

**QUANTA SOFTWARE INTERNATIONAL PTY LTD v COMPUTER MANAGEMENT
SERVICES PTY LTD**

[2001] FCA 1459

19 October 2001

Introduction

This is a short sharp decision of his Honour Wilcox J of the Federal Court of Australia, which deals with some of the copyright issues that can and do arise with software licensing, in particular issues relevant to the entitlement to program improvements made by the licensee.

Background

The case involved a computer system known as “EUNICE Software” which included a number of integrated modules:

“accounts receivable, general ledger, accounts payable, inventory, import costing, sales analysis, PDE input, retail point of sale, order processing etc and cash book.”

EUNICE, was said to have been “developed” by a New Zealand company, Quanta Holdings Ltd (‘Quanta Holdings’).¹ In 1991 Quanta Holdings entered into an agreement with the applicant, Quanta Software International Pty Ltd (‘Quanta’). The agreement was entitled “Exclusive Perpetual Software Licence Agreement”. Under the agreement Quanta was granted “an exclusive perpetual licence to use, copy, publish, translate, and sub-licence rights to [Quanta Holding’s] software system with respect to all countries except New Zealand.”

Subsequently, Quanta entered into a dealership agreement with a company associated with the respondent, such agreement being superseded by a further agreement with the respondent, Computer Management Services Pty Ltd ('CMS'), whereby CMS was appointed as a non-exclusive dealer of the EUNICE software.

His Honour said that it seemed that following the first agreement there were performance complaints received by CMS about EUNICE. In general terms, CMS alleged design defects in the program, while Quanta attributed the problems to either faulty installation or incompatibility between the EUNICE system and end users' accounting programs.

The dispute was not resolved, however it was provided in the second agreement that CMS would be given the source code for EUNICE, which would be used to resolve end users' problems.

The agreement provided for CMS to forward written orders for EUNICE (with the name and address of the party ordering) to Quanta for acceptance by it.

The agreement further provided that CMS could "modify, enhance or add to the functionality of a licensed program already supplied to an end user." The following provisions in the agreement were relevant in the argument:

"16.1 The Dealer acknowledges that any and all of the copyrights, trademarks, trade name, patents and other intellectual property rights used or embodied in or in connection with the Products are and shall remain the sole property of Quanta, and shall protect these rights.

16.2 The Dealer acknowledges that all information, data, drawings, specifications, documentation, software listings, source code, object code, object and source program listings or any copies, reproductions translations, adaptations, variations or modifications thereof which Quanta may have imparted or may from time to time impart to the Dealer relating to the Products is proprietary and confidential. The Dealer agrees that is [sic] shall use the same solely in accordance with the provisions of this Agreement and that it shall not at any time during or after termination of this Agreement, disclose the same to any third party, except in the course of normal Dealer activity, without Quanta's prior written consent.

16.3 Quanta shall indemnify the Dealer against any copyright, trademark, or intellectual property dispute involving Quanta's products, provided the Dealer has carried out his responsibilities under Clauses 13.1 and 13.2."

Quanta provided a copy of the source code for EUNICE to CMS, which CMS used to rectify problems experienced by end users who had purchased the system. CMS made code modifications which it kept on its copy of the source code, and which it passed on to other end users. Gradually, CMS's version of the source code diverged from the original EUNICE source code, even though Quanta was providing CMS with version upgrades of the source code.

In or about 1997, disputes arose between Quanta and CMS. Quanta sought outstanding licence fees, which CMS refused to pay claiming non-performance by Quanta of certain obligations under the agreement. At about this time CMS decided to market its modified version of EUNICE under the name "UNISON", without reference to Quanta and without any offer to Quanta in relation to any royalty payments on UNISON sales.

The evidence showed that subsequent to this decision, there had been some discussions held between CMS and Quanta dealing predominantly with the relationship between the respective companies in the light of the CMS decision to market UNISON. CMS conceded in evidence that no new agreement had been reached.

The Court found, that notwithstanding the fact that no agreement with Quanta had been reached, CMS renamed the program as UNISON and supplied it to end users without reference to Quanta.

Expert evidence was led as to the differences between EUNICE and UNISON, the major one being that UNISON had some additional modules. It was not necessary however to go into the differences in great detail because it was conceded that UNISON was an adaptation of EUNICE.

Issues to be determined

The Court said three issues required determination:

1. Whether Quanta was the owner of copyright under the *Copyright Act*, so as to

entitle it to bring the infringement action;

2. Whether acts done by CMS, were authorised by Quanta;
3. The nature of the relief available to Quanta if it succeeded in the action.

Findings

Ownership

CMS led evidence that it believed Quanta owned copyright in the EUNICE program supplied to CMS and that CMS owned the improvements it made. The Court held that CMS had accepted (with reference to clause 16.1 reproduced above) that Quanta was the holder of copyright in the program.

In any event, his Honour said, if clause 16.1 wasn't an admission, CMS could not now deny Quanta's ownership having allowed Quanta over the years to supply the source code and upgrades to CMS on the basis that CMS had conceded Quanta held copyright. The Court observed that, it would have been "foolhardy" for Quanta to supply its source code to a potential competitor who didn't acknowledge Quanta's ownership.

The first issue was therefore resolved in favour of Quanta.

Authorisation

It was relevant to the Court that CMS was not a person having no relationship to the software owner. CMS was an appointed dealer of EUNICE. CMS alleged that the dealership agreement had been terminated in July 1996. His Honour found this proposition was unlikely on the evidence, particularly as CMS's conduct in holding discussions with Quanta in 1997 was inconsistent with this proposition.

Wilcox J decided that to the extent that CMS carried out acts falling within s. 31 of the *Copyright Act* and permitted by the dealership agreement it did not infringe copyright as such acts were done with the licence of Quanta. Once however, CMS stepped outside the dealership agreement, the same acts constituted copyright infringement. Infringement was established as the Court found that CMS had “habitually” acted outside the confines of the dealership agreement.

Relief

CMS said that the relief should be referable to the licence fees that Quanta would have received. Quanta disputed this saying that the action was not one for breach of contract but for copyright infringement, which entitled Quanta to an account of profits.ⁱⁱ

The Court held that as the profits, (presumably) from UNISON, came about because of the wrongful use of the EUNICE source code, CMS must account to Quanta. This was held notwithstanding CMS may have added some attractive features to the EUNICE code, because those additions were based on a wrongful act.

Conclusion

It would be foolish, in my view, to recommend an approach to such situations, which does not take into account commercial reality. Each licence agreement will depend on the terms negotiated between those parties “on the day”. However, the decision is a useful reminder of the importance of clearly documenting such fundamental matters such as ownership of the source code, the governing law to be applied, the ownership of improvements (if any) and the rights of the parties vis a vis such improvements.

Dimitri Eliades
Barrister, Brisbane
26 October 2001

ⁱ The respondent, by its counsel, accepted that if Quanta Holdings was the owner of the copyright under New Zealand law, the agreement was effective to make Quanta an “exclusive licensee” of copyright in the Eunice software program within the meaning of the *Copyright Act (Cth) 1968*. Relevantly, the parties noted that regulation 4 of the *Copyright (International Protection) Regulations 1969* made the Australian Act applicable to a literary work first published in New Zealand as New Zealand was a country specified in Schedule 1 of the regulations.

ⁱⁱ *Colbeam Palmer Limited v Stock Affiliates Pty Limited* (1968) 122 CLR 25 at 42 (a trade mark case); This view was endorsed by Mason CJ, Deane, Dawson and Toohey JJ in *Dart Industries Inc v Décor Corporation Pty Limited* (1993) 179 CLR 101 at 120-121 (a patent case).