

**IN THE EMPLOYMENT COURT
AUCKLAND**

**AC 16A/09
ARC 73/08**

IN THE MATTER OF a challenge to a determination of the
Employment Relations Authority

BETWEEN CARL JAMES PETERSON
First Plaintiff

AND KARL JACOB PETERSON
Second Plaintiff

AND P AND B ENGINEERING LTD
First Defendant

AND PETERSON GLOBAL SALES LTD
Second Defendant

Hearing: 22-26 June 2009 (Heard at Rotorua)
30 July 2009 (Heard at Auckland)

Appearances: Carl Peterson in Person and as Agent for Second Plaintiff
Kerris Browne, Agent for Defendants

Judgment: 9 December 2009

JUDGMENT OF CHIEF JUDGE GL COLGAN

[1] This judgment determines the challenge by hearing de novo to the determination of the Employment Relations Authority in complex proceedings between family members and their corporate entities. The plaintiffs (to whom I will refer as Carl Peterson and Jake Peterson respectively) are father and son. The defendants, who were largely successful in the Employment Relations Authority, are companies owned and operated by, respectively, Christopher Browne and Kerris Browne. The latter is Carl Peterson's daughter and Jake Peterson's sister. Christopher Browne is Mrs Browne's husband and, therefore, Carl Peterson's son-in-law and Jake Peterson's brother-in-law.

[2] Nevertheless, this is employment litigation founded on employment agreements and other common law obligations arising out of that form of relationship. At its heart are portable sawmills and the ownership of the intellectual property in their designs. Despite prosecuting and defending this challenge without professional representation as would undoubtedly have assisted the parties and the Court, they and their representatives are to be complimented on their energy, passion, inventiveness, preparedness to learn, and respect for legal process. Many elements of their cases, whilst important to the parties, have limited relevance to the legal dispute between them and I trust that they will understand that in the interests of producing a concise and focused legal judgment, many of these matters are either not referred to, or are not resolved or even addressed in the manner that the parties may have wished for.

[3] I should mention also, because it featured in Carl Peterson's final submissions to me, the nature of the obligations between the parties. It is probably best to set out verbatim, although briefly, two of the submissions made by Carl Peterson:

71 Our present system of law is based upon biblical law; our Monarch having taken oath upon the holy Bible to protect the Christian faith as embodied in the Church of England. The fourth of the ten commandments handed down to Moses on Mount Sinai (which is the foundation of modern Christianity) is to "honour thy mother and thy father". Thus, Jacob's first and highest duty was and is to his father rather than the artificial "personage" of his employer. And the very act of pursuing this Court case against her father pits Kerris Browne firmly against her moral, biblical, and common law duties of honour to her father.

...
96 Under moral, Biblical, or common law, there is no statute, written or unwritten, that requires a father to obey a daughter. Both Kerris Browne and Jacob Peterson each had a moral, biblical, and common law duty to "honour" their father. Jacob acted according to this law, and Kerris Browne did not.

[4] It should go without saying that this Court's task is to apply the employment law of New Zealand to the facts of the case despite, very sadly in all the circumstances, the animate parties and their representatives being father, son, daughter, brother, father-in-law, son-in-law, and brother-in-law.

Summary of causes of action

[5] The defendants' several causes of action against the plaintiffs all arise out of, or are otherwise related to, the parties' employment contracts. They rely on breaches by the plaintiffs of express terms of those agreements relating to allegedly unlawful competitive economic activity. Most causes of action rely, in particular, upon the defendants' ownership of the intellectual property in portable sawmill designs and patents. Some of the defendants' causes of action allege breaches by the plaintiffs of injunctive and compliance orders made at first instance in this litigation by the Employment Relations Authority. The validity in law of those orders, however, depends on this Court's decision of the questions of intellectual property ownership between the parties. It is only if the Authority attributed correctly to the defendants the relevant intellectual property ownership, that breach of the Authority's orders can be actionable.

[6] Therefore, ownership by the defendants in the intellectual property at issue is a preliminary and foundation issue in the case. The defendants acknowledge that their claimed rights vested from their purchase of the intellectual property in the designs and patents from others, the plaintiffs and other legal entities formerly owned by Carl Peterson. So the first issue for decision is the defendants' contended ownership of this intellectual property which is challenged by the plaintiffs.

[7] This judgment deals with all questions except the parties' claims for damages. Other remedies, including compliance orders, injunctions, and penalties are in issue and will be dealt with, if appropriate, depending on liability outcomes. Each side claims damages against the other: the defendants want \$120,000 for the losses they say they have incurred as a result of the plaintiffs' breaches of contract. The plaintiffs, by reliance on the defendants' undertakings as to damages given to the Employment Relations Authority in support of their applications for interlocutory injunction, and otherwise, claim business losses from the defendants. Although reluctantly because these matters were really only raised by the parties at the very last moment, I agreed to reserve questions of damages for subsequent hearing if

appropriate. Even then, such losses for which the other side may be liable will not be easy to prove, at least without expert forensic accounting evidence.

Employment Relations Authority determination

[8] Although this challenge is by hearing de novo, it is necessary to summarise the Authority's determination because some of the defendants' allegations against the plaintiffs include breaches of the injunctive and compliance orders made by the Authority in the period since its determination was delivered on 15 September 2008.

[9] The companies' claims alleged breaches of the contractual restraints of trade and confidentiality provisions of the individual employment agreements of Carl and Jake Peterson. Remedies sought included compliance orders, penalties, interim and permanent injunctions, an inquiry into damages, and an accounting for profits. In the course of the Authority's investigation, the companies also sought compliance orders in respect of misuse of trade secrets and for a penalty to be paid by Carl Peterson for aiding and abetting Jake Peterson to breach his employment agreement. Also added was a claim for breach of the obligations of fidelity owed by the employees to their employers.

[10] The Authority concluded that Peterson Portable Saw Mills Limited's (PPSSL's) intellectual property rights were inherited by Peterson Global Sales Ltd (PGSL) and P and B Engineering Ltd (P&B) and were so acknowledged as having been transferred by Carl Peterson following PPSSL's default under its agreement with PGSL in March 2005. I infer that the Authority included within the scope of the intellectual property rights so forfeited, all intellectual property of PPSSL irrespective of the date of its creation or acquisition.

[11] As to the employment of Jake Peterson by P&B, the Authority concluded that this began in March 2005 on almost identical terms to those on which Jake Peterson had previously been engaged by PPSSL. The Authority concluded "*In the absence of any agreement to the contrary*", that in law, design and manufacturing work undertaken by Jake Peterson outside his usual working hours was for the benefit of

P&B so that any intellectual property in such work undertaken by Jake Peterson was owned by the company.

[12] As to the employment of Carl Peterson by PGSL from August 2006, the Authority concluded that although he was employed as a sales consultant, his considerable previous experience in sawmilling generally meant that he was well paid for this role. In practice, although Carl Peterson expressed an interest in research and development and was encouraged to participate in this part of the company's activities, the Authority found that he declined to do so although he developed his own designs for enhanced and new products.

[13] The Authority held that Carl Peterson was obliged contractually to disclose relevant information to his employer that was valuable to its business whilst he was employed. However, in breach of this obligation, he kept customer requests about product enhancement to himself and used a product already in production (the skill mill) to design privately a single angle cutting device specifically for use with larger Petersons sawmills. The Authority found that this activity also breached Carl Peterson's obligations as an employee because it used information to which he was privy about the design and assembly details of the skill mill.

[14] The Authority found that Carl Peterson allowed suppliers to his employer to assume that he was still part of the company after his employment ceased so as to gain company discounts and reduce suspicion of his own competitive activity.

[15] Contrary to the plaintiffs' assertions that they were not restrained by their employment agreements from patents and invention or inventions they had already made, the Authority concluded that the intellectual property in a device known as the T-Frame was originally PPSSL's and subsequently passed to PGSL. The Authority accepted the companies' evidence that they planned to develop the T-Frame including having such plans during the time that Jake Peterson was employed.

[16] The Authority did not accept Carl Peterson's case that he had developed the new T-Frame design before he began work for PGSL. It found that this work began after Carl Peterson became privy to customer requests and planned designs.

[17] The Authority concluded that although Carl Peterson's employment was with PGSL, the restraint of trade covered competitive activity with P&B also.

[18] The Authority held that the companies' designs and patents, plans for designs and modifications and developments were confidential information as were its customer lists and information about purchases gathered from their customers. It held that technical information about the manufacture of the companies' products was confidential and covered by the express terms of the employment agreements governing confidentiality. So too was information about the operation and performance of the companies and information about planned developments. These included plans to develop the T-Frame and information gleaned from customer inquiries which could then have been used to develop or modify products. The Authority also held that information about developments under way, marketing and patents were all confidential. It found Carl and Jake Peterson to have used confidential information to develop products intended for their personal gain and benefit both during and after their employments. These breaches were also held to be breaches of the implied obligation of fidelity they owed to their employers and breaches of the statutory obligations of good faith. In this latter regard, both employees were held to have deceived their employers by acting in secret and withholding information that ought to have been disclosed to their employers.

[19] The Authority concluded that it was well established law that where an employee, in the course of employment, makes an invention which is part of the contractual duty, the invention is the employer's property. It concluded that Jake Peterson was employed to invent and design for the company so that his inventions made during the course of that employment belonged to his employer. Further, the inventions in the patent applications were made by recourse to confidential information of the employers. The Authority found that although Carl Peterson was not employed as an inventor or designer, he was able to design the angle cutter only because he was privy to customer information and detail about the skill mill which he used for his own benefit and which he ought not to have retained. In the case of Jake Peterson, the Authority found that the first sawmill patent was filed while he was still employed and incorporated information belonging to both companies.

[20] Concluding that Carl Peterson was not entitled to claim for himself patent rights, the Authority decided:

- The patents had been placed in the name of Jake Peterson to avoid liability to Lucas & Sons Ltd (“Lucas”).
- Even if the patents were legitimately in the name of Jake Peterson, they belonged in fact to PPSSL because the inventions were made in the course of employment with that company.
- The patents would also have belonged to PPSSL if they were designed by Carl Peterson because such designs took place in the course of his employment.
- If the patents were correctly in the name of Carl Peterson and licensed to PPSSL, Carl Peterson was unable to give the right to use the patents to another or others outside the company because that constituted the illicit taking and giving of confidential information both during and after employment.
- Using the patents for himself during employment constituted Carl Peterson acting in competition with, and to the detriment of, his employer.
- The Authority concluded that it was not well known in the industry that the old Stubb patent covered such work and that the holey saw concept was developed by Carl Peterson during the course of his employment with PPSSL and the intellectual property therefore belonged to that employer.
- The applications by Carl and Jake Peterson for patents breached the duties of confidentiality and fidelity they owed to their employers.

[21] As to the enforceability of the contractual restraints upon each of the plaintiffs, the Authority concluded that the nature of the work from which they were prohibited was relatively narrow in that they could not manufacture or sell similar portable sawmills or parts and, in particular, swing blade sawmills. The Authority concluded that Carl and Jake Peterson were free to trade in other types of sawmill including band saw mills, quarter sawmills, fixed circular saws, scragg saws, bench saws, table saws, gang and other types of saws. Nor were the Petersons prohibited from working in the industry of sawmill manufacture or from inventing sawmills or parts of sawmills provided that they did not use confidential information belonging to PPSSL or P&B in doing so.

[22] The Authority concluded that restraints from competitive commercial activity were reasonable per se when entered into by the employers and the employees. It found that Carl and Jake Peterson were given valuable and legal consideration for the restraints, being the benefits in their employment agreements. In particular, Carl Peterson received a higher rate of pay than other salespersons because of his experience and knowledge. Jake Peterson was given shares in the company when he started employment with P&B in recognition of his previous service and skills and as an incentive to continue to work for P&B.

[23] The Authority concluded that the absence of any geographical limitations did not make the restraints unreasonable. The companies trade throughout New Zealand and the principal markets for Petersons portable sawmills are beyond its shores, particularly in the United States of America. The Authority concluded, however, that the absence of temporal limitation was unreasonable, meaning that Carl and Jake Peterson would, in effect, never be allowed to compete with the defendants. The Authority invoked s8(1)(b) of the Illegal Contracts Act 1970 concluding that, in respect of Jake Peterson, a restraint of 12 months would have been reasonable at the time he began employment and became subject to the restraint. In the case of Carl Peterson, the Authority found that a reasonable period of the restraint was 6 months, reflecting his status as a casual sales representative rather than, as in Jake Peterson's case, an employee in "*permanent*" employment. In any event, the Authority concluded that even if the restraints were invalid and incapable of reasonable modifications, the fact that both Carl and Jake Peterson had used confidential

information to design, patent and manufacture competing equipment caused them to have been in breach of their employment agreements.

[24] The Authority concluded that Carl Peterson aided and abetted breaches by Jake Peterson of his employment agreement in that, being aware of the provisions of that employment agreement, Carl Peterson persuaded his son to “*obtain quotes, place orders, apply for patents and set up in partnership with*” (*nntc*) him.

[25] The Authority granted permanent injunctions against Carl and Jake Peterson prohibiting them from proceeding with or dealing with or using five specified provisional patent applications relating to inventions or designs that it found had been made or created in breach of their employment agreements. It also prohibited the Petersons from “*breaching confidentiality in respect of the [companies’] confidential information and trade secrets*” including, but not limited to, the T-Frame, the ASM and ATM patents, plans for a new trailerised sawmill, the provisional patents the subject of the first injunction, and customer requests.

[26] As to its finding that Carl Peterson had used his employer’s confidential information and trade secrets to develop the angle cutter and Jake Peterson used his employer’s confidential information and trade secrets to develop the lock peg in the course of his employment, the Authority concluded that statutory compliance orders should be made. This was because the former employees had not shown themselves willing to abide by undertakings given previously or even interlocutory injunctions made by it. These included that Jake Peterson was to provide a copy of the patent application for the ground anchor peg to P&B, Carl Peterson was to provide a copy of the angle cutter patent application to PGSL, and both were to provide copies of the relevant patent applications for the improved portable sawmill, improvements for a portable sawmill and an entire sawmill to both companies. The Authority directed compliance with these requirements within 5 days of issuing its determination. Also by compliance order it directed Carl Peterson to return to PGSL any customer contact details still held by him. There was also to be compliance with their employment agreements by both individuals that they were not to continue to use confidential information and trade secrets including the ASM and ATM patents or

any parts thereof to design, develop or build sawmills or sawmill parts or accessories.

[27] Carl Peterson was required to make certain modifications to his personal website relating to the angle cutter, the improved sawmill, the skill mill or minimill, and was directed not to reinstate such references after their removal as he had done between the interim injunction and substantive investigation meetings in the Authority. He was also directed to remove any references to Mr and Mrs Browne and to "*Petersons Portable Sawmills*" from his website and not to reinstate the same. Carl Peterson was directed not to create a new website containing any references to Mr and Mrs Browne, Petersons Portable Sawmills, the angle cutter, or the improved sawmill on it. Carl Peterson was also to ensure that a specified disclaimer was to be inserted on each page of his website and he was to remove any reference to the lock peg from it as was Jake Peterson in respect of any website. Carl and Jake Peterson were directed to return any confidential information or trade secrets in their possession to the companies. They were directed not to display, market, test or use the sawmill or any variation of it that used confidential information or trade secrets belonging to the companies and were directed not to provide information about the sawmill or any variation of it using the companies' confidential information or trade secrets.

[28] Turning to penalties sought by the companies against their former employees, the Authority identified four distinct breaches of his employment agreement by Jake Peterson. These were that he misused confidential information during employment, that he misused confidential information after his employment ceased, that he set up business in breach of his restraint, that he gave confidential information to Carl Peterson without the owners' authority and, finally, that he used the companies' premises and equipment without authorisation. The Authority found the breaches to have been wilful and imposed a penalty of \$2,500 for each, making a total of \$12,500 payable by Jake Peterson to his former employer, P&B.

[29] As for Carl Peterson, the Authority found proven to the requisite standards six breaches of his employment agreement with PGSL. These were misuse of confidential information during employment, misuse of confidential information

after employment ended, setting up in business in breach of the restraint, aiding and abetting Carl Peterson's breach of employment agreement, unauthorised use of the companies' premises and equipment and, finally, the manufacturing and marketing of the angle cutter. Penalties of \$2,500 for each of these breaches brought the total payable by Jake Peterson to PGSL to \$15,000.

[30] The Authority reserved costs and set a timetable for these to be dealt with by memoranda but this challenge by hearing de novo has undertaken that process and no orders have been made.

The commercial agreement

[31] This agreement is pivotal to the decision in this case. It is a commercial agreement between PPSSL and PGSL, executed in November 2003 and which commenced in effect from December 2003. I refer to this as "the inter-company agreement". This is the agreement on which the defendants rely for their assertions of PGSL's ownership of intellectual property, misuse of which by the plaintiffs, the defendants say, makes them liable to the companies.

[32] It should be noted that this agreement was only with PGSL that employed Carl Peterson. It was not with the separate legal entity, P&B which employed Jake Peterson. No agreement between the defendants affecting intellectual property rights has been put in evidence. So even if the defendants are correct that the intellectual property rights they alleged were infringed emanated from PPSSL through this agreement, it was only Carl Peterson's employer PGSL whose rights could have been infringed by breach of contract by its employee Carl Peterson. This is a difficulty for the defendants in their claim against Jake Peterson which was not explained in evidence. P&B cannot claim against its former employee, Jake Peterson, for breach or other misuse of intellectual property rights that it did not have.

[33] The circumstances in which this agreement came about were as follows. PPSSL, Carl Peterson's company, was engaged in litigation brought against it by Lucas alleging misuse of that company's portable sawmill intellectual property by

PPSSL. Carl Peterson's company had largely exhausted its financial resources as had Carl Peterson himself. They perceived a real risk that if Lucas succeeded in its litigation, both PPSSL and Carl Peterson (who was a personal defendant) might be required to pay substantial damages and costs to Lucas resulting in PPSSL's insolvency and Carl Peterson's bankruptcy. Carl Peterson's daughter, Kerris Browne, had recently established PGSL for the purpose of marketing and selling portable sawmills.

[34] Mrs Browne's husband, Christopher Browne, had also recently established a separate legal entity, P & B Engineering Ltd, for the purpose of manufacturing portable sawmills. Mr and Mrs Browne and their new companies had access to finance that Carl Peterson and his company lacked and were not subject to the Lucas suit. All parties believed that PPSSL's principal assets were its intellectual property in a number of designs for portable sawmills and componentry. Carl Peterson and Mrs Browne believed there would be an advantage to them in alienating the intellectual property of the defendants in the Lucas litigation, PPSSL and Carl Peterson, in the event that the litigation might go against them. They therefore entered into a form of agreement to do so, adapting an existing form of agreement that either or both had with sales agents, as a template.

[35] As I understood the evidence and the content of the agreement seemed to confirm, neither PPSSL and Carl Peterson on the one hand, nor perhaps also PGSL and Mrs Browne on the other, used professional advisers to draw the terms of this agreement or to advise them whether it would effect their purpose. They adapted an existing form of agreement although Mrs Browne may have taken professional legal advice about what to do, if not how to do it. The form of agreement was hers (and therefore PGSL's) and it was presented by her to Carl Peterson for execution without negotiation about its contents. Carl Peterson's position was such that he had little choice if he was to remain involved in portable sawmills and "Peterson mills" in particular. Carl Peterson executed the agreement on behalf of his company, PPSSL.

[36] The opening "*Agreement Summary*" states:

The Manufacturer [PPSSL] agrees that the Marketer and Retailer [PGSL] will be its exclusive agent to market, sell and distribute the Peterson Sawmill

“Products” globally, and the Marketer and Retailer agrees that it will buy all it’s (sic) required Peterson Sawmill Products from the Manufacturer. This agreement endures until such time as either party is in default or non-compliance of the following “Terms and Conditions” or either party gives notice of termination, in which case this agreement will be terminated. Any defaulting party will automatically hand over all right, title, interest in or claim to any of the patents, designs, copyright, trade marks, trade names and logos relating to the Products (including the name and mark “Peterson Portable Sawmills”), and all right, title, interest in or claim to all enquiries and customer data and records, manufacturing methods and processes, know-how or other industrial or intellectual property associated with the Products or gained during the operation of this agreement, to the party not in default.

“Products” shall be the models of Peterson Sawmill that are currently manufactured by the Manufacturer at the commencement of this agreement, and may extend to include new models where acceptable to both parties.

[37] In addition to dealing with other elements of the commercial relationship between the two companies, the agreement provided that it would *“endure until either party defaults on any of the enclosed Terms & Conditions, and the party not in default has given the appropriate notification of Termination”*.

[38] Amplifying on the summary, clause 4 defined *“Products”* as:

... those models manufactured by the Manufacturer as at the date of commencement. Any new products manufactured by the Manufacturer must first be accepted in both entity and price by both parties, prior to becoming part of the “Products” marketed by the Marketer & Retailer.

[39] Clause 34 (*“Right to Product”*) provided:

Both parties have equal right, title, interest in and claim to all of the patents, designs, copyright, trade marks, trade names and logos relating to the Products (including the name and mark “Peterson Portable Sawmills”) and equal right, title, interest in or claim to all enquiries, customer data and records, manufacturing methods and processes, know-how or other industrial or intellectual property associated with the Products. At Termination of this Agreement, all aforementioned rights shall automatically pass to the non-defaulting party.

[40] Clause 40 (*“Automatic Termination”*) provided:

If either party defaults by unauthorised change in shareholdings/ownership, or goes into receivership or liquidation, or has a statutory manager appointed, or any other legal case exists where that party cannot pay it’s (sic) debts in a timely manner, or a resolution is passed for the winding up of that party, or either party gains a judgement against it to which no appeal is pending and remains unsatisfied for more than 14 days, or either party does

any act or thing calculated to damage the other party's goodwill, reputation or intellectual or industrial property, then an automatic Termination of Agreement is understood to have taken place.

[41] Clause 41 (“*Termination of Agreement*”) provided:

The defaulting party must immediately, and shall be allowed to, complete it's (sic) contracts to customers or clients in relation to the goods & services provided in this agreement, within fourteen (14) days or other reasonable time of Termination, provided that the non-defaulting party will not be liable for any uncompleted contracts of the defaulting party. The defaulting party must also immediately cease use of the Products designs, copyright, trade marks, trade names & logos, know-how, and any other industrial or intellectual property relating to the Products. The defaulting party must immediately hand over to the non-defaulting party, all records and documents containing technical information relating to the Products including brochures, instructions, and any other material referring to the Products or obtained while this agreement was in force, including customer lists, enquiry lists, and all financial statements relating to the Products.

[42] Applying the plain words and phrases used by the parties in this agreement and despite how the defendants now contend it should be interpreted contradicting these plain meanings, I find that what was transferred to PGSL was the intellectual property in products that were “then” manufactured by PPSSL. That defines those products by reference to PPSSL’s manufacturing operations in 2003. It did not then manufacture the products the intellectual property in which is in dispute in this case.

[43] The error in the Authority’s conclusion about what was transferred to the defendants is illustrated by the following summary conclusion about the nature of the inter-company agreement. At paragraph [33] the Authority found:

*PGSL would fund the entire worldwide marketing of PPSSL’s products in return for a percentage fee on every product sold **plus equal shares in all intellectual property.** (My emphasis)*

[44] The parties’ agreement did not provide for the equal sharing of all intellectual property between the companies, nor for the transmission by PPSSL of all of its intellectual property rights to PGSL if the former defaulted under the agreement.

[45] It is common ground that the patents and other intellectual property in designs and products that the plaintiffs are alleged to have infringed unlawfully were not among the models of Peterson sawmill that were being manufactured by PPSSL in

November 2003. Although some confusion surrounds the proprietorship of the intellectual property at issue in the case, what is clear is that this was not encompassed by the agreement so that property cannot have vested in PGSL.

[46] Although this finding effectively disposes of some of the defendants' causes of action against the plaintiffs, it does not do so in respect of all of them and it is therefore necessary to turn to the employment agreements on which the defendants rely.

The employment agreements

[47] The plaintiffs' remaining liability, if any, to the defendants turns first on employment agreements between each of them. Carl Peterson was employed on a written agreement executed on 24 August 2006. Jake Peterson was employed by P&B on a written individual employment agreement executed on 1 September 2006. Although the employment agreements of Carl and Jake Peterson were with different companies, they were in materially identical form, certainly as far as the express provisions alleged to have been breached that are the subject of this case are concerned.

[48] I deal first with Jake Peterson's. The summary of Jake Peterson's job description was "*Associate Product Designer/R&D*". The printed form of the agreement included the attached catch-all: "*... and any other tasks as may be required by Management in the running of P&B Engineering Ltd, (P&B) including training, backup and assistance for other staff positions and tasks*".

[49] Jake Peterson was paid at an hourly rate of \$21 for up to 45 hours per week and an overtime rate thereafter being time and a half. He was expected to work a 40-hour week within certain usual business hours timeframes.

[50] A clause entitled "***Restraint of Trade***" provided:

- (1) *The employee will not use, sell, share or provide any technical information concerning the manufacture of our products to others outside of P&B Engineering Ltd. [My emphasis]*

- (2) *This undertaking will endure during, and after termination of, regular employment with P&B.*
- (3) *The employee will not at any time act in direct competition with P&B, i.e. they will not manufacture or sell similar portable sawmills and parts thereof.*
- (4) *The employee will not at any time carry out any other activity that may be a conflict of interest to P&B.*
- (5) *The employee will not, during work hours at P&B carry out any work or trade other than that as required by P&B.*

[51] Under a heading “**Confidentiality**” the agreement provided:

- (1) *All information relating to the operation and performance of P&B & Peterson Global Sales Ltd, shall be kept confidential by employees, and must not be passed on to others outside of these two Companies.*
- (2) *All information treated as confidential by Management, shall be kept confidential by employees. All information that is given to employees in confidence shall be kept confidential by those employees.*
- (3) *This shall automatically include, and not be limited to; all financial information, wage rates, contract details, pin numbers and security information.*

[52] Turning to Carl Peterson’s individual employment agreement with PGSL, this described his job as being “*On call, Casual “Sales Consultant” ... sales, phone calls, demonstrations etc*” but included the same catch-all: “*... and any other tasks as may be required by Management in the running of Petersons Global Sales Ltd, including training, backup and assistance for other staff positions and tasks*”.

[53] Carl Peterson’s hours of work were specified as being “*variable depending on work availability – on call, casual.*” Carl Peterson was paid \$20 per hour for the first 45 hours per week and thereafter at time and a half.

[54] Under the heading “*Restraint of Trade*” Carl Peterson’s employment agreement provided:

- 1) *The employee will not use, sell, share or provide any technical information concerning the manufacture of our products to others outside of Petersons Global Sales Ltd or P&B Engineering Ltd. [My emphasis]*

- 2) *This undertaking will endure during, and after termination of, regular employment with Petersons Global Sales Ltd.*
- 3) *The employee will not at any time act in competition with Petersons Global Sales Ltd or P&B Engineering Ltd; i.e. they will not manufacture or sell similar portable sawmills or parts there.*
- 4) *The employee will not at any time carry out any other activity that may be a conflict of interest to Petersons Global Sales Ltd and P&B Engineering Ltd.*
- 5) *The employee will not, during work hours at Petersons Global Sales Ltd, carry out any work or trade other than that as required by Petersons Global Sales Ltd.*

[55] Under a heading “Confidentiality” Carl Petersons’s agreement provided:

- 1) *All information relating to the operation and performance of Petersons Global Sales Ltd, shall be kept confidential by employees, and must not be passed on to others outside of the Company.*
- 2) *All information treated as confidential by Management, shall be kept confidential by employees. All information that is given to employees in confidence shall be kept confidential by those employees.*
- 3) *This shall automatically include, and not be limited to; all financial information, wage rates, contract details, pin numbers and security information.*
- 4) *All pay rates and pay rises are to be kept strictly confidential to the staff member concerned.*

Breaches of restraints upon post-employment economic activity

[56] The well established position at common law that is applicable to this part of the proceeding is that post-employment restraints of employees from competitive economic activity are unlawful and unenforceable. Statute law does, however, permit the Authority or a Court to modify such restraints to the extent as may be reasonable in all the circumstances. That is what the Employment Relations Authority did under s8 of the Illegal Contracts Act 1970 limiting Carl Peterson’s restraint to the period of six months and, in respect of Jake Peterson, 12 months.

[57] The reasonableness of any restraint of a former employee from competitive commercial activity must be assessed at the time and in the circumstances when the restraint was entered into. These circumstances include, but are not limited to, the

nature of the duties to be performed in the employment, the relative level of remuneration, the duration of the employment, and the exposure, if any, of the employee to information that might assist the employee to compete unfairly following termination.

[58] In all the circumstances at the time the restraints were entered into by the plaintiffs, I consider that it was unreasonable to restrain them at all from competitive economic activity with the defendants after the conclusion of their employments. That is for the following reasons.

[59] In the case of Carl Peterson, he was a casual sales consultant who was “*on call*” to undertake sales, answer telephone calls, and conduct demonstrations of machinery. His work depended on the availability of that limited range of duties. He was paid \$20 per hour for any hours worked. Further, Carl Peterson was expressly prohibited from engaging in a number of his employer’s functions which, if he had been involved in them, might have supported the existence of a reasonable restraint upon competitive economic activity. He was, colloquially, on a very short leash at PGSL.

[60] I conclude that PGSL engaged Carl Peterson in a very limited role but purported to restrain him from any competitive activity anywhere in the world and for an unlimited period in order to attempt to secure for itself the exclusive right to all property in what had come to be known as Peterson Portable Sawmills. PGSL purported to go further than to control Carl Peterson’s eccentricities and other activities that PGSL feared put off actual and potential customers. Its was a blunt attempt to stifle any competition by use of an unlawful legal device. The restraint was unlawful at common law. Further, and in all the circumstances at the time the restraint was entered into, it would not be just to subsequently modify it under s8 of the Illegal Contracts Act as did the Employment Relations Authority and certainly not by validating it for the period of 6 months after the end of Carl Peterson’s employment.

[61] It follows that any competitive economic activity by Carl Peterson after the end of his employment with PGSL, subject to the purported restraint, was not unlawful as being in breach of this express provision of the contract.

[62] Turning to the circumstances of Jake Peterson, these are not so clear-cut. His position with P&B Engineering Limited was as an associate product designer in research and development. Even so, Jake Peterson was paid only \$21 per hour in practice. This restraint, also, was unlawful and void at common law. I also have no doubt that the 12 month restraint set by the Employment Relations Authority under s8(1)(b) of the Illegal Contracts Act was excessive in all the circumstances. I do not consider that any modification of the unlawfulness of the restraint was warranted in all the circumstances.

[63] Although simple comparisons in disparate cases are inappropriate, the 12-month restraint imposed by the Authority equates with the reduced restraint imposed by this Court and upheld by the Court of Appeal in *Gallagher Group Ltd v Walley*¹ modifying to one year, a purported worldwide restraint of four years. As was noted at p1187 of the *Walley* judgment, a review of 21 cases decided by this Court, the High Court and the Court of Appeal over the previous 10 years revealed that it was exceptional for a restraint of even one year's duration to have been found to be reasonable.

[64] The Court of Appeal has, more recently, dealt with restraints ifcn employment law in New Zealand in *Fuel Espresso Ltd v Hsieh*². That judgment, however, focuses more upon matters of consideration and not on the reasonableness of the terms of a restraint. I should record here that although Carl Peterson argued strongly that no consideration was provided for the restraints, following *Hsieh*, I determine that the remuneration provisions of each of the employment agreements (modest though they were) meet the requirement for consideration.

[65] Nevertheless, as the Court of Appeal noted in *Hsieh* at para [22] and by way of comment rather than reasoning in that case: “*It may be that on other, and much*

¹ [1998] 3 ERNZ 1153 (EC); [1999] 1 ERNZ 490 (CA)

² [2007] ERNZ 60; [2007] 2 NZLR 651

more extreme facts, a low salary set against a harsh restraint would be relevant to the exercise of the Court's discretion...”.

[66] I consider the Authority was wrong to have imposed a worldwide one year restraint on Jake Peterson after the conclusion of his employment and indeed I consider that no modification under s8 of the Illegal Contracts Act 1970, whether as to duration or otherwise, was warranted.

Misuse of confidential information

[67] This cause of action is substantially dependent upon the defendants’ reliance upon intellectual property rights already dealt with but also falls for decision by applying the relevant employment contract rights and obligations to the established facts.

[68] As may be seen from paragraphs [51] and [55] of this judgment, both Carl and Jake Peterson had identical “*confidentiality*” clauses in their employment agreements. The additional subclause (4) in Carl Peterson’s agreement relating to pay rates and pay rises is not relevant to the question of misuse of confidential information.

[69] The clauses in both employment agreements depend not only upon whether information was “*confidential*” but whether the employers were entitled to that confidentiality by virtue of their ownership of the information. That in turn depends on how the companies came by the information. That which is alleged to have been unlawfully disclosed by the defendants is sourced to the commercial agreement analysed earlier in this judgment. I have already concluded that this agreement did not transfer such rights to intellectual property as the defendants now assert were unlawfully breached by the plaintiffs. It must be concluded that the allegedly confidential information that the plaintiffs are said to have disclosed and otherwise misused, was not information in which the defendants could assert property or, therefore, confidentiality.

[70] Indeed, given my finding as to the effectiveness of the defendants' reliance on the commercial agreement, it seems likely that any intellectual property in information allegedly used unlawfully by the plaintiffs was Carl Peterson's own. To the extent that Jake Peterson may have used such information for his own ends, there was no evidence that Carl Peterson asserted his property in that information and the case tends to show that he was content for Jake Peterson to use this information as he did.

[71] The defendants' claims against the plaintiffs for misuse of confidential information must therefore fail.

Breaches of other employment obligations

[72] The plaintiffs' challenge to the Authority's determination is likewise successful on the other grounds by which it found the plaintiffs liable. I am not satisfied that the plaintiffs breached their employment agreements by designing sawmill technology and/or building portable sawmills or associated products whilst employed by the defendants or that they failed to disclose to their employers the fact and nature of work undertaken by them and/or that they profited from this work at the expense of the defendants. These allegations were levelled principally against Carl Peterson but his contracted working arrangements were so loose and casual that it is simply not possible to find that activity engaged in by him during work hours was when he was obliged to do so for his employer and for which he was paid. That Carl Peterson was frequently at his employer's premises and even using tools and surplus materials does not mean that he was engaged in activities for which he had to account to his employer.

[73] Nor am I satisfied that Carl Peterson aided and abetted breaches by Jake Peterson of his employment agreement allegedly by persuading his son to obtain patents, to place orders for materials, and to set up in business with Carl Peterson to compete unlawfully with the defendants. Although the defendants may believe the plaintiffs did so, proof of such unlawful competitive activity has not been established to the requisite standard.

[74] I am not satisfied that, on this appeal by hearing de novo, the defendants have established on the balance of probabilities the numerous other breaches of their employment obligations by the plaintiffs as the Authority found in its investigation.

Breaches of Authority's compliance and injunctive orders

[75] It is unnecessary to determine whether, on a case by case basis, either or both of the plaintiffs acted contrary to the Authority's orders because, as I have concluded, these ought not to have been made by the Authority in the first place.

Claims for damages

[76] The defendants' claims for damages cannot succeed because of the absence of liability of the plaintiffs. Likewise, the defendants' claims for penalties and other relief in the Authority must also fail.

[77] The plaintiffs' claims for damages, including on the defendants' undertakings as to damages given in the Authority, remain open for prosecution by them. As I have already noted, expert accounting evidence will be required if these are to succeed and the parties should now have an appropriate, but not unlimited, opportunity to attempt to resolve these questions before the Court may be asked to do so.

[78] Accordingly, the plaintiffs may apply within the period of 3 months from the date of this judgment for directions on questions of trial for damages.

Costs

[79] In the normal course of events the plaintiffs would be entitled to costs on their successful challenges. They have, however, represented themselves in the litigation so that it is unlikely that there can be any claim for costs of legal representation in the proceeding. However, the plaintiffs may have incurred disbursements (and will have incurred court-related disbursements such as the filing and hearing fees) and they may have costs of which the Court is unaware. I will permit the plaintiffs to

have the period of one calendar month from the date of this judgment to apply by memorandum for orders for costs, the defendants having the period of one calendar month thereafter to respond, also by memorandum.

[80] As noted at paragraph [30] of this judgment, the Authority did not determine costs in that forum. In view of the outcome on this challenge, the Court will deal with Authority costs globally with those incurred in this Court.

Summary of judgment

[81] For the reasons set out above, the plaintiffs are successful in their challenge to the determination of the Employment Relations Authority. Pursuant to s183(2) of the Employment Relations Act 2000, the orders of the Authority are set aside by operation of law. In their place I make an order that the defendants' claims against the plaintiffs fail and are dismissed. The plaintiffs are entitled to pursue their claims for damages, resulting from the making of the Authority's orders, against the defendants.

Resolution other than by judgment

[82] The parties attempted to settle their litigation before trial in a judicial settlement conference chaired by another Judge. Except knowing that a settlement was not then able to be achieved, I am unaware of the circumstances in which, very regrettably in my view, that was not possible and, therefore, how close the parties may have come to a settlement. Although the rights and liabilities landscape between the parties has altered as a result of this judgment, I remain of the view, as I did earlier when recommending to them the idea of a judicial settlement conference, that this alternate dispute resolution method might even now still have value. That is for two particular reasons.

[83] First, I have seen some but almost certainly not all of the familial dislocations between these closely related members of one family. If only for the sakes of others such as grandchildren who are not directly involved in this litigation but alienated

from some family members by the dispute, healing the wounds brought about by it will be important.

[84] Second, and commercially as opposed to emotionally, it is very clear that the combined resources of the wider Peterson/Browne family will be more formidable in the portable sawmill market than the current divided and competitive approach to designing, building and marketing Peterson portable sawmills. I do not underestimate the necessity for clearly defined and recorded roles and responsibilities and the need for Carl Peterson in particular to separate his commercial from his philosophical and political interests if this is to succeed and although difficult, this does not strike me as impossible.

[85] To this end, the Court is able to make available to the parties the same Judge who chaired their previous judicial settlement conference for a resumption of this if all parties agree. I urge them to consider carefully and dispassionately this suggestion and to make contact with the Registrar about it.

GL Colgan
Chief Judge

Judgment signed at 1 pm on Wednesday 9 December 2009