Casenotes & Comments

Case notes and comments concerning computer laws will be welcomed by the editor for subsequent editions of the newsletter. Intending authors should contact us before putting pen to paper to avoid duplication of effort. Please keep contributions to 1500 words or less so that the newsletter nature of the publication is preserved. The three case notes appearing below were prepared originally for other publications and have been condensed considerably from their original length both for this purpose and in an attempt to render them comprehensible to readers who are not lawyers.

Apple Computer Inc. v. Franklin Computer Corporation (1983) United States Court of Appeals, Third Circuit (unreported August 30, 1983).

FACTS: Franklin manufactured and sold the ACE 100 personal computer which was designed to be "Apple compatible" "so that peripheral equipment and software developed for use with the Apple II computer could be used in conjunction with the ACE 100". Apple sued Franklin for alleged copyright infringement of 14 operating system programs (which the Court distinguished from application programs). Evidence established, and Franklin did not dispute, that it copied the Apple programs. Franklin contended that it was not feasible for it to write its own operating system programs if it wished the ACE 100 to retain 100% compatability with application programs created to run on the Apple II.

DECISION: The Court of Appeals, in considering Apple's appeal against a District Court's refusal to grant an interim injunction against Franklin's alleged copyright infringements, had cause to consider the whole question of copyrightability of software under the U.S. Copyright Act, 1976, and particularly the effect of 1980 amendments to the Act. It considered four major questions:

(1) Are computer programs copyrightable subject matter?

The 1980 amendments, by providing a new S.117 exempting some uses of programs from copyright infringement, clearly implied that other programs were copyrightable, and the legislative history of the amendments confirmed this. Held, that they are copyrightable as literary works which include "numbers, or other.. numerical symbols or indicia."

(2) Are programs in object code so protected?

Held, there is no basis in the Act for distinguishing between programs expressed in source and object code. That the Act did not require protected works to be able to be read by or to communicate directly with a human reader was clear from S.102(a)'s requirement that a copyright work "be perceived, reproduced or otherwise communicated, either directly or with the aid of a machine or device", and the S.101 definition of a computer program, added in 1980, as "sets of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result", as only object code can be so used directly by a computer.

(3) Is a program embedded in a ROM (Read Only Memory) chip protected?

Held, that a ROM is a suitable "tangible medium of expression".

(4) Are operating system programs protected?

The argument that operating system programs (as distinct from application programs) are not protected because they represent an "idea, procedure, process, system, method of operation, concept, principle, or discovery" (all uncopyrightable) was rejected because:

(i) It is not a "process" or "method of operation" any more than instructions in English to operate a complex machine.

(ii) It is not a machine or part of a machine, even in a ROM.

(iii) Works "for the purpose of practical application" are copyrightable, and the definition of "computer program" in S.101 makes no distinction between application and operating system programs.

(iv) If Apple's operating programs do not "represent the only means of expressing the idea underlying them" then idea and expression have not merged. Franklin's commercial desire to achieve total Apple compatibility was irrelevant.

COMMENT: (i) Apple v. Franklin is the most comprehensive judicial consideration of software copyright under the U.S. Copyright Act, 1976. Its direct application to the same questions under the Australian Copyright Act, 1968 is likely to be limited, as most of the major findings in the decision were based on sections of the U.S. Act which have few close correspondents in the Australian Act, particularly sections 101, 102(a) and (b) and 117.

(ii) The first Australian case to deal substantively with software copyright, Apple Computer v. Computer Edge was heard before Mr. Justice Beaumont of the Federal Court in September, judgement reserved. The case concerns some of the same programs involved in Apple v. Franklin, and it will be of interest to see to what extent, if any, the U.S. decision is of assistance to the Court.

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Toby Constructions Products Pty Ltd v. Computer Bar Sales Pty Ltd

Supreme Court of New South Wales, Common Law Division, Commercial List, Rogers J., 16 August 1983.

The defendants agreed, by deed, to sell to the Plaintiff "the following computer hardware and software collectively referred to as 'the Equipment'". A description of 3 items of hardware with a nominated price of $12,230, and 2 items of software with a nominated price of $2,160, followed. Other clauses relating to delivery, installation, training, maintenance, updating and other matters were held immaterial. The only question considered was whether the subject matter of the deed was "goods" within the meanings of the Sale of Goods Act, 1923 (NSW), and the Trade Practices Act 1974 (Cth), so as to attract the conditions and warranties implied by those Acts. The balance of the action was remitted to the District Court.

Held: a sale of a computer system comprising both hardware and software, as in this case, does constitute a sale of goods within the meaning of both the Sales of Goods Act 1923 (NSW) and the Trade Practices Act 1974 (Cth).

1. Both Acts define "goods" in terms of inclusion, none of the express inclusions being relevant. Therefore the question was whether the sale of the Equipment was a sale of goods in the ordinary sense of those words.

2. In deciding whether a contract was for the sale of goods or for work done and materials to

be provided or for the transfer of intellectual property, the appropriate criterion is the substance of the contract, which in this case was the sale of a total system. It is necessary to look at all aspects of the sale including price, the nature of the material to be supplied, the terms for installation and the work which the system was designed to effect. In this case, factors such as that the bulk of the costs related to hardware, that hardware will not work without software, and that the system represented the fruits of much research and work, were of less importance than that it was "off the shelf" or mass produced, rather than "one off".

3. This case, where there is a sale of tangible chattels, albeit requiring software comprised within the system for their effective working, may be distinguished from the sale of computer software by itself. Whether such sale constitutes a sale of goods has never been decided positively.

➤ Graham Greenleaf

JONES v. UNITED DOMINIONS CORPORATION LTD.

Full court of the Supreme Court of Western Australia, unreported, 25 May 1983.

This case was an appeal from the decision of Wallace J. who had held that it was a fundamental breach of contract by a lessor that a leased computer system was useless for all practical purposes. The full court, in upholding the appeal, decided that the common law did not imply any condition or warranty in the lease agreement that the computer system would run at all. In the course of his judgment the Chief Justice indicated that the Court may have taken the same view of what constitutes a total failure of consideration concerning a computer system even if the liability of a manufacturer (or supplier) had been in issue and the contract had been one for sale rather then lease.

The Dispute: The plaintiff partnership (Jones), importers, agreed to purchase a turnkey computer system from Daro Australia Pty. Ltd, (Daro). The system consisted of a Daro Mini Computer and ancillary hardware and "software packages for order entry; debtors: creditors; general ledger; stock". The agreement required Daro to tailor its standard software package to satisfy Jones' particular business requirements.

Jones financed the purchase by leasing from the defendant lessor, United Dominions Corporation (UDC). Mr Jones was interviewed by UDC's employee in completing their finance application and, in Wallace J's view, "thus the defendant became aware of the plaintiffs' reason for leasing the computer and complimentary (sic) software". While Daro was still working to complete the software modifications, the lease agreement was executed by Jones. It contained provisions to the effect that:

(i) At the request of Jones, UDC agreed to purchase goods itemised in a schedule which identified each piece of hardware and merely added "and including software", but Wallace J. held it was "common ground" that this included the modified software.

(ii) Jones agreed to obtain delivery of the goods and to ensure that they were ready for operation in accordance with the manufacturer's specifications at no cost to UDC.

(iii) Any express or implied warranties as to the quality or fitness of the goods were excluded, and the Lease represented the whole agreement between Jones and UDC.

(iv) Jones warranted that it had inspected the goods and found them suitable for its purposes.

UDC also required Jones to sign a Delivery Order acknowledging receipt of the goods before Daro would be paid and the goods delivered, by which Jones declared that installation of the goods has been completed and they are in satisfactory working order. UDC then paid Daro and received from it a Dealer's Certificate which included warranties concerning the goods. Daro then delivered the hardware and some software to Jones, but the whole of the modified software was never provided, as Daro went into liquidation a week later. Despite efforts by Daro over the next 3 months, the software remained "for all practical purposes ... useless". There were only minor defects in the hardware, which were remedied, but Daro never succeeded in making the equipment operate to produce satisfactory invoices, which meant that the general ledger and accounts payable systems were likewise inoperable.

Jones now purported to rescind the lease, contending that they had not been provided with "the software packages which were essential to the functioning of the computer equipment as a whole" and that there was consequently a total failure of consideration.

As plaintiffs, Jones sought a declaration that the lease had been validly rescinded because, despite repeated oral and written requests, UDC had failed to supply missing or workable software packages. They claimed damages in quasi-contract equal to all instalments paid. Claims for damages related to the costs of employing other software consultants, and under ss.71 and 75A of the Trade Practices Act 1974 (Cth) were abandoned.

At First Instance: Wallace J. held that the plaintiffs' rescission of the lease was valid and that they were entitled to the return of all monthly instalments paid. His Honour held that: "At common law there is an implied condition that the equipment to be leased by the defendant to the plaintiffs will be fit for the purpose indicated by them so long as the defendant was aware of the plaintiffs' requirement ...", citing as authority Derbyshire Building Co. Pty. Ltd. v. Becker (1961-62) 107 C.L.R. 633.

That the defendant was "fully aware of the nature of the plaintiffs' business" was found, partly on the basis of the plaintiffs' application for finance to the defendant, which detailed the plaintiffs' purposes in leasing the computer system. His Honour found further that "The nature of the equipment and the evidence reveals the plaintiffs' complete reliance upon Daro in the first instance and then upon the defendant to provide them with equipment capable of performing the plaintiffs' accounting procedures".

Clause 3 of the Lease Agreement, whereby the plaintiffs warranted to obtain delivery of the goods "in accordance with the manufacturer's specifications at no cost to the lessor", did not impose on the plaintiffs any obligation to ensure that the equipment was capable of performing the tasks required of it by the contract with Daro, but only the need to obtain delivery and installation of the hardware and software. Nor did the attempted exclusion of liability in Clause 13 avail the defendant, as "the parties' main object was to provide the plaintiffs with computer equipment suitable to carry out their accounting procedures in accordance with the System Specification".

Because "one must reject words, indeed whole provisions, if they are inconsistent with what