

ULTRA TUNE AUSTRALIA PTY LTD v. MARSMARK AUTO PTY LTD & ORS

[2001] NSWSC 516

This decision of his Honour Bryson J., of the New South Wales Supreme Court, highlights the need to establish and secure the rights to what is becoming one of the most valuable assets of a business – information.

It is commonplace to see information now disseminated, repackaged and sold. It is flexible, electronically transportable but at the same time mercurial, unless it is contained and tagged.

Background

The plaintiff brought a motion seeking an injunction, restraining the defendants from using the contents of Customer Lists and to deliver such lists to the plaintiff.

The Customer Lists were maintained on software, which the plaintiff had left with one, Mr Sprang, the principal of Sprang & Son Pty Ltd ('Sprang'), the operator of a Ultra Tune franchise business. The first defendant had purchased Sprang's business and the terms of the contract indicated that it was understood by the parties that the business had been bought as Ultra Tune franchise.

His Honour was prepared to assume, for the purpose of determining the motion, that certain contractual provisions between the plaintiff and Sprang in the franchise documentation, had the effect that the Customer Lists were confidential between the plaintiff and Sprang. However, this assumption was made notwithstanding the striking

“absence of any reference to the Franchisor’s furnishing Customer Lists or to their compilation...”

The difficulties arose as the first defendant had not given Sprang any commitment to preserve the confidentiality of the plaintiff’s Customer Lists. Although negotiations for entering into a written franchise agreement between the plaintiff and the first defendant had been conducted over “many months”, they had never done so.

Conduct of the Defendants

There was evidence that the defendants:

- Knew the terms upon which the plaintiff was willing to make the franchise arrangements;
- Conducted the business after they took it over, in many ways as a franchisee would act, including following the plaintiff’s business systems, used the plaintiff’s name and uniforms, and paid royalties as would a franchisee.

Notwithstanding these actions, his Honour said¹:

“However they did not enter into any written or other agreement giving any commitment to protect confidentiality, in express terms or on any terms.”

In addition:

“...there is nothing in the circumstances in evidence which shows that [the defendants] either expressly or impliedly gave any commitment to preserve confidentiality.”

¹ Paragraph 3 of the Reasons for Judgment.

A Characteristic of Confidentiality is Control

From the period November 1999 to April 2001 the information contained in the Customer Lists was admixed with information of the defendants. It was a telling factor for his Honour, that for that entire period, the plaintiff failed to establish any control over the defendants in relation to the information or get any commitment from them as to the preservation of the confidentiality. The consequence was that it lost the character of confidentiality it once had.

Any argument by the plaintiff that the defendants acted unconscionably in the respect that they knew when they bought the business, that Sprang had given a commitment in relation to the Customer Lists, disappeared because the defendants had been left “uncontrolled for so long a period.”

Summary

The decision alerts those who have ears to listen. There is a need to install and maintain systems, which will preserve those assets of a business not ‘nailed’ to the ground. Intellectual property, if I may use that term in a general sense, is mercurial. As such it may slip through a crack in the floor if not identified and contained.

The plaintiff was familiar with these concepts; its branding, in my opinion, is evidence of that. However there is a need to audit and identify those elements of intellectual property which exist in a business, and which if not addressed now, may cause grief later.

Dimitri Eliades
Barrister, Brisbane
5 March 2002