Neutral Citation: [2013] IEHC 623

**THE HIGH COURT**

**[2012 No. 13167 P.]**

**BETWEEN**

**SOFTCO**

**PLAINTIFF**

**AND**

**DHL INFORMATION SERVICES (EUROPE) s.r.o.**

**DEFENDANT**

**JUDGMENT of Mr. Justice Ryan delivered the 20th December, 2013**

1. The plaintiff is an Irish company that designs and supplies computer software and between 1992 and 2012 it provided services for the defendant. The defendant is a logistics company engaged in the transport of delivery of goods all over the world. The plaintiff's software was used in 30 of the defendant's subsidiary companies around the world. The plaintiff also provided support services and maintenance.

2. In October 2007, the parties entered into three agreements known as Global Framework Agreements to govern their relationship. In late 2009, DHL indicated that it intended to terminate the relationship with the plaintiff and seek an alternative document management supplier. DHL requested a period of transition during which the new system would be commissioned and it would also require ongoing access to the documents in the archives that were managed by the plaintiffs' software for up to 10 years in order to fulfil legal obligations as to retention and storage of records. SoftCo offered DHL two alternative options but neither of these was ultimately adopted. SoftCo put forward a new third option and furnished a revised contract at the end of March 2012. Shortly after that disputes began to arise between the parties in regard to payment for invoices sent by the plaintiff. Then there were issues about the supply of keys by the plaintiff to DHL to enable the software to be operated. On the 12th September, 20112, the plaintiff issued a summary summons seeking judgment for €1.6m for software and associated support services. DHL contends that the SoftCo support and maintenance service terminated on the 31st March, 2012 and that it was confirmed by emails from Mr Scott, the managing director. DHL argues that although the support and maintenance agreement ceased to have effect from the 31st March, 2012, SoftCo still continued to seek payment and that was the subject of summary proceedings that were issued in September 2012.

3. The relationship deteriorated rapidly. By letter of 1st November, 2012, the plaintiffs' solicitors sought agreement to undertake audits of its software in various locations pursuant to the terms of the Global Framework Agreements "with a view" as is stated in the original grounding affidavit by Mr. Anton Scott "to confirming the integrity of its software". That was refused by letter of the 5th November, 2012, by the solicitors for DHL who said nothing of that kind could take place during the months of November and December because they were a "locked down period". SoftCo disputed that. SoftCo threatened in this correspondence to terminate the software agreements. DHL responded through its solicitors by saying that it would treat the agreements as at an end as of the 30th November, 2012.

4. Lurking behind the dispute about payment and about the arrangements for the dissolution of the relationship between the parties was the question of how and whether DHL was going to be able to access the archive of records that was maintained using the SoftCo software. There is even a dispute as to the ownership of the records, but leaving that aside the question is whether it was going to be possible for DHL to get access to its own records that were stored in the system that had been provided and maintained by SoftCo. In describing the arrangements in these terms I am endeavouring to use neutral expressions so as not to imply any view as to the correctness of either party's stance on these questions. It is also relevant to note that in a letter of the 26th October, 2012, SoftCo's solicitors said that its client "intends to commence continuous audits of the licensed SoftCo software in DHL to ensure the proper use, control and location in accordance with the licence terms. The relevant clause is 3.15 of the Hardware Sale and Software Licence Global Framework Agreement which is as follows:-

> "SoftCo have the right to conduct, within a reasonable timeframe and with prior written (which includes electronic mail) reasonable notice, which shall not be less than 48 hours - notice, an audit (either conducted on-site or remotely) of the relevant SoftCo systems and equipment in use by the Customer (including all servers) to ensure that the customer is complying with the terms and conditions of this contract."

5. Mr. Scott says at para. 34 of the grounding affidavit and his first affidavit that his company

> "is now gravely concerned that DHL is engaging in the unlicensed and unlawful use of the software owned by the plaintiff and that such use is in breach of the plaintiffs copyright and such software. I say and believe that it is not possible for DHL to access or mass export the documents that are stored in the archive created and owned by the plaintiff without using, adapting or manipulating the plaintiff's intellectual property in the software to allow for some alternate means of access or mass export."

6. An addendum to the Global Framework Agreements between the parties was executed on the 5th June, 2009 and clause 4.1 is relevant providing for a new clause 2.9 in the following terms:-

"Customer agrees that it does not have a licence to perform any mass export of data and should Customer have a requirement to migrate data from any Designated System it will do so only in cooperation with SoftCo and using appropriately licensed SoftCo specified tools as per the migration project completed with DHL Luxemburg in 2007. If mass extraction is required SoftCo will work with DHL in good faith to facilitate the process at SoftCo's standard rates."

7. That issue is the nub of the contest between the parties. DHL's case is that it began to phase out its use of SoftCo's software for archiving its current documents and had not used it since May 2012 for any new data. Its new data was carried on a new global imaging tool developed by Hewlett Packard. That system has nothing to do with the case because it is dealing only with fresh

material. In respect of the archived material, DHL additionally engaged HP to develop a migration tool to retrieve DHL's historical data which was archived during the lifetime of the relationship between these parties on an ad-hoc basis to enable DHL meet regulatory requirements and commercial obligations to its customers. DHL was anxious to ensure that this would not in any way infringe SoftCo's copyrighted software and Hewlett Packard were expressly briefed in that regard.

8. This is a brief summary of the positions of the parties. The disputes were ventilated in considerable detail in three affidavits each from the principal protagonists, Mr Scott and Mr Dobbie and one from Mr O'Brien on a peripheral issue.

9. The plaintiff issued its plenary summons on the 2151 December, 2012, claiming damages for breach of copyright, an account of profits, an order for the inspection of the defendant's computer files and programmes, an order restraining unauthorised use of the plaintiffs programmes or any copyrighted proprietary information stored in the software, an order restraining the defendant from (*inter alia*) reversing engineering the software.

10. The notice of motion is dated the 4th January, 2013 and seeks:-

> "(a) An order permitting the plaintiff its servants and/or agents or such other person as may be nominated by this Honourable Court to attend at the relevant premises of the Defendant or its associated entities on a date or dates to be specified and to inspect and conduct an audit of the computer files and programmes under the control of the defendant.
>
> (b) An order restraining the defendant from the unauthorised, unlicensed and unlawful use of any software or computer programme or any part or component thereof or any proprietary information stored therein of which the copyright is held by the plaintiff.
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> (c) An order restraining the defendant from taking steps to disassemble, decompile, copy, duplicate, reproduce or reverse engineer any software or computer programme or any component thereof or any proprietary information stored therein of which the copyright is held by the plaintiff."

11. This application concerns (a) only, with the other elements being adjourned *sine die*. While the notice of motion seeks an order in terms of the contractual provision providing for an audit to be carried out at the instigation of the plaintiff and on notice to the defendant, the plaintiff is actually seeking an order for inspection. There was some controversy as to whether counsel Mr. John Hennessy, SC for the plaintiff had conceded that SoftCo was not entitled to rely on the contractual provision as to audit and restricted his motion to an inspection pursuant to the Rules of the Superior Courts. Mr McDowell SC for DHL opened his argument with the observation that the only relief being sought was under Order 50 rule 4 and objected to the re-introduction of any contractual claim. When Mr. Hennessy opened the case, he submitted that he was seeking an order for inspection on the alternate basis of the contractual provisions for audits and also on the basis of O. 50, r. 4 of the Rules of the Superior Courts. It is not entirely clear that these two reliefs would necessarily be the same precisely. In the course of argument, I understood Mr. Hennessy to opt firmly for an application under O. 50, r. 4 to the exclusion of the contractual right. It is to be remembered of course that the subject of audit was a particular bone of contention around the time of the termination of the contract in November 2012.

12. Order 50, r. 4 provides as follows:-

> "The Court, upon the application of any party to a cause or matter, and upon such terms as may be just, may make any order for the detention, preservation, or inspection of any property or thing, being the subject of such cause or matter, or as to which any question may arise therein, and for all or any of the purposes aforesaid may authorise any person to enter upon or into any land or building in the possession of any party to such cause or matter and for all or any of the purposes aforesaid may authorise any samples to be taken or any observations to be made or experiment to be tried, which may be necessary or expedient for the purpose of obtaining full information or evidence."

13. The motion was originally returnable for the 4th March, 2013. The defendant criticises the plaintiff for having adjourned the matter on a number of occasions before it came on for hearing before me. The plaintiff's case is that it needs inspection of the defendant's computers in order to draft the statement of claim. It is accepted that it is unusual to order inspection or other interlocutory procedure at this early stage of an action. Counsel for DHL, Mr. McDowell SC argues that it is wholly inappropriate to order any such procedure at this early stage. It is obvious that SoftCo would like to find out what happened to its software and what happened to the data stored in it and how HP managed to extract the data from the system but that does not mean that inspection is necessary in order to draft the statement of claim.

**The Law**

14. Delaney and McGrath in *Civil Procedure in the Superior Courts* say that inspection will not normally be ordered until the pleadings are closed. The same principle applies to discovery. The issues in the case should be defined before such procedures are invoked so that the crucial question of relevance can be identified.

15. Murphy J. considered O. 50, r. 4 in *Bula Limited v. Tara Mines Limited and Others* [1987] I.R. 85, holding that the right of a party to seek and obtain an order for inspection or indeed discovery is in no way dependent on the court being satisfied as to the strength of the plaintiff's case. The case involved a claim by the plaintiffs that the defendants were unlawfully extending their mining activities from beneath their own lands into the underground of the plaintiffs' lands and extracting quantities of ore and selling it as their own. While there was little or no evidence to support these serious allegations other than the belief by the principal of the plaintiff company, nevertheless the court held that the strength of the case was not a determinant of the entitlement to an inspection. The plaintiffs were free to bring their actions in the courts without having to establish a prima facie basis for doing so. Murphy J. said:-

> "It seems to me that the rights of litigants to seek and the power of the courts to grant relief or assistance of a procedural nature must be viewed in the context of litigation and the administration of justice as a whole. It is the right of citizens under the Constitution to have access to the courts for the resolution of justiciable controversies. Apart from particular provisions which enable the courts to stay or dismiss proceedings which are vexatious or an abuse of the process of the court there is not in general any obligation imposed on a litigant to verify his cause of action or produce evidence in support thereof as a condition of instituting proceedings. Undoubtedly this valuable right of access to the courts may impose serious burdens on the chosen defendant. Inevitably the litigation will involve the defendant in costs which he may or may not recover from the plaintiff and depending upon the nature of the proceedings the very fact of the litigation may be a cause of considerable embarrassment to the alleged wrongdoer. In a proper case, however, this embarrassment should be short lived. Hopefully an educated public would suspend judgment until the trial of the action and it must be assumed that the hearing and the order made thereon will vindicate the innocent party."

16. Since the plaintiff in the case made a claim of underground trespass and theft and there was no way of clarifying the situation or establishing the facts without inspection, the court acceded to the plaintiffs' application. Murphy J. said:

> "In these circumstances it seems to me that it would be impossible to vindicate the plaintiffs' right to litigate if they were not afforded an appropriate opportunity of inspection to attempt to substantiate the claim which they have made."

17. In the circumstances the Court allowed inspection but on a very limited basis. Not more than three named experts, to be approved by the court if agreement between the parties could not be reached, were to be given access over a period of not more than four days within the next four weeks. The "visual inspection is to be carried on without any interruption of the Tara mining works". The court did not make an order permitting the taking of samples nor did it require the defendants to provide maps, drawings or documents of any description.

18. It seems to me to follow from the observations of Murphy J. in this case and the comments of Delaney and McGrath in the work cited that inspection will be ordered in an appropriate case where it is necessary to do so to enable the party to make its case. Discovery of documents is not ordered unless the party seeking it establishes a solid ground of reasonable necessity and it would not normally be considered before the pleadings have been closed. It is only at that stage that relevance can be decided. Even more important is to be able to establish what is not relevant. I take it therefore that in principle there should not be an order for inspection any more than an order for discovery until it has been shown to be practically necessary and it will normally be difficult to do that until the pleadings have been closed.

**Submissions made by Mr. John Hennessy SC for SoftCo**

19. Mr Hennessy took the court through the various affidavits and the exhibits to illustrate the nature of the dispute and the strength of the case made SoftCo as to the alleged breach of contract by DHL, how SoftCo suspicions were legitimately and reasonably aroused as to the way DHL was approaching its software. SoftCo was insisting that its software was in use for storing DHL's data and it could only be "terminated" so that DHL could use the stored material without reference to SoftCo if there was a wind down agreement to dismantle the storage structure, whereby SoftCo would be paid for its dismantling work.

20. Mr. Hennessy points to what he claims are inconsistencies in the affidavits sworn by Mr. Charlie Dobbie for DHL and discrepancies between one affidavit and another from which he deduces unreliability and concessions that according to him tend to confirm the SoftCo complaint. He refers to supporting evidence in a report of a computer expert, Dr Vivienne Mee but I do not think that it is necessary for me to analyse all this evidence to seek to come to a conclusion. I adopt the approach of Murphy J. in *Bula v. Tara* that the relative strengths of the cases of plaintiff and defendant are not the determining criteria in an application for inspection. The same would be true, I think, in a motion for discovery, and Murphy J comments on the difficulty of deciding between conflicting affidavit evidence.

21. In fairness to the defendant, it should be recorded that it strongly rejects the allegations made by Mr. Scott in his affidavits and presented by Mr. Hennessy SC Mr. McDowell's submission is that DHL became disenchanted with the service provided by SoftCo and more particularly with the cost of it and began to consider other options. They discussed the matter with SoftCo who produced options for termination. They were also quite expensive and were going to take a long time. DHL needed a new system for their present and future needs and that was provided by Hewlett Packard. The same company produced a separate migration tool to enable DHL to gain access to its own records. The specification for the work that went into that expressly provided that there was to be no interference with any of SoftCo's rights. Hewlett Packard is a highly respected international company and adhered to the brief and produced a satisfactory solution that in no respect entrenches on the rights of SoftCo in respect of its software. Mr. McDowell submits that there are no continuing restrictions on DHL's capacity to access its own records and the provisions of the October 2007, agreements with the addendum of 2009 are spent because those agreements have been terminated. They do not have life after termination, and there are no surviving prohibitions that operate to prevent DHL from dealing with its own data.

22. Mr. Hennessy's argument gives rise to the question as to when a party is entitled to inspect another party's property in advance of setting out his claim "in order to find out the true situation"?

23. Mr. Hennessy summed up his case as follows:-

> 1. The parties agreed to specific terms in the June 2009 addendum which prohibited mass migration of data and the plaintiff's case is that the defendant ignored that provision.
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> 2. He submits that he has demonstrated inconsistency and/or lack of clarity in the defendants' affidavits of Mr. Dobbie and that SoftCo is entitled to find out what happened.
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> 3. There had to some interference with the intellectual property rights of the plaintiff; its software has been interfered with and misused and that will be found out by inspection.
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> 4. The agreements of 2007 with the 2009 addendum all have unconditional rights of audit on 48 hours notice and there is no lock down exclusion. It is imperative in an agreement regarding software that the supplier is able to check how and to what extent it has been used. The plaintiff tried to exercise the right of inspection while the contract was in being. DHL was at first resisting termination of the agreement but when SoftCo sought an audit DHL turned *volte face* and terminated. According to Mr. Hennessy DHL is now inviting the court to rubber stamp that unlawful refusal of an audit.
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> 5. Order 50 r. 4 does not contain any stated restriction on the point of time or the place in the sequence of proceedings when inspection may be ordered. He actually went on to say that it did not even require proceedings but I think that may be going a little far.
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> 6. It is a matter of urgency to find what out happened. He says that if inspection is not ordered at this stage then it is possible that DHL and/or Hewlett Packard might cover their tracks as to what they did with or to the plaintiffs' software.

**Mr. McDowell's Submissions for DHL**

24. Mr. McDowell criticises the delay on the part of the plaintiff as he alleges and proposes that a schedule for an early trial and interlocutory procedures prepared by his junior Mr. Fanning should be adopted. He challenges the proposition that the plaintiff is unable to plead his case at this point. He suggests that there would be an injustice if SoftCo were allowed to inspect but DHL could not apply for discovery. He said that the evidence including any expert evidence would only arise for consideration and determination

at the trial.

25. It is not legitimate to permit the plaintiff to engage in a trawl of all the defendants' records to see if anything might turn up in the net; this is not an Anton Piller case. He submits that the audit clause died with the agreement of which it was a part. Moreover, if the survival of the restriction in clause 2.9 of the contract (as inserted by the addendum) is an issue in the case that will become clear when the statement of claim is delivered and the defence and reply when it will be possible to say what the matters in controversy are between the parties.

26. He submits that the correspondence of late October and November included not a demand for a legitimate audit by SoftCo, but rather a threat that was intended to intimidate DHLs into submission. SoftCo must bear the consequences of themselves terminating the licences at the end of2012.

27. Mr. McDowell robustly defended his client's behaviour and complained bitterly about how DHL had been treated badly by the plaintiff. He submits that the falling out between the parties was really about price and he complains that the plaintiff was severely overcharging DHL for its services. When the latter sought to disengage, SoftCo came up with a very big demand which would involve substantially higher charges than it had been invoicing for all of the previous period of the contract. Mr. Scott made clear when the options for the exit strategy were being considered that normal rebates would not apply and there would be full charges.

28. As to the instructions to Hewlett Packard, he said that it was made explicit in the brief that there was to be no infringement of the SoftCo system. Mr. McDowell cited an authority about the use of software which said that a party can test and run a programme but I think that is argument about the merits of the case and I am not so much concerned with that. It is understandable that Mr. McDowell would be eager to give no impression of making any concession on behalf of DHL in respect of the complaints made by Mr. Hennessy.

29. There is no question of the plaintiff being unable to plead its statement of claim. The mitigation tool and the author of it and the method of extraction are known at least in general terms to the plaintiff.

30. The extent of the claim to inspect is completely open ended.

31. Mr. McDowell submitted that the plaintiffs' application was compromised by delay in bringing it on; by postponing the other parts of the motion with the intention contract into an application under O. 50. r. 4.

32. Mr. McDowell's suggestion is that the appropriate thing is for this case to have case management, fix an early date, arrange for discovery and he proposed Mr. Fanning's schedule for that. There was a lack of reality he said, in the plaintiff maintaining after eleven months that it could not produce a statement of claim.

33. Mr. Hennessy replied to Mr. McDowell's submissions. On the question of whether there was enough information for the statement of claim to be drafted, Mr. Hennessy said that inspection would answer two questions -(i) are the plaintiffs intellectual property rights being breached? (ii) has there been migration of data in breach of the addendum? He said that the answers to these questions cannot be found without inspection.

**Discussion**

34. The plaintiff supplied software programs and services to the defendant over a period of years between 1992 and 2012. DHL is a worldwide company and has subsidiaries in 30 countries and during the period of their contractual relationship the plaintiff supplied and maintained the software that was needed to keep its records. The agreements that were in operation at the time of the termination of the relationship were made in October 2007 with an addendum of 2009.

35. When the question of terminating the relationship was raised by DHL, SoftCo thought that its position was secure. The only way that DHL could exit the relationship was by engaging SoftCo to extract the data safely and securely and remove the software, which would take a considerable period of time and would be charged to DHL at normal rates rather than the rebated charges that were appropriate for a continuing contract.

36. But that is not how it worked out. The relationship broke up in circumstances of some acrimony. SoftCo served notice on November 2012 that it would terminate the contract and DHL accepted it. It became clear that DHL had somehow been able access its archived material and to manage its ongoing computer needs without the assistance of the plaintiff. SoftCo believed that it was impossible for DHL to get into the data without using their software. When DHL declared that the contract was at an end and broke free of SoftCo, the latter became convinced that the only way that DHL could have accessed its records was by some process of reverse engineering the plaintiff’s software.

37. The affidavits contain a high level of detail and the submissions for and against the application for inspection demonstrate that in the affidavits and in the exhibits there is a great deal of information. The alleged wrongs are identified with considerable specificity and damages by reference to the contracts are also not only ascertainable but capable of being calculated with considerable precision. In those circumstances I do not see how it can be necessary at this stage for an order of inspection to be made. I think it may well happen that an application for inspection will be made at a later stage in the proceedings following the exchange of affidavits of discovery and inspection of documents and records that have been disclosed. Whatever arguments may arise at that stage, the consideration of such an application will be very different from the present request.

38. My view is that we are dealing with O.50 r.4 and not the contractual right to audit. The contracts have been terminated and the contractual entitlement to audit cannot be assumed for the purpose of this application to have survived; that may be an issue to be determined at full hearing but at this point it has not been established. Besides, the application was presented on the basis that it was seeking inspection under O.50 and not contractual audit.

39. It is obviously a matter of great concern and interest to the plaintiff to ascertain just what happened and how DHL has managed to dispense with the need for its expertise. That may be a proper thing to be sought as relief in the action but that is not the same thing as that it is needed now for the purpose of drafting the Statement of Claim.

40. There is no absolute rule that a party is not entitled to examine another's property or records or computers before pleading its case. There may be circumstances in which a person is entitled to inspect to see if his rights have been infringed but it is obvious that a significant element of necessity would have to be established.

41. ` The plaintiff is in a position to know what its case is; it has been spelled out in the affidavits and even debated in some detail

so the parties are apprised of the issues to a greater extent than many litigants who plead claim and defence.

42. The argument of apparent practicality that if inspection does not happen, DHL will be able to cover its tracks and those of HP does not hold water. The changeover happened some time ago. There is now a new system up and running which has been in operation for all of2013 and some of2012. There has been ample opportunity for the defendant to take any steps that it might have considered since this motion was issued and it faced the possibility of an order being made by this court for inspection. The same could happen in the space between any order that I may make and the implementation of it. Therefore, I do not see how this point can be sustained.

43. Inspection will if ordered be impossible to police; the court will not be able to say when enough is enough, because it does not know just what is in dispute in the action; it would be a matter for the plaintiff to keep digging until it was satisfied it had got the evidence it needed; the defendant would not be able to stop the process because it would not know the terminus of the examination.

44. The court would find it difficult if not impossible to circumscribe the compass of the inspection without conducting the very exercise that would happen in the course of the proceedings in the exchange of pleadings and particulars and in the process of discovery of documents.

45. In the result, the answer is not No to an inspection but Not Yet to an application for inspection. The time is not ripe for that procedure; it may be appropriate in the future, when the application can be renewed in light of circumstances in the proceedings.