive, personal, irrevocable, perpetual licence of the copyright in CMIS, including the right to repair, maintain and upgrade CMIS in accordance with the requirements of its business of providing accommodation, care and related services to asylum seekers. There was no right to sub-license.

The judgment reviewed and applied nine propositions of law set out by Lightman J<sup>2</sup> summarising the position regarding the implication of terms into contracts relating to ownership and licensing of commissioned works. The propositions are that:

- a) the contractor author retains copyright in default of an express or implied term to the contrary;
- b) the contract may contain an express provision regarding entitlement to copyright;

- c) if the contract does not contain an express provision regarding entitlement to copyright, the mere fact that the contractor was commissioned is insufficient to entitle the client to copyright;
- d) there can be no implied term unless the classic test laid down by the Judicial Committee of the Privy Council is satisfied.<sup>3</sup> In summary, the test requires the implied term to be reasonable and equitable, necessary to give business efficacy to the contract (so that no term will be implied if the terms are effective without it), so obvious that it "goes without saying", capable of clear expression and not in contradiction of any express term;
- e) if it is necessary to imply the grant of some right, but there are alternatives as to what the right could be, then the implication should be only of what is necessary and no more;
- f) if it is necessary to imply the grant of a right in respect of a copyright work which could be either a licence or an assignment, and the need could be satisfied by a licence, then the implication will be the grant of a licence only;
- g) an assignment of copyright may sometimes be appropriate, such as where the customer needs to exclude the contractor from using the work, or enforce the copyright against third parties;
- h) if it is necessary to grant a licence, then the scope of the licence should be the minimum which is required for the customer to obtain the benefit the parties must have intended to confer on the customer. The price paid for the work is relevant in determining what the benefit was intended to be; and
- i) any licence should be limited to what was in the joint contemplation of the parties at the date of the contract, and should not afford the customer an unexpected and advantageous opportunity.

It is evident from these propositions that not only is the burden of establishing an implied licence, let alone an assignment, a fairly onerous one, but also that the question of

whether or not any implied term is appropriate is entirely dependent upon the particular factual matrix.

On the evidence, the deputy judge was satisfied that at the time the Agreement was made, (that is, when Mr Hargreaves provided the original estimate), there was no joint intention that CSM should have anything other than a right to use CMIS in its business, and that the question of CSM having an assignment of, or exclusivity in, the copyright, was neither discussed nor within the parties' contemplation. It did not assist CSM's case that its principal witnesses were found to be incredible and inconsistent, particularly in the context of evidence around the initial meetings with BL pursuant to which the Agreement was found to have been concluded.

CSM submitted that there was an understanding that it would have an exclusive right to commercialise a software product based upon CMIS, and it produced notes and correspondence which clearly showed it had raised this point with BL. However, the deputy judge considered that this evidence indicated no more than CSM giving thought to the situation after the fact, and that copyright ownership was always a matter to be negotiated rather than something that had been agreed at the outset.

The deputy judge considered that BL was free to re-use CMIS routines and code, including with other customers, save to the extent the routines and codes made use of or revealed CSM's operating procedures and other confidential information. In addition, the deputy judge deemed it unnecessary to grant an exclusive licence in CMIS to CSM, which would preclude BL from re-using the CSM-specific elements in CMIS, when the same outcome was effectively already achieved under the law of confidence.

Although the deputy judge made it clear that he had no evidence before him regarding whether GBP30,000 could be considered as fair value for an assignment or exclusive licence of CMIS, he seemed to doubt that BL would have given away so much for such a small sum, including the ability

to re-deploy with other customers CMIS routines and code representing many months of work.

## Conclusion

This case is interesting in that it applies existing law in relation to implied terms in the copyright context to a software development arrangement. It also reminds us that implied assignments of copyright are uncommon. Adopting the minimalist principle, in the absence of some unique or specific circumstances, it will typically be unnecessary to imply, in favour of the customer, an assignment of copyright in software, or some exclusivity in it.

Issues of this type frequently provoke disputes between software development contractors and their customers. Very often, the customer will have spent significant sums on the development process, and will assume (wrongly) that any rights in the finished software will belong to them. The effect of the English *Copyright Act 1988*<sup>4</sup> and the *Copyright Act 1968* (Cth),<sup>5</sup> is that copyright arising in code developed by a contractor will vest in the contractor and remain with the contractor in the absence of any agreement to the contrary. The most the law will typically be prepared to do where the agreement between the parties is silent or there is no formal agreement is imply a licence for the customer to use the software.

Disputes also commonly arise where finished software is capable of being turned into a generic product for commercialisation by sale or licence. In such cases, the customer may understandably be concerned that software in which it made the development investment will become available to other businesses for a much lower cost, particularly if they are its competitors and the customer will lose any competitive advantage it hoped to gain from implementing the software. The straw that often breaks the camel's back is when the customer comes to appreciate that not only is it powerless to prevent elements of the software being commercialised, but also that it is not entitled to a share of any proceeds to help recoup its investment. There may also be concerns regarding confidentiality if

the software has been customised to incorporate aspects of the customer's business processes or information.

By contrast, the development contractor will typically take the view that his or her code is a tool of the trade, and will be reluctant to part with possession of copyright or any intellectual property rights in it, particularly because he or she may work with a limited number of programming languages and will therefore want to reuse as much generic code as possible. This enables the contractor to capitalise on his or her previous efforts, and provide more

cost-competitive services to future customers.

Disputes around these issues can be avoided altogether, or their impact mitigated, by the parties giving thought to ownership and licensing and documenting what they have agreed at the outset of the relationship.

Finally, it is worth noting that the deputy judge accepted that:

*"Unless there is...a specific restriction, it is to be expected that a software developer will both import pre-existing code into the code he is writing for the client as well as export it for other projects."*<sup>6</sup>

That is, a certain degree of code re-cycling is customary in the software development industry, and if customers wish to ensure it does not take place in their projects, then they should say so.

- 1 2005 EWHC CH 1487.
- 2 *Robin Ray v Classic FM PLC* (1998) FSR 622.
- 3 *BP Refinery (Westernport) Pty Ltd v The President, Councillors and Ratepayers of the Shire of Hastings* (1978) 52 ALJR 20.
- 4 Section 11(1).
- 5 Section 35(2).
- 6 At 41.



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