



Neutral citation No 2005 EWHC CH 1487

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

Claim No. HC 05 C00619

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: July 14th July 2005

Before:

Mr CHRISTOPHER FLOYD QC
sitting as a Deputy High Court Judge

CLEARSPRINGS MANAGEMENT LIMITED

Claimant

- and -

(1) BUSINESSLINX LIMITED
(2) MARK HARGREAVES

Defendants

Mr Daniel Alexander QC and Mr David Wilkinson, Solicitor Advocate, (instructed by Bristows) for the Claimant
Mr Alastair Wilson QC and Mr Jonathan DC Turner (instructed by Taylors) for the Defendants

JUDGMENT APPROVED FOR HANDING DOWN

This is an approved judgment of the Court and I direct that no further note or transcript be made.

Chris B. Floyd

Christopher Floyd QC

14th July 2005

Christopher Floyd QC

1. In this action, on 22nd March 2005, David Richards J ordered the trial of a preliminary issue namely:

"the issue of what rights the Claimant has in law or equity in or under the copyrights in the computer system known as Clearsprings Management Information System ("the issue")"

and he gave directions accordingly. This is my judgment following the trial of that preliminary issue.

2. The Claimant, Clearsprings Management Limited, and to whom I shall refer as CSM, has as its principal business activity the provision of accommodation and related services to asylum seekers. Almost all of CSM's turnover is attributable to a contract it holds with the National Asylum Support Service (NASS), which is a department of the Home Office. In addition to providing the contracted accommodation services, CSM are required under the contract to report certain information to the Home Office, such as dates of arrival and departure from the accommodation.
3. CSM was incorporated in September 1999 and commenced trading in April 2000. Initially a computer system called Sheraton was used to log the necessary information and produce the reports. However at some point in that year CSM identified the first Defendant, BusinessLinx Limited, who were then trading as Access2.co.uk, through its Managing Director, the second Defendant Mark Hargreaves, as a suitable contractor further to develop their computer system. I shall refer to BusinessLinx as BL.
4. BL was a small software development company set up by Mr Hargreaves. It was incorporated in January 2000, taking over the business which Mr Hargreaves had conducted as a sole trader up to that point. By the time it was approached by Clearsprings it had developed a web-based database system. Such systems were known but in their relative infancy in 2000. In brief such a system is one which provides access to a database over the internet. In this way users are able to input data into the database remotely as well as interrogate the database via a web page. Although CSM's requirements grew over time, it was initially a web based database system which CSM wanted BL and Mr Hargreaves to develop. The Sheraton system had not been web based.
5. BL's initial work on the project was based on a fixed price estimate which identified the modules to be developed. The manner in which the software development proceeded was by CSM and their Consultants Omnibridge providing information as to the business practices of CSM to BL. BL would write the necessary software to do what Clearsprings wanted. The computer system thus created became known as CMIS, standing for Clearsprings Management Information System. As the project

continued, it was agreed that for future work BL would invoice Clearsprings on a time and materials basis.

6. It is common ground that copyright subsists in CMIS and that the first owner of the copyright was BL. CSM's case is that it was an implied term of the contract between CSM and BL and Mr Hargreaves that they would own by assignment, or at least have an exclusive licence under, that copyright. Mr Alastair Wilson QC, who appeared for BL and Mr Hargreaves, accepts that CSM have a licence to use CMIS in their own business. He further accepted that his clients would not be entitled to sell or license CMIS as a whole to a third party, incorporating as it does information about the specific business practices of CSM. He contends, however, that BL should not be held to have agreed by implication, to assign (or grant an exclusive licence of) the copyright in the CMIS software to CSM. Such an assignment or licence, he contends, would restrict BL from making use of generic code incorporated in CMIS which owes nothing to CSM's procedures. Moreover he contends that any implied licence does not include the right to sub-licence third parties. Such a licence was more generous to CSM than was necessary in the circumstances.

The law on equitable ownership of copyright and implied terms

7. It is now well recognised that where a party ("the client") uses the services of an independent contractor ("the contractor") to perform work which involves the creation of a copyright work, the circumstances may be such that there will be implied into the contract an agreement that the contractor will in due course assign the copyright so created to the client. Where the circumstances do not justify the implication of an obligation to assign, the law may nevertheless require the implication of a licence, whether exclusive or otherwise, and on such terms as may be necessary to give business efficacy to the contract.
8. In *Robin Ray v Classic FM PLC* [1998] FSR 622, Lightman J reviewed the law in relation to the implication of terms as to ownership and licensing of copyright of such "commissioned" works. At pages 641 to 643 of his judgment, he sets out nine propositions which both sides in the case before me accepted accurately summarised the law:
 - "(1) the contractor is entitled to retain the copyright in default of some express or implied term to the contrary effect;
 - (2) the contract itself may expressly provide as to who shall be entitled to the copyright in work produced pursuant to the contract. Thus under a standard form Royal Institute of British Architects ("RIBA") contract between an architect and his client, there is an express provision that the copyright shall remain vested in the architect;
 - (3) the mere fact that the contractor has been commissioned is insufficient to entitle the client to the copyright. Where Parliament intended the act of

commissioning alone to vest copyright in the client, *e.g.* in case of unregistered design rights and registered designs, the legislation expressly so provides (see section 215 of the 1988 Act and section 2(1A) of the Registered Designs Act 1949 as amended by the 1988 Act). In all other cases the client has to establish the entitlement under some express or implied term of the contract;

- (4) the law governing the implication of terms in a contract has been firmly established (if not earlier) by the decision of the House of Lords in *Liverpool City Council v. Irwin* [1977] A.C. 239 ("*Liverpool*"). In the words of Lord Bingham M.R. in *Philips Electronique v. British Sky Broadcasting Ltd* [1995] E.M.L.R. 472 ("*Philips*") at 481, the essence of much learning on implied terms is distilled in the speech of Lord Simon of Glaisdale on behalf of the majority of the Judicial Committee of the Privy Council in *BP Refinery (Westernport) Pty Ltd v. The President, Councillors and Ratepayers of the Shire of Hastings* (1978) 52 A.L.J.R. 20 at 26:

"Their Lordships do not think it necessary to review exhaustively the authorities on the implication of a term in a contract which the parties have not thought fit to express. In their view, for a term to be implied, the following conditions (which may overlap) must be satisfied: (1) it must be reasonable and equitable; (2) it must be necessary to give business efficacy to the contract, so that no term will be implied if the contract is effective without it; (3) it must be so obvious that "it goes without saying"; (4) it must be capable of clear expression; (5) it must not contradict any express term of the contract."

Lord Bingham added an explanation and warning:

"The courts' usual role in contractual interpretation is, by resolving ambiguities or reconciling apparent inconsistencies, to attribute the true meaning to the language in which the parties themselves have expressed their contract. The implication of contract terms involves a different and altogether more ambitious undertaking: the interpolation of terms to deal with matters for which, *ex hypothesi*, the parties themselves have made no provision. It is because the implication of terms is so potentially intrusive that the law imposes strict constraints on the exercise of this extraordinary power . . .

The question of whether a term should be implied, and if so what, almost inevitably arises after a crisis has been reached in the performance of the contract. So the court comes to the task or implication with the benefit of hindsight, and it is tempting for the court then to fashion a term which will reflect the merits of the situation as they can appear. Tempting, but wrong."

- (5) where (as in the present case) it is necessary to imply the grant of some right to fill a lacuna in the contract and the question arises how this lacuna is to be filled, guidance is again to be found in *Liverpool*. The principle is clearly stated that in deciding which of various alternatives should constitute the contents of the term to be implied, the choice must be that which does not exceed what is necessary in the circumstances (see Lord Wilberforce at 245F--G). In short a minimalist approach is called for. An implication may only be made if this is necessary, and then only of what is necessary and no more;
- (6) accordingly if it is necessary to imply some grant of rights in respect of a copyright work, and the need could be satisfied by the grant of a licence or an assignment of the copyright, the implication will be of the grant of a licence only;
- (7) circumstances may exist when the necessity for an assignment of copyright may be established. As Mr Howe has submitted, these circumstances are, however, only likely to arise if the client needs in addition to the right to use the copyright works the right to exclude the contractor from using the work and the ability to enforce the copyright against third parties. Examples of when this situation may arise include: (a) where the purpose in commissioning the work is for the client to multiply and sell copies on the market for which the work was created free from the sale of copies in competition with the client by the contractor or third parties; (b) where the contractor creates a work which is derivative from a pre-existing work of the client, e.g. when a draughtsman is engaged to turn designs of an article in sketch form by the client into formal manufacturing drawings, and the draughtsman could not use the drawings himself without infringing the underlying rights of the client; (c) where the contractor is engaged as part of a team with employees of the client to produce a composite or joint work and he is unable, or cannot have been intended to be able, to exploit for his own benefit the joint work or indeed any distinct contribution of his own created in the course of his engagement: see *Nichols Advanced Vehicle Systems Inc. v. Rees* [1979] R.P.C. 127 at 139 and consider *Sofia Bogrich v. Shape Machines*, unreported, November 4, 1994, Pat Ct and in particular page 15 of the transcript of the judgment of Aldous J. In each case it is necessary to consider the price paid, the impact on the contractor of assignment of copyright and whether it can sensibly have been intended that the contractor should retain any copyright as a separate item of property;
- (8) if necessity requires only the grant of a licence, the ambit of the licence must be the minimum which is required to secure to the client the entitlement which the parties to contract must have intended to confer upon him. The amount of the purchase price which the client under the contract has obliged himself to pay may be relevant to the ambit of the licence. Thus in *Stovin-Bradford v. Volpoint Properties Ltd* [1971] 1 Ch. 1007, where the client agreed to pay only a nominal fee to his architect for the preparation of plans, he was held to have a licence to use the plans for no purpose beyond the anticipated application for

planning permission. By contrast in *Blair v. Osborne & Tompkins* [1971] 2 Q.B. 78, where the client was charged the full RIBA scale fee, his licence was held to extend to using the plans for the building itself. Guidance as to the approach to be adopted is provided in a passage in the judgment of Jacobs J. in *Beck v. Montana Constructions Pty* [1964-5] N.S.W.R. 229 at 235 cited with approval by Widgery L.J. in *Blair v. Osborne & Tompkins*, supra at 87:

it seems to me that the principle involved is this; that the engagement for reward of a person to produce material of a nature which is capable of being the subject of copyright implies a permission, or consent, or licence in the person giving the engagement to use the material in the manner and for the purpose in which and for which it was contemplated between the parties that it would be used at the time of the engagement.

- (9) the licence accordingly is to be limited to what is in the joint contemplation of the parties at the date of the contract, and does not extend to enable the client to take advantage of a new unexpected profitable opportunity (consider *Meikle v. Maufe* [1941] 3 All E.R. 144)."

9. I would stress, as is already apparent from this passage from Lightman J's judgment, that whether a term is to be implied, and if so what term, is entirely dependent on the circumstances of the individual case. The examples given in Lightman J's judgment are no more than examples of cases where, as he says, the necessity for a transfer of ownership or exclusivity may arise. Unlike a contract for the sale of goods, where it can be said that certain terms will be universally implied unless excluded expressly, the circumstances in which a copyright work may be created by an independent contractor are extremely varied. One should not forget that the starting point is that Parliament has conferred copyright on the author of the work and that there it will remain unless the circumstances are such as to make it necessary to imply obligations which have the effect of transferring it to the client or otherwise cutting down its scope.

The implied term contended for in this case

10. In the present case CSM contend that there was an implied term that BL would assign all existing and future copyrights in the CMIS system to CSM. In the alternative they contend that there are implied terms in the contract to the effect that:
1. CSM has a licence to use the CMIS system
 2. the licence is perpetual and irrevocable
 3. the licence is exclusive
 4. the licence is royalty free

5. the Claimant is entitled under the licence to repair and maintain and upgrade the CMIS system in accordance with its business requirements
 6. the Claimant is entitled to distribute and sub-license the CMIS system (and/or derivative versions of the CMIS system) to third parties for their own use upon such terms as the Claimant sees fit.
11. BL dispute the existence of the implied obligation to assign the copyright. As I have indicated, they accept the existence of a royalty free, perpetual and irrevocable licence to use the CMIS system (i.e. terms 1,2 and 4 above), subject only to a reservation that they would be entitled to terminate the agreement in respect of software written since the beginning of 2005 for which they contend they have not been paid. BL also accept term 8.5 to the extent that it refers to repairs, maintenance and upgrading of the software for the purposes of CSM's own business of providing accommodation, care and related services to asylum seekers. They dispute the existence of exclusivity and the right to sub-license (terms 3 and 6). Those are therefore in the only issues which I am to decide.

The witnesses

12. The main witnesses for CSM were Mr King and Mr Davies. Mr Wilson launched an attack on both witnesses, calling them both dishonest. Although I would not go as far as Mr Wilson, I did not find Mr King to be a convincing or reliable witness. He came across as a determined, somewhat ruthless man who would say what he wanted in order to get his way. The events surrounding the collection of certain hardware from BL's premises illustrated his way of doing business. CSM had invited Mr Hargreaves to their premises in Rayleigh for discussions. Possibly before the meeting began, but certainly well before it ended, Mr King ordered two men from Canvey Island to go to Darwen to collect the servers in Mr Hargreaves' premises. After the meeting Mr King immediately travelled to Darwen. Mr King tried to maintain that he had not authorised this expedition until the meeting ended, but this was obviously untrue in the light of the journey times involved. His evidence about this event was evasive. His account of how the men could have got there was implausible and inconsistent with other evidence. In other contexts, in particular the Roselodge meeting dealt with below, it was clear to me that he was building his evidence about what might have been said at meetings around disclosed documents, without any true recollection of having said it. It may be that by the time he came to prepare his witness statement he had convinced himself that things were said or had happened when in truth he had no independent recollection of them and should have said so. Mr Wilson also relied on what he said were other similar instances where Mr King had been disbelieved where he had given evidence in legal proceedings about alleged oral contracts. I do not place much weight on the matters, except that the manner in which Mr King gave evidence when he was asked about those other cases was also evasive. I have found it impossible to accept Mr King's evidence about matters occurring in 2000 or 2001 without some clear documentary or other corroboration.

13. Mr Davies on the other hand struck me as an over-emphatic rather than a dishonest witness. He had a tendency on several occasions to make sweeping statements from which he had to retreat when faced with documents or inconsistencies. For example he claimed that he had required Mr Hargreaves to ensure that every line of code in CMIS was independently written from scratch. Later he accepted, inconsistently, that if code from ShoppingLinx, a BL program, had been suitable CSM would have tried it.
14. Mr Hargreaves and Mr Martindale were the main witnesses for BL. I found them in the main to be truthful and fair witnesses, doing their best to recollect events in 2000-2001 and making it clear when they did not do so.

The facts

Background to the formation of the contract

15. Until around 1998 to 1999 commercial websites were what is now known as “static”. A requested web page (in the form of an HTML document) would be returned from a server to the user’s computer and would be displayed by a browser, but the user would have no opportunity to store information on the page and return it to the server. In about 1999 Microsoft published a computer language which enabled website developers and designers to create and incorporate dynamic web pages. Such pages would enable users to affect the content of web pages and databases themselves. A request by the user is relayed to the web server using an intermediary, such as Active Server Page script.
16. Using these techniques, Mr Hargreaves wrote, with assistance from others, an on-line shopping website called Trading Centre, a business directory called BusinessLinx and an internal business management system called Company. The BusinessLinx directory operated as a website with a directory search engine which drove a database. Data relating to particular subscribing businesses would be entered on a template, and could be accessed via the search facility. The businesses featured were able to effect changes to their own entries remotely via the website using a security password. BusinessLinx also featured a report generator which could be used to provide lists of specified filtered data. The BusinessLinx directory was operational by the end of 1999. In comparison with what CMIS ultimately became, it was fairly rudimentary in its functionality.
17. Mr Hargreaves says that he met Mr Stuart Marsh of CSM at Clearsprings’ premises in early 2000. The meeting was organised by Tim Melia, a property owner who had had some dealings with CSM, and the occasion was a tour of CSM’s premises for the benefit of private landlords and subcontractors. Stuart Marsh was then property Procurement Director of CSM. According to Mr Hargreaves Stuart Marsh explained to Mr Hargreaves that CSM were looking for an IT solution which would allow staff to access centralised information remotely. There was no mention of any wider use of the software such as sales or licensing of third parties.

18. Mr Marsh's account of the first meeting is given in a hearsay statement, and is at variance with that of Mr Hargreaves. He says that his first meeting with Mr Hargreaves was not until May 2000 and was at BL's offices in Darwen. He says that he explained to Mr Hargreaves that if BL could develop the software, CSM was then to sell it on, and BL would then be in a good position to provide maintenance and support to users of the software. He supports his evidence by reference to an exhibit ("SVM2") setting out how he says he thought the business of CSM should be organised. He dates the document as in the "early part of 2000". This included a box in the bottom right hand corner:

C.S. OPERATIONS CO. GOVERNMENTS (H.O.) THE WORLD MARKET E.T.C.

This box was connected by a line to another box called "Customer Base". Mr Marsh says that this evidence shows that he thought the information management system could be sold on the world market.

19. I prefer Mr Hargreaves' account of the first meeting for a number of reasons. Firstly I saw Mr Hargreaves being cross examined about this and, in this and other matters, he maintained his evidence in a credible fashion. Secondly, Mr Marsh's hearsay statement was served after Mr Hargreaves' witness statement. Mr Marsh does not deny that the tour of CSM's premises took place as described by Mr Hargreaves. No explanation was proffered as to how Mr Hargreaves could have known about this tour if he did not attend it, or as to why he would have pretended that he met Mr Marsh on this occasion. Thirdly, given the very preliminary nature of the meeting, taking place as it did before BL's capability to do the job at all had been assessed, it seems most unlikely that CSM would have mentioned the possibility of selling software to third parties or potential maintenance opportunities. Fourthly I do not think that the box on SVM2 does show an intention on Mr Marsh's part to sell software to third parties. The diagram is a diagram of the organisation of CSM's business and nothing in it to my mind shows an intention to market software. It is in any event not dated with any precision or by reference to any other events. Moreover, if this was the scheme which was contemplated at the start of the project, it is odd that there is no suggestion that this was shown to Mr Hargreaves. Instead, as will be seen, the scheme which he was asked to consider initially was far less grandiose.
20. Following the initial meeting described by Mr Hargreaves there followed meetings at CSM's premises at which Mr Hargreaves met with Mr Marsh, Mr Graham King and Ms Jackie Lungley of CSM. These meetings occurred some time in about May or June of 2000. Mr Hargreaves demonstrated his BusinessLinx software, showing them the entry forms for entering data. One form was for business details and the other for contact details. He showed how the system could be adapted so that CSM's Service

Users could be added using the contact form and the business form could be used to add details of available properties. He says there was no discussion at this meeting of the sale or software to third parties.

21. Ms Lungley had some experience of software development and played an important part in deciding whether to appoint BL for the development of CSM's software. She had a reasonably good recollection of the events surrounding the appointment of Mr Hargreaves. She described the job that Mr Hargreaves was given as "to provide a database that we had been looking for, to provide various modules for tracking asylum seekers, property, landlord details, financial details." Ms Lungley was impressed by the demonstration given to her with the existing software. Mr Hargreaves impressed on her that his experience in building these existing systems made him a suitable person to do the work which CSM were interested in. It persuaded her that BL could do the job, and she so reported to Mr King. Ms Lungley did not discuss software copyright ownership with Mr Hargreaves. However, one evening she was told by Mr King that if the software development was successful then Clearsprings would be in a position to sell the software to third parties.
22. Mr King said that he made it clear to Mr Hargreaves at the first meeting he had with him that CSM intended to sell the software to other organisations and that BL would then be well placed to maintain and service the software. I do not accept Mr King's evidence on this point. It is uncorroborated by Ms Lungley who was present at the meeting. It is not even corroborated by Mr Marsh who was present at the meeting but simply records it as one where CSM's requirements were outlined by Ms Lungley. It does not lie easily with the July email to which I refer subsequently which I believe to be the first mention which reached Mr Hargreaves of third party sales or of copyright. It does not lie easily with the estimate which was subsequently provided, which makes no reference to the purchase of copyright, and is certainly not corroborated by either document.
23. Following this meeting BL started work on developing the software. A first invoice had been submitted in July. On Friday 21st July 2000 BL sent CSM a letter setting out a brief summary of the work being undertaken and to be undertaken by BL on software development. It estimated that the development cost would be £30,000, of which £10,000 had already been invoiced but not paid. The letter set out in outline the nature of the various software modules which BL were to develop for CSM. It contained no mention of copyright. This estimate was accepted within a couple of days by CSM. In my judgment it formed the basis of the parties' contractual relationship for the ensuing months.

Events subsequent to the contract

24. On 24th July 2000 Graham King of CSM set out in an email to Lorraine Blackman, CSM's Office Manager, a list of capabilities he would like to see the software

perform, including such matters as the details of report generation, invoicing abilities and abilities in respect of property. The email began with these words:

"I want to have the copyright for this software so if we would like to sell it to Nass or other providers we can....."

Ms Blackman forwarded this email to Mr Hargreaves on 27th July 2000 and Mr Hargreaves read and received it. The email had been in response to a request by Mr Hargreaves for more detail about what was required in terms of reports.

25. The agreement progressed by the piecemeal provision to BL of requirements for the system. There was in the end no real dispute that the CMIS system was intended to be and became an electronic embodiment of the CSM operating procedures.

26. On 2nd November 2000 Mr Hargreaves wrote to Mr King asking for additional funds, and suggesting discussion about the request. The letter ends by saying:

"I am currently constructing a maintenance agreement which will include sale of the source code to Clearsprings. Maybe we could discuss your requirements for this at the same time."

Certainly by this stage, therefore, BL did not consider that the copyright had already been sold to CSM.

27. Some time in early May 2001 Michael Rios Hall and John Bird of Omnibridge, who CSM had employed as their consultants, produced a report on the development of the software. At Appendix IV it contained a report from BL dated May 4th 2001. The final paragraph of the Appendix was as follows:

"We are aware of CSM's intention to acquire the intellectual property rights for the software in its finished format with the intention of licensing the software to third parties. We have no objection to this in principle but further negotiations would need to take place before this is finalised."

28. One of Omnibridge's main suggestions in their Report was that there needed to be a formal agreement between CSM and BL. It noted on page 8 that, as could be seen from the reports and emails from BL, further negotiations needed to be carried out before that agreement was finalised. It considered such an agreement "vital". A draft agreement was produced by Omnibridge. It contained a clause vesting all intellectual property created in the course of the agreement in CSM. Despite Omnibridge's clear advice, there is no record of this document having been shown to Mr Hargreaves or anyone at BL. I accept Mr Hargreaves' evidence that was not shown it.

29. At least one meeting took place at Omnibridge's offices subsequent to the Omnibridge report. Mr King says the meeting was a heated one (a) because of delays in producing the system and (b) because of what was stated in Appendix IV of the report by BL, suggesting that copyright ownership remained to be negotiated. He says that at

the end of it there was agreement in principle that CSM would own the copyright, but that he left it to Omnibridge to work out the detail.

30. Although Mr King was challenged as to whether in fact such a meeting took place, it was clear in the end that Mr Hargreaves accepted that two meetings at Omnibridge did take place. However he did not recall any meeting of the kind described by Mr King. Neither witness could date the meeting precisely, but in my view it is likely to have been shortly after the report, in view of the importance attached in the report to further discussions. Mr Hargreaves had little recollection of what was actually discussed. Mr King says that his recollection is supported by notes he made on the report. Various items are ticked, and others have questions against them. Against the critical paragraph in Appendix IV he has written "Done".
31. I reject Mr King's evidence that at this meeting Mr Hargreaves expressly agreed that copyright would vest in CSM. Firstly, the notes in question are equally consistent with Mr King making notes on the report before a meeting rather than at it, and the word "Done" may simply record Mr King's personal view that this had been previously dealt with and did not need discussion. Such a view of the notes is consistent with the fact that some of them are in the form of questions which he no doubt intended to raise. Secondly, Mr King's practice was to keep a notebook of what occurred at meetings and in telephone conversations, yet there is no record in his notebook of this meeting or what was agreed at it: I reject his explanation that he was keeping minutes on the agreement itself. Thirdly, Mr Rios-Hall of Omnibridge thought it odd that he did not recall the meeting because he thought he would have recalled such a "heated" meeting. Fourthly the meeting is not mentioned in the Particulars of Claim or Reply, appearing for the first time in Mr King's evidence.
32. It is common ground that there was a meeting attended by Mr King on behalf of CSM and Mr Hargreaves for BL with Paul Callingham of the Roselodge Group. This occurred on May 29th 2001. Mr King was not sure whether this meeting was before or after the Omnibridge meeting, although it was undoubtedly after the Omnibridge report had raised the question of copyright ownership as between CSM and BL. Mr Callingham of Roselodge was interested in taking a licence for his company to use the CMIS system, and the meeting was arranged for the purpose of demonstrating the software to him. The meeting went ahead as arranged. Mr Callingham's evidence was that the meeting ended on the basis that Mr King would contact him "once he had resolved any licensing issues" with BL. He said that he did not recall discussing the details of how such a licence would work. In a subsequent email dated 31st May 2001 Mr Callingham wrote:

"Once you have had an opportunity to discuss the licensing with BusinessLinx, please let me know?"

Mr King's evidence was that the need to discuss licensing with BL related to "the issue of user licences and site licences" i.e. to the detailed mechanics of how the licence would work. He said that Clearsprings had been intending to create user

limits for the system, so as to control the use made of the licensed software, and that he needed to discuss with Mr Hargreaves his ability to incorporate such limits into the software. It is true to say that on June 20th 2001, more than three weeks after the meeting, Mr King emailed Mr Hargreaves asking him whether it would be possible to incorporate such limits. However I am quite satisfied that the reference to the need for further discussion between CSM and BL did not relate to these minutiae. The need for discussions was the same as that which had been pointed to in Appendix IV of the Omnibridge report, and in Mr Hargreaves' letter in November 2000. Mr Callingham's evidence was that the discussions did not get into any detail: he was clearly left with the impression that licensing was something which remained to be sorted out between CSM and BL. Mr King has, I am afraid, reconstructed the explanation concerning user limits from a not very contemporaneous document. The true position was Mr King was aware of uncertainty concerning copyright at the Roselodge meeting and this was picked up on by Mr Callingham.

33. It is clear that at the date of this meeting, May 29th 2001, CSM and BL were not agreed as to the ownership of copyright and that Mr King was aware that this was so and that it needed to be discussed further. This suggests that if the Omnibridge meeting had already taken place, as I believe it would have done, nothing had been agreed about copyright then. If, as I believe is less likely the Omnibridge meeting was after the Roselodge meeting (but nevertheless after the Omnibridge report containing BL's claim to copyright and a need for discussions) this lends support to the view I have already taken that on May 29th both sides were aware that ownership of the copyright was disputed.
34. The evidence contains further disputed incidents which are said to amount to acknowledgments by BL that copyright vested in CSM. They centred around the existence at various times of copyright notices on the site. One such notice claimed copyright for Access2.uk and amounted to a link to the BL website. At one point CSM spotted this and asked BL to remove it. There were other incidents as well. In the end neither side attached much weight to these incidents. In my view they were right to do so. By this stage assertion and counter assertion throw little light on the joint contemplation of the parties at the date of the agreement and none at all on the background facts from which the implied agreement must be spelled out.

Discussion

Exclusivity

35. Mr Daniel Alexander QC, who appeared on behalf of CSM, advanced a number of factors as indicating the existence of an obligation to assign or an exclusive licence in the present case. Three principal factors were that CMIS was CSM's procedures in electronic form based on Clearsprings' specific input, that BL was engaged with employees of CSM as part of the CSM's team in developing a composite work and

that the work was "derivative". He also submits that the price paid, and the lack of impact on BL of the implied term also point towards its implication.

36. I think there are dangers in listing these factors and then looking at the degree to which each of them may be present. The factors are based on Lightman J's examples of cases where a need for assignment or more probably exclusivity may arise. But my task overall is to see what term needs to be implied in this case, not to see what analogies, partial or otherwise, can be made to the facts of other cases. A good example of what I mean is CSM's suggestion that this is a case where BL collaborated with employees of CSM to create a composite work. Support for that example is to be found in *Nicholls Advanced Vehicle Systems Inc. v. Rees* [1979] R.P.C. 127 at 139 and *Massine v de Basil* [1936-45] McGregor's Copyright Cases 223. In both cases the contractor's contribution was to a joint or composite copyright work (in one case a racing car and in the other an opera), and employees of the client had themselves made contributions of relevant copyright skill and labour. Lightman J's said *Nicholls* was an example of a case:

"where the contractor is engaged as part of a team with employees of the client to produce a composite or joint work and he is unable, or cannot have been intended to be able, to exploit for his own benefit the joint work or indeed any *distinct contribution of his own* created in the course of his engagement" emphasis supplied.

So one must look to see what the parties intended to do not only about the whole work, but the distinct contribution of the contractor. Where it is the case that there is a distinct contribution to a joint or composite work and it is clear that the parties would have intended the contractor to be free to use it, or that they would have been indifferent to such use, an assignment is not merely unnecessary but is unworkable.

37. Similarly Lightman J suggests that where the work is derivative of an earlier work by the client such as a sketch given to the contractor to enable the contractor to produce manufacturing drawings, this may be indicative of exclusivity, as it cannot have been envisaged that the work could be used without infringing the underlying work. In such a circumstance it may well be self evident that there is no legitimate use that the contractor could make of the drawings. But it by no means follows that whenever the client has some right in respect of a contribution of a different nature to the overall project, that the conclusion will be that he obtains exclusivity in everything produced within the project. It all depends on the circumstances of the individual case..
38. There is no doubt that, as things developed, CMIS was an electronic embodiment of CSM's operating procedures. BL do not dispute this, or that it was contemplated at the time of the contract that this would be so. It follows in my judgment that there must be an implied term preventing BL from making use of the CMIS system as a whole by, for example, selling it to a third party. Mr Wilson QC realistically accepts that this is the position but he submits that this concession does not lead inexorably to the implication of an exclusive licence under the copyright. He submits there are two

reasons why this is so. Firstly, he says, an exclusive licence under the copyright carries with it not just the rights in the respect of the whole work, but the rights in respect of any substantial part. The effect would be to exclude BL from using routines which it wrote for CMIS (if they amount to a substantial part of the copyright) and which are of general applicability to CSM's business. Secondly he says that there is no need to imply a term about copyright, because the law of confidence is adequate to protect CSM from misuse by BL or others of the information supplied by CSM to BL about their procedures.

39. Mr Wilson developed his first point in the following way. He says that CSM were expressly told that BL would be using its pre-existing BusinessLinx software in developing the modules for CMIS. Furthermore he says that it is a common practice amongst software developers to re-use quantities of code written for one client in one application in writing a similar or related application for another client. The quantity of code so taken could range from a single line of ASP to a short routine. Examples of what this might amount to were explored in the evidence.
40. I do not accept that the evidence establishes that Mr Hargreaves expressly explained that he would use pre-existing software to assist in writing CMIS. However it was clear to all concerned that Mr Hargreaves' experience in writing BusinessLinx would be of assistance in that task. Moreover Ms Lungley was experienced in software development, and the evidence clearly established that the practice of using pre-existing routines was well known. The high point was Mr Davies' evidence:
- Q. Mr. Davies, the point I am making is this. Mr. Hargreaves, when he devises software, as a very sensible shortcut to save everybody expense, re-uses routines which he has written for other people.
- A. Correct, and all programmers in the land do the same thing.
41. Mr Davies went on to say that in the particular instance under discussion he had specifically instructed Mr Hargreaves to write software from scratch so as not to, as he put it "breach our copyright". By this he meant that he had given the instruction so that the work produced was to be entirely bespoke, and no other work was to be included in it which would taint or infiltrate CSM's copyright. I do not accept Mr Davies' evidence that this was ever said, even at the date to which Mr Davies was referring and far less at the time the contract was being negotiated, when Mr Davies was not involved. I have no doubt that if it had been said, Mr Hargreaves would have found it odd, and would have expected such an onerous restriction to be reflected in the price paid, particularly as he had spent six months to get as far with web based database systems as he had in BusinessLinx. But the evidence which Mr Davies gave only serves to highlight the fact that, unless there is such a specific instruction, 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.
42. Mr Alexander meets this argument in two ways. First he says that, so far as pre-existing code is concerned, the exclusive licence in question does not prevent its use.

The exclusive licence relates to the copyright created in the course of the project. It will not be an breach of the exclusivity for BL to go back to BusinessLinx as it existed in July 2000 and adapt it for future projects for other customers. It would not be an infringement of copyright if CSM owned the copyright either: BL could go back to BusinessLinx and adapt it without copying anything.

43. Mr Alexander is right, but I do not accept this as a satisfactory answer. It means that if BusinessLinx has been developed in any way for the purposes of CMIS, BL have to go back to the original source code and repeat the development for another client. Just as it was plain to both parties that in writing CMIS BL would borrow from BusinessLinx where necessary, so also it was plain that routines which existed in BusinessLinx would be further developed. Suppose the officious bystander had been asked "Can BL use the developed routines in future projects?". Mr Alexander has to say that the bystander would answer "No: of course BL must go back to the original source code and start again". I do not think that is realistic. I suspect the right answer is "It depends: obviously BL should not do so if the routine would make use of Clearsprings own operating procedures. But otherwise of course they should be free to do it." That is not good enough to give CSM the exclusivity they seek.
44. Secondly Mr Alexander says that, if there is indeed a custom or practice in the trade for material written for one client to be used for another then BL will have a defence to any action for breach of the exclusivity provision. He says in that respect the issue is no different from one in which the court has to determine whether a substantial part is taken. He says issues of that kind are for another day. I do not believe that is right. The custom or practice is relied on in this action to resist the implication of a term giving absolute exclusivity to CSM, a question I must decide now. Substantial part would be different, as it is a concept automatically built in to the extent of copyright protection.
45. It seems to me that many of the factors relied on by Mr Alexander, whilst having some force in relation to CMIS as a whole, are neutral or against him when one considers these generic or non-specific routines. Importantly, one cannot say of these routines that they are CSM's operating procedures in electronic form. One cannot say that they are a "derivative work": in fact, insofar as they derive from anything they derive from BusinessLinx. Of course, the price paid is a factor which may in some cases shed light on intended destination of copyright. In some cases the amount paid may be nominal, and clearly not intended to be payment for the copyright. But I find it difficult to make much of the contract sum of £30,000 in the present case. I have no evidence on which to base a conclusion as to whether this is a lot or a little for the work done. In reality, what one is left with so far as these procedures are concerned is the fact that they were part of a project for which CSM paid. In essence all that is then being said is that the procedures were commissioned: and that, on the authorities, is not enough.
46. Mr Wilson's second point that there is adequate protection for CSM in the law of confidence. BL's recognition that they could not sell CMIS as a whole to third parties

is based on their appreciation that it would be against conscience to sell a system which embodied CSM's management procedures to a third party. The sum total of what was disclosed to BL in the course of the contract amounts to a substantial body of information: it would be plainly wrong for BL to disclose this information to third parties. That protection is adequate for the purpose.

47. Mr Alexander submits that it is not adequate. He says the protection could be lost by publication. I think that is unlikely, as the system only has a limited public face. Secondly he says that the point helps him, because it shows, like the example of the sketch for a manufacturing drawing, that it was jointly contemplated that the contractor would not be able to exploit the work himself. It does show that, but only in relation to the information. It tells one nothing about what was the joint contemplation about routines which owe nothing to that information but have generic applicability to other projects. Finally Mr Alexander says that all this is to take too much of a microscope to what the parties intended at the time: the concession that BL could not use the whole work should carry with it every part, including generic code. I do not accept that. If the court is to imply any term at all about copyright in the face of the parties' omission to do so expressly, it must explore the consequences of doing so, looking not only to the interests of the client but also to the interests of the contractor.
48. In my judgment it is not necessary to imply into the contract a term giving CSM exclusivity in relation to the copyright in CMIS. I think Mr Wilson is right that, in the circumstances of this case, the only terms which are necessary to give the contract business efficacy are, firstly, a licence for CSM to use the software for the purposes of their business and, secondly, a restriction on BL making use of the information about CSM's operating procedures for purposes other than those of CSM. The precise scope of the latter restriction and whether it has its origins simply in contract or in the law of breach of confidence are matters which do not fall within the scope of the preliminary issue.

Implied obligation to assign

49. As I have rejected the implied exclusive licence, it follows, following the minimalist principle, that there was no implied obligation to assign.

The right to license third parties

50. I have found that the first communication to BL of any desire on the part of CSM to sell the copyright to third parties was the email from Mr King to Lorraine Blackman which was forwarded to Mr Hargreaves on 27th July 2000. It will be recalled that this boldly stated::

"I want to have the copyright for this software so if we would like to sell it to Nass or other providers we can....."

By this stage of course, work had already begun on the contract. An invoice had been submitted and the estimate, which made no mention of copyright, had been submitted and accepted. So this email does not, it seems to me, form any basis at all for asserting that the joint contemplation of the parties included sale to or licensing of others.

51. Even if I am wrong, and it is established sufficiently that Mr King or someone at CSM had communicated a wish to acquire the copyright in the terms of this email at a time when it was possible for it to become the basis for the implication of a term, I still do not think that it would be a necessary implication that CSM would acquire the copyright or a right to sub-licence without the need for any further payment. CSM had no clear plan to sell or licence the copyright to anyone. It cannot be described as one of the purposes of the contract: it was a future but quite distinct business opportunity requiring further negotiation. Mr King was doing no more than setting out what he wanted, or to put it another way, what he would like to agree. He never did so agree. The evidence comes miles short of establishing that the parties knew that CSM would be selling and licensing the software to others, so that it would be necessary to imply some term that would permit them to do so.
52. I would accordingly reject this implied term as well.

Conclusion

53. Accordingly I decide the preliminary issue as follows. CSM has, by implication of law, a non-exclusive, personal licence under the copyright in the CMIS system, with no right to sub-licence. The licence is perpetual and irrevocable and royalty free and CSM is entitled under the licence to repair and maintain and upgrade the CMIS system in accordance with the requirements of its business of providing accommodation, care and related services to asylum seekers. I say nothing about BL's reservation that they would be entitled to terminate the agreement in respect of software written since the beginning of 2005 for which they contend they have not been paid.
54. I will hear counsel as to the appropriate form of order.