

**IN THE EMPLOYMENT RELATIONS AUTHORITY
AUCKLAND**

AA 173A/07
5088230

BETWEEN Petersons Global sales Limited
First Applicant

P & B Engineering Limited
Second Applicant

AND Karl Jacob Peterson
First Respondent

Carl James Peterson
Second Respondent

Member of Authority: Dzintra King

Representatives: Jenni-Maree Trotman, Counsel for Applicants
Respondents In Person

Investigation Meeting: 11 June 2007

Determination: 12 June 2007

DETERMINATION OF THE AUTHORITY

[1] The applicants say the respondents have breached their employment agreements and that they have used the applicants' confidential information and trade secrets without permission.

[2] The applicants sought a number of compliance orders and/or injunctions, penalties and an enquiry into damages. For the purposes of the urgent hearing the applicants sought injunctions regarding the respondents' wish to display a portable T-Frame sawmill at the Hamilton Field Days at Mystery Creek and the removal of certain references on the website used by the respondents.

[3] The other issues will be dealt with at a substantive hearing should the parties be unable to settle their differences. A substantive hearing can be arranged either in late June or early July.

[4] As there was urgency regarding this matter I issued an oral decision on 11 June and indicated that I would supply a full determination with reasons today.

Background

[5] The people involved are family members. The respondents are the father (Carl Peterson) and his son (Jacob Peterson). The applicants are Kerris Browne, Mr Carl Peterson's daughter, and Mr Christopher Browne, his son-in-law. Mrs Browne is the director and sole shareholder of Petersons Global Sales Limited (PGSL). Mr Browne is the director and majority shareholder of P&B Engineering Ltd (P&B), in which Jacob Peterson and Mrs Browne also hold shares. PGSL markets, distributes and sells portable sawmills and accessories and P&B is contracted by PGSL to design, develop and manufacture the mills and accessories. The applicants say that PGSL owns all design, brand, trademark and other names of the company products.

[6] Mr Carl Peterson had a company, Peterson Portable Sawing Systems Limited (PPSSL), which was liquidated in 2005. After the liquidation, Carl worked for PGSL on a temporary part-time basis as a technical sales consultant commencing in early 2006; and Jake for P&B as a designer commencing on 15 March 2005. Part of his job was to redevelop the T-Frame sawmill initially developed by PPSSL in 2002/2003, which Carl Peterson had started designing in 1997 on behalf of PPSSL. A prototype was built but was never put into production.

[7] PPSSL made an application for registration of a patent. However, at that time it was involved in High Court proceedings and the application was withdrawn by PPSSL for development at another time

[8] Their employment agreements contained confidentiality clauses and restraint clauses.

[9] Carl's employment terminated on 20 December 2006 due to lack of available sales work. Jake resigned on 23 March 2007.

[10] In November 2003 an agreement was entered into between PGSL (the marketer and retailer) and PPSSL (the manufacturer). The Agreement Summary provided:

The Manufacturer agrees that the Marketer & Retailer will be its exclusive agent to market, sell and distribute the Peterson Sawmill "products" globally, and the marketer & retailer agrees that it will all its 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, trademarks, 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.

[11] As a result of PPSSL defaulting, all designs, trademarks and patents were transferred to PGSL in March 2005. The applicants say that the products that were transferred included the Automated Swingblade Mill (ASM), the All Terrain Sawmill (ATS) and the T-Frame prototype, which was still in the design stage and the designs have subsequently remained secret and confidential to PGSL and P&B.

[12] Patents in Jake Peterson's name were transferred to P&B on 29 April 2004 pursuant to another agreement which provided:

Peterson Global Sales Ltd, will undertake to pay for patent application, filing. Or grant costs for patents or patent applications in the name of Karl Jacob Peterson, and as requested by Karl Jacob Peterson. This is in return for Petersons Global Sales Ltd owning full intellectual property rights on the affected patents or patent applications, until such time as Petersons Global Sales Ltd has been reimbursed for the costs paid, plus 12% interest per annum on those costs.

[13] No reimbursement has taken place.

[14] The applicants say that during the Petersons' employment discussions were held with them regarding the development of the portable T-Frame sawmill, the ownership of which had been transferred to PGSL per virtue of the first agreement referred to. The applicants say that they intended to carry design changes in 2007 to the T-Frame including the use of a 12 inch rather than a 10 inch blade, a swing blade on a triangular beam, and a motor mounted on top of the unit rather than inside the frame and that the Petersons were aware of these intentions.

[15] Notwithstanding this, in late 2006 the Petersons started working on redesigning the sawmill. When Mr Browne became aware of this he approached Jake Peterson and as a result of the conversation initially believed that the redesigning was being undertaken for the applicants.

[16] Subsequently, however, Mr and Mrs Browne became aware that the Petersons had lodged two patent applications. One was lodged by Carl Peterson on 2 October 2006 for an angle cutting attachment that could be used only on a Peterson sawmill. The second was for the T-Frame and was in both their names. It was lodged on 12 February. The applicants also became aware that the respondents intended to exhibit it at Mystery Creek. The respondents had not told the applicants about the patent applications.

[17] Mr Jake Peterson initially denied that he was working on anything for his own benefit but later admitted that he was working on the T-Frame and at a shareholders' meeting on 10 January 2007 said he had redesigned the sawmill. He also indicated that he was considering leaving PGSL.

[18] On 16 January Mrs Browne emailed staff regarding confidentiality obligations and on 12 February the applicants' representative, Mr Thomson, wrote to Jake Peterson setting out his obligations pursuant to his employment agreement. The letter noted that Mr Peterson had indicated that he had said he believed the design was his, that he had designed it at home and that he could do what he wanted with it. The letter also said that Mr Peterson had said he would offer it to the company first and the company could pay royalties for it. Mr Thomson pointed out that there was a conflict of interest and that Mr Peterson was to cease any private work for his own benefit; and that there was a strong legal argument that the design belonged to the employer given that the job description included designing new products and systems.

[19] Mr Peterson did not reply to this letter; instead, he resigned his employment.

[20] On 19 February Mr Thomson wrote to Carl Peterson stating that his ex-employer had become aware that he had been designing a portable sawmill at home and that he had begun doing so while still employed was shown by the date of the patent application. Mr Peterson did not respond to this letter.

[21] The applicants also say that after the Petersons' employment ended they ordered equipment using the company name, for example, Jake Peterson ordered an electric motor without authorisation and obtained a P&B discount on it. The applicants believe this motor was used on the T-Frame prototype; and Carl Peterson ordered a gearbox.

[22] In a telephone conversation with Carl Peterson in March 2007 he stated that he was using two elements of the ASM in his design for the T-Frame. The applicants say they own all rights to the ASM.

[23] Mr and Mrs Browne have seen a photograph of the new T-Frame which is stored in Jake Peterson's backyard. Mr Browne gave evidence that a number of features of the new T-Frame prototype were similar to or the same as features of the ASM and/or were designs and modifications that had been previously discussed.

[24] Mr and Mrs Browne expressed concern about the fact that the prototype was not stored in a secure location and the fact that Jake Peterson had said that if they were prohibited from displaying at Mystery Creek that he would take it out and use it to cut wood. Their concern related to the fact that such actions would potentially enable members of the public or interested parties to see the prototype which would be detrimental to the applicants' rights in the T-Frame.

Positions of the Parties

[25] The applicants say that they own all rights to the T-Frame prototype and that the respondents have breached their employment agreements in developing the prototype either in company time and using company resources or in competition with the company and that they have used confidential information and trade secrets in doing so.

[26] The respondents say that any information used belongs to them and that the developments were done in a private capacity. The respondents also say the T-Frame is totally new and distinguishable from anything that went before it; that is why they have applied for a patent. They also say the information is in the public arena.

Arguable Case

[27] Given the existence of the agreements between PPSSL and PGSL and between Jake Peterson and PGSL there is clearly an argument that the information in contest is owned by PGSL and not by the respondents. Mr Carl Peterson himself said the T-Frame developments had been kept private and confidential from 2002/2003 until the present. Also at issue is whether the developments were carried in a private capacity or as employees and whether there was a conflict of interest.

Balance of Convenience and Alternative Remedies

[28] The applicants say that the damages cannot adequately compensate them. The damage that would be caused would be that competitors could be given an advantage in developing a similar mill, before the prototype was fine tuned. They would expect to lose their two year head start on sales and would no longer be the market leader but the market follower.

[29] The patent that has been lodged has not been registered and this could take a lengthy period during which a competitor could copy the design.

[30] They are concerned that they could lose potential customers for their existing sawmills as customers may decide to wait until the T-Frame is released to market. They were of the view that they could potentially lose a third of their sales as a result of a possible decline in sales of their automatic sawmill.

[31] They would no control over the quality of the product and if the sawmill was not of the usual Peterson standard there could be a negative impact on the business.

[32] The lost opportunity in exhibiting this year at Mystery Creek could be compensated by damages. A product on display in the innovations section cannot be sold directly to customers. The Petersons said they had only the prototype and that some components would need to be imported and they would not be in a position to look at gaining any income until August or September.

[33] The Petersons say that expressions of interest can translate into sales and would open them to the market.

[34] The consequences to the applicants of the interim injunctions not being granted are that a prototype which they arguably own will go into the public arena without having been adequately tested to ensure it meets the Peterson standards and that may damage the reputation of the companies and have a deleterious effect on long term sales.

[35] It will also result in competitors gaining access to information that should have been kept within the company and that would clearly have long term detrimental effects. Once confidential information has gone it is irrecoverable. There is great potential for long term, irremediable detriment accruing to the applicants.

[36] The respondents would lose an opportunity to bring the product to the attention of the market at Mystery Creek. However, they have only the prototype and would not be in a position to make sales until later in the year.

Overall Justice

[37] Standing back from the situation and weighing the competing interests and consequences I have no doubt that the applicants are entitled to interim injunctions. They run the risk of suffering long term and permanent detriment as opposed to the respondents' possible temporary setback.

[38] During the hearing the applicants, having heard about Jake Peterson's intention to use the prototype in an environment where other interested parties could potentially see it, asked for an interim injunction to restrain such use.

Injunctive Relief

[39] The following injunctions shall issue:

- The respondents are not to display the T-Frame saw at the Field Days in Hamilton in June 2007
- The prototype is not to be displayed or used in the public domain

Website Issues

[40] The applicants raised a number of concerns regarding Carl Peterson's website. During the hearing Mr Peterson agreed to do the following:

- Remove any reference to the angle-cutting device and to the Peterson skillmill/minimill.
- Information about the device would be kept secret and confidential to the parties.
- References to family matters will be deleted.
- The disclaimer proposed by the applicants will be placed on each page of the website.

Costs

[41] Costs are reserved. Hopefully the parties will be able to resolve any outstanding issues through the mediation process. If not, costs will be determined after the substantive hearing.

Dzintra King

Member of the Employment Relations Authority