Republic of South Africa

In the Western Cape High Court of South Africa
(Cape of Good Hope Provincial Division)

In the matter between: **Case No: 9970/11**

PREMIUM IDEAS (PTY) LTD. **APPLICANT**

Versus

JACQUES VAN DER HELDE **RESPONDENT**

JUDGMENT DELIVERED WEDNESDAY 22 JUNE 2011

LOUW J

[1] The applicant carries on business as a provider of technical services to mobile telecommunications operators in South Africa and Nigeria, including Vodacom, MTN and Cell C (the applicant's clients). It does so through an IT system known as the Global System, a system which was designed and tailored to meet the requirements of the applicant's clients.

[2] The respondent is an IT and computer systems specialist who has worked in this field for some 24 years. He has over time built up a considerable knowledge and expertise regarding computer system design and architecture and computer programming.

[3] The respondent who has since July 2002 been involved in the applicant's operations, decided during May 2011 to terminate his relationship with the applicant and on 16 May 2011 gave notice to the applicant that he would no longer provide any services to the applicant. A number of disputes regarding the termination of the respondent's services have arisen between the applicant and the respondent. These disputes relate to two principal issues namely,

1. Whether the applicant or the respondent holds the copyright and owns the intellectual property in the Global System; and
2. The extent of the respondents obligation to conduct a handover of information and know-how to the applicant and its employees and, associated with this, the duration of the notice period during which such handover is to take place.

[4] On 23 May 2011 the applicant, on an urgent basis, sought an order from this court, essentially providing for:

1. the setting aside of the respondents termination of his agreement of services with the applicant on 16 May 2011;

2. a declaratory order to the effect that the agreement of services was subject to a notice period of one month, alternatively, a reasonable period, which is to commence on the date of the order;

3. specific performance of the agreement of services by the responded for the duration of the notice period during which he is required to commence and complete the hand over process of all knowledge and information held by the respondent concerning the operation of the Global System and all its ramifications such as would enable the applicant to operate the system unhindered after the expiry of the notice period, which handover would include a list of some 23 specific actions as well as that the respondent "answer honestly, fully and timeously all inquiries" by the applicant or an authorised employee or representative of the applicant, relating to the Global System, its operations and functionality during the notice period.

[5] On 23 May 2011 the matter came before this court in the fast lane reserved for urgent applications. The applicant was represented by counsel and the respondent, who had filed no papers yet, represented himself. I made an order:

1. postponing the matter for hearing in the 4th division on 15 June 2011;

2. setting out a time table for the filing of papers and heads of arguments;

3. instructing the respondent, pending the hearing of the application for final relief, to

3.1 continue to render his services to the applicant under the agreement of services;

3.2 commence the hand over process to the applicant, by providing all necessary information and assistance to the applicant's representatives and nominees regarding the operations of the Global System so as to enable the applicant to operate such system;

3.3 stating that the court will determine what constitutes a reasonable notice period for the termination of the agreement and that such notice period will run from the date of the judgment in the main application.

[6] The order was complied with and the matter again came before me on the 15 June 2011. At the hearing it was common cause that there should be a handover period and that there are disputes of fact relating to the two main issues in dispute. A further dispute

concerns the question what should be required of the respondent in the interim if the principal issues in dispute should be referred to oral evidence.

[7] The dispute as to who holds the copyright and intellectual property in the Global System is a separate and distinct issue and but indirectly affects the issue regarding the handover of know-how during the notice period and what should be required of the respondent in the interim. The respondent alleges that at the applicant's request and while engaged as an independent contractor by the applicant, he designed, developed and installed the Global System as an entirely new system at the applicant's business in Cape Town during 2002. For this, he states, he was paid a once off lump sum of R7000 and the applicant thereafter commenced using the system under licence. Soon thereafter, the respondent was contracted, again as an independent contractor by the applicant, to maintain and to enhance the system on request. This relationship endured until the end of January 2004. The applicant on the other hand contends that the responded was at the time a full time employee of the applicant.

[8] I agree with the applicant's contention that the dispute regarding the development and consequently the ownership of the intellectual property and copyright in the Global System is not capable of resolution on the papers and that the issue should be referred to oral evidence.

[9] The second issue namely the contents and extent of the respondent's obligation to hand over information to the applicant and the duration of the notice period, is directly related to the interim position.

[10] Mr Morley who appeared on behalf of the respondent, submitted that, since the applicant is in substance and effect seeking final relief on the papers, the application must be dealt with on the basis of the facts as stated by the respondent together with the facts alleged by the applicant that are admitted by the respondent. He submitted that the applicant has not made out a case in regard to the second issue and that the application should, as far as it relates to the second issue, be dismissed.

[11] The respondent's relationship with the applicant was governed over the years since 2002 by a number of successive agreements.

[12] It started of in July 2002. As stated earlier the respondent avers that he was engaged as an independent contractor while the applicant contends that he was engaged as an employee of the applicant. It was during this time that the respondent created and developed the Global System for the applicant which he installed and thereafter maintained at the applicant's business in Cape Town.

[13] In February 2004 the parties for the first time entered into a formal written employment contract in terms whereof the respondent was employed as the IT manager of the applicant. The respondent continued to discharge his day to day duties and responsibilities which remained the same, save that he now did so in his capacity as an employee of the applicant.

[14] As from 1 May 2007 the respondent was appointed as production manager of the applicant. Save for a letter of appointment, there was no formal written contract setting out the parties' rights and duties. The respondent's duties in regard to the Global System were however not affected by his taking on the position of production manager.

[15] In May 2009 the respondent resigned as an employee of the applicant. The respondent's resignation left the applicant short of expertise in the IT field and open to the very serious risk that its system of operations could be compromised. The respondent suggested a transfer of his knowledge over a twelve month period against remuneration. This was not accepted by the applicant.

[16] After the respondent's resignation as an employee, the applicant continued to render services to the applicant in terms of a loose oral agreement arrived at between him and the applicant's then chief operating officer one Dennis Lundie. This agreement is referred to in the papers as the Lundie agreement and under its terms, the respondent continued to maintain and enhance the Global System. He worked for 4 hours a day from Monday to Thursday, and by special arrangement on Friday, at a fee of R500 an hour, which later escalated to R530 an hour. In addition he was paid a fee equivalent to one hour's work a day for being on standby in case of an emergency.

[17] In November 2010 the respondent was diagnosed as suffering from testicular cancer. He states that this caused him to

reconsider his income earning capacity. On 15 March 2011 the respondent informed the applicant by email that he wished to renegotiate his terms of service with effect from 1 June 2011.

[18] Further emails passed between the parties and pursuant to a meeting held on 11 May 2011 at which the matter was not resolved, the respondent informed the employees of the applicant with whom he worked closely on a daily basis that he was terminating his contract with immediate effect. The applicant responded with a letter from its attorney on 12 May 2011 demanding that the respondent work a notice period. In response, the respondent offered a notice period terminating at the end of May 2011.

[19] On Monday 16 May 2011 the respondent reported for duty and at the same time gave formal notice of termination of his services at the end of May. The respondent was told to pass on all his personal knowledge and expertise regarding the design, architecture and engineering of the Global System. The respondent refused to do so. This resulted in him being cut off from the applicant's network and despite reporting for duty, his access to the network was only restored on 27 May 2011. In effect,

the applicant therefore continued to operate the system without the respondent's assistance for approximately two weeks.

[20] Pursuant to the granting of the interim order on 23 May 2011, a further meeting was held on the 24 May 2011 between the respondent and the representatives of the applicant including Mr. Kenneth Metcalf, an information technology specialist who had been engaged by the applicant as an independent contractor to operate and run the Global Computer System on the applicant's behalf. Metcalf has also deposed to the replying affidavit on behalf of the applicant. At the meeting Metcalf according to the minutes advised that his interest was not in operating the system but in the engineering of the system and further indicated that apart from "the engineering of the system" there was nothing else he needed.

[21] The respondent contends that his obligation in terms of the Lundie agreement was essentially to support the system as well as to provide enhancements of the system where these could be effected. However, his obligation to hand over information to the applicant was limited to such knowledge as is necessary for the continued operation of this system as it was at the time of the handover. His obligation does not, he contends, require him to

pass on his knowledge and expertise that he utilised in the design of the system and its architecture. This is the knowledge and expertise that enables him to make enhancements to the system. His case is that the ability to enhance the system is embedded within his personal knowledge and expertise which he is allowed to take with him when he leaves the applicant's service. The enhancements which are effected from time to time, he contends, in effect result in changes to the system and create a new definition or description of what the system comprises of. Therefore, he contends, the knowledge, expertise and ability to create any enhancement fall outside the scope of the operational requirements of the system as it exist at any given moment in time. What he is obliged to hand over is no more than the knowledge to operate the existing system at any given time.

[22] The applicant on the other hand contends that the enhancernents are regularly required in the ordinary, sometimes daily, operations of the system in response to the operational requirements of the applicant's clients and that the system will not be functional if these enhancements are not regularly made. Therefore, the applicant contends, the knowledge and expertise in

effecting the enhancements must be transferred to the applicant's representatives during the handover period.

[23] It is clear that the dispute in regard to the ambit of the respondent's obligation to hand over, cannot be decided on the papers. This is an issue which will require oral evidence in order for the court to make a decision.

[24] In my view this is not a case where the application should be refused on the basis that these are disputes of fact which should have been apparent to the applicant and that the applicant should consequently not have proceeded on notice of motion but should have done so by way of action.

[25] Mr Rosenberg who appears on behalf of the applicant informed me that early dates are available for this case to be set down for determination as an opposed matter after the mid year court recess during the first week of the third term commencing on 25 July 2011.

[26] In my view this matter is urgent and should be postponed for the hearing of oral evidence to 25 July 2011.

[27] As to what should happen in the interim, the parties are as indicated earlier, at logger heads. Mr Rosenberg on behalf of the applicant contends that the interim order made by me on 23 May 2011 should be extended and that the respondent should be ordered to continue rendering his services to the applicant as before and as was ordered by this court on 23 May 2011. This order was made at a time when only the applicant's launching papers were before me. The respondent was unrepresented and although he had drafted some initial response, this did not amount to formal answering papers. His contention was that although he recognised an obligation to conduct a handover, he did not agree with the applicant as to the contents of what should be handed over. He also did not agree that he should in the meantime start the handover process without the court making a ruling on what should be handed over. Mr Rosenberg pointed out that the respondent has not in his answering papers stated that he is poised to commence other employment in the interim and that he will consequently suffer hardship if he should be ordered to continue rendering the services to the applicant in the interim. Mr Morley who appeared on behalf of the respondent on the other hand, contends that there is no basis upon which this court should

order the respondent to continue rendering services to the applicant. He points out that it is common cause that the contract in terms of which the respondent was rendering services has been terminated and that the only issues remaining, apart from the ownership of the intellectual property and copyright in the system, related to the period of the hand over and the contents and ambit of the respondent's obligations under the handover. The respondent should be free to pursue whatever interest he wished and cannot be bound to deliver services to the applicant.

[28] The issue of the respondent continuing to render his services in the interim is closely bound up with the issue in dispute namely what knowledge and expertise is to be passed on during the hand over period. The courts in principle balk at compelling a person to continue working for and with another in a close relationship. It may be contended that the relationship between the parties in terms of the Lundie agreement is akin to that between an employer and an independent contractor who renders professional services and that the position is therefore different from the case where the services are closely related to the person of the employee. Mr Rosenberg's contentions further amount thereto that the applicant has established for purposes of this interim period, that there is a

real danger that the applicant will suffer a loss of ability to render a proper and reliable service to its clients if the respondent should withdraw his services in the interim. In the circumstances, it is contended that the respondent must be ordered to continue rendering his services as he has up to now been doing under the Lundie agreement.

[29] In considering the interim position I have regard to whether the order should continue to have effect only up to the hearing of the matter on 25 July 2011 and that whether or not the services should be rendered for a further period until the issues are finally determined by the court, should be left for reconsideration and determination by the court hearing the matter on 25 July 2011. On balance, however, I have come to the conclusion that the respondent should free to consider and pursue whatever options he may have in mind and not be required in the interim to continue rendering the services to the applicant in terms of an agreement that has come to an end. The applicant has been able in the past to operate the system for a period of two weeks without the respondent's assistance. If the court should ultimately after a full ventilation of the issues hold that the respondent should impart further knowledge and expertise to the applicant, it can be done

without the respondent being required in the interim to continue rendering the services. In addition, the order regarding the respondent's duties in the interim is clearly an interim order which is open for reconsideration by the Court hearing the matter on 25 July 2011.

[30] I consequently make the following order:

1. The matter is referred for the hearing of oral evidence on 25 July 2011 before a Judge to whom the matter is to be allocated, as to the questions of:

1.1 which party is the owner of the copyright in the Global computer program ('the system");

1.2 in the event of it being found that the applicant operates the system pursuant to a licence granted by the respondent in terms of such !icence;

1.3 whether or not:

1.3.1 there is a distinction in fact between the know-how required to effect any enhancements (defined according to the

respondent's version in the answering affidavit) to the system and the know-how required to operate the system;

1.3.2 it was a term of the respondent's engagements by the applicant from time to time (both as employee and as independent contractor or consultant) that the respondent's handover obligations during the notice period extended to handing over the know-how in respect of the making of enhancements to the system;

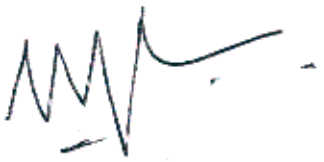
1.4 regard being had to the findings in paragraphs 1.1, 1.2 and 1.3 above, what a reasonable notice period is within which the respondent, upon termination of his services is required to comply with his hand over obligations as determined by the court.

2. Rule 36(9)(a) and (b) notices shall be given not less than ten days before the hearing;

3. Within 10 days of the making of this order, the parties will make discovery of all documents relevant to the issues set out in paragraph 1 hereof in terms of the provisions of rule 35(1), and the further provisions of rule 35 shall apply thereafter;

4. The incidence of the cost incurred to date is reserved for determination by the court hearing the oral evidence and finally determining this application;

5. Paragraph 4 of the interim order made by this Court on 23 May 2011 lapses and will not, unless otherwise ordered by the court hearing the oral evidence, have any effect pending the final determination of the principal disputes between the parties.



W J Louw

Judge of the Western Cape High Court