

IN THE HIGH COURT OF SOUTH AFRICA

(GAUTENG DIVISION, PRETORIA)

DELETE WHICHEVER IS NOT APPLICABLE

(1) REPORTABLE: YES / NO.

(2) OF INTEREST TO OTHER JUDGES: YES / NO.

(3) REVISED. ☒ ✓

31/7/2015
DATE

SIGNATURE

31/7/2015

Case Number: 36264/2013 and 36265/2013

In the matter between:

QUILL ASSOCIATES (PTY) LTD

Plaintiff

and

RANDFONTEIN LOCAL MUNICIPALITY

First Defendant

WESTONARIA LOCAL MUNICIPALITY

Second Defendant

JUDGMENT

POTTERILL J

[1] The plaintiff is claiming that the defendants infringed the copyright of the plaintiff in the computer software program known as BIQ. The plaintiff's relief thus arises from the provisions of the Copyright Act, Act 98 of 1978 (hereinafter referred to as "the Act") and was formulated as follows:

1.1 The plaintiff claimed the following interdictory relief:

1.1.1 That both the defendants be interdicted and directed to remove from their computer system all components of the computer program known as BIQ.

1.1.2 That the plaintiff be mandated to inspect the computer system of each of the defendants after the removal of the computer program BIQ to confirm that such computer program has indeed been completely removed.

1.1.3 That both the defendants be interdicted and prevented from again installing and/or using the computer program known as BIQ, unless by prior written agreement with the plaintiff or its successors in title.

1.1.4 That the plaintiff also be mandated to within twelve (12) months after his first inspection at each of the defendants to conduct a further inspection to confirm that such computer programs have not been reinstalled and/or are in use.

1.2 The plaintiff also sought the following monetary relief:

1.2.1 That the first defendant be ordered to pay to the plaintiff the amount of R4 731 000.00. Furthermore a monthly rate of R57 000.00 from the time from date of summons until the date that the defendant ceases to infringe on the plaintiff's copyright.

1.2.2 That the second defendant be ordered to pay the amount of R5 130 000.00. Furthermore a monthly rate of R57 000.00 from the time from date of summons until the date the defendant ceases to infringe on the plaintiff's copyright.

1.2.3 Interest on the said amounts at a rate of 15,5 % per annum *ad tempore more*.

[2] In the summons the plaintiff also had claims for payments of certain invoices. These claims were however settled between the parties. The only order made therein by agreement between the parties was that Westonaria Local Municipality is ordered to pay interest on that settled claim from 29 January 2015, as well as the costs.

[3] The defendants raised the following defences:

3.1 That they are entitled to use the BIQ under a licensed extension concluded between the plaintiff and the West Rand District Municipality (hereinafter referred to as "the WRDM").

3.2 The WRDM is, on termination of the agreement with the plaintiff, entitled to continue using the version of BIQ installed on its server for as long as it

pleases. This fact: i.e. WRDM *ad infinitum* usage was by extension also conferred onto the defendants. The termination of the WRDM agreement did not bar the defendants from using the BIQ program.

3.3 The defendants are entitled to use BIQ by virtue of the written agreement between WRDM and the plaintiff which resulted in one agreement and one licence of which the terms are extended to include the defendants.

3.4 The defendants are accordingly not liable for payment for the BIQ program or for any maintenance/licence fees.

[4] The following common cause facts set out the background to the matter:

4.1 During the trial the defendants admitted that the plaintiff is a company and has *locus standi*.

4.2 In 1998 the plaintiff was awarded a tender by Die Westelike Gauteng Diensteraad (hereinafter referred to as "the WGDR"). In terms of this tender the plaintiff and the WGDR entered into a written agreement whereby the WGDR bought the BIQ computer software program ("BIQ") which included all enhancements and improvements. The WGDR requested that the purchase price of R240 000.00 be divided into two equal amounts of R120 000.00 each due to financial constraints.

4.3 A further term of the agreement was that the WGDR was entitled to the necessary support and maintenance for one year after commissioning of BIQ.

4.4 After one year after commissioning the WGDR chose to enter into a support and maintenance agreement. The WGDR elected to enter into such agreement orally for the support and maintenance services renewable in March of every year.

4.5 The WGDR in 2004 underwent a name change to the West Rand District Municipality ("WRDM"). Another contract ["the contract"] had to be signed and *inter alia* this contract had the following relevant terms and conditions:

4.5.1 "7. *Licence*

7.1 *Quill grants the commission and the Council accepts from Quill, with effect from the date of commissioning, a non-exclusive, irrevocable personal and non-transferrable licence for the System. This licence entitles the Council to*

7.1.1 *use the System on the computer;*

7.1.2 *make and retain only one copy of the System in machine readable form for back-up purposes; and*

7.1.3 *use the System documentation in support of the Council's needs as regards the System."*

"8.2.2 *Since Council bought BIQ, Council may continue to use the version of BIQ installed on Council's server for as long as Council may wish to do so."*

"9. *Proprietary rights*

9.1 Title to all intellectual property rights, including patent, trademark, copyright and trade secret rights in and to the System and associated documentation on all copies thereof is and shall continue to be the property of Quill."

"10.1 Following the expiry of the warranty period, the Council may enter into a software systems support and maintenance agreement with Quill.

10.2 In terms of this agreement, support and maintenance of BIQ municipal management system will be provided at a cost of 15 % of the purchase price of the System per annum, escalating yearly by the consumer price index as published by the Reserve Bank."

4.6 The WRDM did not need to pay for the BIQ system again. They did however proceed to pay the licence fees as they had done in the previous years.

4.7 The plaintiff was informed by the WRDM that the South African Government advised that resources and services within a district were to be shared and to achieve this the future plan were to unite the towns in the West Rand into a Uni-City. The WGDR informed the plaintiff that when the Uni-City has been formed the plaintiff's software computer program would be the system of choice for this Uni-City. The respondent therefore gave permission that the

Westonaria Local Municipality ["Westonaria"] could utilise this computer software program in terms of an extended licence.

- 4.8 An implementation plan to achieve this was forwarded to a Mr. Dawie Viljoen of Westonaria as well as the licence fee payable under this extended licence. In January of each year the maintenance and support agreement in respect of Westonaria had to be renewed. The Telkom cables were stolen rendering Westonaria unable to utilise the BIQ program. As this was very disruptive both Westonaria and the WRDM requested that a second hand server be bought for Westonaria to run the BIQ system on this server and so divorce them from WRDM's server. Services provided by WRDM declined to such an extent that Westonaria proceeded to purchase a new server to replace the second hand one purchased by them previously. Westonaria then utilised BIQ on this new server.
- 4.9 Randfontein Local Municipality ["Randfontein"] also approached the plaintiff to implement the BIQ system on the same basis as Westonaria. The WRDM and Randfontein were situated on adjacent sites in Randfontein. Randfontein and WRDM installed an optic fibre cable underneath the public road separating the two properties to provide communication facilities to WRDM's server. Randfontein thus also obtained an extended licence with the consent of the plaintiff. Later Randfontein informed the plaintiff that they did not trust WRDM anymore and asked whether they could install BIQ on a training server. The plaintiff agreed thereto.

4.10 The relationship between the plaintiff, WRDM and Westonaria and Randfontein existed from 1998 until July 2011.

4.11 On 29 July 2011 the plaintiff received a letter from the WRDM with the following heading:

*"WEST RAND DISTRICT MUNICIPALITY (WRDM):
DETERMINATION OF TERMINATION DATE OF CONTRACT FOR
THE ENHANCEMENTS AND APPROVEMENTS OF THE BIQ
SOFTWARE PROGRAMS"*

In this letter the WRDM avers that there was no specific termination date provided and that the contract continued on a month to month basis. The plaintiff was given notice of termination as from 31 August 2012.

4.12 The plaintiff reacted by sending a letter wherein the three different scenarios pertaining to WRDM, Westonaria and Randfontein was set out. Pertaining to WRDM the plaintiff informed WRDM that the termination date is in fact 29 February 2012. If any support was needed from the plaintiff then a monthly licence agreement will have to replace the contract as from 29 February 2012. After 29 February 2012 plaintiff may continue to use BIQ without any support.

4.13 Pertaining to Westonaria the plaintiff set out that since the contract was cancelled by WRDM, the arrangement could no longer be allowed and

Westonaria should be informed that they should now purchase their own copy of BIQ. The termination date for Westonaria was also 29 February 2012.

- 4.14 Pertaining to Randfontein it was stated that as was the case with Westonaria WRDM purchased an extension to the BIQ licence to accommodate Randfontein. Since WRDM cancelled the contract the plaintiff could no longer allow this arrangement and that Randfontein would also have to purchase a copy of the BIQ program. Randfontein's termination date was also 29 February 2012.
- 4.15 The plaintiff then attended a meeting with the representatives of WRDM on 19 December 2011. The plaintiff was handed a copy of a letter dated 8 December 2012. In this letter it was recorded that the agreement between WRDM and the plaintiff be extended for a period of 24 months, effective from 1 March 2012 to 28 February 2014. The agreement was to be on the same terms and conditions that were inclusive of the "four" [sic] local municipalities and that WRDM and its constituent local municipalities enter into a service level agreement with the plaintiff. At this meeting the plaintiff was also requested to submit quotes and conditions for a new contract that had to come into existence from 1 March 2012.
- 4.16 On 21 December 2011 the plaintiff submitted its new proposal. Under option 1 the situation was sketched in view of the cancellation letter; so option 1 set out cancellation without any support. Options 2 and 3 related to the

conclusion of a new contract wherein WRDM used BIQ with support and would then pay a licence fee.

- 4.17 On 10 February 2012 the WRDM submitted a counter-proposal. Once again this letter emanated from the Municipal Manager, Mr. Mokoena.
- 4.18 The plaintiff rejected this counter-offer. WRDM was also informed that there were less than 2 weeks remaining to 29 February 2012 on which date BIQ would be disabled at Randfontein and Westonaria should the councils not accept the plaintiff's terms and conditions in writing.
- 4.19 The WRDM, Westonaria and Randfontein then proceeded to launch an urgent application against the plaintiff wherein they sought an order that the plaintiff be interdicted and prohibited from disabling, discontinuing, incapacitating the BIQ software system or in any way or manner whatsoever disabling, hindering or preventing the continued functioning of the BIQ software system at operation at these municipalities. The plaintiff was also to be ordered to continue to provide support services in respect of the BIQ software system. The urgent application was never finalised and by agreement between the parties the plaintiff would render the three municipalities services until the end of August 2012.
- 4.20 Despite further proposals and counter-proposals no new agreements between the plaintiff and defendants were concluded.
- 4.21 The plaintiff had built into the BIQ software program a function that the program could be disabled when the licence expires. This entails that the

data base structure remains, but that all the executional programs are removed and the program becomes dysfunctional. This function is an inherent portion of the program through its licence key and the program does the disabling itself; one need not go to the premise to disable the program. The date for the disabling at Westonaria was the 1st of September 2012. Randfontein's licence key was February 2013 and that is when it should have become dysfunctional. WRDM had no self-destruction date as the contract was open-ended. The programs were accordingly disabled at Westonaria and Randfontein.

4.22 Pursuant to a request to inspect the premises, Mr. Van Heerden inspected Randfontein and Westonaria to ascertain whether the BIQ system was still in use at these two municipalities. In Randfontein there were four usernames with over a million financial postings. In Westonaria there was one username still utilising the program, this belonged to a "Betsie" and Betsie's access could be used by all the staff.

4.23 The contents of exhibit "B", a report by Comperio Forensic Services (Pty) Ltd ("Comperio") was admitted by the defendants as evidence before this court. In terms of this report Comperio was mandated during August 2012 by the Municipal Manager of Westonaria to assist in securing the BIQ system for future reference and to manage the risk within the municipality. Westonaria further extended the mandate of Comperio on 31 August 2012 through a communique from the office of the Municipal Manager for Comperio to

secure the AS400 Environment and BIQ applications to enable the municipality to access historical financial data. It was agreed between Westonaria and Comperio that they would follow the following procedures to comply with their mandate:

4.23.1 They planned the migration of the data from the old AS400 to a

Power 720 series machine;

4.23.2 Obtained a serial number of the machines to understand the

configurations of the machines and also the inventory list from the

IBM services;

4.23.3 Designed the solution for the virtual environment;

4.23.4 Performed a system save 21 and 23 before the implementation of the

designed solution;

4.23.5 Performed a system restore on the new virtualised server

environment; and

4.23.6 Performed a system test.

4.24 On 3 September 2012 Comperio was informed that the BIQ application at the Municipality was not working and users could log on, but could not perform any functions on the application. They secured an additional resource with expertise to ensure that the Municipality was put back on line and able to access the application for historical purpose as agreed in the procedures above. Comperio compared the last successful back-up of BIQ

with the program on the Municipality's computers and found that 660 files were missing.

4.25 The following was recorded as being the final outcome of Comperio's services:

- "a. Comperio created the two (2) environments to run parallel on the old AS400 and Power 720 machines to enable redundancy;*
- b. The systems were tested using Mannie Van Brakkel's profile on 11 September 2012 and the user acceptance testing was successful;*
- c. Comperio changed all the passwords on the security profiles and the passwords were given to the IT Manager;*
- d. Comperio trained the IT administrator on the BIQ application for him to perform the following functions:*
 - How to start and run scheduled jobs for the system backup and postings;*
 - How to change and update profiles for users on the BIQ application."*

4.26 Randfontein also appointed Comperio and their scope was set out as follows:

"The scope of the project will entail the mirroring of the BIQ system and the analysis of the system to ensure continuity for the next twelve (12) months."

- 4.27 Exhibit "C" is a minute of the Financial Management System Meeting held between the Municipal Managers, Chief Financial Officers and ICT Managers held on the 28th of August 2012. The defendants admit that the minute is accurate and during the trial it was admitted as evidence. *Inter alia* the following were recorded as matters for consideration:

"Comperio was supposed to have mirrored the data over the weekend of the 25th and 26th of August 2012, they were not reached as they had switched off their cellphones. At the meeting held on the 27th of August 2012, they indicated that this specialist was supposed to assist to mirror the data dropped them at the last minute."

"Comperio was supposed to upgrade the server for Westonaria and that was not done as well. They were requiring some serial number and it was provided to them. An indication was given that the Municipality would do their closing of the system today."

This meeting was specifically called to deal with the letter from Quill to Randfontein. In terms of this it was suggested that data be secured in case

Quill switches off the system by the 31st of August 2012. In order to achieve this, the following would be put in place:

- *Mirror data request and request MUNSOFT to check if the server can be upgraded.*
- *Get a second hand server.*
- *Temper with data – what will happen if the mirror does not come right?”*

Furthermore Randfontein was to renegotiate with Quill in order to buy time.

The proposal was given to Mokoduo Attorneys to *“instead of paying R2.5 million for 3 months or 6 months the amount would be paid, rather look at it being a rental or monthly payment. The licence will still be paid even if municipalities opt for rental”.*

4.28 The defendants’ expert admits that the defendants are using the BIQ system albeit limited use.

[5] Mr. Van Heerden, the plaintiff’s expert and Mr. Van der Merwe, the defendants’ expert submitted a combined report in the matter herein. It was Mr. Van der

Merwe's opinion that the Councils should be charged a reduced licence purchase fee and monthly licence fee.

[6] Evidence on behalf of the plaintiff

On behalf of the plaintiff, Mr. Daniël van Heerden testified. He is the Managing Director of the plaintiff since its inception in 1993 and is the only director. The plaintiff's main function is software computer solutions for Local Government.

[7] BIQ was developed for the client's needs. He himself did the functional design in 1993 and then proceeded with the technical design in July 1994. Mr. Boot was employed at Brits Municipality and he later went to Unisa where he was a professor. Mr. Boot published a book of what he thought municipalities needed. Mr. Boot was involved in the BIQ program in that he gave guidance as overseer while working at the Brits Municipality. This program was first utilised by Brits Municipality. It started as a partnership between Brits Municipality, Quill and IBM, hence the name BIQ. He denied that Mr. Boot was the owner of the program, he was only a consultant. It was put to this witness that Mr. Hay will testify that Mr. Hay understood that Mr. Boot was a co-owner or a partner in the program. The witness denied that Mr. Boot was a co-owner and testified that after Brits Municipality withdrew in 2004 Quill took complete control of the program.

- [8] In providing BIQ to the defendants it provided an integrated intangible asset to the Municipalities. To achieve this the plaintiff must retain the Municipality's previous data and import that data into the BIQ system. The plaintiff would thereafter do a parallel run whereby the two systems are compared. The staff of the Municipalities were trained whereafter on the final implementation date the old system is discontinued and the new system is implemented. The plaintiff then supported the staff and program for a year. The BIQ program installed at the defendants consisted of 16 modules. The information (source code) is put onto the server and the compiler renders this source code into executable format. In layman's terms the Municipality is supplied with functionality on its computer system, i.e. a computer language rendering the Municipalities to fulfil all its functions.
- [9] The plaintiff had traded with Mogale, Carletonville, Bothaville, Royal Bafokeng, Upington and outside South Africa with Namibia and Zimbabwe. The relationship with a Municipality always starts with an open tender. One would be awarded a tender if the functionality and price is right. The relationship with WRDM through its predecessor also started by means of a tender being awarded to the plaintiff. No tender for the two defendants before court was awarded to the plaintiff because WRDM promoted BIQ to the two municipalities.

[10] As an astute businessman he granted an extended licence to Westonaria and Randfontein of the BIQ program for which WRDM had paid. He did so gratuitously. He did so to show goodwill with and promises of servicing the Uni-City. He testified that with "*gratuitously*" he meant that they did not have to pay for the BIQ program as long as BIQ was not loaded onto separate servers. When confronted with the definition of "*gratuitously*" he reiterated that Westonaria and Randfontein were allowed to use BIQ without a licence; it was thus gratuitously allowed. This was done in terms of a verbal agreement concluded in 2002 pursuant to Westonaria requesting the plaintiff to grant them a temporary solution as they had no finances to replace the system they had prior to BIQ. To address this solution that they sat around a table, the witness came up with this solution and everybody agreed to this solution. Even though he was a precise and astute businessman this arrangement was not put into writing because he trusted Mr. M. van Braakel of Westonaria and Mr. D. Viljoen of WRDM. The Municipalities accepted this arrangement, in fact was thankful for this arrangement, and had paid his invoices in terms of this oral agreement. He also had the written contract setting out the true position pertaining to the non-transferability of the licence. Although this was a temporary arrangement this relationship went on in terms of the oral agreement for 10 years. This oral contract had no financial impact for the Councils and that is why it was not reduced to writing. He had however learnt his lesson and he now puts everything in writing.

At that stage he only put everything in writing once there was a problem. He denied that because the agreement was not in writing, there was no such agreement. When confronted that Mr. Hay would testify that Mr. Hay thought that Westonaria had bought a licence, he retorted that Mr. Hay can testify as he wants to because there was no such agreement. Mr. Hay was not a party to the oral agreement.

[11] All the problems started when management changed and when Mr. Viljoen was transferred. Randfontein did not trust WRDM anymore and they also approached him to use BIQ not having to go through WRDM. He again agreed that BIQ could go on their server on their own premises. This agreement could have persisted *ad infinitum* as long as WRDM did not cancel its agreement with Quill. This witness never knew that Westonaria had put BIQ on a new server; he found the new server when he did his inspection.

[12] He was thus shocked and disgusted when after 10 years he out of the blue received an ill-fated letter that highhandedly and unilaterally cancelled the agreement. He felt betrayed and the defendants should have consulted with him.

[13] As set out in the common cause facts some negotiations took place but it ultimately resulted in the urgent application. Pursuant to the urgent application agreement the

plaintiff made proposals to the two defendants, because despite his dismay he still wanted to retain them as clients. He offered them a discounted price for the purchase of BIQ as one option. This price was not market related, but a generous concession. When the defendants did not accept the proposals the plaintiff did not want to further pursue the defendants as clients and the price for the BIQ was then market related.

[14] He inspected the premises of the defendants and found that they were using the BIQ system. Westonaria had just one user access, but he could not determine how many people in fact were using this. He was shocked because the licence key should have triggered the destruction of the program. It is akin to one buying a Word program from Incredible Connection and when the licence expires the program will not work and you would need to buy a new program or an update. He also saw that Westonaria did purchase a new server and had reinstalled BIQ on the new server. He then discovered that Comperio had illegally hacked his system in order to bypass the licence expiries. Upon his inspection he found that BIQ's security key was changed twice. Comperio had hired a Mr. Kennedy Chirombo to illegally regenerate a security key because the securities in the BIQ had kicked into place and the Municipalities could not use the program. Comperio in fact at Westonaria reinstated the BIQ program and made a copy of it and transferred it to the Power 720. At Westonaria the master file changed and as a result of that the full BIQ

program was available to them. At Randfontein they changed the expiry date to a period 7 months after the original expiry date. Comperio referred to BIQ's securities as "*malicious objects*" and Comperio changed the security key. Comperio generated a new activation code to only expire on 3 December 2013 in order for the Councils to access the BIQ program.

[15] This witness referred to exhibit D reflecting that of the 16 modules of the BIQ program the defendants used 12 to access historical data. So even if the defendants were only using the BIQ system to extract historical data, they were still utilising 75 % of the BIQ program.

[16] This witness' expertise was not challenged. He had 22 years' experience in the pricing of his product. He took into account the number of the users of a client and the number of accounts as factors in pricing. He also took into account the costs in his office, for example how many support staff he had to employ to assist the client.

[17] The plaintiff's claim is based on a royalty and monthly payment which is common in the industry. He testified that exhibit C reflected tenders he put in, but were not awarded due to National Treasury Circular 57. He testified that the initial price to WRDM was a reduced, very good price because they actively promoted BIQ to

Westonaria and Randfontein. In August 2012 he was prepared to accept ± R2 million as a purchase price for BIQ because he still wanted to retain the Municipalities as a client. His price was based on economic reasoning due to a relationship that influenced the price. When the plaintiff issued the summons it had no special relationship with the defendants and the price prayed for reflects the market related price. Randfontein was slightly bigger than Westonaria, but because of practicality he claimed the same monthly fee based on Westonaria's size. He denied that the initial server of Randfontein was not big enough and the second training server was used to help with the data storage. He denied that the source code belonged to Randfontein or Westonaria.

- [18] Mr. Hay was called to testify on behalf of the defendants. He was the IT Manager of Randfontein for 34 years. He knew Mr. Van Heerden and two other employees of the plaintiff. The system installed used prior to BIQ was Promus, but the financial people were not happy with the system because it was not an integrated system. Prior to BIQ being installed Mr. Van Heerden would phone him once or twice a year to how things was going and presumably to keep an open channel with a possibility of Randfontein purchasing BIQ. Randfontein acquired BIQ on the server of WRDM. Due to disputes between Randfontein and WRDM they obtained an optical cable under the road which provided them with BIQ. Problems ensued with the optic fibre

being stolen and the BIQ was placed on a training server. He did not know whether Mr. Van Heerden had put BIQ on the second server.

[19] He *"lived with the idea"* in his head that the system belonged to Randfontein since 2004. He realised he got the idea from a proposal that he kept in a file along with the 2004 contract. He conceded that this proposal was made in 1998 and that that proposal did not result in the concluded contract. He attended a meeting to solve a problem pertaining to the expiry of BIQ, a proposal was made, this proposal was placed on the Council's agenda, but was withdrawn by the counsel and was never discussed. Randfontein is now utilising the system Munsoft. He was aware of Comperio and he gave them access, but was not involved in their technicalities. He was unaware that Comperio had effectively mirrored the BIQ software. He did not know that Comperio had adapted the software. He did not know that Comperio had made two back-up systems of BIQ. He had no personal knowledge of IBM, Quill and Brits Municipality's agreement pertaining to ownership of BIQ. He testified that Randfontein and Westonaria were still using BIQ for enquiry purposes and only read historical data.

[20] Despite exhibit B being common cause between the parties the defendants called Mr. N.O. Sekololo, as Director and shareholder of Comperio. He understood that

there was a dispute whether Westonaria should buy a licence for the BIQ system or not. This dispute resulted in Westonaria not being able to send out accounts and customers could not pay. Westonaria thus needed access to the historical information, but could not gain same because there was a message on the screens of the computers stating that on 31 August 2012 the program will stop functioning. Their instructions were to secure the environment and stop outside remote access to the system. Westonaria gave them full access and supplied them with a username and the administrator password. They used this password to extend the date until after 31 August 2012. There was remote access to BIQ, but they cut it off.

- [21] On 2 September 2015 they logged onto the A5400. They logged onto the A5004, but they could not access the system and therefore they did a back-up and saved it on an IBM storage tape. They made two copies of which they held one and they gave one to the Municipal Manager. The system was compromised because 660 logical files were removed. They loaded the back-ups on the Power 720. They were enabled to do this by using the terminal of the superuser; she had the code and key as an administrator. There were two servers at Westonaria in the same room.

[22] At Randfontein they practically did the same. He denied that they did any hacking because they were given the master key and they did not bring a third party to hack in. They never changed the source code.

[23] He was not a programmer and also had no legal qualifications. He did however have regard to the contract and saw that clause 8.2.2 granted a perpetual licence and he concluded it entitled Westonaria to perpetual use. He did however state that he did not understand copyright.

[24] He conceded that on 31 August 2012 they made two "*copies*" twice which was a complete mirroring of the BIQ program. To do this Mr. Chirombo had to log into BIQ and change the expiry date to stop the program from disabling. They accordingly had to run a script to change the date, but this extended date did not achieve its purpose because of the missing logical files. He resisted to admit that they had to fix the loss of data, but in the end conceded that they did do this to store a workable BIQ system. He admitted that they put a second version of the restored BIQ on the Power 720. On 3 September 2012 Comperio had managed to provide the defendants with four functional copies of the BIQ of which two were back-ups for any disasters that may occur.

[25] Mr. Van der Merwe testified as the expert witness for the defendants. He obtained a diploma in Information Technology at the Tshwane University of Technology. He is the Chief Technical Officer of SA Outsourcing (Pty) Ltd. He has held this post for the past six years, and was with the company for 14 years. This company's main function was to take over the IT of large companies. These functions interfaced with the case at hand rendering him fit to testify because he understood the technical terms, licencing and what the client was doing with the system after the *"marriage broke down"*.

[26] He testified that neither him nor his company work for local governments. He never inspected BIQ, he only talked to Mr. Du Toit from Westonaria. As he understood it Westonaria and Randfontein were only using BIQ for retrieving historical information because they had a new system, Munsoft, in place.

[27] It was his opinion that Comperio did not hack because for hacking you need to breach the security. Comperio only did social engineering.

[28] He based his opinion pertaining to the perpetual licence of the defendants on instructions. He did not come to court to provide the court with an objective view pertaining to whether the defendants in fact had a perpetual licence. He had no

basis to contradict the amounts as claimed by the plaintiff. He did not investigate what other service providers were charging local governments.

[29] Is the plaintiff the owner of the copyright in the BIQ computer program?

This question must be answered in terms of the Copyright Act. In terms of section 1 of the Act the copyright is conferred on the author of the program. The author is the *"person who exercised control over the making of the computer program."* [section 1]. Section 21 of the Act confers the ownership of the copyright on the author.

[30] Mr van Heerden's evidence that he himself did the functional design of BIQ in 1993 and the technical design in 1994 was never put in dispute. The plaintiff exercised control over the making of the computer program. Mr van Heerden as the managing director of the plaintiff is the author and the ownership of the copyright thus vests in the plaintiff. Mr Hay in cross-examination admitted that he had no personal knowledge of the relationship between Brits Municipality and the plaintiff pertaining to the BIQ program. Mr van Heerden most definitely did not obfuscate as to how the program came about. He from the outset testified that Mr Boot was involved in the program as an overseer while working at the Brits Municipality. After the Brits municipality withdrew in 2004 the plaintiff took complete control off the program. No matter what the contractual relationship between Quill and Brits municipality was,

there is nothing to gainsay the evidence of Mr van Heerden that he did the design and exercised control over the making of the program. The plaintiff proved the ownership of the copyright in the BIQ computer program.

- [31] Did the defendants through the extended license flowing from the contact concluded between the plaintiff and WRDM obtain a perpetual licence entitling them to use the BIQ program after the termination of the contact between the plaintiff and WRDM?

Mr van Heerden made a very good impression on the court. His evidence was chronological and logical. His evidence was in the main common cause, but despite this he was cross-examined thereon at length. He did not contradict himself and there is nothing inherently improbable in his version. It was argued on behalf of the defendants' that there was a contradiction in his evidence in that in the urgent application in par. 11.4 of his affidavit he stated that: *"The licences therefor granted to Second and Third applicants..."* It was thus argued that licences were in fact granted to the defendants and Mr van Heerden was at a loss when confronted with this version. This submission does not help the defendants' version, because it is not their case that the defendants were awarded their own independent licenses. It does not impact on the plaintiff's case because a prudent counsel should of course quote the whole sentence which reads as follows: *"The Licenses therefore granted to Second and third Applicants [defendants herein] are generally referred to as "extended licenses". I repeat that it was at all times within the contemplation of all*

parties involved, that the moment the agreement with First Applicant was terminated or Second and/or Third Applicants purchased their own servers, the extended licence agreement would immediately come to an end and Second and Third Applicants would be required, should they wish to continue to use the BIQ System, to purchase their own individual BIQ Licensed system." If the first part of the sentence could thus create the impression that the defendants had their own licences then the next part of the sentence qualifies this assumption immediately. Mr van Heerden testified that if the first part of the sentence gave the impression that the defendants had their own licences then the sentence was wrong. The full quoted sentence is 100% on par with the version of the plaintiff and there is no contradiction.

- [32] His reason to extend the licence to the defendants gratuitously made good business sense in view of possible big business with a Uni-City. The fact that he gave this "*gratuitous*" concession to use BIO under an extended licence is not improbable; the defendants did not buy BIQ for the extended licences rendering it gratuitous. The fact that WRDM paid for the purchase of BIQ is, not as argued by the defendants, irreconcilable with his gratuitous concession because he had no gratuitous concession with WRDM. This concession only came about after WRDM purchased BIQ and the defendants also needed BIQ. It is common cause that he never extended this gratuitous concession to WRDM.

[33] He extended the licenses orally because he had a good relationship with Mr van Braakel and Mr Viljoen of the defendants. The arrangement to extend the licenses was not in writing, but this does not render the plaintiff's version improbable. It is common cause that such arrangement was made to solve the problems of the defendants who could not afford to pay for BIQ. Due to problems with theft of Telkom cables at Westonaria the plaintiff consented to Westonaria to run the program on a second hand server. At Randfontein the optic cables under the road were stolen and again the only option was to run the program on a training server. The plaintiff was prepared to extend the license to the defendants as long as they utilised BIQ not on their own servers with independent copies of BIQ. However when the contract with WRDM was cancelled the defendants were required to purchase the BIQ program for their independent use. In cross-examination he likened it to the parents kicking the child out of the house and the child having to make its own bed. The defendants could use BIQ as long as it was an extension of the licence of WRDM and not utilised as if they had their own licenses. If a copy was put onto their own servers then they had to purchase BIQ.

[34] Only here did the dispute arise with the defendants relying on the fact that they "*thought*" that they had a perpetual licence versus the plaintiff's version that they did not have a perpetual licence. Mr van Heerden testified that in retrospect he should

have put the agreement in writing, but the written contract expressed the fact that the license was non-transferable and that this license entitled WRDM to use BIQ on one server and make and retain only one copy in machine-readable form for back-up purposes. He did not foresee that van Braakel and Viljoen, the representatives of the defendants, would be transferred leaving behind a new problematic management. The fact that Mr van Braakel and Mr Viljoen's names were not mentioned in the pleadings or urgent application is irrelevant to the statutory claim of the plaintiff and was not in any way contradicted by the defendants. The basis of the plaintiff's cause of action is the infringement of copyright by the defendants because they did not have the right to use BIQ when the contract with WRDM terminated and not the oral agreement.

[35] The defendants chose not to call Mr du Toit who was present at court as a witness for Westonaria. Mr Hay was called on behalf of Randfontein. It would be amiss of me not to remark on the defendants calling a witness to rebut the version of the plaintiff that Randfontein did not have a separate licence with *"I lived with the idea in my head that this system belonged to Randfontein."* This averment can in no-one's contemplation set up a version! In cross-examination he conceded that the proposal from which he got this idea was a 1998 proposal as part of negotiations leading up to the 2004 contract. He conceded that this proposal did not result in the 2004 contract. He testified to the common cause fact that Brits municipality, IBM and the

plaintiff started with the BIQ program, but conceded that he had no personal knowledge of the agreement between these parties and the ownership of the computer program. This was the totality of the evidence of the defendants on whether they owned a licence or not.

[36] I was asked to recuse myself and one reason was that I had after days of cross-examination requested counsel to put the defendants' version to Mr van Heerden. Well, at that stage it had not been put and when at last put, it was this negligible version. Parties have the right to run their case as they wish, but local municipalities have a duty not to waste taxpayers' monies. Both the defendants' legal officers were present during the whole trial and they have a duty to ensure that in terms of The Constitution of the Republic of South Africa local government in its public administration is governed by the democratic values and principles enshrined in the Constitution. Paramount thereto is that a high standard of professional ethics must be promoted and maintained and efficient, economic and effective resources must be promoted [s195].

[37] Did the defendants infringe the copyright of the plaintiff?

In terms of section 23 of the Act copyright is infringed by any person who without the licence from the owner does or causes another person to do any act which the owner has the exclusive right to do or to authorize.

[38] The plaintiff testified that the defendants infringed his copyright by reproducing the computer program by making copies of his program. They further infringed his copyright by making adaptations to the program for the continued use thereof. They are also still using the program thus infringing on the copyright of the plaintiff. This evidence is in fact substantiated by Exhibit B. Mr Hay confirmed that they were still using BIQ.

[39] The evidence of Mr Sekololo did the defendants no favour and never could, in view of the evidence contained in exhibit B. He confirmed the actions taken by them led to a complete mirroring of the BIQ programme as copies, excluding the back-ups. They had to fix the loss of data to store and provide a workable BIQ system. They adapted the program to extend its functionality. They installed a second version of BIQ on the Power 720 server.

[40] The argument on behalf of the defendants was that they had acquired the BIQ system and they were entitled to give the source code to Comperio. Comperio

therefor acted lawfully and there was no copyright infringement. In view of my finding that the defendants did not have a licence, this argument is rejected. The actions of the defendants are indeed worrisome; full well knowing that there is a dispute over the licence they employ an entity to change the expiry date of the licence, not once but twice! This is not Public Administration governed by the values and principles enshrined in our Constitution.

[41] The plaintiff in terms of its copyright had the exclusive right to reproduce the computer program in any manner or form. The copyright also gave it the exclusive right to make an adaptation of the program and in doing, in relation to the adaptation of the computer program, any of the acts specified in relation to the computer program as set out in section 11B of the Act. The acts of Comperio on the instructions of the defendants infringed the copyright of the plaintiff enabling the defendants to use the computer program without licenses from the plaintiff. The defendants are in fact still using the program.

[42] The defendants also pleaded and argument was presented in writing by counsel for the defendants that *“even if the plaintiff should succeed in its claim the defendants pleaded that they were not aware nor did they have reasonable grounds to suspect that copyright subsisted in the BIQ software on their system. This was borne out by*

the evidence of Mr Hay." Mr Hay never testified that he did not know that copyright existed in BIQ. In fact he testified that he had it in his head that they could use BIQ because they had a licence. As the IT manager of Randfontein he was searching for the basis of his idea that they could use BIQ because he knew they could not use it without a licence. They would only be barred from using it if there was copyright attached to BIQ. He had a copy of the contract and was thus aware of the clause 9 that copyright existed on BIQ. Westonaria also had a copy of the contract. The defendants were thus aware of the copyright and/or had reasonable grounds to suspect that copyright existed and Section 24(2) of the Act does not bar the plaintiff from claiming damages. In any event the plaintiff is not claiming damages in terms of section 24(1) of the Act but a reasonable royalty in terms of section 24(1A).

[43] The defendants did infringe the copyright of the plaintiff and the plaintiff is thus entitled to the interdictory relief as claimed.

[44] What is a reasonable royalty?

Mr. Van Heerden testified that a royalty and monthly payment is common in the industry. He provided the court with exhibit "C" reflecting tenders in response to advertisements to supply computer programs to Municipalities in 2012. In terms of these tenders Lydenburg would be a good example of what a cost structure for BIQ

would entail. The reason for this is that although Lydenburg is a bit smaller than Westonaria it would just have a few less users and consumers. In terms of this price summary the royalty would be R4 million and the licence fee would be R90 000 per month. He also testified that the price for BIQ of R240 000 in 1998, R440 000 in 2004 and R2 736 000 in 2012 were not market-related but based on economic reasoning. He explained this to mean that he wanted the defendants as clients, or wanted to retain them as clients and therefore the prices were not market-related. In 1998 and 2004 he also still had the promise of securing the services of the Uni-City and he also dropped the price. He also testified that even though the defendants may only be using BIQ for historical data it still entails them using 12 of the 16 modules.

[45] Mr. Van der Merwe was of no help to the court as he did not fulfil his duty as expert witness. He was not uninfluenced as to content by the exigence of litigation; he gave his opinion on instructions. He did not investigate whether the defendants had licences and he did not even look at or inspect the BIQ program. He could not assist the court with what a reasonable royalty would be as he is not an expert in pricing for programs for Local Municipalities. He did not investigate the pricing of other server providers to Local Governments. Mr. Van der Merwe's opinion thus did not measure up to the standard of an expert witness. In *PriceWaterhouseCoopers*

Incorporated and Others v National Potato Co-operative Ltd [2015] (2) All SA 403

(SCA) at 440 paragraph [98] the court found as follows:

"[98] ... 'The duties and responsibilities of expert witnesses in civil cases included the following:

- 1. Expert evidence presented to the Court should be and should be seen to be the independent product of the expert uninfluenced as to form or content by the exigencies of litigation.*
- 2. Any expert witness should provide independent assistance to the Court by way of objective unbiased opinion in relation to matters within his expertise ... An expert witness in the High Court should never assume the role of advocate.".....*

In *Buthelezi v Ndaba* 2013 (5) SA 437 (SCA) the court in paragraph [14] found that a court must rely on the analysis of the cogency of the underlying reasoning which led the expert to their opinion. Mr. Van der Merwe could give no cogent underlying reasoning pertaining to what a reasonable royalty would be. He only suggested that since the defendants were only using BIQ for historical purposes they should not pay the full monthly license fee.

[46] In terms of section 24(1A) a plaintiff may in lieu of damages, at the plaintiff's option, be awarded a reasonable royalty calculated on the basis of a reasonable royalty which would have been payable by a licensee in respect of the work or type of work concerned. In terms of section 24(1B) a court may direct an inquiry to be held for the purposes of determining a reasonable royalty. I do not find this necessary because the plaintiff is the only owner of the copyright and put the best evidence it could, before the court.

[47] I am satisfied that a reasonable royalty is a substantive remedy because the plaintiff is given the option to claim either damages or a reasonable royalty. It is a statutory claim with no basis in the common law. Statutory relief must be interpreted to promote the spirit, purport and objects of the Bill of Rights.

[48] In terms of section 24(1A) the court must calculate the amount on the basis of what would have been payable by a licensee for the BIQ program. The court must thus make a finding as to what a notional licensee would pay for the computer program. It is akin to comparative sales being used to determine the market value of an expropriated property. Prior to the 1998-amendment the court in assessing the

reasonable royalty could take into account "*any other material considerations*". The legislator found it fit to exclude this with the 1998 amendment and I cannot take into account any other material considerations.

[49] I was referred to *Michael Dov Terespolsky and Another v Morituri Restaurant (Lakeside) and 4 Others Case* No 107/2013 before Rogers J by counsel for the defendants and was urged to factor in that the municipalities were only using the program for historical data; thus a limited use and that the use would get less and less over time. It was argued that the court cannot take cognisance of the settlement agreement and court order wherein Mogale City agreed to pay the plaintiff herein the amount of R4 925 942.00 for licence fees for the period from 1 November 2012 until 30 June 2015. I do however factor this award in because it is not evidence, but an order by agreement setting out an amount reflecting what a licensee would pay for BIQ. The court did not quantify the amount.

[50] I am satisfied that the tender for Lydenburg and the price that Mogale City was prepared to settle for set out a reasonable royalty that they as licensees would have paid for BIQ. However facts pertaining to the price must be factored in to make it a reasonable royalty. The size of the municipality, the consumers and users of the municipality, must play a role in pricing; therefor Lydenburg is a notional licensee. It

would play a role whether all the modules of BIQ were required or not. It would play a role whether the plaintiff would decide to settle for a lower price to obtain the client or not. It would be relevant to take note in which year the licensee would have bought the program to not inflate the price with price hikes and inflation. Taking into account all these factors I am satisfied that the plaintiff has proven that a licensee would have paid between R4 and R5 million for the BIQ computer program. I am satisfied that the 1st defendant must accordingly pay R4 750 million and the second defendant R5 750 million.

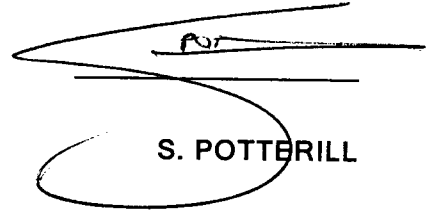
[51] I have factored into these amounts a reasonable monthly rate totalling R750 000.

I have not quantified them separately because I find a globular amount pragmatic. I factor in that not all notional licensees would have contracted with the plaintiff for the monthly rate and may have contractually opted not to do so, as did WRDM. The fact that the defendants were only using the program for historical data does not relate to a notional licensee. At the trial it was not clear if VAT is payable on these amounts ordered, but if VAT is payable then the defendants must also pay the VAT.

[52] I accordingly make the following order:

It is ordered:

- 52.1 That both the defendants be interdicted and directed to remove from their computer system all components of the computer program known as BIQ.
- 52.2 That the plaintiff be mandated to inspect the computer system of each of the defendants after the removal of the computer program BIQ to confirm that such computer program has indeed been completely removed.
- 52.3 That both the defendants be interdicted and prevented from again installing and/or using the computer program known as BIQ, unless by prior written agreement with the plaintiff or its successors in title.
- 52.4 That the plaintiff also be mandated to within six (6) months after his first inspection at each of the defendants to conduct a further inspection to confirm that such computer programs have not been reinstalled and/or are in use.
- 52.5 That the first defendant be ordered to pay to the plaintiff the amount of R4 750 000.00.
- 52.6 That the second defendant be ordered to pay the amount of R5 750 000.00.
- 52.7 Interest on the said amounts at a rate of 15,5 % per annum *ad tempore more*.
- 52.8 VAT if VAT is payable on the amounts so ordered.
- 52.9 The defendants are ordered to carry the costs, jointly and severally, including the costs of senior counsel.



S. POTTERILL

JUDGE OF THE HIGH COURT

CASE NO: 36264/2013 and 36265/2013

HEARD ON: 25 May 2015 to 29 May 2015

FOR THE PLAINTIFF: ADV. S.D. WAGENER SC

INSTRUCTED BY: A.L. Maree Incorporated

FOR THE 1ST AND 2ND DEFENDANTS: ADV. C. GEORGIADES

INSTRUCTED BY: Matseke Attorneys

DATE OF JUDGMENT: 31 July 2015