Software AG (Australia) Pty Ltd v Racing and Wagering Western Australia (2009) 175 FCR 121

By Martin Squires and Susan Lee

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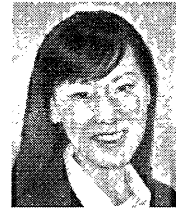
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On 20 March 2009, the Full Federal Court delivered its judgment in the appeal case *Software AG (Australia) Pty Ltd v Racing and Wagering Western Australia* (2009) 175 FCR 121. The proceedings concerned the interpretation of a software licence agreement and section 47F of the *Copyright Act 1968* (Cth).

Facts

The respondent, Racing and Wagering Western Australia (**RWWA**), entered into a software licence agreement with the appellant, Software AG (Australia) Pty Ltd (**SAG**), on 16 June 2005 (the **Agreement**). The Agreement granted a single, non-transferable and non-exclusive licence to RWWA to install and use the proprietary software system (the **System**) supplied to it by SAG on a single machine at RWWA's head office in Osborne Park, the designated location under the Agreement.

The Agreement did not permit RWWA to:

- move or install the System at any other location or any other machine without the prior written consent of SAG and the grant of additional licences (clause 1.4);
- allow any third party to operate the System on its behalf (clause 1.5);
- access, run or use the System, its documentation and confidential information except where allowed for under the Agreement (clause 12.2(a));
- copy, reproduce, adapt, modify or interface any part or the whole of the System, its documentation and confidential information (clause 12.2(b)); and
- sell, disclose or communicate the System, its documentation and confidential information to any other party (clause 12.2(c)).

However, the Agreement did expressly authorise RWWA to copy and have in existence a maximum of three copies of the System (in object code only) and Documentation at any time for "archival or emergency restart purposes" (clause 12.3).

For the purposes of disaster recovery (**DR**), RWWA engaged KAZ Technology Services Pty Limited (**KAZ**) to provide space on its mainframe to maintain a "warm" disaster recovery site for RWWA at KAZ's premises (**DR site**). This was done by copying a mirror image of the System as it was installed and configured at RWWA's head office (**DR copy**) and replicating it on the mainframe at the DR site to be activated in case of disaster. Specifically, the DR copy was stored on a separate partition and could only be used by loading and installing it into the memory of the DR site mainframe to activate it in the event of an emergency or when conducting testing. Prior to entering into this relationship with KAZ, RWWA had itself kept backup copies on tapes at a separate location for DR.

In 2005 and 2006, RWWA conducted testing of the System at the DR site in the presence of KAZ staff. By mid 2006, SAG became aware of RWWA having installed a copy of the System on a DR mainframe offsite.

RWWA commenced proceedings against SAG seeking declarations that it had not breached the Agreement by installing a copy of the System at the DR site and that SAG is not entitled to additional licence fees under the Agreement. SAG, under a cross claim, sought damages and a further licence fee for RWWA's use of the System at the DR site.

Claims at first instance[1]

RWWA argued that it was entitled to copy, set up and test the System on the mainframe at the DR site as it was done for the sole purpose of disaster recovery which was in their view, a synonymous concept with "emergency restart" under clause 12.3 of the Agreement. Alternatively, it argued that it was permitted to make a DR copy under section 47F of the Copyright Act which allows the reproduction of the original copy of software for the purpose of testing the security of that copy.

SAG claimed that the licence permitted RWWA to install the System at the designated location and limited the right to copy the System for archival or emergency restart purposes only (clause 12.3). Accordingly, SAG argued RWWA was not permitted to copy, install or use

the System at the DR site without paying SAG additional licence or service fees.

Key issues considered

The key issues arising from this case were whether:

(i) RWWA had breached the Agreement in making and using a copy of the System at the DR site for disaster recovery; and

(ii) section 47C and section 47F of the Copyright Act permitted RWWA to perform this act.

Judgment at first instance

Was there a breach of the Agreement?

The Court held that RWWA did not breach the Agreement in copying, setting up or testing the System at the DR site as it was for "archival or emergency restart purposes" in accordance with the Agreement.

In coming to its conclusion, the Court emphasised the need to give the commercial Agreement a business-like interpretation and considered it necessary to consider the language used by the parties, the circumstances addressed by the contract and the objects the parties intended to secure. The Court also sought to understand the nature of the transaction, its background and the market in which it took place.

The Court took into consideration the practical time requirements and associated costs for restoring the System using unconfigured, uninstalled and untested back up tapes (which was said to take about one week) compared to that of using the mirrored copy on the DR mainframe which, according to expert evidence, could restore the System at RWWA's head office within hours.

In construing the meaning of clause 12.3, the Court gave a broad interpretation to the phrase "emergency restart purposes" by finding that RWWA was permitted not only to copy the unconfigured and uninstalled System on to back up tapes but also to "reproduce the software to the extent that may be needed for emergency restart purposes" which included making the DR copy and testing the DR copy. In doing so, Justice McKerracher gave the phrase "emergency restart" its ordinary meaning which was, in his view, synonymous with disaster recovery.

Did the Copyright Act permit RWWA to make and test the DR copy?

On the question of whether RWWA was permitted to make a DR copy under Division 4A of Part III of the *Copyright Act*, McKerracher J equated the testing of the DR Copy at the DR site to that of testing the security of the original copy at the designated location. Accordingly, the Judge held that sections 47C and 47F of the *Copyright Act* expressly authorised the activity which RWWA performed in relation to the DR copy at the DR site.

On appeal

The decision was appealed by SAG on the grounds that:

(i) RWWA was not entitled to install the DR copy at the DR site for testing purposes;

(ii) its installation was not done for emergency restart purposes; and

(iii) that the installation amounted to breach of the Agreement.

Judgment on appeal

Did RWWA breach the Agreement?

The Full Federal Court affirmed the trial judge's decision that RWWA did not breach the Agreement it had with SAG by installing and testing the DR copy at the DR site. In dismissing the appeal, the Full Federal Court gave a broad interpretation to the phrase "for...emergency restart purposes" and held that a natural reading of the phrase encompassed installation and use of the DR copy not only in a genuine emergency but also for disaster recovery testing purposes.

In the Full Federal Court's view, this construction achieved the purpose of clause 12.3 to protect RWWA from loss of data in an emergency. The Full Federal Court further emphasised this point by way of example, stating that the phrase "for...emergency restart purposes" was much broader than the phrase "in order to restart the System in an emergency".

Referring to the need to give a commercial contract a business-like interpretation, it held that to read the phrase narrowly so as to exclude installation of the DR copy for the purposes of DR testing would be unreasonable and inconvenient, defeating the purpose of the clause under consideration.

Did RWWA breach section 47F of the Copyright Act?

The Full Federal Court disagreed with the lower court's finding in relation to the Copyright Act. The Full Federal Court held that section 47F allowed the reproduction of the original licensed copy as installed at RWWA's head office for the purpose of testing the security of the licensed copy at its head office. It was of the view that section 47F encompassed testing the security of the original, installed copy from "unauthorised access or against electronic or other invasion" at RWWAs head office and was not directed towards testing the functionality of the DR copy, as had been found by the trial judge.

However, this finding did not affect the outcome as the Full Federal Court agreed RWWA's use was permitted under the terms of the contract and RWWA did not need to rely on the alternative basis under the *Copyright Act*.

Concluding comments

This case is one that mainly turns on its own facts. It contains a useful discussion of the boundaries under which the security of computer programs may be tested

under section 47F of the *Copyright Act* and demonstrates that uncertain results may arise where the courts try to resolve ambiguities by attempting to apply a commercial construction to the terms of a contract.

Although the Full Federal Court found a broad interpretation to be more appropriate in this situation, it is, with respect, certainly plausible under the Full Federal Court's "commercial construction" approach to interpret the Agreement in line with SAG's view, that what the terms permitted was for RWWA to make and keep back up copies of the System for emergency restart purposes only, requiring RWWA to enter into an additional arrangement with SAG and pay additional licence fees to set up, maintain, test and activate additional copies at a separate site for disaster recovery purposes. Such an interpretation is arguably more in line with the other terms of the Agreement.

This case highlights the dangers of vague and non-specific drafting and the need for agreements to contain carefully drafted clauses in order to avoid possible interpretation by courts that may not have been intended by the parties at the outset.

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[1] *Racing and Wagering Western Australia v Software AG (Australia) Pty Ltd* (2008) 78 IPR 537

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