Blackmagic in the Federal Court

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The Federal Court of Australia has upheld prohibitions against employees using confidential information gained in the course of their employment in Blackmagic Design Pty Ltd v Ian Overliese, Jeromy Young, Atomos Audio Pty Ltd and Clare Young (2010) 84 IPR 505. The judgment is also important as it emphasised the need for employers to be specific when creating non-competition and copyright obligations for employees under employment contracts.

FACTS

Blackmagic is a Melbourne-based company involved in the marketing and sale of computer software and hardware for television and film production and post-production. Mr Ian Overliese and Mr Jeromy Young were employees of the applicant; both resigned in April/May 2008. They held senior positions in the company in the areas of computer engineering and business development respectively.

Overliese had an oral contract with Blackmagic. Young's contract was in writing and included the following provisions:

- it required him to keep confidential all confidential information;
- it prohibited him from modifying and distributing confidential information;
- it prohibited him from competing with the company; and
- it required him to disclose to the applicant any conflicts of interest under clauses restraining competition.

Early in 2007, Overliese and Young discussed the possibility of entering into business together in the area of electronic audio products. After a series of informal discussions and plans, the pair registered a new company "Atomos Audio Pty Ltd" (the third respondent), for the purposes of the new electronics business. In subsequent months, plans for the business developed in a series of documents that were ultimately the concern of the court. This time period also coincided with a succession of professional disputes between the pair and CEO of Blackmagic, Mr Grant Petty.

The disputes between Petty and Overliese were grounded in the development of new video software. Petty wished for the company to develop an upgrade of the capabilities of their software in a manner that would increase its cost, while Overliese felt this would expose Blackmagic to losses in profits, as competing companies were offering similar software at a cheaper price. In February 2008, Overliese compiled a spreadsheet entitled "ycalc" in which he compared the costs and profits of Blackmagic's software against those of competitors, including theoretical competition from Atomos.

Evidence indicated that it was around this time that Overliese began to contemplate developing software beyond the scope of audio electronics for the purposes of Atomos. In a document entitled "marketing plan", Overliese described the comparison of costs and sale prices of all products in Blackmagic's range. Further, in an updated version of the "ycalc" spreadsheet, Overliese stated that plans for SDI (video) cards to be developed by Atomos would "blow away everything Blackmagic has". These and other documents were made available to Young via an internet-based file-sharing facility. Young strongly rebuked the idea of competing with Blackmagic upon reading the documents.

This did not stop the progress of Overliese in compiling business documents for Atomos for the purpose of developing video software. Documents tendered in evidence from March 2008 clearly indicate that Atomos was to be involved in video software. An Atomos marketing document prepared on 21 March pre-empted Overliese's resignation from Blackmagic and proclaimed that Atomos was sitting on a "goldmine" in relation to the video software market.

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Overliese resigned from Blackmagic on 29 April 2008 without indicating that the reason for his departure was dissatisfaction with the management of Petty. Following a dispute over company investments, Young resigned on 5 May 2008.

Following his resignation, Overliese placed all confidential information concerning Blackmagic stored on his home computer onto external storage devices before reformatting his computer. These storage devices were left at the residence of Young on 8 May 2008. Upon searching the work computers of Overliese and Young, Petty was alerted to the documents concerning Atomos, such as the "ycalc" spreadsheet, and the use of Blackmagic's confidential information in these documents.

The involvement of the fourth respondent, Ms Clare Young (Young's wife), is limited to a small amount of assistance she provided to Young in preparing business documents and transferring relevant information for the purposes of Atomos.

BLACKMAGIC'S CASE

Blackmagic argued that the respondents contravened the *Corporations Act 2001* (Cth) and *Trade Practices Act 1974* (Cth), infringed copyright regulations and breached their fiduciary and employment obligations to Blackmagic in terms of their use of confidential information.

Confidential information

Overliese sought to argue that the existence of confidential information concerning Blackmagic on his computer was not a misuse of this information, and was a "necessary concomitant" of the seniority of his position. This was not disputed by the court, nor was there a dispute that the commercial information found on Overliese's computer was confidential.

The key question, however, was whether Overliese used Blackmagic's confidential information for his own purposes or those of Atomos. Based on the evidence from the "yclac" spreadsheet and other documents, Jessup J concluded that this personal use had occurred. As such, his Honour found it appropriate to issue a permanent injunction restraining Overliese from using information specifically identified in this case in future.

Young, by way of being privy to the confidential information supplied by Overliese, was similarly restrained, as was Atomos. Ms Young, however, was excused from the permanent injunction as the court was satisfied that, due to the transient nature of her involvement in the development of Atomos, she did not possess any knowledge of the confidential information that could be used to the detriment of Blackmagic.

The Corporations Act

Overliese was held to be in breach of ss 182 and 183 of the *Corporations Act* – as an employee of Blackmagic he had improperly used confidential information available to him to gain an advantage for himself. The expression "improperly use" was held to be no different to the kind of impropriety found in an equitable breach of fiduciary duty. Despite finding in favour of Blackmagic that Overliese breached the *Corporations Act*, Jessup J declined to restrain him more than once since he had already done so in equity.

Young was not found to have improperly used any confidential information. The confidential information did not come to him by way of his employment with Blackmagic, rather by way of his association with Overliese. Further, the evidence suggested that Young discouraged Overliese from pursuing an arrangement in competition with Blackmagic.

An application for damages was denied on the basis that Blackmagic had not suffered any loss as a result of Overliese's actions.

Diversion of business opportunity

Jessup J rejected Blackmagic's arguments that the development of ideas by Overliese for the Atomos business in any way restricted the business potential of products manufactured by Blackmagic, as they were different in functionality.

Equitable damages

Blackmagic sought to argue that it had suffered a lost opportunity to develop some of the software ideas developed by Overliese for the purposes of Atomos, and as such Overliese was in breach of his fiduciary duty. Jessup J found this argument unconvincing, saying there is no general duty for a senior employee to disclose the details of a potentially useful idea to their employer.

Misleading conduct

Blackmagic argued that Overliese had engaged in misleading and deceptive conduct by developing software for Atomos that he had described as being unfeasible to Blackmagic. This argument was dismissed, as nothing in the evidence suggested Overliese had departed from conventional wisdom in his dealings with Blackmagic.

Copyright

His Honour was satisfied with Overliese's evidence that the copy of the confidential information made from his computer onto an external storage device was for the purpose of removing the information from his computer. His action in leaving the device at Young's residence was done in mere inadvertence. As such, he did not face liability for breaches of the *Copyright Act 1968* (Cth).

Young's employment contract

Blackmagic argued that Young was in breach of the non-compete restraints in his employment contract. It did not bring any argument in relation to the requirement of disclosure where a conflict of interest arises. The non-compete restraints in Young's contract are set out below:

> a) The Employee must not, in any capacity including on his account or as a member, shareholder, unitholder, director, partner, joint venturer, employee, trustee, beneficiary, principal, agent, adviser, contractor, consultant, manager, associate, representative or financier or in any other way or by any other means:
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> > 1) During the period specified below (Restraint Period) and in the area specified below (Restraint Area) perform the duties of a software developer – broadcast video products, participate in, be interested in, assist with or otherwise be directly or indirectly involved, engaged, concerned or interested in a business, activity or operation that is the same as, substantially similar to, or competitive with, the Company's business or any material part of it (Related Business).

His Honour noted that the reference to "software developer" was something of a misnomer, as Young never held such a position. The "restraint period" was defined as the period of Young's employment plus a maximum of 12 months. This restraint period had already passed by some years as at the date of the hearing.

Jessup J held that the contractual term "business, activity, or operation" was not sufficient to capture the "embryonic structure" of Atomos when the investigation was conducted by Petty. While "activity" or "operation" are terms of extension, they are to be read as a reference to an existing businesslike entity or undertaking of some kind. Since Atomos had not undertaken any business activity, it fell outside the scope of this definition.

Accordingly, the argument that Young breached his employment contract was dismissed.

Significance of the judgment

The decision of Jessup J to permanently restrain Overliese, Young and Atomos in this case from the use of confidential information gained during the course of their employment indicates a willingness by the court to respect the sanctity of employer's confidential information and encourage employers to pursue an injunction in circumstances where they feel their information has been misused.

Particular regard should be had to the distinction in the judgment between the possession and use of confidential information. While it was not improper for a senior employee such as Overliese to have access to and store Blackmagic's sensitive information on his personal computer, impropriety begins when this information is not used for the purposes of the company, but is used for personal or other

purposes. The finding that Overliese was in breach of the *Corporations Act* for improper use of confidential information, while Young who merely accessed the information and did not act on it was not, further emphasises this point.

His Honour's comments in rejecting the arguments of Blackmagic in relation to Young's breach of his employment contract are also of importance. Young's restraint period and title were clearly insufficient for the purposes of not only his employment, but his restraint from competition. Despite Atomos being registered as a company, this was not sufficient for it to be included in the ambit of a "business, activity, or operation" in competition with Blackmagic. Employers seeking to clarify the activities in which their employees can and cannot engage in competition with their company would be wise to exercise greater care than shown in this case in the drafting of non-competition provisions of employment contracts.