

Introduction

This case deals with the not uncommon situation involving parties who were formerly in a working relationship, which has ceased. In particular, the argument centres around information which had been accumulated, accessed or utilised during the course of the relationship and continues to be used by a party to the original working relationship without the authority of the other.

The Proceeding

This was an application for interlocutory orders. The applicant, sought *inter alia*, orders restraining the respondents from using information alleged to be confidential and from acting in breach of a restraint of trade provision in an employment contract. The respondents comprise personal and corporate entities. Unless otherwise stated the respondents are referred to here jointly as 'Churchill'.

Background

International Entertainment (Aust) Pty Ltd, ('International'), are fundraisers. They contract with community organisations to raise funds by means of events such as film festivals and magic shows. Persons donating pledge funds to the organisation in order to send underprivileged children to these events.

Fundraisers may outsource the process of contacting potential sponsors to 'promotional directors'. Funds collected are divided between the community organisation, the fundraiser and the promotional director.

The first respondent had acted as promotional director for International and had access to information, which International alleged was confidential. The information took several forms including hard copy cards known as 'database information cards'. International gave these to the respondents pursuant to a written agreement entered into prior to each marketing campaign.

International had also software developed called "Campaign Manager", in order to produce a database made up of contacts and sales histories. The data was

originally collected from phone directories and updated in the course of each campaign. The information was then transferred to cards called 'database information cards'.

The information included the names of particular contacts at businesses and the history of donations to any particular campaign. International provided 'Campaign Manager' to its promotional directors for updating during campaigns.

It was the first respondent who had entered into a promotional agreement with International. It was a term of that agreement, that the first respondent was obliged to maintain and update all information and computer database records. Churchill utilised telemarketers to contact potential sponsors.

The Agreement

As stated, the first respondent signed a promotion agreement with International.

Relevantly, the agreement defined the term "confidential information" and provided for the delivery up of confidential information on termination of the agreement. It also provided for a restraint on the use and disclosure of the information.

Further, the agreement provided for a restraint of trade for a period of 5 years on Churchill in Australia, New Zealand "or any other country in which [International was] currently operating." An exception was made in the case of the first respondent's ability to be employed.

In relation to the restraint, the common practice was adopted in the agreement of substituting diminishing restraint periods in circumstances where a period be determined by a Court to be invalid or unenforceable. This method was applicable to geographic areas of restraint.

The Circumstances Giving Rise To The Action

Churchill resigned as promotional directors for International. International claimed that cards had been forwarded to Churchill for campaigns in certain areas in Queensland and that Churchill failed to return a substantial number of cards. Churchill alleged that the cards containing new information had been returned and that subsequently they returned a large box of worksheets. The worksheets were used by the telemarketers to record certain information from which the cards would be updated.

In relation to one campaign, International gave evidence that in a conversation with the first respondent, a member International was informed that sales cards were returned but that cards which involved a business not having a history of sponsorship, were destroyed. International however submitted that in relation to one campaign, a comparison of the total amount collected, as recorded on the cards returned, left a shortfall of approximately \$90,000.00. It was therefore inferred, that the missing funds were recorded on cards that were not returned.

A similar significant shortfall appeared in respect of the two other campaigns.

International also alleged that some cards were returned without the disk of upgraded information and in respect of other campaigns, International alleged no cards were returned at all.

It was International's belief that since the resignation of the first respondent, the first respondent continued to conduct campaigns in the nature of film festivals. In support of its allegations, International had instructed private investigators, who had obtained employment as telemarketers. It was part of the evidence of one of these investigators that an instructor informed him that the first respondent had a database of supporters, which had been built up over the first respondent's time in the industry.

The investigator took samples, which contained information corresponding to the International cards. A private inquiry agent also took possession of the contents of a rubbish bin used by the first and second respondent, some contents of which were cards identified as being International's.

International sought to rely on:

- the restraint, which it alleged, was reasonable in the circumstances of Churchills' long period of association with International and over many campaigns. It further argued that the restraint could be 'read down'; and
- Contractual and equitable obligations of confidence.

In relation to the restraint, the first respondent argued *inter alia*, that he was an employee, within the exception provided in the agreement and in any event that the restraint was unreasonable and could not be enforced. In relation to the obligations of confidence, Churchill argued that the definition of "confidential information" was so wide as to be unenforceable. Churchill argued that they did not have the Campaign Manager software or cards in their possession. The sales sheets were documents generated by Churchill in the course of business and contained information that was available in telephone directories. It was further alleged that International had not wanted the return of the sales sheets.

Conclusion

Restraint of Trade

Holmes J said that it was for International to establish justification for the restraint. (See *Lindner v Murdock's Garage* (1950) 83 CLR 628 at 644. There were serious questions to be tried, which included whether the restraint provisions could be enforced and whether in truth the first respondent was acting as an employee.

In the light of these considerations, her Honour considered International's prospects as being far from assured, this being a factor in considering the balance of convenience. There were also difficulties in framing the order so that it was not more onerous than the agreed restraint.

Breach of Confidence

In relation to the contractual obligations of confidence, the Court considered the definition of confidential information was too wide to be enforceable.

Also her Honour did not consider the case for the sales sheets to be a strong case because it had yet to be established that such information was recorded by an employee of Churchill in a capacity to make the employee subject to an obligation of confidence owed to International.

However, the Court considered the applicants in a strong position in arguing that the information on the cards was confidential.

Relevantly, her Honour noted that the information was:

- acquired with skill and effort;
- guarded by International;
- not obtainable by outsiders;
- made plain to contractors that it was regarded as confidential;
- only made available to those in relatively senior positions, such as promotion manager;
- confidential by its nature. This reference was to the name of a particular person within a sponsor business as the appropriate contact and the history of previous donations, were not matters of public knowledge.
- Not trivial and essential to International's business.

(See Kirby P in *Wright v Gasweld Pty Ltd* (1991) 22 NSWLR 317 at 334).

In the end result, the information sought to be protected really has to have the qualities of information that is confidential. The difficulty in a party seeking to enforce restraints, contractual obligations of confidence or even equitable obligations for information that the party seeking to enforce the obligations has themselves published was noted by Gleeson C J in *Maggbury*.¹

This is a helpful decision in noting the indicia of confidential information. More importantly however it highlights the difficulties that can arise when information, that is vital to an enterprise, is released to others for a value add purpose.² Perhaps, in the case of the worksheets for example, an assignment of

¹ *Maggbury v Hafele Australia Pty Ltd* [2001] HCA 70. There is a summary of *Maggbury* on my web-site at www.odyssey.ez.ro.

² See also *Quanta Software International Pty Ltd V Computer Management Services Pty Ltd* [2001] FCA 1459 19 October 2001.

future copyright under s. 197 of the *Copyright Act 1968*, may be considered more effective.

Patents Amendment Regulations 2002 (No. 3)

An Explanatory Statement in relation the extension of time required for compliance with current search results has been issued by the Minister for Industry, Tourism and Resources.

On 1 April 2002 amendments to the Act and regulations came into effect changing the requirements relating to the filing of search results under s. 45(3). Transitional requirements made compliance compulsory by 1 January 2003 to file such results.

Implementation problems with the current search results regime have necessitated the introduction of a Bill to rectify these problems. The amendments in the Bill will replace the current search results regime so that compliance with the present regime will not be necessary.

As it is unlikely that the new search results regime will be in place by January 2003, the regulations extend the time for compliance from 1 Jan 2003 to 1 June 2003. (Item 1 of Schedule 1 amends paragraph 3.17A(2)(c) of the *Patents Regulations 1991*).