

# SUPREME COURT OF QUEENSLAND

CITATION: *Peter Pan's Backpacker Adventure Travel Pty Ltd and Anor v Eye Jam Interactive Pty Ltd* [2012] QSC 227

PARTIES: **PETER PAN'S BACKPACKER ADVENTURE TRAVEL PTY LTD ACN 097 725 329**  
(First Applicant)

and

**HONEYLAMB PTY LTD ACN 104 880 050**  
(Second Applicant)

v

**EYE JAM INTERACTIVE PTY LTD**  
**ACN 087 024 208**  
(Respondent)

FILE NO/S: BS 6166 of 2010

DIVISION: Trial Division

PROCEEDING: Trial

ORIGINATING COURT: Supreme Court of Queensland

DELIVERED ON: 27 August 2012

DELIVERED AT: Brisbane

HEARING DATE: 23, 24 & 26 April 2012

JUDGE: Philip McMurdo J

ORDER:

- 1. It is declared that the first applicant, or the second applicant at the first applicant's election, is entitled to all of the intellectual property in the software as that term was described in the draft agreement provided by the respondent to the applicants on or about 26 May 2008.**
- 2. There will be judgment for the first applicant against the respondent in the sum of \$954,418.**
- 3. The counterclaim be dismissed.**

CATCHWORDS: CONTRACTS – GENERAL CONTRACTUAL PRINCIPLES – CONSTRUCTION AND INTERPRETATION OF CONTRACTS - where the first applicant claims that it, or the second applicant at the first applicant's election, owns the intellectual property rights in the software developed by the respondent for the first

applicant's business – where the respondent claims that it never assigned these rights to the applicants – where there is no formal, signed contract relating to the intellectual property rights – whether the parties expressly agreed that the intellectual property rights would be assigned to the first applicant – whether, if such a term was expressly agreed, the terms of the agreement are sufficiently certain to constitute an enforceable contractual term

**CONTRACTS – GENERAL CONTRACTUAL PRINCIPLES – CONSTRUCTION AND INTERPRETATION OF CONTRACTS – IMPLIED**

**TERMS** – where the parties had agreed on an hourly rate to be charged by the respondent to the applicant for the development of the software – where the applicants claim that there was an implied term in that contract that the respondents claim for a reasonable number of hours expended in the performance of the contract - where the applicants claim they have overpaid the respondents for the work carried out – whether it is necessary for the reasonable operation of the contract that the respondent be confined to recovering only for work which was reasonably required to be performed

*Associated Alloys Pty Ltd v ACN 001 452 106 Pty Ltd (in liq)* (2000) 202 CLR 588, cited

*BP Refinery (Westernport) Pty Ltd v Hastings Shire Council* (1977) 52 ALJR 20; 16 ALR 363, considered

*Breen v Williams* (1996) 186 CLR 71, cited

*Codelfa Construction Pty Ltd v State Rail Authority of NSW* (1982) 149 CLR 337, considered

*Hawkins v Clayton* (1988) 164 CLR 539, considered

*Hospital Products Ltd v United States Surgical Corporation* (1984) 156 CLR 41, cited

*Liverpool City Council v Irwin* [1977] AC 239, considered

*Masters v Cameron* (1954) 91 CLR 353, considered

*Moneywood Pty Ltd v Salamon Nominees Pty Ltd* (2001) 202 CLR 351, cited

*Secured Income Real Estate (Australia) Ltd v St Martins Investments Pty Ltd* (1979) 144 CLR 596, cited

*Winks v WH Heck & Sons Pty Ltd* [1986] 1 Qd R 226, cited  
D O'Brien for first and second applicants

COUNSEL:

A J Greinke with R H K Branson for the respondent

SOLICITORS:

Brian Bartley & Associates as town agents for Middletons  
Lawyers for first and second applicants

[1] The first applicant operates a travel agency specialising in what it describes as the backpacker, student and adventure market. All of that business is conducted over

the internet. The second applicant is a related company, which has been used to hold certain intellectual property in connection with this business.

- [2] The respondent conducts a business involving IT consulting, support and maintenance and software development and design services.
- [3] In 2008 the first applicant and the respondent entered into a contract for the respondent to design, develop, integrate and implement a software system for the first applicant's business. The program was called the Travel Product Portal or the TPP. No formal contract document was signed. But it is common ground on the pleadings that such a contract was made and that for its services the respondent was to be paid on an hourly basis at the rate of \$95 per hour plus GST. The applicants accept that the respondent did design and develop the TPP as the contract required.
- [4] Over the two years from March 2008, the applicants paid to the respondent a total of \$1,587,398.97. However, the last few invoices have not been paid. They total \$88,632.50. The applicants do not dispute that the respondent's employees spent the number of hours working in the performance of this contract, as claimed in its invoices (whether paid or unpaid). However, the applicants say that the number of hours taken by the respondent in performing this work was excessive and that the work should have been done in about half the time and therefore at about half of the total which has been billed by the respondent. Therefore, they maintain, there is no obligation to pay the outstanding invoices and they are entitled to recover the amount by which the respondent has been overpaid. Those allegations are denied by the respondent which counterclaims for the total of the unpaid invoices. There are two issues here: the first being whether the contract contained an implied term which limited the respondent's entitlement to be paid to a reasonable amount and the second being whether the amounts charged by the respondent exceeded such an amount.
- [5] There is also a dispute as to the ownership of any intellectual property which has resulted from the performance of this contract, in particular the copyright in the software. The applicants claim that by an express or alternatively an implied term of the contract, the respondent is obliged to assign that property to the first applicant or as it has directed, to the second applicant. The respondent disputes that the contract contained such a term and says that it remains entitled to any intellectual property.
- [6] This contract for the TPP was not the first transaction between the parties. In about 2003, the respondent developed for the first applicant a software travel desk management system which became known as "PPAT" (an acronym for Peter Pan's Adventure Travel). This transaction was conducted by Mr McCourt, the managing director and major shareholder of the first applicant, and Mr Surcess, the managing director of the respondent. The PPAT became the main software system used by the first applicant in its business. It enabled members of the public to purchase travel vouchers online and for other travel agents to sell on a commission basis the first applicant's products online. This PPAT system was developed by the middle of 2003.
- [7] In July 2005, Mr McCourt and Mr Surcess exchanged emails, relating to (amongst other things) the intellectual property in the PPAT. Mr McCourt requested that the respondent not do work for the first applicant's "direct competitors" because, he

wrote, “we intend to sell our systems to them”. Mr Surcess replied: “I don’t mind honouring that request” and offered to advertise the respondent’s services with an express qualification that the respondent would not work for competitors of Peter Pan’s Adventure Travel. In this series, there was a further email from Mr McCourt as follows:

“Maybe we can put together a letter that represents what we both want regarding protecting our systems and allowing you to market. Eg. We could have a letter that we both sign,

1. peterpans wants a confidentiality agreement and recognition of the ownership of all development on our system
2. you want to know you can utilise your work with us to market yourself to our industry.

Maybe we can type it up and sign it.”

Mr Surcess replied:

“Don’t feel you have to negotiate the ownership of the system with me. I am not intending to retain any ownership rights I might have by default. I am not going to ask you to buy any IP rights or cause any headaches for Pan ... period.”

Mr McCourt then wrote:

“I understand, as I mentioned we have trust and have never worried about these things, however we must look at all possibilities and tie them up.”

Mr Surcess responded as follows:

“What I would like to see over the long term are the following:

1. A stronger business relationship between my company and Pan - maybe this should be defined more clearly and legally
2. Leverage our relationship in my marketing into the travel industry where it doesn’t conflict with our relationship
3. Involvement in your future projects that might include the installation 7 support of the Pan system for other companies
4. No restrictions upon implementing similar modules for other companies:
  - a. Where they don’t compete directly with Pan
  - b. When the modules aren’t just a copy of work done for Pan
  - c. Where the modules might happen to solve similar problems (ie invoice reconciliation, checkout system etc)

What are you thoughts on the above 4 points?”

Mr McCourt replied “Fine”, adding a suggestion that a lawyer be asked to “draft a document outlining the IP ownership issues”.

- [8] The preparation of that document took some time and it was not until February 2006 that there was a draft which was being considered by the parties. Mr McCourt emailed it to Mr Surcess on 3 February 2006, saying this:

“We do not want to restrict you from working for other companies, just want to protect us both from any legalities or misunderstandings as too (sic) owns the IP.

I believe we will be doing many more great things together as we prepare to develop our systems to the next level of online bookings etc ...”

Mr McCourt’s reference to restrictions concerning other companies was in response to an email from Mr Surcess, saying that he wanted to check that by the draft contract, he would not be “unnecessarily restricted from designing the projects which might happen [to] have some similar modules to pan”. He said also that there were “aspects of the project code [of the PPAT] which are not client or industry specific ... that I don’t want to be restricted from using in other projects. ...”

- [9] Eventually a document called Software Rights Deed was executed by the second applicant and the respondent. It was dated 24 July 2006. It recited that the respondent had been retained by the group of which the applicants were members to develop certain computer systems, including the PPAT. It dealt with the “Project Rights”, which were defined to mean each and every right of “intellectual, commercial or industrial property, which relates to or arises from those computer systems. ...” By cl 1 of the deed, it was agreed that the respondent:

“has assigned and set over, free of all encumbrances, liens and adverse interests whatsoever to [the second applicant] absolutely, all the exclusive right, title and interest in and to the Project Rights and all rights of action, powers, immunities, goodwill and benefits belonging or accrued in any way thereto. ...”

- [10] The deed expressly reserved to the respondent what were described as the “EyeJam Rights”, which were described in Schedule 4 to the deed. It is unnecessary to discuss those rights here. The reservation of those rights to the respondent did not affect the substance of the deed, as is presently relevant.
- [11] The deed also imposed a restraint upon the respondent against working for any business which was in competition with a business of the applicants’ group, a restraint which would continue until the respondent ceased to be the exclusive developer of software for the group. The deed plainly demonstrates the concern of the applicants’ group that the systems which had been developed by the respondent for them not be used by their competitors. Mr McCourt had made it clear to Mr Surcess that these systems were thought to have provided a competitive advantage for the applicants’ group.
- [12] After July 2006, the first applicant continued to use the respondent’s services for IT support and some further development work. The services were provided at an agreed hourly rate without any formal contract document.
- [13] At some point, Mr McCourt became concerned that the applicants’ ownership of any property related to the PPAT was of limited value, because that system had been developed with what is described as open source software. That limitation had

been expressly acknowledged by the second applicant in the Software Rights Deed.<sup>1</sup> The elements of the PPAT which were open source software were not able to be the subject of copyright ownership. According to Mr McCourt's evidence, he raised this problem with Mr Surcess, saying that he wanted to have the PPAT rewritten so that it could be owned by the applicants. But should it matter, it appears that it was Mr Surcess who alerted him to this problem within an email in January 2008. Mr Surcess was then addressing some questions involving the "outsourcing" of some of the applicants' IT work. Under the heading "Risks", Mr Surcess wrote that most of the code for the PPAT was open source, requiring any changes to the code in the further development of that system to be published to outsiders, including "your competitors". Mr McCourt responded that "it may make sense to actually have the open source parts rewritten so that we own them" and that "this may be one of the first jobs we give the outsourcing developers". There then followed an exchange in which Mr Surcess cautioned against the use of outsourcing.

[14] This exchange of emails appears within a message sent on 30 January 2008. It can be inferred that the emails were sent at some time on or shortly before that date. According to Mr McCourt's evidence, there was an important conversation between him and Mr Surcess in January 2008 about the development of a new system which became the TPP. These emails do not specifically refer to that proposal. But they are relevant because they show that the parties were discussing some of the risks to the applicants from the use of elements of its PPAT by competitors.

[15] Mr McCourt gave evidence of a conversation with Mr Surcess, in late January 2008, in relation to the development of a new software platform that would not have open source elements. They discussed the functions which this software was to perform. Mr McCourt related that Mr Surcess said that if Mr Surcess "was to rewrite or rebuild the PPAT system ... he would use a different platform called Microsoft.Net" which had several advantages. Mr McCourt then gave this evidence in chief:

"Now, at this time were there any conversations with Mr Surcess when you are having these discussions about the new software and the Microsoft Net and the advantages that it had, was there any discussion between you and Mr Surcess in relation to who would own this new software that's going to be prepared?-- Yes.

And how did that conversation occur?-- that we would own the IP, that that was our intention.

Was there any discussion during this conversation or these conversations about what rate, if any, he would charge for the work that he would do as compared to what he had charged previously?-- Yes.

What did he say?-- He said that because he can't own any IP with PPAT, Peter Pan's Adventure Travel, that he would be charging a higher rate for those services."<sup>2</sup>

Immediately after that evidence, Mr McCourt was taken to the series of emails concluding on 30 January 2008, as if to draw support from them for his evidence as

<sup>1</sup> General Conditions cl 1.1(a).

<sup>2</sup> T 1-48.

to the ownership of the new software. As I have said, however, they do not appear to relate, at least directly, to what became the development of the TPP. Nor do the emails indicate that the two men had had the conversation which Mr McCourt related. So whilst the emails clearly demonstrate a concern about the intellectual property in the PPAT, they do not provide strong support for the evidence of this conversation.

[16] Counsel for the respondent ultimately submitted that any conversation between Mr McCourt and Mr Surcess at this time related only to some change to the PPAT rather than to the distinct subject of the development of a new system which became the TPP. Therefore, they submitted, any such conversation as well as the exchange of emails in January 2008 was irrelevant. However, when Mr Surcess gave evidence, he agreed that there was a conversation with Mr McCourt at this time about developing a new system. He disputed that this was to be software developed by “effectively rewriting the functionality in PPAT”. At one point in these proceedings, the applicants claimed that TPP was derived from PPAT. That contention was abandoned by the trial, and the expert witness called in the applicants’ case, Mr Acker, had included in his report his opinion that TPP is not derived from PPAT. Probably Mr Surcess was still minded to refute that case.

[17] Importantly, Mr Surcess agreed that it was likely that there was a discussion in January 2008 as to the development of a new system as follows:

“But you would agree with me that .... there was discussion about producing a new set of software for Peter Pan; you’d agree that that was part of the discussion?-- Yes.

You would agree that there was a discussion about what new functionality TPP would have?-- Yes.

You would agree with me that you said in that discussion that you wouldn’t use open source code but that you would use Microsoft .NET if you were to produce that new TPP program?-- That’s correct.”<sup>3</sup>

There was then this evidence as to whether ownership of the software in the new system was discussed:

“Now, can I suggest to you that at about this time there was also a discussion over the phone about ownership of the software; do you recall that discussion?-- No.

Well, could I suggest to you that there was a discussion where he, Mr McCourt, raised or said to you words to the effect that he wanted to own the IP?-- I don’t recall that discussion.

You just don’t recall that discussion?-- I don’t recall the discussion whatsoever.

You’re not saying it didn’t occur, you just can’t recall it?-- I can’t recall the discussion.

---

<sup>3</sup> T 2-32.

Right. So you would agree with me the discussion could have occurred but you just can't recall as you sit there now?-- It's possible."<sup>4</sup>

- [18] It was also suggested to Mr Surcess that in the same conversation of January 2008, Mr Surcess had said words to the effect that the respondent would be charging a higher rate for the development of this software for the fact that it would not be owned by the respondent. He rejected that suggestion.<sup>5</sup>
- [19] Overall then, Mr Surcess did not unequivocally dispute the evidence of Mr McCourt that there was a conversation in January 2008 about the development of a new software system, in which the matter of the ownership of that system was specifically discussed. It does not follow that Mr McCourt must be accepted about this. His evidence as to this conversation was given with an apparently clear recollection. But there is a possibility that his recollection has been affected by an understandable and not dishonest reconstruction which was affected by reading again the exchange of emails. As I have said, they do not provide direct support for his evidence in this respect.
- [20] It is probable that at some point when the parties discussed the development of the system which became TPP, the advantage of not using an open source code was discussed. That likelihood is indicated firstly by Mr Surcess's evidence with the fact that when the TPP was discussed, he did say that the open source code would not be used. It is indicated also by the concern which he had raised in the January 2008 emails about PPAT having open source elements. The fact that the applicants had gone to the trouble of putting the Software Rights Deed in place showed a concern on their part to keep the PPAT from use by their competitors, and the warning by Mr Surcess of the limitations that came from the use of an open source code would be likely to have led to some discussion which adverted to the ownership of the new system to be developed.
- [21] Clearly, the development of the TPP had been discussed by 11 March 2008, because on that day, Mr Surcess sent to Mr McCourt and his fellow directors the draft of what was described as a "requirements document for travel product portal [TPP]".
- [22] On the following day, in response to an email from Mr McCourt, Mr Surcess sent an email to him about the terms for the development of the new system as well as some things about the PPAT system. Mr Surcess there wrote:
- "... Regarding the new platform (which we are currently calling Travel Product Platform):
- PPAT is currently on a low-priority development schedule due to the rates charged. This low-priority rate is rising in April to \$85/hr due to several factors:
- Inflation
- Increased rates paid to staff (far greater increases than inflation), insurance costs (we are now far better insured as a company)

---

<sup>4</sup> T 2-32.

<sup>5</sup> T 2-32.

No rate rise for about 18 months

We can continue to charge for a lower rate for the current travel desk system as compared to that charged for the new platform.

In order to give normal priority to the new platform on the Microsoft group of technologies the rates must be \$95/hr ex GST (\$104.50 inc GST) which is still below our company rate. There are several factors which require this rate to be higher those charged for the travel desk platform:

1. Work not done on a low priority basis, it would be normal priority
2. Although developing on the Microsoft platform is a much more efficient process than the current travel desk system, costs translate to a higher rate per hour for resources such as
  - a. Developers (who typically have higher qualifications and experience)
  - b. Development software tools are far more expensive
3. We have Software Supply and Maintenance Agreements in place for sizable projects, which is necessary.
4. Work done for PPAT does not contribute any Intellectual Property to our company since that was signed away previously

We must have a Software Supply and Maintenance agreement in place for the new platform for the following reasons:

1. We will have to increase our team size to maintain a good pace of development. Unless the rates charged were inflated beyond those stated above we wouldn't do this outside of an agreement.
2. If PPAT needs to minimise tax by making a significant investment before the end of the financial year then an agreement would help minimise your risk in any prepayment for upcoming work. This would not be a tax problem for us since it is payment for work not yet undertaken. (There will be additional ways to minimise the risk to PPAT in this scenario if necessary)."

(emphasis added)

[23] Not surprisingly, the applicants point to the sentence which I have underlined in that extract, as evidence of an expressed intention that the intellectual property in the new system was to belong to them. The respondent says that this involves a misinterpretation of the email, because the reference to PPAT in that sentence is to the software which was known by that name and which was the subject of the

Software Rights Deed. It is common ground that the parties sometimes used the expression PPAT to refer to that system and sometimes to refer to the first applicant company. Indeed, at one point in his evidence, Mr McCourt appeared to concede that he understood PPAT in this sentence to refer to the software and not the company,<sup>6</sup> whilst at one point Mr Surcess appeared to concede that it was a reference to the company.<sup>7</sup>

- [24] It was submitted for the respondent that this can be explained as a reference to PPAT the system in this way; it was said to reflect the respondent's view that if it assigned the rights to TPP, the development of that system would become "a lower priority development". That submission was apparently inspired by something which Mr Surcess wrote to Mr McCourt and the other directors of the applicants, as this dispute was developing in February 2010. Mr Surcess there wrote that:

"You incorrectly assume you have been paying for 'IP', but in fact this has not been the case. You are charged volume discounted development rates. We charge significantly more if we do not retain IP, as there is little benefit to us as a business.

Benefits to You:

It would be a serious long term risk to [the applicant's business] if we were to assign all software rights. Consider what might happen when a significantly larger opportunity presents itself to our company. If we don't own the rights to the software we have developed, we would engage in a new opportunity and you would become the lowest priority rather than highest."

Rather than explaining his email of 12 March 2008, Mr Surcess's statements in this passage seem to have overlooked it. In the March 2008 email, he had offered as the first justification for charging a higher rate the fact that the work would be given a higher priority. He had not written that it would be given a higher priority by the respondent for the fact that the intellectual property which would be derived from the work would be retained for the respondent's benefit.

- [25] At the beginning of that extract, Mr Surcess referred to the PPAT software as "the current travel desk system", in comparison with "the new platform" which was a reference to what became the TTP. In the second paragraph, Mr Surcess began to explain the higher rate of \$95/hr for the new platform, compared with the lower rate charged for the current system. In the second of his reasons, he again referred to "the current travel desk system", rather than to that system by the name PPAT. Then in the final paragraph in that extract, each of his references to PPAT was plainly to the company and not to the system. All of this strongly suggests that this was the sense in which he used PPAT in the sentence in question.
- [26] Now it could be said that the "Intellectual Property ... that was signed away previously" must mean that which was the subject of the Software Rights Deed, so that it was not such a clear statement that work on the new platform, the TPP, would not yield intellectual property to be enjoyed by the respondent. On the other hand, if PPAT was a reference to the then current system, the sentence would not provide any logical justification for a comparatively higher hourly rate. Instead, there would

---

<sup>6</sup> T-60111.

<sup>7</sup> T 2-37, 17-11.

be an argument for a higher rate if the intellectual property was to pass to the client. Read in that way, this sentence would strengthen Mr Surcess's case for a higher rate.

- [27] Overall, the better view is that this reference to PPAT, like the others in the email, was a reference to the first applicant company and not to the then current system. In writing that, Mr Surcess had not precisely recalled the effect of the Software Rights Deed. But by this email, he made it fairly clear that the hourly rate which he was proposing would be upon the basis that the respondent would not retain any intellectual property derived from the work.
- [28] In May 2008, it is common ground, there was a conversation between Mr McCourt and Mr Surcess in which there was some discussion of the ownership of intellectual property in the new system. Mr McCourt said that he told Mr Surcess then that it was important that his business own all of the intellectual property. Mr Surcess agreed that Mr McCourt then explained to him the importance of that matter. But their recollections differ as to how Mr Surcess responded. According to Mr McCourt, Mr Surcess responded by saying that it was important for his business that he be able to hire staff to have sufficient resources for this job, so that the applicants would have to commit to spending at least \$500,000 for it. He said that each of these matters of importance (including the applicants' ownership of the copyright) were agreed and that Mr Surcess said he would have his solicitor draw up a contract document. Mr Surcess did not concede that this was his response. He said that in his mind, he was "willing to trade IP in TPP for security", which meant not only a contract for the development of the system, but also a long term maintenance contract for the system once it had been supplied.
- [29] A draft contract document was prepared by the respondent's solicitors and sent by Mr Surcess to Mr McCourt on 26 May 2008. It was to be a contract between the second applicant and the respondent. On 13 May 2008 (apparently after that conversation), Mr Surcess had emailed Mr McCourt asking whether the second applicant would be the contracting entity and on the same day Mr McCourt had responded that it would be.
- [30] In emailing this draft contract, Mr Surcess wrote to Mr McCourt:  
 "Attached is a first draft of an agreement which basically allows us to commit a certain increase of resources to TPP.  
  
 It is expected that after a forthcoming Project Plan (with estimated costs and scheduling) we will enter into a replacement agreement which will be a full Supply and Maintenance Agreement.  
  
 The attached is simply designed for us to have a basis for allocating extra resources to TPP without unnecessary risk.  
  
 Please review and let me know if you think anything is unacceptable or should be adjusted."
- [31] The draft recited that the second applicant, described as "the Customer", had requested the respondent, described as "the Supplier", to develop and supply all of the software, computer programs, applications and source code concerning the project known as Travel Product Portal, as more particularly described in the then current version of the Requirements Document. It contained these further recitals:

- “B. The Parties have entered into this Agreement to record the arrangements between them, in anticipation of executing at a later date a more comprehensive agreement dealing not just with Software supply and Development but also with its installation, maintenance and support.
- C. Pending the execution of the more comprehensive agreement, the parties are to be bound by the terms of this Agreement.”

[32] Clause 2.1 of the draft was a promise by the Supplier to develop the Software and to use reasonable efforts to do so in accordance with any applicable timeframes. Clause 3.1 of the document provided that in return, the Customer was to pay “the Fees” to the Supplier, which by cl 3.2, were to be calculated by an hourly rate of \$95 per hour plus GST for each hour worked by “each of the personnel engaged by the Supplier”.

[33] Clause 5.1 of the draft provided that either party might terminate the agreement at any time and without cause, by giving the other 14 days notice. Clause 5.3 provided for these consequences of an early termination:

“5.3 Early Termination - Estimated Fees Following Termination

(a) The Customer acknowledges that:

- (i) the Supplier, in order to perform the Services, will have to incur significant infrastructure or set up costs;
- (ii) in order to make the requisite commitments to incur the infrastructure costs, it is reasonable for the Supplier to rely on receiving payment from the Customer of at least the Estimated Fees; and
- (iii) were the Customer to terminate this Agreement at any time after the Agreement Date but before the Supplier had completed the Services and received payment of all Fees and Expenses, the Supplier would suffer loss;

(b) If this Agreement is terminated by the Customer at any time after the Agreement Date but before the Supplier had completed the Services and received payment of all Fees and Expenses, then in addition to and without derogating from the Supplier’s Rights under clause 5.2, the Customer will pay the Supplier the sum of \$100,000 plus GST by way of early termination payment.”

[34] Clause 4.1 provided for an assignment of intellectual property in these terms:  
“4.1 Assignment of Intellectual Property and Future Rights

In consideration of the Customer:

- (a) appointing the Supplier to supply and Develop the Software under this Agreement; and
- (b) duly paying the Fees in accordance with the payment Terms;

the Supplier will assign to the Customer:

- (c) all Intellectual property in the Software in existence at the Agreement Date; and
- (d) all Future Rights in the Software created as a result of the parties' performance of their roles and Obligations under this Agreement;

as though the Intellectual Property in the Software were encompassed in and formed part of the subject matter of the Software Rights Deed.”

[35] The draft contained no promise of or condition for a long term maintenance contract. The draft expressly anticipated such a contract, but according to the terms of this draft, it would have bound the parties, when signed, regardless of whether a long term maintenance agreement was concluded. The provision for a payment of \$100,000 as an early termination payment was in the event of a termination of this contract, which was for the development of the software. The acknowledgements within cl 5.3 were of the costs of the respondent setting up the resources to develop the software, rather than also to provide long term maintenance. Importantly, the assignment of intellectual property was expressed to be in consideration for the engagement of the respondent to supply and develop the software and of the payment of the fees for that work. Had it been the respondent's intention to “trade” the intellectual property for what Mr Surcess described as the security of a long term maintenance agreement, it is difficult to see why that was not reflected in the terms of the draft. Instead this draft showed a preparedness to assign the intellectual property as part of what was to be provided by the respondent for the agreed price. It provides considerable support then for Mr McCourt's recollection of the conversation of early May.

[36] A further matter to be noted about this draft is that the provision for the assignment of intellectual property contained no qualification or reservation, except insofar as that came from the terms of the Software Rights Deed, the terms of which were to be expressly imported by the concluding words of cl 4.1. That is relevant to a submission for the respondent that the term alleged by the applicants was not finally agreed or could not be enforced because of some uncertainty. No uncertainty appears from the terms of this draft, considered with the Software Rights Deed.

[37] The draft agreement was never signed. Mr McCourt sought to explain this by saying that, in his mind, all of the issues had been settled and thus it was not necessary to have a formal contract document.<sup>8</sup> The respondent's submissions challenge that evidence and suggest that Mr McCourt did not wish to commit the applicants to an obligation to employ the respondent over the entire job. They point to what was said in a letter from the applicants' solicitors to Mr Surcess on 19 April

---

<sup>8</sup> T 1-50.

2010, which was that “no agreement has ever been struck as to the minimum hours of support or development that our client was committed to engaging Eye Jam to perform. ...” I accept that Mr McCourt did not wish to engage the respondent for a certain minimum number of hours. However the draft agreement did not provide for such a minimum; rather it provided for a \$100,000 payment in the event of an early termination. I infer that Mr McCourt was not agreeable to that early termination provision and that this is a probable explanation for his not signing the agreement. The fact that it was not signed might indicate one of two things as to whether the parties had discussed the intellectual property as Mr McCourt related. On one view, it might be thought that they had not done so, because had the ownership of the intellectual property been important to Mr McCourt, he would have secured it by having an agreement signed in terms of this draft. On another view, he should be believed in saying that he was so confident that the parties had reached agreement about the intellectual property (and other issues) that he did not see it as so important to have that agreement recorded by a signed document.

- [38] In my view it is more probable that the draft contract was not signed by Mr McCourt because he did not wish to commit his company to the term for the payment of \$100,000 for an early termination. On its face, that was a relatively large sum in the context of a contract for which the total estimated consideration was \$500,000. Mr Surcess said in evidence that the \$500,000 figure was in truth an estimate for the first stage of the development work, described as “Drop 1”. That is contrary to what is said within his draft contract as to the estimate of \$500,000 and I do not accept that evidence.
- [39] The respondent’s argument sought to analyse the position between the parties to this point according to the categories in *Masters v Cameron*,<sup>9</sup> and it submitted that “the alleged agreement in respect of the assignment of rights in TPP falls into the third category”, which is where “the intention of the parties is not to make a concluded bargain at all, unless and until they execute a form of contract”.<sup>10</sup> In the present case, it is common ground on the pleadings that the parties did reach a concluded contract for the development of the TPP. Therefore the respondent’s argument suggests that whilst the parties intended to be contractually bound then as to what was to be supplied and at what price, they did not intend to be bound as to intellectual property unless and until an agreement about that matter was recorded within a formal contract.
- [40] But there was no particular reason why the parties would be prepared to enter into an enforceable contract for the development of the system without a formal contract document yet, at the same time, have a particular hesitancy about intellectual property. In particular, the terms of cl 4.1 would indicate that there was no further matter to be negotiated in order to make certain what was proposed about the ownership of intellectual property. The respondent suggests that the parties had not comprehensively described to each other what was to be the agreed position for intellectual property. However, the terms of the draft contract indicate otherwise. The relevant term, as proposed by the respondent and drafted by its solicitors, was apparently comprehensive and certain. If there had been the discussion between Mr McCourt and Mr Surcess earlier in May 2008, as Mr McCourt related, the draft agreement was entirely consistent with the mutual understanding of the parties.

---

<sup>9</sup> (1954) 91 CLR 353 at 360.

<sup>10</sup> Ibid.

- [41] Moreover, cl 4.1 of the draft provided that the assignment of the intellectual property was to be in consideration of the making of the development agreement and the payment of the fees under it. It is unlikely that the parties then concluded an agreement for the development of the software and the payment of those fees, whilst leaving for further agreement the assignment of intellectual property, for which there would be no separate consideration.
- [42] It is necessary also to discuss the evidence of some subsequent events, because post contractual conduct can be relevant to the factual question of whether in the discussions by which the contract was made, the parties spoke to each other in the terms related by Mr McCourt and thereby agreed upon the alleged term for intellectual property.<sup>11</sup>
- [43] Mr Wheeler is a chartered accountant and managing partner of the firm which has acted for the applicant's group of companies since 2005. In that capacity, he attended meetings with representatives of the applicants and the respondent in mid 2009. One such meeting was in June 2009 where the incidence of GST upon this contract was discussed. A subsequent meeting, which Mr Wheeler said occurred in July, but which it seems occurred in August 2009, was to discuss the potential for a government grant or a tax concession for the benefit of the applicants, upon the basis that the fees paid to the respondent for the TPP were for research and development. That meeting was attended by Mr Woolston who was the other director of the respondent. Also present was Mr Dunleavy, a consultant from an entity called Intertrade, who was there to provide advice as to the eligibility of the TPP project for this concession or grant. Mr Wheeler recalled that Mr Dunleavy advised that to be eligible, an entity had to "own or substantially enjoy the rights of ownership which could form the - take the form of an exclusive licence, for example". Mr Wheeler recalled saying to Mr Woolston words to the effect "that we understood that the IP rights for TPP had been transferred to Peter Pan's" and asking him whether he concurred, to which he replied with words to the effect that he understood that to be the case.
- [44] In his evidence, Mr Woolston denied making such a statement. He admitted that he was at this meeting with Mr Wheeler and Mr Dunleavy and recalled being asked by them a number of questions about the TPP. But as to intellectual property, he said that Mr Wheeler asked about the PPAT system and not TPP, to which he replied that he believed the PPAT had been assigned to the applicants already. He was then asked (in chief) whether the question could have been instead about the TPP, to which he answered that intellectual property for TPP was not mentioned at the meeting.
- [45] Mr Woolston's version is difficult to reconcile with an email which he sent on 13 August 2009 to Mr McCourt and Ms Prue Coppin, another director of the applicants. On Mr Woolston's evidence, this was sent some two days after the meeting with Mr Wheeler and Mr Dunleavy. He then wrote:  
"As you may know the accountants asked me to come in last Tuesday (Jim Wheeler & his consultant John Dunleavy) to assist them in the process of determining if TPP can qualify for the R&D tax concession.

---

<sup>11</sup> *Winks v WH Heck & Sons Pty Ltd* [1986] 1 Qd R 226 at 238 and the cases there cited by Thomas J.

They have requested the design documentation for TPP (Requirements + Design).

I'm ok with that but wonder about IP? Can you please give EJI permission to pass these documents on or state whether a confidentiality agreement is necessary (or in place) before I do so."

Mr Woolston agreed that he was then concerned about providing documents about the TPP to someone outside the applicants, albeit to their accountant and another adviser. He did not explain why he would be seeking the permission of the applicants to provide this documentation to Mr Wheeler and Mr Dunleavy, if this was the intellectual property of the respondent.

[46] It seems unlikely that Mr Wheeler would have inquired about the intellectual property in the PPAT system rather than about the TPP, which he and Mr Dunleavy were there to discuss for the purposes of the research and development concession. The PPAT system had been paid for many years prior to this meeting. I prefer Mr Wheeler's evidence and I find that Mr Woolston made that clear admission that the respondent had assigned or agreed to assign its rights in the TPP.

[47] The earlier meeting attended by Mr Wheeler had also been attended by Prue Coppin. She gave evidence that as she walked from that meeting in the company of Mr Woolston, he asked her whether she believed that Mr McCourt "would be interested in some sort of partnership in [the] TPP project".<sup>12</sup> She replied that she would have to ask Mr McCourt. Mr Woolston said that there was a conversation of that kind, but one in which he said that he "would like to seek an opportunity for partnering or commitment in any form or fashion that Peter Pan's knew of or would consider". Even on Ms Coppin's version, there was not such a plain admission that the respondent had assigned or was obliged to assign the intellectual property in the TPP. Consistently with her evidence, Mr Woolston could have been inquiring as to the prospect of some joint venture but on the premise that the applicants then owned the intellectual property.

[48] On 30 November 2009, Mullins Lawyers wrote on behalf of the second applicant to the respondent's lawyers. They referred to the Software Rights Deed. They wrote:

"On our instructions, the parties have subsequently entered into a further commercial arrangement, which was in contemplation of your client assigning certain rights to ours. As the Software Rights Deed does not appear to cover the scope of those arrangements, we have prepared the enclosed Deed of Variation, for your client's attention. The intention of the Deed is to formalise the terms of the arrangement between the parties. ..."

[49] The draft deed recited that subsequent to the execution of the Software Rights Deed, the parties had entered into a "further agreement whereby Eye Jam has agreed to produce for Honeylamb certain intellectual property and products including the Travel Product Platform ('TPP') software" and that the parties wished "for any rights developed pursuant to the further agreement to be assigned from Eye Jam to Honeylamb in accordance with the terms of the Software Rights Deed, which shall apply to such assignment". The deed provided for an absolute assignment of all right, title and interest in and to "the Work", which was defined to mean the

---

<sup>12</sup>

T 1-82.

development of the TPP computer system or such other incidental work undertaken by the respondent in accordance with the agreement. The assignment was said to be “in consideration of the payment of the fees to the respondent for the performance of the work for the development of the system”.

- [50] On the same day, Mr McCourt emailed Mr Surcess as follows:  
 “As you may be aware, we are working on getting a tax cut for the developments we are doing, part of the requirement is to have all our licensed agreements etc up to date, Jim [Mr Wheeler] and Mullins are working on it so you will receive update deed and variation (sic) relating to the IP etc in the mail. ...”

On the following morning (1 December 2009), Mr Surcess replied by saying simply “Okay ... no problems ...”. Mr McCourt said that at this time he also had a conversation with Mr Surcess which was to the same effect as that exchange of emails.

- [51] However, by at least early 2010, the parties began to dispute the terms of their relationship. I have mentioned the email of 1 February 2010 from Mr Surcess, which strongly contended that the intellectual property to the TPP had not been assigned. On the same day, Mr McCourt emailed Mr Surcess saying, amongst other things:

“Obviously the recent issue of ownership over the developments done in TPP has caused us some serious concern, it is and has always been our genuine belief that we own the IP rights for work executed by Eye Jam under instructions from our company ...”

He added that in the circumstances the applicants had “no choice but to suspend development work on TPP for the time being”. The respondent argues that that statement from Mr McCourt supports its case, because Mr McCourt referred only to his belief rather than to something which he had been promised by Mr Surcess. But as I read that email, it is not irreconcilable with Mr McCourt’s account of the relevant events of 2008 and of the discussions about intellectual property.

- [52] On 3 February 2010, Mr Surcess responded saying that his company would “completely withdraw all support & maintenance of any kind effective immediately”. Although some further development work for the TPP was then under way, the TPP system had been used by the first applicant for some time. However after the respondent withdrew its services, the first applicant was unable to maintain the system, especially without the respondent’s provision of the source code. In March 2010, the respondent offered a long term maintenance agreement, under which it would be agreed that the ownership of the intellectual property in the TPP would lie with it and that in the first year the respondent would be paid a fee of \$400,000. This was not acceptable to the applicants. The first applicant has since discontinued its use of the TPP, and it says that it seeks to secure the ownership of the intellectual property in order to prevent its competitors from using it.

- [53] The respondent argued that the first applicant pursued and is pursuing the ownership of the intellectual property, only because of its importance for the research and development concession. That cannot be accepted, especially having regard to the concessions made by Mr Surcess as to what he always understood to have been the commercial importance of the rights in the TPP to the applicant’s business. I refer

to that evidence below. The research and development concession motivated the applicants to formalise what they believed to be the ownership of the intellectual property. But it is another thing to say that there were no commercial reasons for the inclusion of this term in the development agreement when it was made in 2008.

- [54] I return to the contest as to what was said between Mr McCourt and Mr Surcess, especially in their discussion in May 2008. The starting point is that there was, on either account, some discussion of the ownership of intellectual property in the new system, in which Mr McCourt was saying that the applicants wanted the intellectual property. Under cross-examination, Mr Surcess conceded that he understood that it was important to the first applicant that its competitors not be able to use the software which had been developed by the respondent. He further understood that the first applicant wanted to be able to sell the software it was causing to be developed to other travel agents and that the only practical way in which that could occur was if the applicants owned the software and could then licence its use to third parties.<sup>13</sup> Of course the subjective understanding of Mr Surcess does not prove that the contract contained the express term for which the applicants argue. But as Mr Surcess agreed, this understanding came from his discussions with Mr McCourt, so that in this, there is evidence which is probative of the content of their discussions. Moreover, it points to the probability that Mr McCourt did not simply make an isolated and casual request for the intellectual property but emphasised the reasons why, in his view, it was essential that the applicants should have it.
- [55] In turn, these reasons suggest an improbability that the applicants would contract for the development of the TPP system, absent a term under which they would have the intellectual property. In that respect, Mr Surcess admitted that had he said to Mr McCourt that the applicant would have only a non-exclusive licence for the TPP, Mr McCourt would not have proceeded with its development and the expenditure of more than \$1.5 million in fees.<sup>14</sup> Consistently with that concession, it was not the respondent's case that Mr McCourt's proposal for this term about intellectual property was rejected by anything which Mr Surcess or anyone else for the respondent had said or written.
- [56] Ultimately therefore, the respondent's case is that the term which was proposed by Mr McCourt was neither accepted nor rejected, with the result that it did become a part of the contract which was made. In my conclusion that is quite unlikely. It is much more probable that Mr Surcess responded in a way which accepted this term. Given the importance of preventing the use by competitors of this software, Mr McCourt would have been attentive to the need to have the respondent's agreement on the subject of the intellectual property. Although it was possible that he believed that he had the agreement without Mr Surcess having actually accepted it, it is far more likely that he believed that it had been accepted because Mr Surcess had said so. That probability is enhanced by the email of 12 March 2008 as well as by the contents of the draft agreement. It is enhanced by the admission made by Mr Woolston in 2009. It is also enhanced by the fact that the respondent had been quite prepared to assign the intellectual property in the PPAT system.
- [57] I am persuaded then that by the contract made between the first applicant and the respondent for the development of the TPP, it was expressly agreed that the

---

<sup>13</sup> T 2-27, 1 27-45.

<sup>14</sup> T 2-39, 1 38-42.

intellectual property in the TPP system would belong to the first applicant or as it directed.

- [58] As already noted, the respondent contended that if there was consensus on this question when the agreement was made for the development of the TPP, it was not sufficiently certain to constitute an enforceable term. It pointed to the pleaded case, which is for a term by which the first applicant or its nominee would “own the intellectual property rights in the TPP platform”. The respondent submitted that the concept of “intellectual property rights” in this context was “too ambiguous and uncertain to constitute a contractual arrangement”. Its submission referred to the scope of rights which can be described as intellectual property, such as trademarks. That may be so, although there is nothing to indicate that the respondent was about to use, let alone register, a trademark relating to the TPP for its business.
- [59] The respondent then suggested other complications, such as whether intellectual property in the form of copyright in the software was a reference to a licence (whether exclusive or non-exclusive) for the applicants to use the TPP executable code or was to encompass all of the respondent’s copyright in the TPP project including its source code. In an attempt to demonstrate the relevance of this distinction, the respondent’s argument pointed to a licence agreement dated 14 September 2007 between the two applicant companies, in which the term “software” was given a particular definition as the “object code” of the software developed by the respondent. The respondent’s argument about trademarks also seems to have been inspired by a reference to trademarks within this licence agreement. Then the argument sought to make something of Mr McCourt’s evidence that he had no experience as a software engineer and did not understand the difference between a source code and an object code.
- [60] None of these submissions is persuasive. The terms of cl 4.1 of the draft agreement provide a clear and reliable indication of what the parties agreed, which is that the respondent would assign all intellectual property in the software as it then existed or as it would be developed. It is not suggested that there was some fatal uncertainty as to what would constitute the TPP system. The extent of the copyright in that software would be certain enough. If there is any intellectual property in the software apart from its copyright, then under the agreement which the parties made, the first applicant would be entitled to it. The submission as to various types of licences is beside the point, because what the parties agreed was that there should be an *assignment* of the property.
- [61] Therefore the applicants have established a case for a declaration as to the intellectual property and for consequential orders for the delivery up of relevant codes. The precise terms of those consequential orders were not debated. Within this judgment there will be a declaration that the first applicant, or the second applicant at the first applicant’s election, is entitled to all of the intellectual property in the software as that term was described in the draft agreement provided by the respondent to the applicants on or about 26 May 2008. I will then hear the parties as to consequential orders.

### **Fees**

- [62] The applicants pleaded that it was an express term of the contract for the design and development of the TPP that the first applicant pay the respondent at an hourly rate

of \$95 per hour plus GST.<sup>15</sup> They pleaded that it was an implied term that “the fees charged by the respondent to the first applicant for work done pursuant to the development agreement would be reasonable”.<sup>16</sup> That is alleged as a necessary implication for the reasonable and effective operation of the development agreement in “all the circumstances”, which are said to have included the fact of the express term as to the hourly rate and the statement by Mr Surcess to Mr McCourt that the cost would be approximately \$500,000 (exclusive of GST).<sup>17</sup> As I have found, Mr Surcess did make that representation.<sup>18</sup>

- [63] The respondent’s pleading did not admit the express term as to the hourly rate but instead it pleaded that “the respondent initially charged hourly rates for design and development of \$95 per hour plus GST”. As that indicated, the respondent later charged a different rate for the performance of this work. In its invoice addressed to the second applicant of 25 May 2009, the respondent by Mr Surcess wrote that:

“A price increase will be in effect starting with work performed on July 8 2009 as follows:

...

\$121/hr for TPP (new platform in Microsoft.NET technologies).”

The same advice was provided in the respondent’s invoice of 7 July 2009. The invoices from 20 July 2009 charged that rate of \$121 per hour. Apparently there was no objection from the applicants. It continued to pay the invoices until the dispute arose in 2010. The respondent’s counterclaim, which is for the total of the last three of its invoices, is calculated on that rate of \$121. The applicants take no issue with that calculation. The counterclaim is defended entirely upon the basis of the applicants’ case that by an implied term, the respondent is limited to the recovery of a reasonable sum and that more than such a sum has been paid already.

- [64] The applicants submit that the appropriate approach to the implication of a term in a case such as the present, where there is no formal contract, is that described by Deane J in *Hawkins v Clayton*.<sup>19</sup> Deane J there said:

“Care must be taken to avoid an automatic or rigid application of the ordinary cumulative criteria for determining whether a term should be implied in a written contract to a case where the contract is oral or partly oral or where it is apparent that the parties have never attempted to reduce their agreement to complete written form: cf *Hospital Products Ltd v United States Surgical Corporation*.<sup>20</sup> The cases in which those criteria were laid down or accepted as the cumulative ingredients of an overall test were concerned with the question whether a term should be implied in a formal contract which was complete upon its face: see, in particular, *BP Refinery (Westernport) Pty Ltd v Hastings Shire Council*,<sup>21</sup> *Secured Income*

<sup>15</sup> Paragraph 15(f).

<sup>16</sup> Paragraph 18.

<sup>17</sup> As pleaded in paragraph 13 of the statement of claim.

<sup>18</sup> See [28] above.

<sup>19</sup> (1988) 164 CLR 539.

<sup>20</sup> (1984) 156 CLR 41 at 121.

<sup>21</sup> (1977) 52 ALJR 20 at 26; 16 ALR 363 at 376.

*Real Estate (Australia) Ltd v St Martins Investments Pty Ltd*,<sup>22</sup> *Codelfa Construction Pty Ltd v State Rail Authority of NSW*.<sup>23</sup> In such cases, the insertion of an additional term effectively involves an alteration to what the parties have formally accepted as the complete written record of the compact between them. As the judgment of Mason J in *Codelfa*<sup>24</sup> (Stephen and Wilson J concurring with his Honour's comments on this aspect of the case) clearly indicates, the cumulative criteria formulated or accepted in such cases cannot be automatically applied to cases such as the present where the parties have not attempted to spell out all the terms of their contract but have left most or some of them to be inferred or implied. Where that is so, there is no question of effectively altering the terms in which the parties have seen fit to embody their agreement; the function of a court is, as Lord Wilberforce pointed out in *Liverpool City Council v Irwin*:<sup>25</sup> 'simply ... to establish what the contract is, the parties not having themselves fully stated the terms'.<sup>26</sup>

His Honour said that in circumstances such as the present:

"... A court should imply a term by reference to the imputed intention of the parties if, but only if, it can be seen that the implication of the particular term is necessary for the reasonable or effective operation of a contract of that nature in the circumstances of the case."<sup>27</sup>

That test has been approved in subsequent judgments in the High Court: see *Breen v Williams*,<sup>28</sup> *Associated Alloys Pty Ltd v ACN 001 452 106 Pty Ltd (in liq)*<sup>29</sup> and *Moneywood Pty Ltd v Salamon Nominees Pty Ltd*.<sup>30</sup>

- [65] I accept that this approach is applicable to the present case. Therefore whilst the criteria set out in *BP Refinery* and *Codelfa* are relevant, a term may be implied although it does not clearly satisfy all such requirements.<sup>31</sup>
- [66] For the implication of this term, the applicants seek to liken this contract to one which does not specify any price. But that is not this contract. As the applicants plead, it was an express term that the price would be calculated according to a certain hourly rate. Ultimately the respondent's argument accepted the existence of that term. The parties later agreed to vary that hourly rate, but there remained a term by which the price was to be calculated with precision and certainty. No implication was required to ascertain that amount.
- [67] The applicants' argument pointed to a number of circumstances, which in combination, were said to demonstrate the necessity for this term. The first applicant was not a software developer, there was no fixed price, there was no

<sup>22</sup> (1979) 144 CLR 596.

<sup>23</sup> (1982) 149 CLR 337.

<sup>24</sup> (1982) 149 CLR at 345-347.

<sup>25</sup> [1977] AC 239 at 254.

<sup>26</sup> (1988) 164 CLR 539 at 571.

<sup>27</sup> (1988) 164 CLR 539 at 573.

<sup>28</sup> (1996) 186 CLR 71 at 90-91, 123-124.

<sup>29</sup> (2000) 202 CLR 588 at 610.

<sup>30</sup> (2001) 202 CLR 351 at 374.

<sup>31</sup> *Hawkins v Clayton* (1988) 164 CLR 539 at 571-572.

agreement as to the number of people who would work on the project, there was no specification of the qualifications of persons who would do so, a flat rate per hour was to be applied whatever the qualifications or experience of the employee, there was no quantified cap on the amount which could be charged and an estimate of \$500,000 had been provided.

- [68] A particular difficulty for the implication of a term, as pleaded, is that the parties did agree upon a certain hourly rate. Therefore an assessment of what is a reasonable charge must be confined by the premise that, as the parties have agreed, the hourly rate was a proper one. The point can be illustrated in this way: if the rate of \$104 per hour greatly exceeded what anyone else charged in this market, it could not be said that the parties agreed that the price should be according to that market rate, because it was reasonable. The overall amount of fees would have to be shown to be unreasonable, assuming that the agreed hourly rate was a proper one. Therefore any unreasonableness of the overall cost could come only from the other factor in the calculation of the price, which was the number of hours.
- [69] That limitation was recognised in the way in which the applicants' case was presented at the trial. The applicants led evidence from an expert in software development, Mr Acker, who concluded that it should have taken only 7,980 hours to develop the TPP, which at a rate of \$104.50 per hour, would be a total cost of \$833,910. The ultimate argument for the applicants is that it was this amount which should have been charged and not \$1,676,031.30 as was charged. The claimed overpayment is therefore \$753,488, which is sought either as damages for breach of contract or as money recoverable on a restitutionary basis for the fact that it was paid in the mistaken belief that the respondent was entitled to it under the contract.
- [70] In that way the applicants' case became focussed upon the number of hours worked on the project. An alternative formulation of the applicants' argument is that the parties agreed, by necessary implication, that the respondent would not take more than a reasonable number of hours in the development of the TPP.
- [71] The applicants' argument is that such an implication is necessary in order to avoid the respondent's entitlement to fees being "unconstrained". Absent such a term, it is said, the respondent could have used very inexperienced programmers, taking several times as long as experienced programmers to produce the same result.
- [72] The respondent argues that the applicants' interests were sufficiently protected by what was described as the respondent's duty of care in the performance of this work. It was said that this was a duty to perform the work in a way which would avoid loss to the first applicant and, in particular, loss by an excessive number of hours being worked on and charged for the project. But if the respondent was under a duty to avoid a loss of that kind, it hardly seems to be a different burden upon the respondent to say that by an implied term, the respondent could claim for more than a reasonable number of hours.
- [73] During the development of the TPP, such an implied constraint on the recovery of fees could have had practical difficulties. From the outset, the parties seemed to have agreed that the respondent could issue invoices at regular intervals such as every fortnight. The invoices did not contain any description, or at least a detailed description, of the work performed but only a specification of a number of hours. It is difficult to see how the reasonableness of the hours claimed within an individual

invoice could have been assessed by the applicants from the invoice itself. To the extent that some view could have been formed by the applicants, there would then have been the prospect of a dispute which would hold up the payment of the invoice whilst it was resolved. Moreover the assessment of that matter, invoice by invoice, would have been more difficult because of the essential nature of this work, which is the development of a system. It is one thing to be able to look back after the completion of the work, or at least a substantial and discrete part of it, and assess that too many hours have been spent upon the task. It would be more difficult to make that assessment as the work was being performed.

- [74] The term for which the applicants contend is different from an implied term that the work be done with reasonable expedition. That is a term commonly employed in building contracts and, although the point was not argued here, it would seem that such a term would have been implied in this contract, so that the respondent would not be free to work on this project at any time in the future as suited it. In particular, the respondent was under an obligation to expedite this work consistently with its promise to give this job “normal priority”, as Mr Surcess had justified the hourly rate in his email of 12 March 2008.<sup>32</sup> This is a different thing from saying that the respondent was limited to payment for a reasonable number of hours.
- [75] The obligation to proceed with reasonable expedition provided some protection against the risk of the respondent taking too long to complete the work by spending too many hours upon it. But that implied term would not have avoided the risk that the applicants would have to pay for inefficiency and inexperience, because the respondent could have progressed the work with reasonable expedition by employing many people for very extensive hours in order to counteract that inefficiency and inexperience.
- [76] I am persuaded that it was necessary for the reasonable operation of this contract that the respondent be confined to recovering for work which was no more than was reasonably required to produce the agreed results. Absent such a term, the respondent was able to charge for work which was mistakenly or defectively performed and for the work which would be required to remedy it. As the evidence of Mr Acker, if it is accepted, would illustrate, the absence of such a constraint had the potential to result in the work costing twice what it would have cost if performed by an efficient team of programmers. The standard required by such a term was not overly demanding, and it provided a fair scope to the respondent in the way in which it went about performing this contract.
- [77] The question then is whether the defendant is shown to have charged for more hours than were reasonably required in the performance of this contract. As to this, the evidence of Mr Acker is effectively uncontradicted. No expert was called to do so and nor did Mr Surcess or Mr Woolston attempt to do so. The respondent led evidence from Mr Brookes, who until April 2010 was employed by the respondent as the senior software developer. He was involved in the PPAT project and then as the technical lead and senior developer on the TPP project. In his brief evidence in chief, he was not asked to comment upon the proposition that the work could have been performed in fewer hours. Nor was he asked to describe the respondent’s hierarchy of personnel involved in the performance of this contract or to say what had been their levels of expertise or experience. It appears that he was called only

---

<sup>32</sup> See [21] above.

to lead evidence against the suggestion, which was not pursued by the applicants, that the TPP had been derived from the PPAT system. Not surprisingly, Mr Brookes was not cross-examined.

[78] Mr Acker was cross-examined but briefly. He was referred to some models used for estimating the costs of the development of software, such as that known as COCOMO. He did not employ these models in his analysis but instead he used his apparently considerable experience in software development to assess the time which was reasonably required in the performance of this contract, which he divided into some eight stages. There was no challenge to the fact of his experience of over 25 years in the development and management of software. It was not suggested that there was some serious flaw in his analysis or that any analysis without using one of the scientific models would be unreliable. Rather he was cross-examined to the effect that there are many ways of measuring the likely cost of software, which are capable of producing a very broad range of results. In particular, he was asked whether he was aware that a Mr Blackshaw, who did not give evidence, had applied the COCOMO model to arrive at a cost of the TPP of \$2.9 million. Mr Blackshaw's analysis is not in evidence and it provides no basis for rejecting that which was performed by Mr Acker.

[79] The only specific criticism levelled at Mr Acker during his cross-examination was when it was suggested that he had overlooked some work which had been claimed in a certain invoice, which was there described as "continue set up of new server, configure backups, replication" and which appeared under a heading "Travel Product Portal Hardware". The invoice appears to have claimed 39 hours for that work. At an hourly rate of \$121, that item of work, if overlooked by Mr Acker, would hardly matter for his opinion. Mr Acker conceded in cross-examination that he could not find a reference to this work in his report. There was then this question and answer:

"Yes. Could I suggest that you've overlooked that and other references to the work done in the invoices themselves; is that right?-- I suppose it's possible."

The concession of that possibility does not detract from the weight overall of his evidence. If Mr Acker had overlooked some of the work in that invoice of April 2009, it does not follow that more probably than not he has overlooked a substantial part of the work on the project, and the submission that he may have done so lacked force for the fact that the cross-examiner failed to take Mr Acker to any other instances. Counsel for the applicants submitted that Mr Acker can be seen to have wrongly conceded that this work was not addressed in his report, because, it was said, it appears in his report (in what was said to be page 14 but is an apparent reference to page 23). But that was not the subject of any re-examination of Mr Acker and I am not satisfied that he did advert to it. I will assume in the respondent's favour that that item was overlooked in the particular estimates he made which led to his ultimate conclusion as to the appropriate number of hours. Nevertheless, Mr Acker's evidence remains persuasive. The fact that he was prepared to make such concessions is in favour of accepting his evidence. His independence was not challenged and nor was his expertise. His evidence is effectively uncontradicted and I accept it. He agreed, within his report, that an estimate of this kind might differ according to the methodologies and assumptions used by the estimator. He agreed also in his report that there are "many ways a building a system as complex as TPP has the potential to be". But allowing for

those potential complexities and conceding that “to accurately predict the cost of anything other than the smallest software project is no trivial task”, he felt confident in concluding that no more than, in total, 7,980 hours need have been employed in the performance of this contract. He wrote that he did not “believe that the time invested and the resulting fee charged is appropriate. But the rate charged of \$104.50 per hour (increased to \$121 per hour), I would expect a higher rate of efficiency”.<sup>33</sup>

- [80] The applicants must establish more than an overpayment. To recover some particular amount from the respondent, they must establish the extent of the excess of the payments made over what should have been charged. They claim the difference between the amount paid and \$833,910, which is 7,980 x \$104.50.
- [81] There is a complication from the hourly rate becoming \$121. However, the unchallenged evidence of Mr Acker is that at the higher hourly rate of \$121, more highly qualified staff would be expected to be used with greater efficiency, resulting in an “efficiency benefit” in the range of 15 to 20 per cent. A 15 per cent increase in efficiency would almost match the increase in the hourly rate from \$104.50 to \$121.
- [82] Accepting Mr Acker’s evidence of that 15 per cent efficiency benefit, I find that the reasonable cost would be still of the order of \$833,910.
- [83] The applicants have proved that the total amount paid to the respondent (\$1,587,398) exceeded the amount to which the respondent was entitled (\$833,910) by \$753,488. In the event of those findings, there was no dispute as to the entitlement of the first applicant to recover that difference as moneys paid under a mistake. In particular, there was no issue as to the fact of the payer’s state of mind or as to the cause of action (although the respondent submitted, correctly, that the cause of action was the money paid under a mistake rather than for damages for breach of contract). It follows also that the counterclaim must be dismissed.
- [84] Interest should be allowed on that sum of \$753,488 calculated at eight per cent per annum. It should accrue from what I would estimate to be the mid point in this project which is about April 2009. I will allow interest at that rate for 40 months, which is an amount of \$200,930. There will be judgment for the first applicant against the respondent in the sum of \$954,418.