

IN THE EMPLOYMENT RELATIONS AUTHORITY  
AUCKLAND

AA 323/08  
5088230

BETWEEN P AND B ENGINEERING  
LIMITED  
First Applicant

PETERSONS GLOBAL  
SALES LIMITED  
Second Applicant

AND KARL JACOB PETERSON  
First Respondent

CARL JAMES PETERSON  
Second Respondent

Member of Authority: Dzintra King

Representatives: Kerris Browne and Chris Browne, Advocates for  
Applicants  
Bill Lawson , Counsel for Respondents

Investigation Meeting: 21 and 22 February 2008  
Additional Evidence 27 February 2008  
Submissions Received 29 April and 13 June from Applicants  
7 May and 9 June from Respondents

Determination: 15 September 2008

---

DETERMINATION OF THE AUTHORITY

---

**EMPLOYMENT RELATIONSHIP PROBLEM**

[1] A Statement of Problem was filed by the applicants, P&B Engineering Ltd (“P&B”) and Petersons Global Sales Ltd (“PGSL”) on 23 May 2007 alleging breaches of the restraint of trade and confidentiality provisions of the employment agreements and seeking compliance orders, penalties, interim or permanent injunctions and an inquiry into damages or an account of profits. The respondents, Mr Karl Jacob Peterson (“Jake Peterson” or “Jake”) and Mr Carl James Peterson (“Carl Peterson” or “Carl”) asserted there had been no breaches and opposed the making of any orders or

injunctions. On 11 June I heard the interim application and issued interim orders in the form of injunctive relief as follows:

- i. The respondents will not display the T frame at the Field Days in Hamilton in June 2007;
- ii. The prototype is not to be displayed or used in the public domain.

[2] Mr Carl Peterson also gave an undertaking that he would do the following:

- remove any reference to the angle cutting device and to the Peterson skillmill/minimill from his website;
- information about the device would be kept secret and confidential to the parties;
- remove any references to family matters from his website;
- place a disclaimer proposed by the applicants on each page of his website.

[3] Since that time the parties have made efforts to try and resolve the matter themselves. Unfortunately they were unsuccessful in doing so

[4] In the Statement of Problem the applicants sought:

Penalties against both respondents for breaches of the employment agreement;

Compliance orders:

- a. Preventing the development, marketing or selling of the new sawmill at Mystery Creek on or after 13 June 2007;
- b. Preventing the development, marketing or selling of any competing portable sawmill products or accessories;
- c. Preventing the respondents from engaging in activities selling or marketing portable sawmills for two years after the end of their employment;
- d. Preventing the respondents from using the Peterson sawmill or Peterson Portable Sawmill names on any website, whether for marketing or otherwise;
- e. Preventing the respondents using the name "Peterson" or any reference to their past association with the Peterson companies in conjunction with any website or marketing associated with portable sawmills or their accessories;

- f. Preventing the respondents from selling, sharing or providing any technical information concerning the manufacture of the applicants' products for a period of two years after the end of employment;
- g. Requiring the respondents to deliver up forthwith all confidential information and all designs relating to the products and the new sawmill and to acknowledge and undertake that all intellectual property rights relating to the products and the new sawmill remain the property of the applicants.

Interim or permanent injunctions in respect of their failure to comply with their employment agreements.

[5] Since the filing of the Statement of Problem the applicants have also sought compliance orders requiring the respondents to stop using trade secrets, a penalty to be imposed on Carl Peterson for aiding and abetting Jake Peterson to breach his employment agreement and a suppression order relating to confidential information.

[6] The applicants now also seek permanent injunctions:

- a. Preventing Carl and Jake Peterson using for their own benefit or the applicants' detriment, any of the confidential information and plans and design information they gathered or worked on while working for the companies and all confidential information and designs that they gathered or worked on while working for PPSSL, which belong to PGSL.
- b. Preventing them from using any reference to *Peterson* or the companies and products in a manner that is derogatory or will promote their own products creating confusion in the marketplace.
- c. Preventing them from continuing to breach the interim injunction repeatedly and continuing to design and patent new sawmills in their own names that contain the very same elements the applicants say claim are confidential to the companies.

[7] There is also a claim that the respondents have breached the duty of fidelity.

[8] The respondents say that the pleadings in the applicants' Statement of Problem were limited to allegations that the respondents had breached the restraint of trade and

confidentiality provisions. The respondents say that the claims that are now made go well beyond what has been pleaded in the applicants' Statement of Problem and that they go well beyond the respondents' obligations under the respective employment contracts for any common law obligations.

[9] The respondents say:

- a. that good faith principles in employment matters only apply to parties already in an employment relationship;
- b. that the respondents have not breached any duty of fidelity;
- c. that there is an estoppel in relation to the applicants' claim that the respondents had breached their employment contracts in building a new saw mill by virtue of the second applicant giving the first respondent express approval to pursue such a new saw mill;
- d. that privity of contract prevents the first applicant enforcing any alleged rights against the second respondent under any contract of employment;
- e. that the restraint of trade and confidentiality clauses in the respondents' employment contract are unreasonable and therefore unlawful and unenforceable against the respondents;
- f. the respondents did not breach the restraint of trade or confidentiality clauses in any substantial way that justifies the orders sought.
- g. that the applicants have failed to act in good faith and therefore do not have clean hands and the applicants have not suffered any loss.

[10] Although there has been an expansion of the original claims without a formal amendment to the Statement of Problem, the applicants are not legally represented, and the respondents were made aware of any additional claims during the hearing and were given the opportunity to respond to them. There has been copious email correspondence since the hearing.

## **Background**

[11] It will be necessary to go through the lengthy background to this matter in detail.

[12] Ms Kerris Browne is the director and shareholder of PGSL. She is also Carl Peterson's daughter and Jake Peterson's sister. This company markets, distributes and sells portable sawmills and accessories internationally. PGSL was incorporated in November 2003. P&B, incorporated by Mr Christopher Browne (Kerris Browne's husband) in August 2004, currently manufactures the products under licence to PGSL. P&B and PGSL together trade under the name Peterson Portable Sawmills.

[13] The name "*Petersons Portable Sawmills*" has been trademarked. It is registered trademark no 727289, was filed on 24 March 2005 and renewed until 24 March 2015. It was registered on 29 September 2005. The proprietor is listed as Petersons Global Sales Limited.

[14] In 1989 Carl Peterson established a business designing and manufacturing portable sawmills and developed the first commercial swing blade portable sawmill. He incorporated Petersons Portable Sawmilling Systems Limited ("PPSSL").

[15] Carl Peterson was managing director, salesperson and key designer for the company. He designed and developed many new and different variations and put patent applications in for elements that were unique. Some of those applications were in the company's name and some were in his name.

[16] In early 1991 Mr Browne was employed by PPSSL, initially as a fitter to manufacture the products.

[17] In 1992 Carl Peterson arranged for an Australian company, T W Lucas & Sons, to act as an agent for the Peterson products within Australia.

[18] In late 1993 Ms Browne began work for PPSSL, initially in administration and accounts to computerise the company's transactions and record keeping.

[19] In March 1994 Lucas designed and built their own Lucas Mills using elements of the earlier Peterson models combined with another mill. Lucas applied for a patent on this new combination. Carl Peterson designed a cheaper mill that could compete directly with Lucas using an earlier Peterson model as the basis. The Islander patent

application No 360683 showed the company as the owner and Carl Peterson as the designer.

[20] By 1996 Mr and Ms Browne were key staff members in supervisory roles.

[21] In 1997 Carl Peterson began planning a T frame style mill. His first prototype was made in or around 1997 or 1998. Mr Browne also worked on this. In 1997 Carl Peterson began work on a saw blade, initially with large round holes in it and later slots. Ms Browne said that to this day the applicants continued to use saw blades with a version of cooling slots that were an improvement. She said the holey blade has remained in the confidential company files ever since 1997 and 1998.

[22] In early 1998 Jake Peterson began work for the company, initially as a floor boy after school. He graduated to welding and designing work.

### **Lucas Court Case and Patent Issue**

[23] In December 1998 Lucas Sawmills commenced court proceedings against PPSSL claiming Peterson's Islander infringed their patent. In late 1999 Lucas was successful in gaining an injunction against PPSSL and preventing them from making and marketing the Islander model sawmill.

[24] In early 2003 PPSSL and Carl Peterson, as a personal defendant, feared that another court loss to Lucas was looking likely and that the financial implications might be devastating to the company. All the shareholders at the time, the two Mr Petersons and Mr and Ms Browne, got together with and discussed how to protect the patents in case the company lost the case.

[25] As Carl Peterson feared he would be personally sued for costs in the court case as well, he decided to put the patents that were in his name into Jake Peterson's name. Jake's name was chosen because he was not a manager or major shareholder and they did not think a creditor would ever lay claim that he could have been a deemed director in that transaction. Their patent attorney was told that the patents in Carl's name belonged to him personally and that he leased them to the company in return for

the company paying all maintenance costs. Carl instructed his patent attorney that he wishes to sell two patents to his son.

[26] However, the patent attorney advised that both could be challengeable transactions and Lucas could still claim that the patents belonged to the company regardless of whose name they were in, as Carl worked for the company and was its key designer. Consequently, those sales did not go ahead and no money ever changed hands.

[27] Carl Peterson and Ms Browne talked about just transferring the most recent all terrain sawmill (“ATS”) and swing sawmill patent (“ASM”) that was still in the application stage, to Jake Peterson. The rationale for the change of name would be that the incorrect designer had been listed and hence the incorrect owner. Since Jake Peterson had spent some time after hours working on both of those designs, it was thought they might just have a better chance to claim that they belonged to him personally if Lucas ever put a claim on them. Ms Browne said she was instructed to do whatever she needed to do to get the ATS and the ASM patents out of Carl’s name and into Jake’s name. That included the requirement that she had to convince the Patent Office that they actually belonged to Jake Peterson, on the grounds that he was the inventor and that the company only leased them in return for their upkeep.

[28] Ms Browne said she supported this theory for several more years in order to protect those patents, until such time as the court battle was eventually settled in 2006.

[29] Ms Browne said that all shareholders were, however, of the understanding at the time that those two patents remained in trust for the company’s benefit indefinitely and for whoever would own the next Peterson company if the current one went out of business. They all understood that they put the patents in Jake Peterson’s name in trust specifically to make it appear to Lucas that Jake Peterson owned them in order to distance them from the company assets if PPSSL lost the court case. PPSSL continued to pay all invoices for the upkeep of the patents that were placed in Jake Peterson’s name.

[30] I was presented with an affidavit signed by Jake Peterson in support of the ATS reassignment. In it he stated that he did not design for the company although the

evidence satisfies me that he did. This was specifically to support the claim that he owned them personally. I was also given an affidavit signed by Carl Peterson in which he stated that he had sold the patents to Jake despite the fact that no money actually changed hands. Despite their assertions to the contrary, I have no doubt that both the respondents made false statements in those affidavits. This is pertinent in so far as credibility is an issue in this case.

[31] In November 2003 Lucas' lawyers threatened to liquidate the PPSSL company if it did not pay the court costs and advised they were issuing a bankruptcy notice against Carl Peterson.

### **Trade Agreement 28 November 2003**

[32] Carl Peterson and Ms Browne agreed she would lease PPSSL a portion of the factory in the new building in which she had set up her new company, PGSL, and they would trade together under a special trade agreement signed on 28 November 2003.

[33] 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. The agreement was between PPSSL (the manufacturer) and PGSL (the marketer and the retailer). The agreement summary says:

*The manufacturer agrees that the marketer and retailer will be its exclusive agent to market, sell and distribute the Peterson sawmill products globally and that the marketer and retailer agrees that it will buy 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 this agreement will be terminated. Any defaulting party will automatically hand over all rights, title, interest in or claims to any of the patents, designs, copyright, trademarks, tradenames and logos relating to the product (including the name and mark Petersons Portable Sawmills), and all rights, title, interest in or claims all inquiries and customer data and records, manufacturing methods and processes, know-how or other industrial or intellectual property associated with the product or gained during the operation of this agreement, to the party not in default. [My emphasis]*

*Products shall be the models of Petersons 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.*

[34] The document provides that:

*The marketer and retailer will at all times use the trademark and trade name Petersons Portable Sawmills or Petersons Sawmills, and all brand names (ATS, ASM etc) when marketing, selling and distributing the products.*

....

*During the currency of this agreement and following its expiry or earlier termination, both parties will (and will ensure that its officers and employees will) treat as strictly confidential all specifications, manufacturing methods and processes, technical information, know-how and other industrial or intellectual property relating to the product and all market research or other sensitive information relating to the product which may come into its or their possession and will not disclose any such information to third parties except with the prior approval in writing of the other party. [my emphasis]*

*The defaulting party must also immediately cease use of the products, designs, copyright, trademarks, trade name and logos, know-how, and any other industrial or intellectual property relating to the product.*

[35] Carl Peterson was very well aware what constituted confidential information.

### **Patent Agreements**

[36] Ms Browne said as there were still some patents in Carl or Jake Peterson's personal names, and to further support the guise that they belonged to individuals rather than the company, both Carl and Jake Peterson also signed separate licence agreements stating that they would allow the new company to use them if PPSSL went out of business.

[37] On 27 November 2003 Jake Peterson entered into the following agreement:

*I, Karl Jacob Peterson, currently allow Petersons Portable Sawing System Limited to manufacture various equipment that I hold patent and patent applications for, under licence. My licence arrangement allows PPSSLtd to manufacture this equipment in return for keeping all such patents current, in force, and paid for and for paying for any modification, updates, etc as required by me on those patents.*

*I further agree that if PPSSLtd is no longer able to pay for keeping my patents or patent applications in force and updated, or if they are unable to manufacture and supply that equipment within a reasonable timeframe, or supply ordered equipment to customers/ agents in a timely manner and of acceptable quality or if there is appointment of a liquidator, or if PPSSLtd's agreement with Petersons Global Sales Limited is terminated, I will immediately withdraw my licensing arrangement from PPSSLtd on all (or the affected) patents or applications that I may hold at that time, and will immediately offer a similar manufacturing licence arrangement to Petersons Global Sales Limited, or any other company that PGSLtd directs.[my emphasis] This also allows for me to undertake further negotiations with PGSLtd.*

[38] Carl Peterson signed a similar document on 28 November.

[39] PGSL began business in early 2004. Ms Browne said the company also had a role in research and development, directly arising from customer feedback. If two or more customers requested something specific from her sales staff, they seriously investigated the potential new product. PGSL's sales staff contributed information and views regarding the development of products.

[40] In April 2004 PPSSL's financial situation deteriorated further. It was not able to afford to pay for the renewals on the ATS and ASM patents in Jake Peterson's name.

### **Default by PPSSL**

[41] On 4 March 2005 the Court of Appeal upheld the High Court's decision that PPSSL had infringed the Lucas patent.

[42] In March 2005 PPSSL defaulted and PGSL applied the trade agreement.

[43] On 30 March 2005 Carl Peterson wrote as managing director of PPSSL to one of the company's suppliers stating:

*Dear Sirs,*

*Further to our recent letter explaining the current state of Petersons Portable Sawing System Limited (PPSS), we have surrendered all intellectual property owned by this company to the debenture holders, namely Chris and Kerris Browne and the Peterson Global Sales Limited (PGSL).*

*The manufacturing contract has now been assigned to P&B Engineering Ltd, the principals been [sic] Chris Browne and Karl Jacob Peterson. I understand that an agreement has been made between those two parties and PGSL, enabling the new manufacturing company access to all the intellectual property rights previously held by PPSS Ltd.*

*Please accept this letter as confirmation that I/We (PPSS) waive any remaining rights in regards that intellectual property in favour of P & B Engineering Ltd.*

[44] It is clear that all PPSSL's intellectual property rights were understood by Carl Peterson to be transferred to PGSL and P&B. These included the T Frame and the holey blade.

### **Employment of Jake Peterson by P&B**

[45] In March 2005 Jake Peterson was offered employment by P&B in research and development as the product designer. The contract offered was almost identical to one he had been on for PPSSL. It contained the same restraint of trade and confidentiality clauses as had been in his previous contract.

[46] The design of a new automated trailerised mill for the USA market was discussed as the sales staff had been approached by customers about a trailerised version of the swing blade mill.

[47] P&B paid for and installed a new 3D inventor CAD program and trained Jake Peterson to use the new system. P&B purchased a student training version of this

CAD for Mike Peterson, Jake Peterson's brother and a staff member, to help train various staff members. Jake Peterson later asked to use it at home to further his training and assist with his ideas of new designs in the evenings or weekends. Mr Browne agreed to this as it was always understood that design work done at the weekend or at home by any employee of the company, including Jake, was for the benefit of the company. In the absence of any agreement to the contrary, this was also the legal position.

[48] Revised employment contracts were issued by P&B to all staff on 16 May 2006. Jake Peterson's contract had the same restraint and confidentiality clauses as the ones he had originally signed. Mr Browne held individual meetings with everyone to clarify the confidentiality clauses. All other staff signed their contracts shortly after reading them, but Jake Peterson kept putting it off because he wanted a revised job description with more control. Although Jake Peterson claimed he had queried the restraint clause I am satisfied he did not query or object to the restraint or confidentiality clauses. Jake Peterson finally signed his contract in September 2006.

[49] The job description specifies his position as *Associate Product Designer R&D*. The job description provides that he is to:

*Undertake and manage the R&D projects given, ensuring the entire Design Change Process is followed at all times and that full communication flows to all parties in a timely manner including but not limited to:*

...

*(c) Working to all the specifications, and design new products/systems to meet the requirements.*

*(d) Establish and document the agreed testing criteria, and any updates/changes to this.*

[50] The clause headed "Restraint of Trade" reads:

- 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 Limited.*
- 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, ie, they will not manufacture or sell similar portable sawmills or 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] The confidentiality clause reads:

1. *All information relating to the operation and performance of P & B and Petersons Global Sales Limited, 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 includes, and not be limited to, all financial information, wage rates, contract details, pin numbers and security information.*

[52] The contract also provided that any borrowing of equipment or property had to be pre-arranged and that personal or home jobs using company equipment was not permitted during work time, smoko or lunch breaks. Any such work needed approval.

[53] Ms Browne said that Jake Peterson became increasingly defensive about new systems implemented by supervisors in the technical department. He resented anyone checking his work or organising paper work, tasks that were connected to his job. He began disputing some of Mr Browne's supervisory and management decisions. He also often confused his shareholding with his employment status, feeling his shareholding gave him more power over other employees, including supervisors. This resulted in arguments between Jake Peterson and the supervisors.

[54] It is clear that the perception of Jake Peterson that he had superior rights because he was a shareholder affected the employment relationship; and did so adversely. Similarly, Carl Peterson's view that whatever he had designed, regardless of the circumstances, belonged to him, also had an adverse impact on the employment relationship.

**Employment of Carl Peterson by PGS� August 2006**

[55] In 2006 Carl Peterson received the news that the Supreme Court had found in his favour and against Lucas. He asked Ms Browne for a job. Initially she did not offer him a position due to her reservations as to how he would fit in with her company and staff.

[56] Carl Peterson had a personal website. This began initially as a site to sell off his liquidated stock. However, he then linked another personal website – [www.truthabouttax.com](http://www.truthabouttax.com) - to it. It included his views on taxes and politics and his belief that Bush caused the 9/11 disaster. At one stage Jake Peterson expressed concern about his father's views in relation to how they might affect sales and also with regard to his father's safety when travelling to America.

[57] Ms Browne said she did not do anything about the personal website, but did check up on his mill stock site. It seemed to very much ride on the back of the Peterson Sawmill reputation, listing her company's name and also quoted Carl Peterson's own reputation as founder. She sent him an email asking him to clarify that the mills promoted on it were old stock and not part of the current company.

[58] Ms Browne said that although she was still unsure about his ability to follow her management direction given their previous arguments PGS� had a mounting backlog of sales calls to make; after consulting with her other sales staff she decided to employ her father in a sales role. She gave him an email job offer for casual on call work and included the standard employee expectations. Ms Browne added extra requirements into the job offer due to Carl's history at the previous company. She was hoping to avoid a recurrence of unsatisfactory events and practices. He was employed as a Sales Consultant but due his vast experience in sawmilling she offered him a wage that was higher than her most senior sales consultant.

[59] On 9 August Ms Browne emailed the following to her father, referring to the job offer. She stated:

*The following further conditions are also part of the job offer – **you are not to:** instigate or expand on conversations on religion or politics with our customers,*

*direct our customers to or talk to them about your books, websites or other personal equipment, post on forums or other media without express consent on the actual content, associated yourself in any manner with the running of the parent company, enter the P & B factory other than as required as part of this job, or otherwise without being invited. Take any of our customer contacts or details home with you, or contact them at any time for purposes other than directly required by this job. If you accept this position, you must take every opportunity to update yourself on our products and systems, and learn what my company's policies are and follow them – we do many things differently from the past, so you cannot assume previous methods are still used, or previous information is still correct. If you are happy with the offer and conditions please advise by return email and we will proceed to arranging a desk and phone for you.*

[60] Also attached was a note headed: *Some of my expectations of my staff performance (not limited to this list):*

*Technical (product analysis and promotion) – if you are able to quickly and effectively pick up the technical details and operation of all the equipment, to the extent of being able to operate in a professional smooth safe and publicly pleasing manner. That you are able to efficiently and effectively assess potential customer's needs and mix those with the most appropriate machinery recommendations. That you are able to see where/if our product is not the most suitable, that you refer/suggest another alternative to the customer. That you promote our products to the best of your ability in all circumstances. That you are accurate in your statements about our products, and can backup your statements with facts at all times. That you establish the procedures of the company and only share the information that is authorised, and in the manner prescribed.*

[61] Carl Peterson signed an employment agreement with Peterson Global Sales Limited which contained restraint and confidentiality clauses on 24 August 2006. The restraint of trade clause reads as follows:

- 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 Limited or P & B Engineering Limited.*
- 2. This undertaking will endure during, and after termination of regular employment with Petersons Global Sales Limited.*

3. *The employee will not at any time act in direct competition with Petersons Global Sales Limited or P & B Engineering Limited; ie they will not manufacture or sell similar portable sawmills or parts thereof.*
4. *The employee will not at any time carry out any other activity that may be a conflict of interest to Petersons Global Sales Limited and P & B Engineering Limited.*
5. *The employee will not, during work hours at Petersons Global Sales Limited, carry out any work or trade other than that as required by Petersons Global Sales Limited.*

[62] The confidentiality clause reads as follows:

1. *All information relating to the operation and performance of Petersons Global Sales Limited, 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 will automatically include, and shall 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.*

[63] Carl Peterson's contract included a clause headed: *Borrowing of company property/equipment*. This reads: *"All borrowing of equipment and property of Petersons Global Sales Limited MUST be prearranged with the manager and they must sign the borrow book as okay."*

[64] There is also a clause headed *Personal/home jobs with company equipment*. This reads:

1. *This type of work is not allowed during work time, smoko breaks or lunch breaks.*
  2. *Approval must be sought from the manager.*
- If allowed it will be after the normal finishing time of 4.30pm Monday to Thursday and 11am Friday. Providing there is at least one other member of staff with them at all time.*

[65] Soon after he was employed, and after speaking with many of PGSL's customers and hearing what applications they wanted for portable sawmilling equipment, Carl Peterson expressed an interested in designing again. He became familiar with the new skill mill that the company had developed in his absence.

[66] In August Carl Peterson approached Ms Browne with an idea for a gadget that he had designed which fitted on all their WPF mills, allowing them to cut boards like the skill mills. It was a clip on version of what the skill mill used. He offered this angle cutter to Ms Browne in return for a royalty. She told him he should not be doing that, that there was a conflict of interest and that the company was not interested in doing any deals with him in that manner; and that the correct process was through the R&D meetings. She offered him the opportunity to come to the company R&D meetings and share his design ideas for an angle cutter in the proper process and be paid for his time in that manner in addition to his sales position. He did not take her up on her offer despite it being repeated to him several times.

### **T Frame Designs**

[67] Some time later Carl Peterson asked Ms Browne if he would be able to develop the T frame further in the P&B factory. Ms Browne said she reiterated the correct design process, that all new designs must be shared at the R&D meeting and that they were to be discussed there. Further investigations and developments would also be decided there and delegated to the most suitable team member. Ms Browne said he became angry, calling the system "*bullshit*.". Ms Browne told him they were not ready to look at the T frame yet and had no money to put into it at that stage anyway, but she would be reconsidering it next year when they did the automated trailerised mill. She told him the T frame designs belonged to her company. He said he had new designs and ideas. He spoke of royalties for his new ideas, but she said nothing was ever negotiated that way, and she reiterated that he would be paid for his time at R&D meetings and for his time spent designing separately to his sales job.

[68] Carl Peterson did not want to wait until next year so proposed that he work on some T frame design sketches himself now and bring those to her to show how valuable the design was to try and get her to manufacture it earlier.

[69] Although there was disagreement about this, I have no doubt that Ms Browne allowed her father to work on the T frame designs on condition that the developments belonged to the company, albeit that some form of reward might be granted. There was no agreement that he could use any designs he might develop for his own benefit and in conflict to the interests of the company.

### **Concerns about Carl and Jake Peterson's Actions**

[70] Around this time Carl approached several of P&B's suppliers and sales persons who came into the factory, including a blade salesman from Thodes, who was visiting P&B. Ms Browne said she did not think anything much of it at that time as she assumed Carl was doing some further research on the designs he would be bringing them.

[71] Mr and Ms Browne said that Jake Peterson became increasingly more defensive regarding his supervisors and more secretive about his work tasks. He was especially defensive when asked what he was doing. Mr Browne saw printouts of designs made on the CAD package which Jake Peterson had at home and which was a design that had nothing to do with his work at P&B: a boat propeller. Mr Browne became concerned that Jake Peterson was starting to design products for his own benefit at work rather than for the benefit of the company. Mr Browne also saw him using his personal storage device at work transferring material between home and his office pc. Ms Browne said it now became apparent he was doing other designs that were not authorised by the company.

[72] Ms Browne then began to receive reports from other staff that her father was directing customers to his personal website where the old stock was displayed, trying to sell his own liquidated equipment to her customers.

[73] He referred company clients to his own website and equipment. As sales consultant he was required to do all that he could to make new business for the company. However, he spent long hours on the phone with customers talking about taxes and politics and repeatedly referred the company's customers to his personal website in an attempt to sell his own equipment first. On 27 September 2006 Ms Browne made a note of an instruction to her father that he was not to talk to customers

about his own designs. In early October he was instructed not to use work time and facilities to talk to customers about his personal views on tax.

[74] On 7 November Ms Browne emailed saying that he was not to promote second hand mills that were not owned by her company and that he was not to direct her customers to his personal websites or talk to them about taxes, economics or his books. If he persisted his employment was at risk.

[75] On 10 November 2006 Ms Browne emailed Carl Peterson:

*In regards second hand sawmills, my company offers a FREE service to list their second hand sawmills on our website. We could squabble about who's site is better, until we are blue in the face. Your site is a paying one isn't it? If so, you are "drumming up business" from my customers while you are supposedly working for me.*

*While you are on the job for me, your job is to offer the services of my company, not your personal websites. Please keep them completely separate from now on*

[76] Most of Carl Peterson's personal equipment was sold to customers who were on the company database. He admitted this at the hearing. He was asked how many of his sales were to customers that were not on the company database. He said he was not sure if there were any, possibly one. This constitutes a possible loss of sales by the company to customers who may otherwise have purchased a new mill through the company.

[77] After perusing her phone bill which had very lengthy 1 to 1½ hour conversations and speaking to other sales persons in the office, she had a further conversation with her father. He admitted he had been talking at length to customers about personal topics like taxes and economics and agreed to cut down his call lengths.

[78] Ms Browne said that unbeknown to her or Mr Browne, both Carl and Jake Peterson secretly filed patent applications in their own names on 2 October. Application No 550246 titled *Portable Sawmills and Accessories* was filed by Carl

Peterson. Application No 550247 is titled *Ground Anchors* and was filed by Jake Peterson. A copy of a patent application for a ground anchor was discovered on Jake's work PC. It had been saved by Jake during work hours on 25 September 2006.

[79] Carl Peterson's was for the angle cutting device which he had gone ahead with and patented under his own name after his daughter did not take the idea on board. Unsurprisingly, Ms Browne says this showed his intention to work in competition with her in secret as early as October 2006.

[80] Later in October, Ms Browne was advised by an American forestry forum mediator that a problem post had been written negatively referring customers to Carl Peterson's website and suggesting that she diffuse the situation early. She spoke to him about adding clearer disclaimers on his website and removing all connections between his website and the company's, as the company's customers were getting confused between the two websites.

[81] Ms Browne said by now he had combined all his anti government views together with the sawmill equipment website. He also added some sawmill comparisons and promoted himself as an expert in the field. He had added a formal exchange service titled *Petersons Portable Sawmill Exchange*. He obviously used the Peterson name on purpose so he would attract those customers to use the equipment site a lot easier.

[82] In early November Ms Browne notified Carl Peterson that the sales backlog had been substantially caught up and that his casual sales work may run out near the end of the month. His employment ceased on 20 December 2006.

[83] On 24 November 2006 Jake Peterson was issued with a verbal employment warning for disregarding a management instruction.

[84] At the end of November Jake Peterson bought some linear gear through the company staff account that he stated was for a personal project. The linear gear is a similar type to that used in the mechanism of the automated mill. Ms Browne said they did not really notice or think much of it at the time.

[85] A meeting was held at the end of November 2006 with Jake Peterson, but no improvements were promised or demonstrated, so Jake was issued with a written job performance warning by Mr Browne on 1 December. He was also questioned about his ongoing commitment to the company. Mr Browne ended the warning letter by saying:

*Furthermore, I have grave concerns as to your work ethics and commitment to the company. Therefore, until these issues are sorted out, there is to be no further personal work undertaken at the factory or office, nor are any of the facilities at work to be used for personal work. There is to be no transferring of files or documentation from home to home or vice-versa. Furthermore, all personal computers and transfer devices are requested to be inspected by the Peterson network administrator to ensure there is no Peterson-related data or data that is a conflict of interest with Petersons, on them.*

[86] Jake was very irate about the warning and went to Ms Browne to complain about Mr Browne. He talked about taking his patents and building the mills for the company by himself instead of working for Mr Browne. He wanted to know if he could work for Ms Browne instead. She told him that her company's expertise was in marketing and did not have the time to look after manufacturing as well. Jake Peterson then went to speak to his father.

[87] On 11 December Jake Peterson had a conversation with Ms Browne, during the course of which he said that his father owned the T frame. They had a discussion about the sale of shares. Ms Browne asked him about the T frame and he said he was leaving his options open. Ms Browne reminded him that the technology belonged to Global through the PPSSL default agreement and the company was reserving the right to use it the following year when they looked at trailerising a mill. Jake Peterson appeared not to be aware of the agreement.

[88] Ms Mayle, who had been present at the meeting, spoke to him the following day. He admitted he was going to start up a business with his father the following year and said he was not working on anything in conflict with the company and had no intention of doing anything underhand with the patents in his name.

[89] On 13 December a marketing meeting was held to discuss new projects and designs. Trailerising the ASM with a different frame was discussed as a project for the following year.

[90] On Monday 18 December Jake Peterson emailed a patent agreement proposal suggesting he give back his entire P&B shares and relinquish rights to the patents in return for royalties.

[91] On 10 January 2007 there was a shareholders meeting at which Jake Peterson's proposal of December 2006 was discussed as well as his intention to resign. The meeting was chaired by Ms Male who also took the minutes. Ms Browne explained that although the ATS and ASM patents were in Jake's name they were owned originally by PPSSL and then went to PGSL under the default agreement. She told him that the designs belonged to the company as they were designed by people in paid employment and developed at the company's cost. Ms Browne said that his view that his father had gifted him the patents because he could not give him shares was mistaken as the patents belonged to the company as did anything the company was working on at the time, like the T frame and other frames. They were PGSSL property and became PGSL property when PPSSL defaulted. Jake disagreed.

[92] It is readily apparent that Jake Peterson had little knowledge or understanding of either the patent issue or the default agreement.

[93] He admitted he had completely redesigned a new sawmill at home, but refused to comment on his intentions any further. Mr Browne said it was the T Frame that Carl Peterson had mentioned to him the day before. Ms Browne asked what he was going to do with it. Jake said he could do what he wanted with it; it was his ideas and his work. Ms Browne told him he could not use and that the T frame technology belonged to PGSL and was confidential to the companies. Ms Browne said he was working in conflict and competition with the company and withholding information.

[94] Jake Peterson disputes the veracity of the shareholder meeting minutes. Ms male said the minutes were signed off by Ms Browne as correct and given to Jake

Peterson, who did not comment or sign or say there was any problem. I accept that the minutes are a true record of the meeting.

[95] Any other employee would have been dismissed and had legal action taken against him at this stage. Instead, Mr Browne said he had written a reference for Jake and still hoped that it would be possible to salvage the employment relationship. It is obvious that the Brownes were making all possible efforts to resolve matters because of the family relationships involved.

[96] On 12 January 2007 Ms Browne had a meeting with Jake Peterson. Jake Peterson complained that although 95% of his time was spent designing he was not allowed to use his designs and he didn't have enough control. He wanted to go and "get creative without being controlled".

[97] Jake Peterson said the ASM was not working and that he had a new machine that would solve all the problems "*and totally blow the ASM away*". Ms Browne said that the company would spend eight months completing the skill mill and then would move to designing an automated trailerised mill. Jake Peterson said he would only design not sell or promote anything after he left, and would always bring his designs to Ms Browne first.

[98] After this conversation Ms Browne drew up a summary of what had been agreed as requested by her brother. However, when she emailed it to him, he said he was not interested in signing it, that he would abide by his employment agreement and maintaining that he owned the patents.

[99] Jake then requested a price to purchase an electric motor from the company. This was approved.

### **Plans for Mill Development**

[100] Ms Browne said they later found evidence that Carl and Jake Peterson had been working together designing a new mill and gathering information while Carl Peterson was still working. These included some documents found in his work desk. There was the P&B gearbox supply book and some handwritten notes made by both

Carl and Jake Peterson on several pieces of paper referring to blade designs, gearbox details and an earlier T frame style patent, the Stubb patent..

[101] They also found an email showing that Carl had ordered a gearbox from an American gearbox company. It appears that this was ordered at least as early as 2 January 2007 and possibly earlier. The gearbox was delivered to Peterson Sawmills. Carl Peterson emailed the company saying:

*Please note that although it will be used on a "Peterson sawmill", it has been purchased by me personally, and not by "Petersons sawmills", In future please pay particular notice to the actual purchaser and shipping address, in order to avoid confusion for the delivery people.*

[102] The gearbox was shipped to the Peterson Sawmill address in error.

[103] In early January Carl Peterson went back into the office and gave Ms Browne a large file of her customer records that he had apparently taken home over the holidays. He had not been given those records and when questioned, stated he had taken them home to tidy them up for his daughter. He said he thought he had brought the entire folder and did not have any more files at home. However, on 12 February he admitted that he had kept some of the customer contact details at home. He said "*I have contact details of a few people I have personally spoken with and engaged in some sort of relationship with*". Ms Browne said she believed he had taken those files specifically to keep records of which customers were interested in automated mills so he could market his own mills to them later. Given that he had not been asked to take any material home and had no reason to have it, this would seem to be a reasonable assumption.

[104] On 16 January Mr Browne had a conversation with a company supplier, John Brack of Gamminco. Mr Brack advised Mr Browne that Carl had asked him to make a sawmill shaft. When Mr Brack refused, Carl Peterson said it was for Jake as well. Mr Brack told Carl Peterson he would discuss it with Mr Browne.

[105] Unbeknown to his employer, Jake Peterson set up a personal account with Ken Bateman of Etech, a company supplier. An email was downloaded from Jake's work

PC. On 22 January 2007 Jake Peterson had emailed saying he would like to set up a personal account. *“I’ve got a few little toys I’d like to get happening. I’ve finally finished my prototypes. I’ll email you from home about them”*. Jake Peterson had not been authorised to develop any prototypes independently of his work for the company.

[106] On 30 May 2007 Mr Bateman told Mr Browne that Jake Peterson had sent him some CAD drawings after hours around 7 to 9 February and asked that they be kept confidential from the company. Mr Bateman told Mr Browne he preferred not to divulge the details of those drawings unless ordered to by a Court. I subsequently contacted Mr Bates and obtained details.

[107] I took evidence from him on 27 February 2008. He confirmed that the documentation supplied did constitute actual orders. Messrs Peterson had contended at the hearing that the documents were only quotes and not actual orders.

[108] The orders made are as follows. They are listed by order number:

- a. 23712 (beam blank bearing mount, beam winches, skid foot, upright and skid slider, upright bearing tab, upright pole cap, winch dial, winch gear and winch side) . Order placed 8 February 2007 at 9.16pm by Jake Peterson. Included in the email is the statement: *“I would appreciate this kept in confidence and independent of P and B. Carl and I have a significant patent pending product in development”*.
- b. 24090 (pivot box sections, shaft, pivot arms, spring box section, spring axis
- c. 23654 (knotcher) . This order was emailed on 25 January 2007 at 10.38pm. The email stated; *“This will need to be my own separate account as this project is completely independent of P and B”* Mr Bateman replied asking for contact details and the company name.
- d. 23594 (angle adjuster). This order was sent on 21 January at 9.43am by Carl Peterson. He said: *This is my own project that is quite distinct and separate from Peterson Portable Sawmills, so please separate your pricing schedule from other Peterson’s stuff.”*

[109] On 30 January 2007, while still employed, Jake Peterson sent an order for a knotcher to MSL, another company supplier, saying he did not have a personal account but would like to open one. He said "*This is independent of P&B and is a personal project*". The email was downloaded from Jake Peterson's work PC. The email was created and sent at 12.22pm.

[110] Some time after 5 February, when Jake Peterson had completed the sale of his half of the shares and a \$20,000 loan was paid back to him by P&B, Jake and Carl Peterson hired a workshop and purchasing plant.

[111] On 12 February patent application No 553130 for an improved portable sawmill was secretly lodged showing both Jake Peterson and Karl Peterson as inventors and owners. Jake Peterson resigned on 23 February 2007. It is clear that Jake had been working on the sawmill design while still employed in breach of his duty of fidelity and contractual obligations.

[112] Between 12 and 15 February Carl's diary extracts shows contact with Mystery Creek, hireage of a storage shed and purchase of a welder.

[113] Carl also completed work on his angle cutter and started getting plans under way to manufacture and sell them. On 23 January Etech provided a quote for the laser cutting and folding of the device. On 13 February his diary shows that he published an angle cutting page.

[114] On 14 February Ms Male emailed Ms Browne telling her that Carl had been in the factory the previous day with Jake "*fitting/checking out their new little angle thingy.*" Carl Peterson should not have been in the factory at all and Jake Peterson should not have been using work premises to test a device made by his father that was to be marketed in competition to the company.

[115] On 15 February 2007 Ms Browne downloaded a page from her father's website headed "Peterson Sawmill Angle Cutter".

[116] Carl Peterson designed an angle cutter, tried to sell it to the company and patented it in his own name while he was an employee.

[117] A PGSL customer confirmed that Carl had promoted an angle cutting device to him. This device was not listed on the company's current price list, nor manufactured by the company.

[118] In his evidence Carl Peterson said:

*I further declare that the device I did develop during the time I worked for Peterson Global Sales Ltd was simply a device that could be used on any manual Peterson mill for cutting adjustable angles. During the course of my telephone sales work various different individuals had asked if such a device was available for the larger Petersons mills. I developed this device in my own spare time in direct to respondents inquiry. I offered it to Kerris Browne for use as an accessory, requesting only a reasonable royalty per unit sold, but she showed no interest in entering any kind of negotiation with me for its use.*

[119] Mr Peterson went on to say that he could understand that confusion might result in the marketplace by his calling it a "Peterson Portable sawmill Angle Cutting Device" but that was exactly what it was and would not fit any other sawmill.

[120] He was obliged to disclose information to the employer that was valuable in relation to the employer's business. However, he kept customer requests to himself and using the concept of a product already in production, the skill mill, privately designed a similar angle cutting device specifically for use with the larger Petersons' sawmills. He was privy to the design and assembly details of the skill mill as it was part of his job requirement to learn about the new product in order to sell them effectively.

[121] Carl Peterson's diary shows entries on 21 and 25 February relating to materials needed for the mill beam and showing workshop plant purchases including a bench grinder.

[122] The applicants contend Carl Peterson let suppliers assume he was still part of the company in order to gain company discounts and reduce suspicion and used the company's brand name to promote his product. I agree that it is not possible to view Carl's actions in any other way.

[123] On 25 February Carl Peterson posted on an internet forum saying that later in the year he would be unveiling the perfect portable sawmill.

[124] On 3 March 2007 an electric motor was ordered by Jake Peterson c/- P&B Engineering to be collected by Jake from the Goldlink Rotorua Depot. It was actually delivered to P&B on 3 April 2007.

[125] On 4 and 5 March Carl's diary shows storage shed costs, gearbox arrival and fasteners and materials from suppliers.

[126] Ms Browne said she became increasingly concerned about her father's website and the confusion references to Peterson and sawmills created with the PGSL and P&B. On 5 January 2007 a customer advised he would not purchase a mill because "*I sincerely distrust Peterson because of his political and fraudulent tax and anti.govt positions (look into his background sites)*". On 22 February she emailed him saying his website was creating confusion. On 7 April a customer asked that his name be removed from the company database because he had seen Carl's website and said "*your founder is an insane fruit*".

[127] On 5 March when she spoke to her father he advised her that the T Frame design he was working on used the two inventive concepts of the ASM patent: the board remover and the pivot device. This information formed part of the patent that was licensed to PGSL.

[128] On 9 February Jake borrowed two sledgehammers. On 6 March Ms Male emailed Mr and Ms Browne and noted that the hammers had not been returned. She asked that someone speak to Carl to tell him he was not allowed in the factory at all. She also asked that he be told not to have his orders from Steel & Tube delivered to the factory as it was creating confusion.

[129] Carl's employment had ended and he should not have been on company premises. Even during the course of his employment he should not have been in the factory without consent.

[130] Ms Browne said that Carl later admitted that they needed the sledgehammers to try to modify or fold the beam. This was an unauthorised use of company property for competing private purposes.

[131] By 19 February the applicants had become very concerned about Carl's activities and consulted the EMA. He was given the letter from the EMA on 7 March 2007. It set out PGSL's concerns about breaches of contract, good faith, fidelity and of the Fair Trading Act and breach of trademark. Carl did not respond to this letter.

[132] On 12 March Steel & Tube delivered some steel for Carl to P&B Engineering. The invoice stated that the customer would collect from Steel & Tube.

[133] On 20 March Ms Male advised Thodes, a supplier, that Jake and Carl were not part of the company and not to pass on company discounts to them and that they were not to use the company account. This was in response to a blade having been delivered to P&B.

[134] On 28 March Mr Brack from Gamminco advised that Carl had requested further machine work. He said he had refused as they were working in competition to P&B.

[135] In April Carl had contacted Tim Hart at Motorvation and asked for a motor for the Field Day. It appears that Carl said the motor was needed for a project. He assumed it had to do with P&B. Mr Hart provided Mr Browne with a 3D copy of the Peterson innovation mill emailed to him by Carl.

[136] On 3 May Kohler representatives indicated that Carl had asked for a motor for the Field Day and it had been assumed it had to do with P&B. Ms Male informed them that neither Carl nor Jake were with the companies any more and that they were not to be given company discounts.

[137] Mr and Ms Browne emailed Messrs Peterson asking them not to display the mill at the Field Day as they were using intellectual property and designs that belonged to the companies.

[138] Carl replied saying they were intending to display “*a workable and viable option to the present ASM* “ He went on to say that he could use the T Frame because the patent applications, which had been abandoned prior to publication, had never been owned by PPSSL and had never been used by the company. Later he claimed that he could use the T Frames because the original application lapsed in 2006 and was now in the public domain.

[139] Most of Carl’s formal transactions were still unknown to the company, when on 16 February a further conversation was held between Jake Peterson and Ms Mayle which gave rise to new concerns. He told Ms Mayle that the T frame belonged to Carl Peterson and he was free to do what he wanted with it and the he, Jake Peterson, could build mills in his own time. When asked what he wanted from all of this he said he wanted some way of making money such as a royalty.

[140] At this stage the company contacted the EMA for advice. A letter was issued by them to Jake Peterson on 15 February. Jake did not reply and said it was “silly”.

[141] Jake later reiterated that he would be resigning, that he could design what he wanted when he wanted and that his new mill had nothing to do with the company and did not use of any of its patents. He asserted that the T frame belonged to his father who had already hired a workshop to build it in.

[142] Ms Browne said that it became clear that her brother was working very much for his benefit, so the managers had a discussion about what to do. His day to day activities were closely supervised and he was requested not to contact any suppliers, to return the CAD package and delete all drawings from his home computer, which he refused to do.

[143] On 22 February Ms Mayle issued Jake Peterson with a further verbal warning. He responded with threats to resign and refused on two occasions to delete anything from his home computer or to let anyone inspect it.

[144] On 23 February he handed in his notice. A copy of his final pay is dated 28 February.

[145] Carl and Jake subsequently signed a partnership agreement on 24 May 2007 stating they were going into business to manufacture the T frame sawmill using elements of the ASM patent. Carl approached the Daily Post and an article about their new sawmill was emailed to him for response on 5 June. The article frequently refers to Petersons implying that Carl and Jake were part of the company and states that the new mill would be released at Mystery Creek.

[146] Karl updated his website on 11 June knowing he was going into an interim injunction application hearing and published their plans to release the new mill. He also stated, untruthfully, that “*this mill is manufactured by P&B Engineering*”. This was clearly misleading and intended to associate the new mill with P&B.

[147] In his written evidence at the interim hearing Carl Peterson made the following admissions:

- a. he earlier designed the prototype of the T frame and had applied for patents on it while working for PPSSL. He deposed “*The subject and contents of those applications were never published , and were closely guarded as confidential information amongst company principals;*
- b. “*„aspects of the T Frame concept were held back from the public domain;*
- c. *The new invention follows the general principle of the earlier applications;*
- d. he confirmed that he had built the angle device in response to customer requests;
- e. he retained handwritten notes made during his employment taken from telephone conversations with contacts and clients.

### **Work on the New Mill**

[148] Clearly Carl Peterson had been working on designing this mill with his father while still an employee. A further issue is the extent to which Carl and Jake Peterson, had used confidential information in making the design.

[149] In his evidence for the interim hearing Jake Peterson said he helped Carl Peterson put his sawmill design ideas into CAD diagrams whilst at home. He said it

was simply a mock up of the concept which would be used in the provisional patent applied for on 12 February. This was applied for while Jake Peterson was still an employee and the application was not communicated to his employer. Jake Peterson is listed as co designer. He said Carl Peterson's ideas were new improvements relating to a T Frame and that his name was on the patent application because he was the inventor of the blade swing mechanism, a patent which he says he owns. The company says it belongs to PGS�. He said he did not start work on the mill until after he left P&B but he accepted that he did the CAD work while still an employee

[150] Jake Peterson said his father approached him in late January to assist with some CAD diagrams for a provisional patent. His father told him he would approach Ms Browne at a later date offering her the invention. On this understanding, he agreed to help. If Jake Peterson was satisfied that there was nothing underhand regarding this arrangement I do not understand why he did not approach his employer and tell them what was happening. It is also difficult to understand why the patent application was filed secretly.

[151] Jake Peterson said Carl Peterson felt his son should be listed as co-inventor because he had input into the original design and the provisional patent was dependent on Jake Peterson's blade changeover patent. It is clear from this evidence that Jake Peterson co designed a product while he was employed and did not reveal this to his employer.

[152] In an email to Kirk Allen dated 22 January 2008 Carl Peterson says: "*As far as the technology involved in the dispute, it involves some stuff Jake and I developed while technically employees at Petersons...*". This is an admission by Carl that he worked on the design while still employed.

[153] Messrs Peterson say the T Frame (upside down end frames, single beam rail and traversing swing blade style cutting apparatus ) concept was invented by a man named Stubb in 1984. It is common general knowledge. However, a number of witnesses said they knew nothing about Stubb or the Stubb patent.

[154] Carl Peterson said that there was nothing in his employment agreement to prevent him patenting an invention he had already made. This overlooks the fact that the T Frame concept was PPSSL's and then passed to PGSL.

[155] Jake Peterson says that the applicants' claim that a T Frame concept was being planned prior to his leaving P&B is untrue. I accept the applicants' evidence that there were plans to develop the T Frame.

[156] The applicants have asked that the details of the plans be suppressed. I have therefore not placed them in this determination .

### **Breach of Good Faith**

[157] The applicants say that Carl Peterson failed to negotiate in good faith in that he failed to disclose prior sawmill design work and did not challenge the restraint clause of the employment agreement.

[158] Mr Lawson submitted that a job applicant and an employer are not one of the relationships covered under s.4(2) of the Employment Relations Act. He stated that for a job applicant not already in an employment relationship with the employer, the express requirements of a duty of good faith do not apply to the parties at the time of negotiating the employment contract. He referred me to *Hayden v. Wellington Free Ambulance Service* [2002] 1 ERNZ 399.

[159] That decision was made prior to the amendment of the Employment Relations Act effected by the Employment Relations Amendment Act (No 2) 2004. This Act inserted s.60A which is headed *Good Faith in bargaining for individual employment agreement into the Act*. Section 60 was also modified by the insertion of s.60C (ia) which provides that good faith behaviour is required when entering into and varying individual employment agreements.

[160] Mr Lawson submitted that there was, however, a lack of good faith on the part of the applicants. This included Ms Browne's evidence that she rejected attempts by Karl Peterson to advance the T frame concept, that she failed to consider positive

suggestions by Karl Peterson, she made derogatory comments about his ideas and generally took advantage of his poor financial position.

[161] Mr Lawson submitted that this lack of good faith clearly showed that the applicants did not come to the proceedings with clean hands.

[162] The decisions that were made by Mr and Ms Browne were quite clearly business decisions that they were entitled to make. There is no breach of good faith on their part.

[163] I do not accept Carl Peterson's evidence that he had developed the new T Frame design when he applied for work with PGSL. This work began after he became privy to customer requests and planned designs. I do not think he misled or deceived PGSL at the time he negotiated the contract.

[164] He was under no obligation to challenge the restraint of trade clause. This was the same restraint that he had put into PPSSL contracts and this did not become an issue until later in his employment.

### **Estoppel**

[165] Mr Lawson submitted that the applicants were estopped regarding the T Frame. Although Mr Lawson did not identify the nature of the estoppel I presume it to be estoppel by conduct. It cannot be promissory estoppel because the parties were not in a contractual relationship. At that stage Carl Peterson had no employment relationship with PGSL or P&B.

[166] An estoppel by conduct has as its essential feature that attention is given chiefly to the situation of the person relying on the representation. The party relying upon the estoppel must have altered its position detrimentally. The detriment must be more than a mere possibility as the party must have taken a course of action which would not otherwise have been taken, or omitted to take steps to protect its position that it would otherwise have taken: Cross on Evidence, D L Mathieson, Butterworths, 5<sup>th</sup> NZ ed, 1996, para 12.28

[167] In Auckland Harbour Board v Kaihe [1962] NZLR 68, 88 Gresson P said:

*Estoppel is based on the principle that it would be inequitable to allow a person who has, by a representation or conduct amounting to a representation, induced another to act as he would not otherwise have done to deny or repudiate the effect of the representation.*

[168] Gresson P went on to say that waiver was quite different. It was an intentional act which indicated expressly or by implication an intention to dispense with an existing condition. It looked chiefly to the conduct and position of the person who is said to have waived.

[169] The first estoppel argued was Ms Browne's statement in her evidence at para.129 that Carl and Jake Peterson are free to design sawmills that are not similar to her company's sawmills. All Ms Browne's evidence does is to restate a contractual provision, that is, part 3 of the restraint of trade clause, which is that an employee was prohibited from manufacturing or selling similar portable sawmills or parts thereof. Mr Lawson said that Carl Peterson has said at para.49 of his statement that the new sawmill is not similar to any Peterson mill. Mr Peterson certainly states that. The issue is, however, the accuracy of his statement. The evidence from the applicants is that the new sawmill is similar. As I have already stated, I accept that evidence. This does constitute an estoppel.

[170] The second situation allegedly constituting an estoppel relates to what is contended to be a waiver of any rights that her company may have had in the T frame mills. The respondents refer to a series of emails which they say constitute an express approval and permission for Carl Peterson to pursue the T frame in his own capacity. Having received this he understood he was free to pursue a T frame design in his own capacity. He said she had given him express authority to build the mill. In reliance on this, he built a new T frame sawmill.

[171] In December 2003 Carl Peterson began work on an application to the Court of Appeal against the High Court decision. As part of his appeal evidence he put in a T frame patent application No 530217 which contained a variety of different sawmill designs including the original T frame, new variations to the T frame and absurd mill, an automated beam mill, high/lo tracks within an ATS frame, components of the ASM

patent, single point raising on an ATS and other mixed configurations including a triangular beam. However, the patent application cited Jake Peterson as the owner and as the designer specifically to protect it from Lucas if they won.

[172] This application lapsed and was refilled as a new provisional in December 2004, patent no 537441. All correspondence from the patent attorney regarding this patent was addressed to Jake Peterson, not Carl Peterson, as the patent was in Jake Peterson's name.

[173] In December 2005 a renewal became due on Carl's latest T frame application in Jake Peterson's name. PGSL did not wish to continue with the application because they were not building it at that stage. However, Ms Browne said that because she knew her father needed it for his court case, she emailed him and asked if he wished to keep it going from that perspective. On 21 December 2005 Ms Browne emailed Carl Peterson as follows:

*Subject: Provisional patent application No 537441.*

*Carl – This your absurd sawmill patent. The deadline is Friday this week. We are not doing anything with it. Do you want to??*

[174] Later that day Carl Peterson emailed back saying;

*Kerris, I feel it is important that we keep this application alive. I have every intention of building and testing the "t" frame in the new year. What we need to do is to renew the provisional application for another year (it means we lose the earlier priority date). We do not have to enter the complete specification stage. Let me know if you choose not to do so! (and I'll rob a bank or something!) Carl*

[175] The following day, Thursday 22 December, Ms Browne replied as follows:

*Carl – I'm sorry but we don't have the money (or the interest) in keeping this one alive. We are closing factories to day, and will not be back until 9th January. If you want to do something with this one, I suggest you talk to Tony directly.*

[176] The Supreme Court heard the matter on 16 and 17 November 2005 and issued a decision on March 2006. It was in favour of PPSSL. The case was remitted to the High Court for further determination in light of the judgment.

[177] Carl Peterson says the emails constitute an assignment of all rights in the mill to him. Ms Browne says that it refers purely and simply to the provisional application. Ms Browne's interpretation is correct. The words "*this one*" in her email of 22 December clearly relate to the provisional application. The Tony referred to in the email is Tony Pietras, the patent attorney. This is not the same thing as the company relinquishing all rights in the matter. She said his email specifically referred to one element of the patent application in question, namely the T frame only, not an entire sawmill. The T frame amounts to only a T shape end frame, not to a whole sawmill containing tracks and cutting head.

[178] Karl Peterson did not take up the opportunity to talk to the company's patent attorney, nor to attempt to keep the patent application going.

[179] All that has been represented is that Carl Peterson could, if he wished to do so, renew the provisional patent application. Carl Peterson took no action regarding the provisional patent application. He did not alter his position to his detriment. No existing condition was waived.

### **Privity**

[180] Mr Lawson referred me to the common law doctrine of privity of contract which provides that a contract cannot confer benefits on persons who are not a party to the contract in a way that gives those parties an independent right to enforce the provisions of the contract which are for their benefit. He referred me to *New Zealand Shipping Co Ltd v. AN Satterthwaite & Co Ltd* [1974] 1 NZLR 505.

[181] However, s.4 of the Contracts (Privity) Act 1982, while making no alteration to the privity doctrine relating to the imposition of obligations, does refer to instances where a contract or deed confers a benefit on a third party. Section 4 provides:

*Where a promise contained in a deed or contract confers, or purports to confer, a benefit on a person, designated by name, description, or reference to a class, who is not a party to the deed or contract (whether or not the person is in existence at the time when the deed or contract is made) the promisor shall be under an obligation, enforceable at the suit of that person, to perform that promise.*

[182] Section 2 of the Act defines the benefit as including:

- (a) *Any advantage;*
- (b) *Any immunity; and*
- (c) *Any limitation or other qualification of*
  - (i) *an obligation to which a person other than a party to the deed or contract is or may be subject; or*
  - (ii) *a right to which a person other than a party to a deed or contract is or may be entitled.*
- (d) *Any extension or other improvement of a right or rights to which a person other than a party to a deed or contract is or may be entitled.*

[183] Mr Lawson was referring to the fact that Carl Peterson's restraint clause refers to both PGSL and P&B. Clearly, the inclusion of P&B provides an advantage for P&B.

### **Confidentiality**

[184] Not every piece of information obtained during the course of employment is confidential or so confidential that disclosure would undermine the contractual relationship.

[185] In *Thomas Marshall (Exports) Ltd v Guinle* [1978] ICR 905 there is some discussion by Megarry V-C (as he then was) of the elements of the duty of confidence:

- a. the information must be information the release of which the owner believes would be injurious to him or of advantage to his rivals or others;
- b. the owner must believe that the information is confidential or secret, ie that it is not already in the public domain. It may be that some or all of

- his rivals already have the information: but as long as the owner believes it to be confidential I think he is entitled to try and protect it;
- c. the owner's belief under the two previous heads must be reasonable;
  - d. the information must be judged in the light of the usage and practices of the particular industry or trade concerned;
  - e. It may be that information which does not satisfy all these criteria may be entitled to protection as confidential information or trade secrets but any information which does satisfy them must be of a type which is entitled to protection.

[186] In *Peninsular Real Estate v Harris* [1992] 2 NZLR 216 at 218 Tipping J set out a number of propositions, including that an employee, after ceasing his employment, may not use truly confidential information obtained in the course of the employment for the purpose of competing with the former employer, or in any way detrimental to the former employer's interests. He also stated that what amounted to confidential information for that purpose was not susceptible of abstract definition and would depend on the facts of each case.

[187] In *Force Four New Zealand Ltd v Curtling* [1994] 1 ERNZ 542 Travis J held that the plaintiff's designs and patents constituted confidential information in the nature of trade secrets and the designs and patterns, together with the matters covered by patents and registered designs, were information in which the plaintiff had a proprietary interest capable of protection by a proper restraint. Any plans for designs and modifications or perfections of designs were also confidential information. Customer lists were confidential information and information in which the plaintiff had a proprietary interest as were customer lists, patents and information garnered from customers. Many of the designs and patterns for the boats were ones which Mr Curtling had full knowledge of, and many were his own designs. Nonetheless, they were confidential information.

[188] Similarly, the applicants' designs and patents, plans for designs and modifications and developments are confidential information. So are its customer lists and information gathered from its customers.

[189] In *Dillon v Chep Handling Systems Ltd* [1995] 2 NZLR 282, 301-302 market expansion strategies and knowledge of customer needs were deemed to be confidential information.

[190] The contracts contain express terms regarding confidentiality. Technical information concerning the manufacture of the company's products is confidential. Information relating to the operation and performance of the companies is confidential. Information that is treated as confidential by management or given to employees in confidence is confidential.

[191] Information regarding planned developments was confidential. Thus the plans to develop the T Frame were confidential. Information gleaned from customer queries which could then be used to develop or modify products was confidential. Information regarding developments under way was confidential. Marketing information was confidential. The patents were confidential.

[192] Messrs Peterson took design information and design plan information and customer request information and used it to design modifications and plans which the company had intended to design and market. Carl Peterson took customer lists and I have no doubt that these were intended to be used for marketing purposes. Jake Peterson passed on information gained in the course of his employment as designer to his father.

[193] The use of confidential information is not restricted to the period of employment and employees cannot use confidential information to compete either during or after employment. However, the respondents used this information to develop products which were intended for their personal gain and benefit both during and after employment. They are in breach of their employment agreements and in breach of the duty of fidelity. They have also breached their good faith obligations. Both respondents deceived their employers by acting in secret and withholding information.

[194] In *Empress Abalone Ltd v Langdon* [2000] 1 ERNZ 147 at 184 Palmer J said it was well established that where an employee in the course of his employment made

an invention which it was part of his duty to make that the law imported into the employment contract a term that the invention was the employer's property.

[195] In *Patchett v Sterling Engineering Co Ltd* (1955) 72 RPC 50 (HL) Viscount Simmonds said that it was elementary that where an invention was made in the course of employment the inventor "*holds his interest in the invention and in any resulting patent as trustee for the employer unless she can show he has some beneficial interest which the law recognises*".

[196] Jake Peterson was employed to invent and design for the company. On that basis his invention of the lockpeg belongs to the company.

[197] In considering the issue of ownership in this case it is also necessary to consider that the inventions in the patent applications were made with confidential information taken from the applicants.

[198] 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 information about the skillmill. He used this for his own benefit, in breach of his employment agreement and cannot be allowed to retain the benefit of that breach, as noted by Goddard CJ in *Ongley Wilson Real Estate Ltd t/a Manawatu First National v Burrows (No 2)* [1998] 3 ERNZ 759.

[199] The first sawmill patent was filed while Jake Peterson was still employed. It incorporates information belonging to P&B and PGSL. It belongs to P&B.

[200] Information that was the property of PGSL was information that PGSL could share – and did share– with P&B.

[201] Carl Peterson says he gave his father permission to use two elements of a patent in his name. There are a number of reasons why Carl Peterson could not do this.

1. The evidence was that the patents had been placed in his name to avoid liability.

2. Even if the patents were correctly in his name they actually belonged originally to PPSSL because the inventions were made in the course of employment.
3. The patents would also have belonged properly to PPSSL if they were designed by Carl Peterson because, again, they were designed in the course of employment.
4. If the patents are correctly in Carl's name and licensed to the company he cannot give the right to use the patents to another person outside the company because that would constitute the illicit taking and giving of confidential information both during and after employment.
5. Using the patents himself during employment constitutes acting in competition to and to the detriment of the employer.

[202] The evidence established that the old Stubb patent was not well known in the industry and that the holey saw concept was developed by Carl Peterson during the course of his employment and therefore belonged to the employer.

[203] Carl Peterson admitted that he knew the company would be looking at the T Frame the following year and that that he had been told by Ms Browne that the company would be building a trailerised beam mill.

[204] In an email dated 26 February 2008 Carl stated “*..the trailer idea proved valuable as a part of the patent application package, and as important step forward for the T-Frame.*”

[205] The only staff who would have been privy to all the information were the management and key designers. The new mill that has been designed includes all the new design elements that the company had confidentially planned to evaluate and incorporate into its new sawmill project, bar the H-Frame.

[206] Oddly, both Carl and Jake state in their evidence that “*whatever information we did become aware of was purely the consequence of employment.*”

[207] An email from Carl to a USA forestry forum administrator states “*As far as the technology involved in the dispute, it involves some stuff Jake and I developed*

*while technically employees at Petersons, and whether the firm or the employees owns or has equal rights to the same confidential information*". This constitutes a clear admission that the technology was developed during employment and a recognition that it is confidential.

[208] Trade secrets are not necessarily restricted to production or design secrets but can include information which, if disclosed to competitor, would cause significant harm to the employer. The applicants say that the disclosure of the design and planning information would give a competitor a significant and unfair advantage.

[209] The information taken by the respondents was to be used for the benefit of the applicants' businesses and instead has been used to their detriment. The respondents have designed and built a mill and filed patents with the intention of competing with the applicants.

[210] In *Empress Abalone Ltd v Langdon* [1999] 1 ERNZ 762 at 770-771 Palmer J said that an employer was entitled to restrain the use of confidential information derived by an employee from his or her prior employment from being used to the commercial advantage of the employee who is privy to such information or trade secrets, including patentable inventions.

[211] Applying for the patents breached the duties of confidentiality and fidelity.

[212] Ms Browne said she and Mr Browne had viewed the T frame sawmill in operation at Carl's house. Mr Browne provided a photograph of the mill with specific details of all the components that were either previously planned in confidence by the company to build, were designed and copyrighted by the earlier company and now owned by her company, are used on their existing sawmills or are under patents owned by her company. Mr Browne gave detailed evidence which I accept demonstrates that the mill used confidential information.

[213] At the hearing Carl confirmed that the latest sawmill patents – there are 3 (553130, 555792 and 560834) – contained all the design elements which the applicants say constitute confidential information.

[214] I accept the applicants' evidence that the new design planned was a totally new combination of elements. No other existing sawmill had even two or even three of the key elements.

### **Are the Restraints Enforceable?**

[215] The restraint clauses are somewhat unusually phrased. In the context of the clauses parts 3 and 4 refer to the period after employment. The words "at any time" do not make sense unless they are read as referring to the post-employment period.

[216] The principles to be applied in assessing the reasonableness and therefore the enforceability of this restraint of trade clause are well settled as noted by Shaw J in *Credit Consultants Debt Services New Zealand Ltd v. Wilson (No 3)* [2007] 1 ERNZ 252. where she reiterates them at paras 45 and 46.

- Covenants restricting the activities of employees after the termination of their employment are a matter of legal policy regarded as unenforceable unless they can be justified as reasonably necessary to protect the proprietary interest of the former employer and in the public interest.
- The reasonableness of the restraint of trade is to be determined at the time the contract is entered into.
- The onus is on the party asserting the reasonableness of the covenant.
- Consideration is necessary but may be satisfied by the mutual promises intrinsic in the offer and acceptance of employment.
- Proprietary interests to be protect include trade secrets, confidential information and business or trade secrets.
- Measures of reasonableness can be the duration, the geographical ambit and the scope of the term.

- The public interest requires the right of every person to trade and be freely employed and is only limited by a restraint that is reasonable.
- The use of confidential information is protected post employment when its use results in a former employee being given an undue advantage in competition with a former employer.

[217] The respondents say that the restraint is unreasonable and an unfair attempt to stop them earning an income in their chosen profession. They are prohibited from manufacturing or selling similar portable sawmills or parts, that is, swing blade sawmills. They are free to trade in other types of sawmill: band saw mills, quarter saw mills, fixed circular saws, scragg saws, bench saws, table saws, gang saws and any other type of saw. There is not a complete prohibition on their employment.

[218] They are not prohibited from working in the sawmill manufacturing or selling industry per se. They are not prohibited from inventing sawmills or parts for sawmills, provided of course that they do not use confidential information belonging to PGSL or P&B.

[219] The respondents say the clause is not reasonably necessary to protect any proprietary interests of PGSL as they were already aware of any relevant information from Carl Peterson's formation of PPSSL and Jake Peterson's previous employment with PPSSL.

[220] This confuses the having of knowledge and the ownership of that knowledge. Information that was PPSSL's became PGSL's. Messrs Peterson, although privy to information, did not own it.

[221] Messrs Peterson say that the only proprietary interests that PGSL and P&B could reasonably need to protect were those it had gained since their days at PPSSL. Carl Peterson says he had no involvement in manufacturing and no part in the R&D meetings and therefore had no access to any proprietary interests that should be protected. Carl Peterson had to have product knowledge in order to sell the products. He had knowledge of modifications requested by customers that would affect what P&B decided to manufacture and what PGSL would market. Such knowledge

constitutes proprietary interests that are to be protected. Jake Peterson was a designer and clearly privy to proprietary interests.

[222] At the time Carl Peterson entered into the restraint Ms Browne was understandably concerned about his behaviour as is evidenced by her emails regarding his employment. The situation is also affected by the fact that Carl Peterson was the founder of PPSSL and inventor or co-inventor of many of the products. A restraint was not unreasonable. Similarly, a restraint was not unreasonable at the time Jake Peterson was employed as designer with a lengthy history of sawmill design.

[223] The applicants were given valuable and legal consideration for the restraints because the consideration was contained in the employment agreement. Ms Browne said she had given her father a higher rate of pay than other salesmen because of his experience and knowledge. A restraint provision does not require extra consideration: *Fuel Expresso Ltd v Hsieh* [2007] 1 ERNZ 60. Jake Peterson was given shares when he started employment with P&B in recognition of his previous service and skills and as an incentive to keep working for P&B.

[224] No payment or compensation was necessary; this was covered by the entry into the contract. Although Jake Peterson did not sign his employment agreement until some months after he commenced this did not have to do with the restraint or confidentiality provisions but with the job description. The contract he signed had identical restraint and confidentiality provisions with the one he commenced employment under.

[225] Jake Peterson has obtained alternative employment as a CAD designer. There was no evidence that Carl Peterson had attempted to obtain other employment.

[226] The clause purports to be without temporal or geographic limitation. Given the operation of the company – it sells throughout New Zealand and overseas – that is not unreasonable. In *Credit Consultants* (supra) Shaw J found at para 53 found that the duration of six months in that case was reasonable given the quality and extent of proprietary information belonging to the plaintiff that was in his command when the employment ended.

[227] In *Walley Group Ltd v Gallagher* [1998] 3 ERNZ 1153 Colgan J said that because of the nature of the industry a worldwide restraint was necessary. A four year duration, however, was found to be unreasonable and unfair and a reduction to a year was effected. Colgan J also said he had no persuasive evidence why a four year restraint should be upheld. The only evidence I have regarding an unlimited duration is that Carl and Jake Peterson should never be allowed to compete. That is contrary to the public interest.

[228] In assessing the reasonableness of a restraint it is necessary to carry out what is essentially a balancing exercise. The legitimate commercial proprietary concerns and the undesirability of unfair competition by a former employee must be weighed against the necessity to uphold and preserve the right of the former employee to obtain employment or otherwise engage in business in the field in which that former employee is qualified and experienced.

[229] That part of the restraint which prohibits the carrying out of any other activity which may constitute a conflict of interest is far too broad to form part of a reasonable and fair restraint.

[230] The clause can be modified pursuant to s 8(1)(b) Illegal Contracts Act. This permits a modification so that at the time the contract was entered into the provision as modified would have been reasonable.

[231] At the time Jake Peterson's employment agreement was entered a restraint for a period of twelve months was reasonable.

[232] At the time Carl Peterson's employment agreement was entered a restraint for a period of six months was reasonable. The difference is based on the difference in the nature of the employment: Jake Peterson was in permanent employment and was the designer and Carl Peterson was a casual sales representative.

[233] Given that the modified restraint clauses for both respondents would have now expired, the sole relevance relates to the fact that penalties are sought for breach of the restraint clauses.

[234] The manufacture of the T-Frame means they have built a similar sawmill. At the hearing Carl admitted they were working on a new model sawmill which contained major combined elements confidential to the applicants.

[235] Even if the restraints were invalid, the fact is that both respondents have used confidential information to design, patent and manufacture competing equipment.

### **Breach of Fidelity**

[236] In *Walden v Barrance* [1996] 2 ERNZ 598 at 616 Goddard CJ, speaking of the duty of fidelity, said the essential prohibition was against the misuse of the employer's property for the employee's benefit. During the employment the employee was under a duty of fidelity to do nothing deliberately that was likely to injure the employer's business. After employment there was an implied duty not to misuse information entrusted to him or her on a confidential basis,

[237] In *Ongley Wilson Real Estate Ltd t/a Manawatu First National v Burrows (No2)* [1998] 3 ERNZ 759 at 762 Goddard CJ made a number of statements which are pertinent to the instant case. He referred to two rules which he said did not appear to be well understood or accepted by the defendant in that matter:

*The first is that there exists as an implied term of every contract of employment a duty on the part of the employee, commonly known as the duty of fidelity, that the employee will do nothing to injure the employer's business during the employment. The second is that, by "during the employment", is meant while the contract of employment subsists notwithstanding that the activity that is complained of as being a breach of this duty is committed outside working hours or even at a time when the employee is no longer bound to contribute any services*

[238] This does not seem to have been understood or accepted by either Carl or Jake Peterson.

[239] Goddard CJ went on to say using information belonging to the employer while the employment was still current constituted a breach of the duty of fidelity. He said

that that information did not need to be confidential. It was enough that those actions were a threat to the plaintiff's business and there was ample evidence to show that the plaintiff perceived it as such, probably on reasonable grounds.

[240] At 767 he said:

*However, there is another rule which survives the notice period and that is the rule of fidelity. It is quite simple — a departing employee may not take what does not belong to her but belongs to her employer though entrusted to the employee during the employment. This includes not just physical but also intellectual property — inventions, trade secrets, and confidential information about the business — all insider knowledge. If the employee takes it away, the Court will not let her keep it or retain any advantage or profit derived from its use. The same applies to anyone else to whom the employee may have passed it on. The law of confidences derives from the rules of equity. Equity is said to operate on the conscience. It requires those who have obtained benefits by breaching one of the rules of equity to disgorge those benefits because it is against conscience to allow them to retain benefits so obtained. The way that equity operates on the conscience is by making the defendant disclose what she has obtained by improper means and to give up all the benefits — past, present, and future — of such ill-gotten gains. Thus the defendant may not retain anything that the defendant has obtained unconscionably. A typical example is that of a company director who, through his position, obtains information about commercial advantages which he then uses for his own advantage, preventing the company from making a profit. In that case the company and its shareholders are able to follow the asset so acquired and recover it and all profits made from it which it would have been able to make if someone else had not taken advantage of his or her position of confidence and trust.*

### **Aiding and Abetting**

[242] Section 134 (2) Employment relations Act 2000 provides:

*Every person who incites, instigates, aids, or abets any breach of an employment agreement is liable to a penalty imposed by the Authority.*

[243] The applicants must establish that there was an act of incitement, instigation, aiding or abetting and that that act or those acts were wilful. In *Credit Consultants* (supra) Shaw J held that it was sufficient if the defendant knew of the general contractual situation or practice in a particular field.

[244] Carl Peterson was well aware of the provisions of Jake's employment agreement.

[245] The applicants allege that Karl persuaded Jake to obtain quotes, place orders, apply for patents and set up in partnership with Karl. Jake said at the hearing "*Carl asked me to and I did it for him. I emailed the drawings for him.*"

[246] I find that by those actions Carl Peterson aided and abetted four breaches of Jake's employment agreement.

### **Damages**

[247] Mr Lawson submitted that this question is new to these proceedings and had not been tested and therefore could not be awarded.

[248] I accept that I have heard no evidence about these matters at this stage. Therefore, if the applicants wish to pursue the question of damages there will need to be additional evidence provided to me on that matter.

[249] If the applicants wish to pursue this matter they should notify the Authority and a conference call will be convened to discuss how to proceed.

### **Breaches of Interim Injunction**

[250] During the interim hearing Carl agreed to remove certain material from his website. However, on the very afternoon of the oral judgment, Carl added references to his daughter and her company to his website.

[251] Information was placed on the website stating that he was still committed to the releasing a better sawmill. He identified the following as features of the mill when it had been agreed these were to be kept confidential to the parties.

[252] On 18 June Karl added further design details about the sawmill on his website in direct contradiction of the injunction to keep the sawmill in confidence..

[253] Over the course of several weeks in June and July, Mr and Ms Browne both saw the sawmill sitting in the driveway of Jake's home in Nairn Road, clearly visible to the public passing in the street.

[254] In July the sawmill was taken to a commercial milling premises of Rob Moores in Tauranga, and operated there for a period of time. I was given a document headed "Undertaking of Confidentiality". This read:

*We the undersigned do solemnly agree to keep and hold as private and confidential information all details regarding the "T" frame portable sawmill constructed by Carl and Jacob Peterson and undergoing cutting trials in the private yards of Tauriko sawmills.*

*We also agree that we shall undertake to prevent members of the public from viewing or examining the machine first hand and that we shall refrain from speaking about this machine or sharing our views about it with others outside the Tauriko sawmills staff.*

*So signed by the staff, management, and ownership of Tauriko sawmills, this 25<sup>th</sup> day of June, 2007.*

*[A number of signatures are appended]*

*I personally undertake to enforce this agreement with all staff ,and to ensure that all staff members understand and adhere to this agreement.*

*Rob Moores*

[255] It is clear from the evidence that the sawmill would be visible to any member of the public visiting the site.

[256] The sawmill was also seen being operated in Mamaku. Carl Peterson said he was testing it for a secondary purpose and he believed that made it distinct from the injunction requirements as it was a different machine.

[257] Carl Peterson told me that he did not believe he had to abide by the undertaking given at the interim hearing because it was like a mediation.

[258] These all constitute breaches of the interim injunction.

[259] On 18 June Jake attended Mystery Creek to demonstrate his lock peg device and also handed out business cards that had a drawing of the sawmill on it. Two of the staff members to whom Jake showed the card at Mystery Creek said he had handed out a number of cards. Jake said he went to the people on the Peterson site and showed them the cards and asked them not to talk about it because it was confidential.

## **Injunctions**

[260] In *Ravensdown Corp Ltd v Groves* [1998] 3 ERNZ 947 at 968 Colgan J said that injunctions were equitable remedies and therefore discretionary. He went on to say:

*If there is a proven breach of duty and a threat of further damage, a permanent injunction may be the appropriate remedy. Permanent injunctions have frequently been used to enforce negative contractual obligations.*

[261] I have considered whether damages might be an adequate alternative remedy and do not consider that they would be. Damages in cases such as this are difficult to establish.

[262] I have also considered that the history of this matter unfortunately shows that the respondents are unlikely to abide by undertakings or agreements.

[263] The following injunctions should therefore issue:

- The first and second respondents are prohibited from either directly or indirectly or alone or with any other person or persons and whether as principal, partner, agent, director, shareholder, employee or otherwise howsoever from proceeding with or dealing with or using (other than providing them to the applicants), the following applications:
  - Provisional application No 550246
  - Provisional application No 550247
  - Provisional application No 553130
  - Provisional application No 555792
  - Provisional application No 560834
  
- The first and second respondents are prohibited, either jointly or severally, and either directly or indirectly or alone or with any other person or persons and whether as principal, partner, agent, director, shareholder, employee or otherwise howsoever from breaching confidentiality in respect of the applicants' confidential information and trade secrets. This includes but is not limited to the T Frame, the ASM and ATM patents, plans for the new trailerised sawmill, the provisional patents listed above and customer requests.

### **Compliance Orders**

[264] Section 137 provides that the Authority may order compliance with any provision of an employment agreement or with any order, determination, direction or requirement made by the Authority.

[265] Section 137 (2) provides:

*Where this section applies, the Authority may, in addition to any other power it may exercise, by order require, in or in conjunction with any other matter before the Authority under this Act to which that person is a party or in respect of which that person is a witness, that person to do any specified thing or to cease any specified activity, for the purpose of preventing further non-observance of or non-compliance with that provision, order, determination, direction or requirement.*

[266] Section 137 (3) provides that a time period within which the order is to be obeyed should be specified. There is no requirement to set a duration for the order.

[267] Section 138(4) provides:

*A compliance order of the kind described in section 137 (2) –*

- (a) may be made subject to such terms and conditions as the Authority thinks fit (including conditions as to the actions of the applicant); and*
- (b) may be expressed to continue in force until specified time or the happening of a specified event.*

[268] The obligation of confidentiality is ongoing despite the termination of employment. The respondents' employment agreements expressly specify this. Carl Peterson used the employer's confidential information and trade secrets to develop the angle cutter. Jake Peterson used the employer's confidential information and trade secrets and developed the lockpeg in the course of his employment. Carl and Jake Peterson developed the sawmill patents using the employers' confidential information and trade secrets.

[269] The respondents have not shown themselves willing to abide by previous undertakings or injunctions and in the circumstances compliance orders are necessary.

[270] I have found that both respondents used confidential information to design and manufacture products in competition with their employers and did so deliberately and knowingly. They cannot be permitted to keep any benefit from those activities that were in breach of their employment agreements and the duty of fidelity and good faith. In order to comply with their employment agreements I make the following orders.

[271] Jake Peterson is to provide a copy of the patent application No 550247 (the ground anchor) to P&B.

[272] Carl Peterson is to provide a copy of the patent application No 550246 Portable Sawmills and Accessories (the angle cutter) to PGSL.

[273] Carl and Jake Peterson are to provide copies of the patent applications Nos 553130 (Improved Portable Sawmill) 555792 (Improvements for a Portable Sawmill) and 560834 (An Entire Sawmill) to P&B and PGSL.

[274] Jake and Carl Peterson are to comply with the above orders within 5 days of the issuing of this determination.

[275] Carl Peterson is to return to PGSL any customer contact details he still holds.

[276] Carl and Jake Peterson are not to continue to use confidential information and trade secrets, including the ASM and ATM patents or any part thereof, to design, develop or build sawmills or sawmills parts or accessories.

[277] Carl Peterson is to remove any reference on his website to the angle cutter or the improved sawmill or the skillmill/minimill and he is not to reinstate such references once they have removed as happened after the interim hearing.

[278] He is to remove any references to Mr and Ms Browne and to Petersons Portable Sawmills from his website and not to reinstate such references once they have been removed.

[279] Carl Peterson is not to create a new website and put any references to Mr. and ms Browne, Petersons Portable Sawmills, the angle cutter or the improved sawmill on it.

[280] Carl Peterson is to ensure that the disclaimer proposed by the applicants is inserted on each page of his website.

[281] Carl Peterson is to remove any reference to the lockpeg from his website.

[282] Jake Peterson is to remove from any website reference to the lockpeg

[283] Carl and Jake Peterson are to return any confidential information or trade secrets in their possession to P&B and PGSL.

[284] Carl and Jake Peterson are not to display, market, test or use the sawmill or any variation of the sawmill that uses confidential information or trade secrets belonging to the applicants.

[285] Carl and Jake Peterson are not to provide information about the sawmill or any variation of it using the applicants' confidential information or trade secrets.

[286] Jake and Carl Peterson are to comply with the above orders upon receipt of this determination.

### **Penalties**

[287] The applicants have said that penalties should be treated globally. That is the basis on which I will consider the awarding of penalties.

[288] The maximum penalty against an individual under s 135 (2) is \$5000 penalty payments are to be paid into the Crown bank account unless the Authority orders that the whole or any part of it is to be paid to any person.

### **Penalties: First Respondent: Jake Peterson**

[289] He designed an improved ground anchor system for the company's sawmills, but instead secretly patented it in his personal name for his own in another industry.

[290] He purported to permit Carl Peterson to use elements of the ASM and ATM patents (the pivot and board` remover) in a joint design and patent application when to do so was acting in competition with the company.

[291] He assisted Carl to design an improved T frame mill, obtaining quotes while still employed, taking orders for the new mill in secret, lodging a patent in his own name and hiring a workshop to build the machine.

[292] He gave Carl confidential company marketing and design plans for use in the new mill.

[293] He used the holey blade and the T frame design features in the new mill which were confidentially held company designs from prior prototypes.

[294] He used customer feedback and marketing and design plans of the company in the new mill.

[295] He applied for several patents which used confidential information in his personal name without company authorisation.

[296] He breached his restraint of trade clause by setting up a business with Carl, creating a new partnership and building and promoting a similar sawmill in direct competition to the company.

[297] The misuse of confidential information during employment constitutes one cause of action.

[298] The misuse of confidential information after employment constitutes a second cause of action.

[299] The setting in business after employment constitutes a third cause of action.

[300] The unauthorised giving of confidential information to Carl constitutes a fourth cause of action.

[301] The unauthorised use of the applicants' premises and equipment constitutes a fifth cause of action.

**Penalties: Second Respondent: Carl Peterson**

[302] He referred company clients to his web site in order to sell his personal equipment while at work, this despite having been advised not to do so.

[303] He withheld customer feedback from R&D as required of him and instead designed an angle cutter, tried to sell it to the company and patented it in his own name. He published this on his website and promoted it for sale.

[304] He acted in competition to the company by designing a whole new sawmill while employed which contained confidential trade information learned in the course of employment and which was retained in secret for the purposes of competing later.

[305] He took confidential customer files home with him, copying them and using them later to contact at least two company clients.

[306] He used two design features in the new mill without authorisation, specifically the pivot and the board remover facility that are under licence to the company.

[307] He used the holey blade and the T frame design features in the new mill which were confidentially held company designs from prior prototypes.

[308] He used customer feedback and marketing and design plans of the company in the new mill.

[309] He applied for several patents in his personal name without company authorisation, which include confidential information. He did not disclose the making of the applications to his employer.

[310] He promoted a similar sawmill in direct competition to the company.

[311] He used the company's trade rights and branding goodwill to his own benefit by printing wording on his website in such a manner as to cause confusion in the marketplace between the companies and his own website to his own benefit.

[312] During employment he used the company facilities and premises and time to promote his own equipment and personal views.

[313] The misuse of confidential information during employment constitutes one cause of action.

[314] The misuse of confidential information after employment constitutes a second cause of action.

[315] The setting in business after employment constitutes a third cause of action.

[316] The aiding and abetting of the breach of Carl's employment agreement constitutes a fourth cause of action.

[317] The unauthorised use of the applicants' premises and equipment constitutes a fifth cause of action

[318] The manufacturing and marketing of the angle cutter constitutes a sixth cause of action.

[319] Each of these warrants a penalty to mark the seriousness of the actions. I am satisfied that the breaches were wilful. A penalty of \$2,500 for each global breach on the part of each respondent is imposed, making a total of \$12,500 for Jake Peterson and \$15,000 for Carl Peterson.

### **Application of Penalties**

[320] The breaches were not breaches of statutory obligations but a matter solely between the parties. It is clear that the applicants have lost opportunities as a result of the respondents' actions. This is a suitable case for the whole of the penalties to be awarded to the applicants. The penalties awarded are to be paid by the Carl Peterson to PGSL and by Jake Peterson to P&B.

### **Non-publication**

[321] The applicants have asked that evidence dealing with the confidential information have a suppression placed on it because of the commercial sensitivity. This evidence was provided both in documentary format, in written evidence and also given as oral evidence. This evidence is prohibited from publication. This does not prevent the applicants from using their confidential and trade secrets as they see fit.

**Intellectual Property Office of New Zealand**

[322] A copy of this determination is to be sent to the Commissioner of Patents at the Intellectual Property Office of New Zealand.

**Communications with the Authority**

[323] The applicants were not legally represented. The respondents were, but have, unfortunately, chosen to make a number of email communications with the Authority, clearly without obtaining legal advice first. The tone of a number of these communications is inappropriate and the content improper.

**Costs**

[324] The matter of costs was reserved. The applicants should file any additional memoranda on costs and disbursements within 28 days of the date of this determination. The respondents should file a memorandum in reply within 14 days of receipt of the applicants' memoranda.

Dzintra King

Member of the Employment Relations Authority