

**IN THE COURT OF APPEAL OF NEW ZEALAND**

**CA315/2011  
[2012] NZCA 314**

BETWEEN	SKIDS PROGRAMME MANAGEMENT LIMITED First Appellant
AND	SKIDS HOLDINGS LIMITED Second Appellant
AND	SAFE KIDS IN DAILY SUPERVISION LIMITED Third Appellant
AND	BARBARA WINSOME MCNEILL First Respondent
AND	MCNEILL ENTERPRISES LIMITED Second Respondent
AND	NATASHA MAY-BABETTE MCNEILL- O'KEEFFE Third Respondent
AND	AATA BAYKIDS LIMITED Fourth Respondent
AND	KIDS CHOICE LIMITED Fifth Respondent

Hearing: 23 May 2012

Court: Ellen France, Venning and Asher JJ

Counsel: M A Karam and R R Griffin for Appellants  
K M Quinn for Respondents

Judgment: 23 July 2012 at 10 am

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**JUDGMENT OF THE COURT**

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- A The appeal is allowed.**
- B The appeal against the order of \$2,000 for compensatory damages against the first and fifth respondents is dismissed. There being no cross-appeal, that order stands.**
- C We set aside the award of \$1,000 additional damages against the fifth respondent, and award \$20,000 as additional damages under s 121(2) of the Copyright Act 1994 against the fifth respondent and \$20,000 as exemplary damages against the first respondent. The total damages payable jointly and severally by the first and fifth respondents is therefore \$22,000.**
- D The issue of costs in this Court and the High Court is reserved for further submissions if necessary.**

## REASONS OF THE COURT

(Given by Asher J)

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## **Introduction**

[1] The appellants, under the name of Safe Kids in Daily Supervision Ltd (“Skids”), operate a significant New Zealand franchise whereby franchisees carry on the business of caring for children before and after school. There are 60 franchises throughout New Zealand. The respondents, Mrs Barbara McNeill, her daughter Mrs McNeill-O’Keeffe, and related companies, have been associated with Skids in various capacities including as a Skids head franchise, franchisee or associated person.

[2] The franchise arrangements between the appellants and respondents ceased around Christmas 2009. The majority of the respondents in various ways were involved in starting up a new business, Kids Choice Ltd. That company now runs an after school childcare business which the appellants say took over the franchise business and operates in competition with Skids.

[3] The appellants have obtained judgment in the High Court against the first and fifth respondents for breach of copyright and breach of confidence. The total damages awarded amounted to \$3,000.<sup>1</sup> While accepting some of Woodhouse J’s reasoning and findings on the causes of action, the appellants question significant aspects of his decision and strongly challenge the amount of damages awarded.

[4] It is necessary to summarise the background, which is fully set out in the judgment of Woodhouse J.<sup>2</sup>

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<sup>1</sup> Costs of \$55,610 were awarded against the appellants in a subsequent judgment.

<sup>2</sup> *Skids Program Management Ltd v McNeill* HC Auckland CIV-2010-404-1696, 20 April 2011.

## **Development of the franchises**

[5] The Skids franchise operation began in 1996 with an after school programme at Albany Primary School. In 2006 two of its franchisees, Mrs Dawn Engelbrecht and Mrs Beverly Parsons, acquired the equity in the Skids business and they have run it since.

[6] Skids franchisees operate on the basis of a code of conduct and a policy and procedures manual. As will be discussed later, these are significant documents, setting out in detail how children will be looked after in the Skids programmes. This standard documentation is used in applications to the Child, Youth and Family Service (CYFS) of the Ministry of Social Development for approval for the conduct of a childcare operation under a scheme called Out of School Care and Recreation Foundation (OSCAR). An OSCAR approval enables the parents whose children attend childcare to seek subsidies for fees, and for an after school operator to seek a grant from the Ministry of Social Development. Skids is New Zealand's largest provider of OSCAR services.

[7] A certain pattern has developed in relation to Skids franchisees. They generally operate at a school and provide after school care, before school care, and holiday programmes. There are master franchisees who are allocated particular areas and are expected to sell some franchises. There are standard franchisees, who are allocated to a specific primary school, and have as their territory the school's enrolment zone.

[8] On 12 December 2004 Mrs McNeill entered into a master franchise agreement with Skids. The agreement was for an initial term of five years expiring on 11 December 2009 with a right of renewal for five years. Her franchise territory was called "North Shore/Rodney" and covered the northern half of the North Shore of Auckland. There were three other master franchise areas in the greater Auckland area.

[9] When Mrs McNeill acquired the master franchise there were two Skids programmes in her area which were operated by one person. One of these was a

programme at the Northcross Community Hall known as the Pinehill programme. In 2007 the Pinehill programme moved to another location at Murrays Bay Intermediate School.

[10] In February 2005 the Pinehill programme was almost moribund. With the then-franchisor's consent, Mrs McNeill set up her daughter in that franchise. The takeover was informal and no franchise agreement was signed, although apparently a document which has not been located, was created. The agreement was between Mrs McNeill as franchisor and her daughter. In an unchallenged finding Woodhouse J stated that he was satisfied that there was no restraint of trade provision in that initial agreement.

[11] On 1 September 2006 Mrs McNeill incorporated the second respondent McNeill Enterprises Ltd. Mrs McNeill-O'Keeffe incorporated the fourth respondent Aata Baykids Ltd on that same date to run the Pinehill programme. To an extent they both conducted their respective childcare programmes through these companies.

[12] From July 2006 Mrs Engelbrecht who recently, with Mrs Parsons, had taken over Skids began pressing Mrs McNeill and Mrs McNeill-O'Keeffe for a written franchise agreement. Ultimately after some negotiations in which the appellants pushed Mrs McNeill and Mrs McNeill-O'Keeffe for documentation, a sub-franchise agreement was signed on 23 February 2007 between Mrs McNeill on behalf of McNeill Enterprises Ltd and Mrs McNeill-O'Keeffe on behalf of Aata Baykids Ltd. McNeill Enterprises Ltd is defined as the franchisor and Aata Baykids Ltd as the franchisee. Skids Programme Management Ltd is referred to as the head franchisor. A range of obligations was imposed on Aata Baykids Ltd under this agreement, including a restraint of trade provision. There was a personal guarantee section in the agreement which was signed by Mrs McNeill. It was not signed by Mrs McNeill-O'Keeffe.

### **Termination of the franchise agreements**

[13] Mrs McNeill's master franchise agreement was to expire on 11 December 2009 and Aata Baykids Ltd's sub-franchise agreement on 7 February 2010. During

2009 Skids decided not to renew Mrs McNeill's master franchise agreement. It considered her performance as a master franchisor to have been inadequate. It sent a letter on 11 August 2009 setting out Mrs McNeill's failure to comply with her obligations and advising that while the three sites she operated could continue, new direct franchise agreements would have to be entered into in respect of each site. It also stated that Mrs McNeill-O'Keeffe could continue to operate the Pinehill operation but under a new direct franchise agreement with Skids.

[14] Following some exchanges, the parties met on 2 December 2009. Although what occurred at that meeting was the subject of significant attention during the trial, it is unnecessary to dwell on the meeting as Woodhouse J's findings on this issue are not challenged. In short, the Judge found that while various proposals were discussed during the course of that meeting, no binding agreement was reached as to the long-term future of the franchise agreements between the parties. However, an interim arrangement was agreed. Mrs McNeill would work at one of the franchises until 17 December and then hand it over to Skids, and she would work at another until the end of January 2010 and then hand it over to Skids. Mrs McNeill-O'Keeffe could continue in operation at Pinehill as a direct franchisee.

[15] The Pinehill programme was operated from Murrays Bay Intermediate School. The principal of that school was strongly supportive of Mrs McNeill-O'Keeffe's operation and had a good relationship with her and Mrs McNeill. He had no desire to enter into any contract with Skids but wished to continue to use the services of Mrs McNeill-O'Keeffe and Mrs McNeill. Skids began corresponding directly with the principal objecting strongly to any proposal whereby Mrs McNeill-O'Keeffe and Mrs McNeill would commence a new programme at Murrays Bay Intermediate School independent of Skids.

[16] On 2 February 2010 a new school care programme based at Murrays Bay Intermediate School commenced in the name of Kids Choice Ltd. Mrs McNeill-O'Keeffe and Mrs McNeill were the directors of and equal shareholders in that company. Approximately 40 children who had been in the Pinehill programme in 2009 were enrolled in the Kids Choice Ltd programme in 2010. In the first school term there was a total of 54 children enrolled. The parents of children enrolled at the

end of 2009 had been advised that the Skids programme at Pinehill was coming to an end and they had been given an 0800 number to contact Skids if they had wished to do so.

[17] On 19 March 2010 these proceedings were issued and Skids sought an interim injunction against all the respondents seeking orders restraining them from operating a childcare programme at Murrays Bay Intermediate School. In a decision delivered on 14 April 2010<sup>3</sup> it was held that there was a serious question to be tried on the principal claims, but on the balance of convenience it was considered that the quantum of any loss would be limited and any potential damages award modest. Given that the respondents could well be able to pay a modest award of damages, the application was declined. Under an agreed arrangement part of the income of Kids Choice Ltd was paid into a solicitor's trust account and available in the event of there being any award of damages.

### **The decision**

[18] The hearing of the substantive case commenced on 29 November 2010 and lasted four days. Woodhouse J found that Mrs McNeill-O'Keeffe was not subject to any restraint of trade provision in the sub-franchise agreement. This decision was not challenged on appeal. Mrs McNeill-O'Keeffe had been primarily responsible for setting up the Pinehill after school care operation. So this was a significant blow to the appellants' claim.

[19] As regards the restraint of trade clause, the Judge stated at the outset that he was satisfied that the Kids Choice Ltd programme at Pinehill would have got underway under the direct and active management of Mrs McNeill-O'Keeffe irrespective of any involvement of Mrs McNeill. Mrs McNeill was involved in preparing documents required for the later operation and there were issues relating to breach of confidentiality and related claims. But that was not involvement connected to the restrictions on trade. The Judge regarded this as sufficient in itself to dispose of the restraint of trade claim against Mrs McNeill in relation to Kids Choice Ltd.

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<sup>3</sup> *Safe Kids in Daily Supervision Ltd v McNeill* [2012] 1 NZLR 714 (HC).

[20] However, the Judge went on to consider in any event whether the restraint of trade provision in relation to Mrs McNeill was enforceable. He did not consider that such restraint of trade provisions fell into the particular category of being akin to a restraint of trade on an employee, or on the vendor of a business. He concluded that the appellants had not met the onus of establishing that the restraint of trade provision was reasonable.

[21] The Judge then discussed whether, assuming that some restraint of trade was justified, the reasonable ambit of such a restraint. He considered that a three month timeframe would be a sufficient period of time to enable Skids to secure its position if it wished to do so. On the issue of breach, the Judge concluded that there were significant differences between the Skids and the Kids Choice Ltd operation. They were not in competition with each other. Therefore, liability for breach was not sufficiently made out.

[22] Finally under this head the Judge went on to consider the loss arising from any breach of the restraint of trade clause. He concluded that the available evidence indicated that there was no loss at all. Skids had no interest in taking over the Pinehill programme, and the differences between a Skids franchise and the Kids Choice Ltd programme meant that Skids was effectively not deprived of business.

[23] The Judge then turned to whether there was a breach of confidence and breach of copyright. He held that Mrs McNeill had copied large sections of Skids' documents in preparing documents for Kids Choice Ltd's application for CYFS approval in relation to the OSCAR programme. However, he did not consider that the information contained in the documents had the necessary quality of confidence to give rise to a breach of confidence claim.

[24] The Judge accepted that Mrs McNeill breached cl 7.1 in her franchise agreement prohibiting her from copying or reproducing "the manual". This would have included the Skids policy documents used to seek CYFS approval. He was also satisfied that liability for breach of copyright in relation to the copying of the Skids documents was made out.



[25] The Judge turned to the question of damages. He held that the only evidence of a quantified sum that had any bearing on the quantification of damages was that Skids charges new franchisees \$2,000 for the documents. In the absence of any other guide he assessed damages for the contractual breach and breach of copyright at \$2,000.

[26] The appellants had claimed additional damages under s 121(2) of the Copyright Act 1994 and exemplary damages. The Judge agreed that the copying by Mrs McNeill was flagrant and unwarranted. He considered that her flagrant actions were also to be considered the flagrant actions of Kids Choice Ltd. However, he was only prepared to increase the total damages payable by \$1,000 to a total of \$3,000 on this account. He was not prepared to direct that exemplary damages were also recoverable. He also ordered Kids Choice Ltd to replace the copied documents within a six week timeframe.

[27] The Judge was not prepared to hold that the enrolment information that had been acquired by Mrs McNeill-O’Keeffe as she built up the Pinehill programme was confidential information. Nor was he prepared to hold that there was any obligation on Mrs McNeill to deliver enrolment information for Pinehill to Skids.

[28] In the end the Judge gave judgment to the appellants against Mrs McNeill and Kids Choice Ltd for \$2,000 and judgment against Kids Choice Ltd for a further \$1,000. This was to be paid from the monies paid into the trust account pursuant to the interim injunction. There was an order that Kids Choice Ltd replace the documents. The claims against the second, third and fourth respondents were dismissed.

[29] Costs were awarded in a separate judgment of 28 October 2011 in favour of the respondents.<sup>4</sup> Counsel later agreed on the sum of \$55,610.<sup>5</sup>

[30] Many of the Judge’s findings were not challenged, in particular that Mrs McNeill-O’Keeffe was not bound by the restraint of trade clause, that there was

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<sup>4</sup> *Skids Program Management Ltd v McNeill* HC Auckland CIV-2010-404-1696, 28 October 2011.

<sup>5</sup> *Skids Program Management Ltd v McNeill* HC Auckland CIV-2010-404-1696, 20 December 2011 at [4].

no agreement or waiver at the December 2009 meeting, and that the Pinehill programme was essentially developed by Mrs McNeill-O’Keeffe and was the business that became Kids Choice Ltd. An agreed list of issues on appeal was submitted. While that has been helpful we do not propose following that list, and deal rather with the issues as set out in the grounds of appeal as developed in submissions. We deal with the restraint of trade issues first.

### **Restraint of trade claim against Mrs McNeill**

[31] Kids Choice Ltd from its inception in 2010 was running the new business. It was not a previous franchisee and no issue of a breach of the restraint of trade clause arose in relation to that company. The Judge found Mrs McNeill-O’Keeffe, who had been in charge of the Pinehill franchise, not to be subject to any restraint of trade clause and also that she would have got the Kids Choice Ltd business underway in any event, and these findings have not been challenged. The issue then in relation to restraint of trade is whether the first respondent Mrs McNeill as a 50 per cent shareholder in Kids Choice Ltd and involved in setting up the new business, was in breach of the restraint of trade clause in the master franchise agreement.

[32] Clause 24.2 of the master franchise agreement provided:

## **24 RESTRAINT ON COMPETITION**

...

### **24.2 Restraint upon termination**

The Franchisee covenants that it shall not for [24 months] following the expiration or termination of this agreement (or any period in renewal or extension of it) either solely or as director, manager, employee, advisor or agent or otherwise howsoever for any person or corporation directly or indirectly:

- (a) [Can’t] operate or be concerned or interested *in any business conducted in competition with the business of Skids* (or its other Franchisees) within [a 15 kilometre radius of the perimeter of each Skids franchise operation];
- (b) approach or solicit or endeavour to obtain the custom of any existing customer of Skids.

(Emphasis added.)

[33] The word “business” is defined as follows:

“Business” means the business of performing after school care of children (including the initial contracts) under franchise in accordance with the system.

[34] The Judge observed that the term “the system” was not anywhere defined, but in fact there is a definition set out in the sub-franchise agreement signed between McNeill Enterprises Ltd and Aata Baykids Ltd. It provided as follows:

**System** means the Head Franchisor’s ‘SKIDS’ franchised business system, providing *before- and after-school care, and holiday programmes*, for children, *and any other related business* which the Head Franchisor carries on now or in the future through the SKIDS brand, all as carried on by the Head Franchisor *and its franchisees using the Head Franchisor’s Intellectual Property, systems, methods and policies described in this agreement and in the Manual;*

(Emphasis added.)

[35] Although this definition of “system” refers to the business of the head franchisor, which is the franchising of sub-franchises, it also refers to the business as carried on by the franchisee using the head franchisor’s intellectual property, including its systems, methods and policies.

#### *Approach to the restraint of trade clause*

[36] Contractual provisions that constitute a restraint of trade are prima facie void and therefore unenforceable. Nevertheless, where the party seeking to enforce the restricted provision establishes that the restriction is reasonable, it may be enforced.<sup>6</sup>

[37] Woodhouse J concluded that the appellants had not met the onus on them of establishing that the provision in the case was reasonable. He referred to concessions in the evidence of Mrs Engelbrecht that there is no particular complexity to the running of an out of school care programme and that all programmes followed a similar format. There was a reasonably low barrier to entry. He accepted that the appellants had developed standard documents that were accepted by CYFS as suitable, but noted that the drafting did not require a high degree of sophistication.

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<sup>6</sup> *Blackler v New Zealand Rugby Football League (Inc)* [1968] NZLR 547 (CA) and *Brown v Brown* [1980] 1 NZLR 484 (CA), following *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co Ltd* [1894] AC 535 (HL).

He reasoned that whether restraint was justified in the circumstances would depend “in considerable measure” on whether the franchisor’s standardised documents contain information dealing with knowhow or other technical matters not widely available.

[38] The Judge could discern nothing which was passed on to Mrs McNeill by Skids that was not fully paid for by her. He noted that there were other provisions such as the confidentiality requirement which provided adequate protection for Skids. Skids would, in terms of the franchise agreement provisions relating to the lease, maintain control. This was because the leases under the franchise agreement were required to be taken in the name of Skids. The Judge was concerned that if the school was unwilling to grant a new lease, then a restraint would prevent an existing operator from running any programme and that this would not be consistent with the public interest.

[39] The programme offered by Skids and other operators provided a valuable social service and it was in the public interest that the service be readily available. This was another factor of weight. The Judge concluded that the restraint of trade provision was unenforceable.

[40] The appellants were strongly critical of this aspect of the judgment. The question which arises is whether the restraint is reasonable in the circumstances of this particular case.<sup>7</sup>

[41] This is a restraint of trade provision in the sense that it restrains a franchisee and persons associated with it from carrying out their trade. We have no doubt that in New Zealand a franchisor may, depending on the circumstances of the case, have an interest in a franchise that is properly protected by a restraint of trade provision.<sup>8</sup> What must be examined is whether the appellants in the particular master franchise agreement with Mrs McNeill had an interest which in all the circumstances was protected.

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<sup>7</sup> *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co Ltd*, above n 6, at 574.

<sup>8</sup> See *Mike Pero (New Zealand) Ltd v Exact Solutions Ltd* HC Wellington CIV-2007-442-66, 1 April 2007 at [22]; *Video Ezy International (NZ) Ltd v Cameron* (2004) 8 NZBLC 101,550 (HC); *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd* (1999) 8 TCLR 612 (HC) at [275]; and *Washworld Corporation (Leases) Ltd v Reid* (1998) 8 TCLR 372 (HC) at 385.

[42] Generally a franchise offers a trading name which may or may not have some goodwill. It may offer assistance on start-up to enable the franchisee to position its business in a way that is attracted to the market. It may offer a model of operation which is tried and tested and which attracts customers and meets their needs. It can offer documentation which will assist in the conduct of the franchise's business. It can offer systems such as accounting, staffing or marketing techniques which offer advantages. Franchisors that are involved in retail or supply can also offer specialised products, but that does not apply in this case.

*Protectable interest*

[43] It is necessary to look closely at the "franchise" arrangement to see what there was to protect. Woodhouse J did this and concluded that there was in fact nothing to protect that warranted a restraint of trade clause.

[44] There were a number of features which the Skids franchise system offered. It offered a name. Certainly by 2009 there was goodwill attached to that name, and those who had worked for Skids would have been associated by customers with that name. The use of the name "Skids" itself was protected by express contractual provisions and the tort of passing off independently of any restraint of trade, but operating under the umbrella of goodwill provided by the franchise gave a former franchisee credibility and a cache of former customers. That background goodwill accumulated by a franchisee was still of use after termination.

[45] As Mrs Engelbrecht conceded, there was a low barrier to entry in the business in terms of background expertise. However, she emphasised in her evidence the various benefits offered to franchisees. These included: a full-time dedicated franchise support person to assist in training and development; national marketing for the business including the maintenance of a website; regular conferences and meetings; an online enrolment facility; monthly training opportunities for franchisees and their staff; discounted rates for insurance; and an accounting package for new franchisees. Skids had all the OSCAR accreditation information and had worked out techniques to obtain accreditation. The fact that the former franchisee had paid a sum for the franchise benefits is not an answer, as the

payment was for the use of the franchise benefits for the duration of the franchise, but not thereafter.

[46] Skids franchisees were provided with material including an operation manual, a policy and procedures manual, onsite manuals, a pricing structure, employment documentation, enrolment documentation, and programme modules amongst other things. Materials that were provided were subject to ongoing revision. Specialised material was made available to enable franchisees to obtain CYFS accreditation. While the base material that constituted the inputs to franchise documents was widely available, the standard documents could not have been created without work and thought.

[47] It is not at all unusual for franchise systems to operate in an area which does not involve a high degree of expertise. At an interim injunction level restraint of trade clauses have been held to be enforceable in relation to video stores,<sup>9</sup> car washing,<sup>10</sup> and bookshops,<sup>11</sup> as well as mortgage brokers<sup>12</sup> and the supply and application of anti-slip products.<sup>13</sup> Some of these, in particular the video and car washing businesses, cannot be said to have a high barrier to entry in terms of expertise and knowhow. It is often the application of the knowledge and materials of the franchisor that enables a franchisee to attract custom and achieve good levels of profitability in an area where there is a great degree of potential competition because of the low threshold to entry. By making available to franchisees methods to groom the business offered to display particular attractive features and characteristics, the franchisor enables the franchisee to achieve sales that would not otherwise be possible. In particular, in an area where no particular trade or professional skills are offered, the franchise systems, by instantly conferring these benefits enable a franchisee to gain an advantage over competitors who are starting or have started from scratch.

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<sup>9</sup> *Video Ezy International (NZ) Ltd v Cameron*, above n 8.

<sup>10</sup> *Washworld Corporation (Leases) Ltd v Reid*, above n 8, at 385.

<sup>11</sup> *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd*, above n 8.

<sup>12</sup> *Mike Pero (New Zealand) Ltd v Exact Solutions Ltd*, above n 8.

<sup>13</sup> *Safety Step (New Zealand) Ltd v Safety Step Auckland Ltd* HC Auckland CP466-01, 14 September 2001.

[48] While an assiduous competitor might be able to accumulate a body of such material itself over a period, to do so would take considerable time and effort. We do not think the issue is only whether the knowhow and material is widely available. It is about the opportunity and immediate knowledge given by the franchisor to the franchisee, which equips the departing franchisee who intends to compete with an immediate significant advantage over any other start-up competitor.

[49] It is our conclusion that the provision of the franchise benefits that we have outlined gives rise to a reasonable interest on the part of the franchisor to protect its investment in its name, its business model and the systems and written materials from exploitation by franchisees immediately following the termination of a franchise agreement. Therefore, we do not agree with the assumption on the part of Woodhouse J that because the Skids franchise was not sophisticated and did not involve particular technical knowhow it could not give rise to a protectable interest.

*Public interest*

[50] The parties in their submissions argued about how the franchise situation could be compared to an employment or vendor purchaser situation in relation to restraint of trade. Woodhouse J did not find it necessary to try and categorise franchise agreements and nor do we. However, it is worth noting that in some respects the franchise situation may be more akin to that of an employment contract than to that of a vendor by purchaser contract. Unlike the position in a vendor/purchaser context where the grantor of the restraint of trade clause has received a sum of money from the grantee, the grantor of the restraint of trade clause in a franchise context has in fact paid money itself to the grantee, rather than receiving money. The grantor provides a restraint of trade clause as part of its endeavour to obtain a source of income from the franchise, just as an employee provides a restraint of trade for the opportunity to earn income from employment.

[51] We have difficulty in seeing detriment to the public interest as a reason for not enforcing the restraint of trade clause. There has been little sympathy shown to these types of sweeping public interest claims in recent decisions.<sup>14</sup> The low threshold of entry and the evidence that this area of service is competitive would indicate that the public are unlikely to be greatly deprived by having a franchisee off the market for a limited period following termination.

[52] Thus, we conclude that Skids had an interest that could be reasonably protected by a restraint of trade clause, subject to an examination of the reasonableness of its term and geographic boundary.

*Reasonableness of term and geographic boundary*

[53] The Judge did not determine whether the 15 kilometre geographical restraint was reasonable. As the Judge observed, the provision is difficult to construe. On its face it is unreasonable, extending in a 15 kilometre radius from the outside perimeter of each Skids franchise operation. Any damage caused by a new competing operation outside the area of the old franchise would be minimal. However, since the period of the constraint is over and the activities of Mrs McNeill clearly were within the former sub-franchise area, it is not necessary to determine the exact geographical parameters of reasonableness. We leave that issue with the observation that we would have thought it appropriate to modify the restraint of trade clause in terms of its geographical ambit to the franchise area, if that had been sought.

[54] We turn to whether the restraint of two years was reasonable. The Judge concluded that if the restraint was valid, no more than three months was necessary to protect the interest of Skids. We consider this period to be the minimum. It is possible that a period of six months could have been justified. Three months is the bare time that it would have been necessary for the appellants to set up a competing

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<sup>14</sup> Reference is made to the cases referred to in John Burrows, Jeremy Finn and Stephen Todd *Law of Contract in New Zealand* (4th ed, LexisNexis, Wellington, 2012) at [13.9.6]; in particular, see *Edwards v Worboys* [1984] AC 724 (CA); *Kerr v Morris* [1987] Ch 90 (CA); *Angel-Honnibal v Idameneo (No 123) Pty Ltd* [2003] NSWCA 263, (2003) 59 IPR 184; *Raukura Hauora o Tainui Trust v Arroll* [2006] ERNZ 799 (HC); and *Home Counties Dairies Ltd v Skilton* [1970] 1 WLR 526 (CA).



operation within the franchise area untrammelled by direct competition from a former franchisee. But given that particular primary school terms do not generally exceed three months and that it is likely that a new term date would fall within a protected three month period, we accept the Judge's assessment. The franchisor should be able to set up a new franchisee using existing Skids goodwill in that time.

[55] Therefore, we conclude that the Judge was wrong to find that there was no protected interest capable of supporting a restraint of trade clause. We uphold his assessment that the reasonable period was not two years but rather three months.

**Was there a breach of the restraint of trade clause?**

[56] Clause 24.2(a) of the master franchise agreement prohibited the operation of a concern or interest in a business "conducted in competition with the business of Skids".

[57] The Judge found that there was no breach of the restraint of trade clause on the part of Mrs McNeill in participating in the setting up and operation of Kids Choice Ltd. He emphasised the differences between the business of Kids Choice Ltd and other Skids franchises. The appellants argue that the Judge's consideration of these issues was overly narrow.

[58] Both the Skids business of the appellants and Kids Choice Ltd were performing the business of the after school care of children. This was the essence of the description of the term "business" in the master franchise agreement. The Pinehill Skids franchise had sat comfortably within that network for five years without any operational difficulties. Kids Choice Ltd effectively carried on that business. It may not have been identical to the majority of Skids business, but the care business was, as with Skids franchises, the after school care of children. So we see the businesses, in essence, as similar.

[59] We accept the appellants' submission that it can be expected that there will be differences in the running of individual franchise operations while they are still within the Skids group. We do not consider that differences in the operating model

are conclusive. While most franchises featured a lease of part of a school premise to Skids, this was not a requirement of the franchise. While most franchisees took their catchment from the school in which they operated, this was not a requirement and the Skids manual provided for the collection and transportation of children.

[60] The statement of claim did not contain any particulars of the breaches by Mrs McNeill of the restraint of trade or the quantum of damages claimed of \$120,183. This calculation was said to represent the value at the date of hearing of the sum that Skids would have got for the Pinehill franchise had this not been wrongly taken over by Mrs McNeill and Mrs McNeill-O’Keeffe through Kids Choice Ltd. The Judge accepted the evidence that it was Mrs McNeill-O’Keeffe who built up the Pinehill programme from 2005. When she started there were no more than four children enrolled. Mrs McNeill-O’Keeffe and her staff developed relationships with the children and their parents. Mrs McNeill’s assistance had been limited mainly to occasional help with administrative matters.

[61] The Judge did not make any findings of fact on Mrs McNeill’s involvement in the affairs of Kids Choice Ltd through the first three months of its operation, save to accept that she drafted the documents seeking CYFS certification by copying Skids documents. We consider the breach of confidentiality and related claims later in the judgment, but we record that the preparation of CYFS documents by Kids Choice Ltd was conduct in breach of cl 24.2(a) of the master franchise agreement. Mrs McNeill was being concerned and interested in a business conducted in competition with the business of Skids.

[62] There is also evidence that Mrs McNeill drafted a flyer for Kids Choice Ltd which was made available to parents. Further, while we agree with the Judge that there is no clear evidence that she was soliciting custom from the clients, she gave evidence that she fielded many calls from parents and obviously she helped in setting up the company structure, which in itself was being involved in the business of a competitor.

[63] Therefore, had Kids Choice Ltd been competing with a Pinehill franchise in what was the Aata Baykids Ltd area, the appellants’ submission that Kids Choice Ltd

was in competition with the business of Skids in breach of cl 24.2(a) would be correct. However, the evidence was to the contrary.

[64] As the Judge noted, there was no evidence of any active attempt by Skids to take over the Pinehill operation. There was no evidence of any actual or pending Skids activity in the catchment area being drawn on by Kids Choice Ltd. There was no evidence of any competition between Kids Choice Ltd and a Skids franchise in relation to any particular customer. Thus, Kids Choice Ltd was not concerned or “interested in a business conducted in competition with the business of [Skids]”.

[65] We are not prepared to construe “in competition” as meaning in “in potential competition” given the limiting nature of the restraint of trade clause. The parties have chosen a restraint of trade clause of narrower ambit than that frequently adopted. There is no prohibition on working in the area of business (after school care). The words of a clause such as this will not be construed as meaning any more than they actually say.

[66] We also do not uphold the appeal against the Judge’s finding that there was no breach of cl 24.2(b). The Judge made a finding of fact that the only clear evidence of soliciting at a time when each of the parents solicited was an existing customer of Skids was of soliciting by Mrs McNeill-O’Keeffe. The appellants challenge this on the basis that Mrs McNeill had fielded calls from prior Skids customers at the time of setting up Kids Choice Ltd, and that a number of Kids Choice Ltd students were enrolled in the Kids Choice Ltd programme prior to the expiry of the sub-franchise agreement. There was also reference to Mrs McNeill drafting the Kids Choice Ltd flyer. However, we are satisfied that there was a proper basis for the Judge reaching the factual conclusion that he did. Such evidence as there was of approaches to existing customers of Skids was of neutral actions on Mrs McNeill’s part, but no active endeavouring to obtain custom of the type referred to in cl 24.2(b). This ground of appeal does not succeed.

[67] Thus, although we have accepted that the restraint of trade clause is enforceable and if amended could be reasonable, we agree with the Judge that no breach was established. This ground of appeal fails.

## **Remedy**

[68] The Judge dealt with this issue and it was the subject of lengthy submissions by the appellants. Therefore, although the appellants have not succeeded in their appeal against the Judge's finding that there was no breach of the restraint of trade clause, we will deal with the issue.

[69] In assessing loss, two of the Judge's findings of importance were that there was no restraint on Mrs McNeill-O'Keeffe and Kids Choice Ltd when the new business was created, and that the business would have been established by Mrs McNeill-O'Keeffe in any event. We consider that both these conclusions were correct. While Mrs McNeill was supporting and helping her daughter, the evidence shows that it was Mrs McNeill-O'Keeffe who started and maintained the business that became Kids Choice Ltd. She formed the new company Kids Choice Ltd with Mrs McNeill, and Mrs McNeill undoubtedly helped her, and particularly helped her get OSCAR accreditation. But we accept the respondents' point that Mrs McNeill-O'Keeffe could have got there anyway, although it may have taken her longer.

[70] Given that the business would have been set up legitimately in any event, and the lack of any evidence of an actual opportunity lost to the appellants, it is difficult to see any basis for assessing a loss to the appellants. They were not themselves trying to franchise a competitor to Kids Choice Ltd, and they had no immediate intention of doing so.

[71] The Judge in considering this issue referred to the losses of the Pinehill programme in the previous years. The loss for 2009 was \$19,064 and for 2010, which was not a full year, a loss of \$16,368. There was no lease so therefore no certainty of tenure at the location. We agree with the Judge's assessment that there was no satisfactory evidence of the quantum of any loss by the appellants suffered as a consequence of a breach of the restraint of trade.

[72] The Judge rightly placed no weight on the evidence of Mr Andrew McKay. He had given evidence of losses based on an assumed sale price of \$50,000 and the freeze of the notional new franchisee. However, while his specific calculations

could not be criticised, the assumptions that he was asked to work off were entirely speculative. The assumption of a certain sale was unsupported by the evidence. There was no evidence that Skids suffered any actual loss as a consequence of the Pinehill programme being continued by Kids Choice Ltd. The Judge's conclusion that Skids did not see any significant value in the Pinehill programme was consistent with the evidence before him.

[73] Therefore there was no evidence on which to base an award of compensatory damages, or for an account of profits.<sup>15</sup> As no sum had been paid by the appellants for goodwill (as in a vendor/purchaser context), there was no basis for an award of restorative damages. The Judge did award the damages of \$2,000 for breach of the term relating to confidential information, and we consider this later in the judgment. That award of damages has not been cross-appealed and we record later our dismissal of the appellants' submission that it should be increased and our reservations about the award of any sum for compensatory damages. We conclude that the Judge was correct in finding no loss proven.

### **Breach of the equitable duty of confidence**

[74] The claim that there was a breach of confidence fell into two broad categories. First, it was alleged that there was misuse of what were referred to as the Skids policy or "policies" documents. Secondly, there was breach of confidence in relation to the enrolment information for the Pinehill programme.

[75] The Judge concluded that neither category had the "necessary quality of confidence" to give rise to a cause of action. This conclusion is challenged by the appellants.

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<sup>15</sup> In *Denaro Ltd v Onyx Bar & Cafe (Cambridge) Ltd* HC Hamilton CIV-2010-419-777, 7 February 2011, Allan J considered at [28] that there was no reason why the courts should not be free to award restitutionary damages for a breach of a restraint of trade clause. However, cases warranting an award of this nature will be rare. As the damages award has not been cross-appealed, we have not found it necessary to consider the availability of restitutionary damages here.

## **Did the documents have the requisite quality of confidence?**

[76] The elements of an action for breach of confidence were set out by Megarry J in his often quoted statement in *Coco v A N Clark (Engineers) Ltd*:<sup>16</sup>

... three elements are normally required if, apart from contract, a case of breach of confidence is to succeed. First, the information itself ... must “have the necessary quality of confidence about it”. Secondly, that information must have been imparted in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the detriment of the party communicating it.

[77] The Judge’s conclusion was that the claim failed at the first of these elements. The information was not of a confidential nature.

[78] The cause of action for breach of confidence, as distinct from breach of a contractual obligation or breach of a fiduciary duty, can be regarded as a sui generis equitable jurisdiction.<sup>17</sup> The court fastens the obligation of confidence on the conscience of the party and enforces it against that party.<sup>18</sup> In considering whether the information has the requisite quality of confidence it is necessary to look at the nature of the information that the appellants seek to protect.<sup>19</sup>

[79] It is not necessary for there to have been the misuse of a trade secret for the information to have the requisite quality of confidence. It was observed by Woodhouse J in *A B Consolidated Ltd v Europe Strength Food Co Pty Ltd*:<sup>20</sup>

... the mere fact that a concept is a simple one or that the individual or discrete parts of a wider process are publicly known or are used by a trade will not prevent the overall process itself or the concept as a whole from being protected. Nor is it necessary for the information to possess the character of novelty or invention that would be required in the case of a successful patent application. ... That matter is the subject of the caveat of common sense mentioned by Megarry J in the *Coco* case: that equity would be unlikely to intervene “to protect trivial tittle-tattle” ... .

[80] Information will have the requisite characteristic of confidence if it is the product of thought and work. The nature of the allegedly confidential material must

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<sup>16</sup> *Coco v A N Clark (Engineers) Ltd* [1969] RPC 41 (Ch) at 47.

<sup>17</sup> *Hunt v A* [2007] NZCA 332, [2008] 1 NZLR 368 at [73].

<sup>18</sup> *A B Consolidated Ltd v Europe Strength Food Co Pty Ltd* [1978] 2 NZLR 515 (CA) at 521.

<sup>19</sup> *Coco v A N Clark (Engineers) Ltd*, above n 16, at 47.

<sup>20</sup> At 521.

be considered. There can be various indications of confidentiality. The degree of thought and work expended to produce the material is to be considered. If the material is unique or a trade secret this may indicate that it has the quality of confidentiality. If the material has commercial value that will be an indication that it has the necessary quality of confidence. The fact that the person who has used the material would otherwise need to have done a lot of work to create it, and that work has been avoided, can be relevant. So too is the extent to which the owner has itself considered the material confidential and taken steps to preserve and guard its secrecy, and the steps, if any, taken by the user if they indicate a perception that the work is confidential.

### **The policy documents**

[81] The appellants' policies and procedure manual was prepared in 2006 and took about four months to draft. An updated version in 2009 took a further 10 days. It is a document designed to show proper policies and procedures that will gain CYFS approval. To obtain such approval the programme must meet required standards in 11 key areas. CYFS have set out their requirements. The policy and procedures manual is essentially an instruction manual as to how things should be done on a daily basis.

[82] The Judge appeared to have reservations about the time involved in preparing the policies and procedure manual and related documents. There was a 19-page CYFS booklet entitled "OSCAR Standards for Approval" and a 55-page booklet issued as a "Provider Guide to the OSCAR Standards for Approval". However, we accept the appellants' submission that a good deal of time and effort went into preparing the material, even if Mrs Engelbrecht's evidence that it would have taken four months initially and a further 10 days to update it was generous.

[83] The document is stamped "confidential" and it is stated that it is the property of Skids and cannot be copied. Access to the documents is given to individual franchisees as part of the franchise package and there is a \$2,000 documentation fee charged for them on each occasion. The manual is some 40 pages and is comprehensive and well set out. It can be readily seen that it would have taken a

considerable amount of work and thought to prepare. There is also a staff recruitment policy statement, an individual employment agreement and a code of conduct.

[84] We have no doubt that these documents in combination have the necessary characteristic of confidence. We are satisfied that they would have taken a considerable amount of thought and effort to compose. They would be valuable as a model for any person starting an after school childcare business. That this is so is indicated by the fact that Mrs McNeill, in a clandestine way, used the material while denying she was doing so. Their confidentiality was indicated by the “confidential” tag, and the \$2,000 payment that was provided for them. Therefore, we do not agree with the Judge that the information did not have the necessary quality of confidence.

### **Information**

[85] We accept entirely, however, the Judge’s assessment of the position in relation to the enrolment information. There were only approximately 40 children in the Pinehill programme in 2009. It would not be difficult to discern the identities of the children and parents who would have been already in Mrs McNeill-O’Keeffe’s mind. Indeed, the identities of the participants could have been discerned by anyone who watched the children leave the after school care group. In the circumstances we do not consider that the list of enrollees was a work involving the necessary degree of thought and work that could give rise to an obligation of confidence. Therefore, this ground of appeal is rejected.

### **Breach of confidence in relation to the policy documents**

[86] There can be no doubt that Mrs McNeill has made an unauthorised use of the information. Although she denied it initially and through the trial, ultimately it was admitted that she had copied the information in the documents. The copying was, to a considerable extent, word for word. A breach is therefore established. There can also be no doubt that Kids Choice Ltd, a company in which she had a 50 per cent shareholding, and which obtained the benefit of the breach, must be seen as a willing and knowing participant, and is also in breach of the duty.



## Damages for breach of confidence

[87] The full range of equitable and common law remedies is available for breach of confidence. We discuss this later in the judgment,<sup>21</sup> and adopt the observation of Cooke P in *Aquaculture Corporation v New Zealand Green Mussel Co Ltd*:<sup>22</sup>

There is now a line of judgments in this Court accepting that monetary compensation (which can be labelled damages) may be awarded for breach of a duty of confidence or other duty deriving historically from equity ... In some of these cases the relevant observations were arguably obiter, but we think that the point should now be taken as settled in New Zealand. Whether the obligation of confidence in a case of the present kind should be classified as purely an equitable one is debatable, but we do not think that the question matters for any purpose material to this appeal. For all purposes now material, equity and common law are mingled or merged. The practicality of the matter is that in the circumstances of the dealings between the parties the law imposes a duty of confidence. For its breach a full range of remedies should be available as appropriate, no matter whether they originated in common law, equity or statute.

[88] In the statement of claim, damages were sought for a breach of confidence in the form of an “inquiry as to damages against the first defendant”. The parties on appeal appear to have accepted that it was appropriate for the Judge to have made the order as to damages of \$2,000 on a compensatory basis for breach of a contractual term and for breach of copyright. Having found the breach of confidence cause of action was not established the Judge did not consider damages under that head but, if he had, it seems likely that he would have made the same award.

[89] The remedies available in respect of breach of confidence include an account of profits.<sup>23</sup> However, such damages will not be ordered where the result will be an arbitrary assessment of the profits derived from the breach of confidence, not based on evidence.<sup>24</sup> Alternatively the plaintiff may seek an award of compensatory damages. This turns on the value by which the rights of the plaintiff have been diminished by the defendant’s action.<sup>25</sup> The appellants have not proven profits to the

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<sup>21</sup> See [120]–[124].

<sup>22</sup> *Aquaculture Corporation v New Zealand Green Mussel Co Ltd* [1990] 3 NZLR 299 (CA) at 301, citations omitted.

<sup>23</sup> *British Markitex Ltd v Johnston* HC Christchurch CP693/88, 1 November 1991 and *Aquaculture Corporation v New Zealand Green Mussel Co Ltd (No 3)* (1986) 1 NZIPR 678 (HC).

<sup>24</sup> *Aquaculture Corporation v New Zealand Green Mussel Co Ltd (No 3)*, above n 23, at 690.

<sup>25</sup> *Talbot v General Television Corp Pty Ltd* [1980] VR 224 (SC) at 249 and *Dowson & Mason Ltd v Potter* [1986] 1 WLR 1419 (CA) at 1423.

respondents or losses to themselves capable of supporting a compensatory damages award.<sup>26</sup>

[90] We deal with the issue of exemplary damages when we conclude our examination of the other causes of action relating to the use of the policy manuals and other confidential documents.<sup>27</sup>

### **Breach of the contractual requirement of confidence and breach of copyright**

[91] Clause 16.1 of the master franchise agreement provided as follows:

#### **16. CONFIDENTIAL INFORMATION**

##### **16.1 System**

The Franchisee acknowledges that the system shall be regarded by the parties as confidential and shall remain the sole property of Skids. The Franchisee shall not during this agreement or afterwards use, divulge or communicate to any person any confidential information concerning the practice, dealings, transaction or affairs of Skids which may have been acquired by the Franchisee pursuant to the performance of its responsibilities under this agreement.

[92] The Judge found that Mrs McNeill in copying the policies and procedural manual and other documents breached that clause and breached the appellants' copyright in those documents. There was a blatant and mainly word-for-word copying. We are satisfied that this was "use" of confidential information concerning the practice, dealings and offers of Skids. It was also a breach of copyright. There was no challenge to his decision in this regard.

### **Damages for contractual breach and breach of copyright**

#### *The Judge's assessment*

[93] The Judge then went on to consider damages. He noted that there was no evidence directed to the quantum of any damages under those heads of breach of the clause as to confidentiality and copyright. He stated that it was not apparent that the

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<sup>26</sup> The award of \$2,000 is considered at [97]–[101].

<sup>27</sup> See [120]–[124].

copying had caused any loss to Skids. However, he observed that Skids charged new franchisees \$2,000 for the use of the documents as part of the set-up charge of buying a franchise. He determined that in the absence of any other guide, damages should be assessed for the contractual breach and for breach of copyright at that \$2,000 figure.

[94] He then went on to consider additional damages under s 121(2) of the Copyright Act 1994. This section provides:

**121 Provisions as to damages in infringement proceedings**

...

- (2) In proceedings for infringement of copyright, the court may, having regard to all the circumstances and in particular to—
- (a) the flagrancy of the infringement; and
  - (b) any benefit accruing to the defendant by reason of the infringement,—

award such additional damages as the justice of the case may require.

[95] He noted that the breach of confidence of the contractual provision claim was against Mrs McNeill and the breach of copyright claim was against Kids Choice Ltd. The Judge also found that the infringement was flagrant and that finding has not been the subject of a cross-appeal. The Judge assessed the extra damages that should be paid under s 121(2) of the Copyright Act by considering “the extent to which basic compensatory damages might be increased” and awarded an extra \$1,000 against Kids Choice Ltd. That award is challenged by the appellants on the basis that it is too low. The Judge did not order exemplary damages for breach of contract and had found that the claim for breach of confidence was not proved. He considered that although the flagrant actions were those of Mrs McNeill, there was no need to distinguish between her and Kids Choice Ltd and that the flagrant actions of Mrs McNeill were to be treated as the flagrant actions of Kids Choice Ltd. He also stated:<sup>28</sup>

On the other hand, the extent to which basic compensatory damages might be increased needs to be assessed by bearing in mind the rough and ready

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<sup>28</sup> At [130].

nature of the basic assessment of \$2,000, and by bearing in mind the fact that the onus of proof of the quantum of loss was on Skids.

[96] He did not separately consider a claim for exemplary damages. He noted that there could be no exemplary damages under the claim for breach of contractual duty of confidence. He observed that the point was of no practical significance because \$3,000 was the total recoverable.

*Our assessment of compensatory damages*

[97] Mrs McNeill, rather than doing the considerable amount of work needed to prepare the policy and procedures manual, or retaining a person to do it, carried out a copying process for Kids Choice Ltd that would have only taken a matter of hours. The breach saved Kids Choice Ltd a great deal of hard work and expense. It is likely that Kids Choice Ltd ended up with documents that were of better quality than Mrs McNeill could have developed.

[98] The only evidence adduced as to the profit that could be attributed to the use of the information was the payment of \$2,000 for that material at the outset of a franchise. There is no evidence showing any actual loss to the appellants arising from the breach of the confidence term and the breach of copyright, and we have already discussed that there is no evidence that the appellants were deprived of any opportunity for profit as a consequence of the respondents' actions.<sup>29</sup> They were not trying to set up a franchise that would utilise the Pinehill customers.

[99] We have some difficulty therefore with the notion that the payment of \$2,000 can be seen as reflective of the loss arising from the use after the termination of the franchise.

[100] In his reliance on the \$2,000 paid for the documents by franchisees as a basis for the award, the Judge may have had in mind s 121(2)(b), which refers to any benefit accruing to the defendant by reason of the infringement. The \$2,000 may have been seen as the value of the documents copied on the basis of notional licence

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<sup>29</sup> At [89].

fees<sup>30</sup> and therefore the benefit accruing to the respondents. The concept of awarding a notional licence fee has difficulties, given the absence of any evidence of a market for the material. We cannot therefore accept the appellants' submission that the award of \$2,000 should be increased.

[101] There being no cross-appeal, we do not interfere with the damages award of \$2,000 against Mrs McNeill for breach of the contractual duty of confidence, and against Kids Choice Ltd for breach of copyright.

*Approach to assessment of additional damages for breach of copyright under s 121*

[102] Under s 121 the court may have regard to the flagrancy of the infringement. This Court in *Wellington Newspapers Ltd v Dealers Guide Ltd*<sup>31</sup> in relation to the predecessor of s 121, s 24 of the Copyright Act 1962, observed:

The ordinary dictionary meaning of flagrant is “glaring, scandalous, or outrageous”. Flagrancy was described by Brightman J in *Ravenscroft v Herbert* [1980] RPC 193, 208 as:

“Flagrancy in my view implies the existence of scandalous conduct, deceit and such like; it includes deliberate and calculated copyright infringements.”

...

The additional damages referred to in s 24(3) are to be awarded where the Court is satisfied that the remedies otherwise provided by the section for an action brought under it do not provide effective relief. This would suggest that there may be some damage or loss suffered by a plaintiff which compensatory damages, injunction, the taking of accounts or other remedy would not assuage. It is difficult to see what is contemplated by the additional damages unless it is something in the nature of punishment to the defendant for the hurt done to the plaintiff which the conventional remedies would not provide.

[103] Somers and Greig JJ considered that the words of the section were so broad as to indicate that damages were at large and could include elements of compensation for aggravation and of punishment.<sup>32</sup> Somers J undertook an exhaustive review of the English texts and cases, and considered that they confirmed

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<sup>30</sup> It has been suggested that this was the basis for the assessment of damages in *Seager v Copydex Ltd* [1967] 2 All ER 415 (CA); see John Heydon *The Restraint of Trade Doctrine* (3rd ed, LexisNexis, Chatswood, 2008) at 109.

<sup>31</sup> *Wellington Newspapers Ltd v Dealers Guide Ltd* [1984] 2 NZLR 66 (CA) at 69.

<sup>32</sup> At 76 and 78.

this interpretation.<sup>33</sup> In that case an additional sum of damages of \$7,500 was awarded.

[104] In *Tiny Intelligence Ltd v Resport Ltd*<sup>34</sup> the Supreme Court in the course of determining that additional damages under s 121(2) could not be awarded when an account of profits was elected, considered the history of the section. The Court distinguished between “damages”, as referred to in s 120, and the additional damages referred to in s 121(2).<sup>35</sup> In considering the United Kingdom Whitford Committee Report<sup>36</sup> that led to the 1998 United Kingdom Act, the Supreme Court quoted the recommendation that the Court should be given a discretionary power to impose something equivalent to exemplary damages in cases where the existing remedies give inadequate relief. Gault J observed:<sup>37</sup>

The Committee appears to have regarded the additional damages provision in the statute current at the time, corresponding to our s 24(3) of the 1962 Act, as directed at exemplary damages. They were recommending broadening and strengthening that remedy, not the introduction of a new form of relief separate from and unconnected to damages. When the 1988 UK Act eventually was drafted it incorporated the same amendments as those subsequently made in New Zealand in 1994 and now relied on by the appellant.

*Wellington Newspapers Ltd v Dealers Guide Ltd* was referred to by the Supreme Court without being specifically endorsed or questioned.<sup>38</sup>

[105] An approach which applies exemplary damages concepts to additional damages has been taken in Australia. In *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)*<sup>39</sup> the full Federal Court of Australia awarded additional damages of AUD\$200,000 after awarding nominal compensatory damages of only AUD\$1. The Court observed that additional damages under the copyright legislation (in materially similar terms as the Copyright Act 1994) could

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<sup>33</sup> At 73–76.

<sup>34</sup> *Tiny Intelligence Ltd v Resport Ltd* [2009] NZSC 35, [2009] 2 NZLR 581.

<sup>35</sup> At [25].

<sup>36</sup> *Report of the Committee to consider the Law on Copyright and Designs*, (Cmnd 6732, 1977) at [704].

<sup>37</sup> At [30], citations omitted.

<sup>38</sup> At [25].

<sup>39</sup> *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* [2007] FCAFC 40.

be awarded on principles that correspond to those governing awards of aggravated and exemplary damages at common law.<sup>40</sup> Rares J made this observation:<sup>41</sup>

In a case like the present where precision of assessment of damage or profit is impossible but substantial, deliberate and flagrant infringement has been proved, a substantial sum of additional damages should be awarded.

[106] We conclude that s 121(2) gives the Court the power to award damages that are not linked to a compensation award, and which is to be exercised applying principles that correspond to those which govern awards of exemplary damages at common law.

[107] Section 121(2) has no stated temporal limitation in relation to what is relevant in the assessment process. It refers to the Court having regard to “all the circumstances”. The particular items of flagrancy<sup>42</sup> and benefit to the defendant<sup>43</sup> are more specific, and it is the flagrancy “of the infringement” which is referred to.

[108] In Australia, the distinction has been made between the conduct of a defendant after infringement (or after being informed that he has allegedly infringed the plaintiff’s copyright) relevant to the substantive allegations against him on the one hand, and the conduct of his defence in relation to procedural matters on the other.<sup>44</sup> However, in the process of assessing whether additional damages are warranted under s 121(2), we consider that the broad wording indicates that the flagrancy of the actual act of infringement itself is only one of the relevant factors, and all the conduct of the parties up to the time of judgment can be considered. This is consistent with the approach in *Sony Computer Entertainment v Edmunds (t/as Channel Technology)*,<sup>45</sup> where additional damages were ordered on the defendant’s post-infringement conduct in selling computer chips which infringed the plaintiff’s copyright in breach of a court order. It would be artificial to split Mrs McNeill’s attempts to conceal and deny the copying between the periods before and after the issue of proceedings. We prefer to avoid drawing such a line in a case such as this when the denials started at the outset.

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<sup>40</sup> At [45] and [113].

<sup>41</sup> At [116].

<sup>42</sup> Copyright Act 1994, s 121(2)(a).

<sup>43</sup> Above n 42, s 121(2)(b).

<sup>44</sup> *Futuretronics.com.au Pty Ltd v Graphix Labels Pty Ltd (No 2)* [2008] FCA 746 at [45].

<sup>45</sup> *Sony Computer Entertainment v Edmunds (t/as Channel Technology)* (2002) 55 IPR 429 (Ch).

[109] This approach can be seen as mirroring the principle established in defamation cases and applied in relation to exemplary damages that the conduct of the defendant right down to the time of judgment is relevant.<sup>46</sup> Aggravating or mitigating conduct prior to and following the breach of copyright can be relevant in relation to the increase or reduction of such damages.

[110] Drawing on the analogy of s 121(2) with exemplary damages, we note that Lord Devlin in *Rookes v Barnard*<sup>47</sup> observed that first it must be shown that the claimant was the victim of “punishable behaviour”, secondly that there should be moderation in awards and thirdly that the means of the parties should be considered. We bear in mind these factors in applying s 121 of the Copyright Act, in particular the need for moderation and in this case the modest nature of the business of Kids Choice Ltd. It is also relevant to consider whether any other compensation has been awarded to the claimant in criminal or regulatory proceedings, and whether there has been any criminal penalty imposed.<sup>48</sup>

[111] Against this legal background it is necessary to assess the facts of the breach of copyright.

*The facts of the breach of copyright*

[112] It was clear that there was a deliberate line for line copying of approximately 50 pages of material. That Mrs McNeill was well aware of the fact that she was in breach of her obligations in so copying the Skids material is indicated by her denials when the issue of misuse of confidential material was raised. When the controversy arose and accusations were made about Mrs McNeill and Mrs McNeill-O’Keeffe’s plans for an after school care operation in the future, Mrs McNeill in a letter stated that she could not see how their actions would affect Skids because “you have my assurance that none of your documents, systems, policies etc will be used at Murrays Bay Intermediate School”. Further, on 25 January 2010 she emailed the appellants’ solicitor stating that “we will not use any intellectual property belonging to Skids”.

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<sup>46</sup> *Praed v Graham* (1889) 24 QBD 53 (CA) and *McDermott v Wallace* [2005] 3 NZLR 661 (CA) at [102].

<sup>47</sup> *Rookes v Barnard* [1964] AC 1194 (HL) at 1227–1228.

<sup>48</sup> *McDermott v Wallace*, above n 46, at [92]–[102].



It can be assumed that at about this time, or shortly thereafter, that she actually copied the Skids policy and procedural manual material. The copied documents contained the systems and procedures that made Skids distinctive and could lead to OSCAR approval. The copying was deliberate and extensive. It was done in the face of actual knowledge that Skids was anxious about the material and that it not be copied. Given the warnings and Mrs McNeill's denials, this was a flagrant infringement.

[113] At the interim injunction stage, Mrs McNeill denied copying the documentation, presumably in the knowledge that if she conceded that she was copying, or intending to copy material there would have been an interim injunction ordered stopping her from doing so.

[114] Mrs McNeill then swore an affidavit of 9 April 2010 in which she accepted that the Skids policy and procedural manual was confidential. She asserted she had carried out a diligent search for the documentation, but that it had either been returned or shredded and that no copies were kept. She stated she did not use the copied material. In her signed brief of evidence of 25 November 2010 she repeated her claim that the documentation had been returned or shredded.

[115] During the trial Mrs McNeill was cross-examined on the point and it was put to her that she had copied the appellants' manuals. Under oath she denied doing so, stating that the similarities between the Kids Choice Ltd documents and the Skids documents were "coincidental". She said the same thing in response to a question from the Court. It was not until she had given her evidence and been excused from the witness box that a concession was made by her counsel on the closing day of the trial that there had indeed been copying of the manuals.

[116] These are aggravating factors. Mrs McNeill copied the manuals and other material in the face of her own statements expressly stating that she would not do so and did not have the material. She continued to maintain this position through the interim injunction stage and the trial. It can be assumed that the concession of copying was only made in the end because it was forced on her by the overwhelming

evidence. There could be no explanation for the exact correspondence of the words used in the material she had drafted and the Skids material.

*Quantum of the award*

[117] Given our assessment of the flagrancy and the aggravating factors, we consider the \$1,000 awarded as additional damages as too low. We have considered remitting this matter back to the High Court for a further calculation of additional damages. However, we do not consider that the extra cost involved would be fair to the parties, and have determined that we should carry out our own assessment.

[118] We have already set out our assessment of the facts relevant to a calculation of additional damages. In summary, we take into account the following considerations:

- (a) The nature of the infringement. The copying was extensive and deliberate.
- (b) The means of the parties. We take into account the modest nature of the enterprise of Kids Choice Ltd.
- (c) The conduct of the parties up to the date of judgment. We regard the initial denial and the repeated denials of copying through the interim injunction process, up to trial, and through the trial to be significant aggravating factors.
- (d) The availability of other penalties. It would appear that the only penalty that Mrs McNeill will suffer for her flagrant copying and aggravating actions will be this award of damages.
- (e) We also take into account the amount of the awards in s 121 in the cases already referred to and the amounts awarded for exemplary damages, as summarised in *McDermott v Wallace*.<sup>49</sup>

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<sup>49</sup> Above n 46.

[119] Having regard to these factors we regard an award of \$20,000 for additional damages as appropriate in this case. We see this as a moderate but distinct award which marks what we consider to be outrageous behaviour. The award is against Kids Choice Ltd. For reasons that are not clear to us there was no claim against Mrs McNeill for breach of copyright. The question of any non-compensatory damages award against her must be considered in the context of breach of confidence.

### **Exemplary damages**

[120] The appellants sought exemplary damages for breach of confidence against Mrs McNeill and Kids Choice Ltd. They failed before Woodhouse J on that cause of action, and the Judge did not consider exemplary damages. The grounds of appeal challenged the finding that there was no breach of confidence by the first and fifth respondents, and sought damages. Exemplary damages were sought in submissions, although we did not receive detailed submissions on the availability of such damages for breach of confidence from either party.

[121] The general issue of whether exemplary damages can be claimed for breach of fiduciary duty is still to be determined.<sup>50</sup> The question of whether an action for breach of confidence is to be regarded as arising purely from an equitable jurisdiction is controversial.<sup>51</sup> By a majority the New South Wales Court of Appeal has determined in *Harris v Digital Pulse Pty Ltd*<sup>52</sup> that exemplary damages are not available for breach of confidence and similar observations have been made in the United Kingdom.<sup>53</sup> Academic commentary is split on the issue.<sup>54</sup> In Canada it has been accepted in recent cases that exemplary damages are available in equity.<sup>55</sup> However, in New Zealand the position is settled. In *Aquaculture Corporation v*

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<sup>50</sup> *Paper Reclaim Ltd v Aotearoa International Ltd* [2006] 3 NZLR 188 (CA) at [184].

<sup>51</sup> See [78] and the discussion in John McGhee *Snell's Equity* (32nd ed, Sweet & Maxwell, London, 2010) at [9-002]–[9-006].

<sup>52</sup> *Harris v Digital Pulse Pty Ltd* [2003] NSWCA 10, (2003) 56 NSWLR 298.

<sup>53</sup> *Mosley v News Group Newspapers* [2008] EWHC 1777 (QB) at [235].

<sup>54</sup> See the discussion and summary in *Harris v Digital Pulse Pty Ltd*, above n 52, and in particular the decision of Mason P at 320–321.

<sup>55</sup> *M(K) v M(H)* [1992] 3 SCR 6 and the discussion of Heydon JA in *Harris v Digital Pulse Pty Ltd*, above n 52, at 395–400.

*New Zealand Green Mussel Co Ltd*,<sup>56</sup> Cooke P for the majority (Cooke P, Richardson, Bisson and Hardie Boys JJ) held that exemplary damages were available for the cause of action of breach of confidence:

There then arises the question whether they should hold the award of exemplary damages as well. Exemplary damages are awarded only insofar as compensatory damages do not adequately punish the defendant for outrageous conduct. See *Auckland City Council v Blundell* [1986] 1 NZLR 732, 738 and the cases there mentioned. The Judge's reference to his compensatory assessment as 'conservative' suggests that he might have entertained a cumulative award. If there were any doubt about jurisdiction we think that it would lie in that area. But, applying the foregoing approach as to the available range of remedies, we see no reason in principle why exemplary damages should not be awarded for actionable breach of confidence in a case where a compensatory award would not adequately reflect the gravity of the defendant's conduct.

[122] Somers J agreed that equitable compensation was a form of relief available but did not agree on the availability of exemplary damages:<sup>57</sup>

It may be that the heads, and other features, of monetary awards for breach of equitable obligation are fully equated with those applicable to awards of damages at common law. We have heard no argument about this and so far as I am aware awards of such infractions have, to date, been compensatory only. The exclusion of exemplary damages in this case can be justified either on the ground that equity and penalty are strangers or, if the equation exists, on the ground that the sum of \$1.5 million sufficiently penalises.

[123] The majority decision in *Aquaculture*, although obiter, has been widely accepted as authoritative in New Zealand both in this Court and the High Court.<sup>58</sup> It was endorsed by the Supreme Court in *Stevens v Premium Real Estate Ltd*.<sup>59</sup> While the origin of the cause of action lies in equity, we do not consider that this factor should dictate the remedies that are available. The action for breach of confidence has been seen as similar to torts that are concerned with a claimant's autonomy,<sup>60</sup> and

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<sup>56</sup> *Aquaculture Corporation v New Zealand Green Mussel Co Ltd*, above n 22, at 301.

<sup>57</sup> At 302.

<sup>58</sup> *Bottrill v A* [2001] 3 NZLR 622 (CA) at [37], overturned on appeal in *A v Bottrill* [2002] UKPC 44, [2003] 2 NZLR 721 but not on this point; *Collier v Creighton* HC Christchurch CP 13/89, 7 May 1991; *Cook v Evatt (No 2)* [1992] 1 NZLR 676 (HC) at 705–706; *Sojourner v Robb* [2006] 3 NZLR 808 (HC) at [119]; *Cash Handling Systems Ltd v Augustus Terrace Developments Ltd* (1996) 3 NZ ConvC 192,398 (HC) at 192, 433; *Bryenton v Toon* HC Rotorua CP 83/87, 6 December 1990 at 2; *Embryotech Pty Ltd v Moodie Agricultural Contractors Ltd* HC Wellington CP10/95, 4 February 1998 at 102; and *X v Attorney-General* [1997] 2 NZLR 623 (HC) at 622–623.

<sup>59</sup> *Stevens v Premium Real Estate Ltd* [2009] NZSC 15, [2009] 2 NZLR 384 at [33].

<sup>60</sup> McGhee, above n 51, at 9-006.

has been described in the United Kingdom as a tort.<sup>61</sup> New Zealand courts have adopted a flexible approach to equitable remedies.<sup>62</sup> As this case demonstrates, a breach of confidence may not give rise to any ascertainable compensatory damages or profits to the wrongdoer, but nevertheless constitute a flagrant infringement of the rights of the plaintiff which warrants a monetary award, reflecting the disapproval of the Court. We conclude that exemplary damages are available in New Zealand for breach of confidence.

[124] We have no doubt that compensatory damages and indeed restitution and account could not adequately punish the first and fifth respondents for the outrageous conduct of Mrs McNeill in deliberately copying the franchisor's material while she was protesting that she was not doing so, and then maintaining her denial for such a long period. As we have stated,<sup>63</sup> we do not consider that in assessing quantum we should restrict our consideration to only the events at the time of the copying. Her later attempts to cover up and deny the copying later are also relevant. For the reasons already given in relation to damages under s 121, we award the same sum of \$20,000 as exemplary damages for breach of confidence.

## **Conclusion**

[125] The appeal therefore is allowed. In addition to the Judge's finding that Mrs McNeill was liable for breach of a contractual duty of confidence and Kids Choice Ltd was liable for breach of copyright, we find Mrs McNeill also liable for breach of the restraint clause, and Mrs McNeill and Kids Choice Ltd liable for breach of the equitable duty of confidence.

[126] We find that the sums awarded for additional damages were too low, and there should have been an award of exemplary damages on the breach of confidence cause of action. The order of \$2,000 for compensatory damages stands. We award \$20,000 as additional damages under s 121(2) of the Copyright Act against Kids Choice Ltd, and \$20,000 as exemplary damages under the breach of confidence

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<sup>61</sup> *Campbell v MGN Ltd* [2004] UKHL 22, [2004] 2 AC 457 at [14].

<sup>62</sup> *Chirnside v Fay* [2006] NZSC 68, [2007] 1 NZLR 433 (SC) at [100].

<sup>63</sup> See [107]–[109].

cause of action against Mrs McNeill. The total damages payable by the first and fifth respondents is therefore \$22,000.

[127] It is unusual to order two different parties who are liable for damages on different causes of action to be jointly and severally liable for the damages. However, we think that such a direction is appropriate in this case, given that there was effectively one single act of wrongdoing in using the confidential material that was carried out by Mrs McNeill in her personal capacity, and by her in her capacity as a director of Kids Choice Ltd.<sup>64</sup>

[128] Therefore we propose directing that the total damages are \$22,000 to be payable jointly and severally by the first and fifth respondents. This problem would not have arisen if, as might have been expected, the breach of copyright cause of action was pleaded against both Mrs McNeill and Kids Choice Ltd. Indeed it was open to the appellants to claim that Kids Choice Ltd, as well as Mrs McNeill was liable on the breach of confidence action. But this was not the way the case was pleaded.

## **Result**

[129] The appeal is allowed.

[130] The appeal against the order of \$2,000 for compensatory damages against the first and fifth respondents is dismissed. There being no cross-appeal, that order stands.

[131] We set aside the award of \$1,000 additional damages against the fifth respondent, and award \$20,000 as additional damages under s 121(2) of the Copyright Act against the fifth respondent and \$20,000 as exemplary damages against the first respondent. For the avoidance of doubt, we record that the total judgment sum payable by the first and fifth respondents, either jointly or severally, is \$22,000.

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<sup>64</sup> See *Marlborough District Council v Altmarloch Joint Venture Ltd* [2012] NZSC 11.

[132] The issue of costs in this Court and the High Court is reserved for further submissions if necessary. If either party wishes to pursue this, the appellants should file submissions in 14 days, the respondents in a further 14 days, with the appellants' reply in a further seven days.

Solicitors:

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