Murray Pest Management Pty Ltd v A & J Bilske Pty Ltd & Ors
[2012] NTSC 5

PARTIES:	Murray Pest Management Pty Ltd v A & J Bilske Pty Ltd Bilske Investments Pty Ltd Andrew James Bilske Jodie Marie Bilske
TITLE OF COURT:	SUPREME COURT OF THE NORTHERN TERRITORY
JURISDICTION:	SUPREME COURT OF THE TERRITORY EXERCISING TERRITORY JURISDICTION
FILE NO:	66 of 2008 (20815232)
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JUDGMENT OF:	MILDREN J

CATCHWORDS:

CONTRACTS – FRANCHISE AGREEMENT - goodwill - whether goodwill is property of the franchisee or franchisor

CONTRACTS – ILLEGAL AND VOID CONTRACTS – restraint of trade - enforceability of a restrictive covenant in a franchise agreement – justification for the restraint – whether restraint is unreasonable

CORPORATIONS – directors – whether acts of directors are acts of the company

TORTS – CONSPIRACY – lawful acts – need to prove malice

TORTS – INDUCING BREACH OF CONTRACT – elements to be proved – need to prove intention to induce breach

TRADE AND COMMERCE -- CONFIDENTIAL INFORMATION – whether confidential information is property of the franchisee or franchisor - whether information is confidential

TRADE PRACTICES – MISLEADING AND DECEPTIVE CONDUCT – reliance - causation – damage

Trade Practices Act (1974)

Federal Commissioner of Taxation v Murry (1998) 193 CLR 605; *Alcan (NT) Alumina Pty Ltd v Commissioner of Taxes* (2007) 208 FLR 159; *Commissioner of Territory Revenue v Alcan (NT) Alumina Pty Ltd* (2008) 24 NTLR 33; *Nordenfeldt v Maxim Nordenfeldt Guns and Ammunition Company Ltd [1894] AC 535*; *Peters American Delicacy Co. Ltd v Patricia's Chocolates and Candies Pty Ltd* (1947) 77 CLR 574; *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1972-1973) 133 CLR 288; *Linder v Murdock's Garage* (1950) 83 CLR 628; *BB Australia Pty Ltd v Karioi Pty Ltd* (2011) 278 ALR 105; *Mason v Provident Clothing & Supply Co Ltd* [1913] AC 724; *Wardley Australia Ltd and Anor v State of Western Australia* (1992) 109 ALR 247; *Barnes v Addey* (1874) LR 9 Ch App 244, applied

KA & C Smith Pty Ltd v Ward and Others (1998) 45 NSWLR 702; *Hamod v The State of New South Wales* (2009) NSWSC 242; *Faccenda Chicken Limited v Fowler & Ors* (1985) 6 IPR 155; *Security Storage Pty Ltd v Nielson* unrep, Supreme Court of New South Wales 25/11/1993 BC 9302338; *NP Generations Pty Ltd v Fenely* [2000] SASC 240, considered

Kall-Kwik Printing (UK) Limited v Rush [1995] F.S.R. 114; *Piercing Pagoda Inc v Hoffner et. al.* (1976) 465 Pa. 500; *Prontaprint Plc v Landon Litho Limited* [1987] F.S.R. 315, referred

REPRESENTATION:

Counsel:

Plaintiff:	R. Ross-Smith
Defendants:	M.D.A. Maurice Q.C.

Solicitors:

Plaintiff:	Pipers as agents for Fox Tucker
Defendants:	Paul Maher

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IN THE SUPREME COURT
OF THE NORTHERN TERRITORY
OF AUSTRALIA
AT DARWIN

Murray Pest Management Pty Ltd v A & J Bilske Pty Ltd & Ors
[2012] NTSC 5
No. 66 of 2008 (20815232)

BETWEEN:

MURRAY PEST MANAGEMENT PTY LTD
Plaintiff

AND:

A & J BILSKE PTY LTD
First Defendant

BILSKE INVESTMENTS PTY LTD
Second Defendant

ANDREW JAMES BILSKE
Third Defendant

JODIE MARIE BILSKE
Fourth Defendant

CORAM: MILDREN J

REASONS FOR JUDGMENT

(Delivered 17 January 2012)

Background Facts

[1] Prior to 2001, a company called Murray Pest & Weed Control (SA) Pty Ltd (Murray's) carried on a pest control business, and employed the third defendant Andrew James Bilske (Andrew Bilske) as a commercial pest technician. In 1984, Murray's established a branch of its business in

Katherine in the Northern Territory. This part of the business was operated through its subsidiary Murray Pest and Weed Control (NT) Pty Ltd (Murray's NT).

[2] In 1998, Andrew Bilske and his wife Jodie Bilske, who is the fourth defendant, moved to Katherine. They caused the first defendant (A & J Bilske) to be incorporated. They were at all times the sole directors and shareholders of A & J Bilske.

[3] In September 1998, Murray's NT entered into subcontract with A & J Bilske for the latter to operate the Murray's Katherine branch.

[4] In 2001 and 2002, Murray's changed the structure of its operations to franchised branches. The franchised system which it established provides for pest and weed control services and ongoing property inspection and maintenance. Murray's licensed (and still licences) the franchised system to the plaintiff.

[5] By an agreement dated 14 September 2002 between the plaintiff and A & J Bilske, the plaintiff granted a sublicence to A & J Bilske to exploit the franchised system commercially for a term commencing on 1 October 2002 and expiring on 30 September 2007, within an area delineated on a map attached to one of the schedules to the agreement (the territory). The territory covered a large area of the Northern Territory including the towns of Pine Creek, Katherine, Timber Creek, Mataranka, Larrima, Top Springs, Dagaragu and Roper Bar. The map is not scaled and the total area covered

by the territory is not disclosed, but it plainly covers a very large area, in all probably many thousands of square kilometres, of the Northern Territory. The area is sparsely populated – only Katherine is a town of any size.

[6] The essential feature of the franchise system included the ability of A & J Bilske to use the business name "Murray Pest Control (Katherine)", the Murray Pest Control logo, to use Murray's distinctive colour schemes and uniforms, to access and use "confidential information" (a defined term under the agreement), to access and use a Business Manual and computer software system provided to A & J Bilske, as well as other matters.

[7] The terms of the contract are very extensive and detailed. It will become necessary to discuss some of those terms in more detail later. At this stage it is sufficient to note that A & J Bilske contracted to pay a one-off franchise fee of $40,000, a franchise service fee of 15% of gross sales revenue and an advertising levy of 2.5% of gross sales revenue (which excluded GST in both cases).

[8] Mr and Mrs Bilske lived on a five acre rural block about five kilometres from the centre of Katherine and operated the business from their home.

[9] Under clause A10 of the agreement, A & J Bilske had an option to renew the agreement by giving written notice to the plaintiff no more than six months and no less than three months before the end of the existing period of the agreement, which in this case meant not later than 30 June 2007. It is common ground that no such notice was given, the contract terminated on 30

September 2007, subject to certain clauses, which despite termination, continued to apply under clause 123, and there were obligations to settle accounts, to cease using the franchise system and the business name, and to return to the plaintiff its property, as provided for by clause 122.

[10] In addition, the agreement contained restrictive covenants in clauses 102 to 106 of the agreement which continued to apply after termination. It will become necessary to consider these provisions in more detail later, but essentially the effect of clauses 102 and 103 was to restrain A & J Bilske from having an interest in a similar business either within the territory, or the franchised area of another of the franchiser's franchisees, or within a radius of five kilometres from the nearest point of any of those areas, during the agreement, and for two years, one year or six months after the agreement was terminated.

[11] Prior to termination, correspondence ensued between Murray's and A & J Bilske concerning issues which had arisen relating to the franchise. By letter of 26 June 2007, A & J Bilske indicated that it was not happy with the current agreement and would like to negotiate more reasonable terms. An offer was made to continue on a reduced service fee percentage and advertising levy. By letter of 1 July 2007 Murray's Franchise Manager, Mr Tynski, indicated to A & J Bilske that this offer was not acceptable, and pointed out the options open to A & J Bilske which included renewal of the Franchise Agreement, selling the business or walking away from it. By letter dated 16 September 2007, A & J Bilske advised that it would not be

renewing the agreement, but would be taking steps towards a career change "such as civil contract work and an art and design business....until this can be achieved we plan to operate a scaled down pest control business throughout the Katherine region and would be happy to service contracts held by Murray's head office if necessary". This resulted in a solicitor's letter from the solicitors for the plaintiff, pointing out in some detail the obligations of A & J Bilske under the contract at the time of, and following termination.

[12] In the meantime, on 1 August 2007, Mr and Mrs Bilske incorporated a new company in the Northern Territory, the second defendant, Bilske Investments Pty Ltd (Bilske Investments). Mr and Mrs Bilske were at all material times its only directors. In or about the same time, Bilske Investments registered the business name Aust Outback Pest Co. In short, the evidence is that Bilske Investments carried on a pest control business, largely in the territory, from and after 1 October 2007. In doing so, Bilske Investments advertised its business in the local newspaper, the *Katherine Times*, of 17 October 2007, and on 16 October 2007, canvassed a number of businesses by email, some of which were former customers of the franchise business.

[13] It will be necessary to deal with the evidence in more detail later, but the plaintiff asserts that the Bilskes incorporated Bilske Investments so that it could take over the pest control operations of A & J Bilske, with the intention of avoiding A & J Bilske's obligations under the agreement. This

is pleaded in paragraph 54 of the Amended Statement of Claim as "the new company strategy". It is further contended that each of the defendants participated in the new company strategy in various ways, and in doing so their intention in agreeing and implementing it was to injure the plaintiff.

[14] The actions against A & J Bilske are brought in various ways including:

(1) damages for alleged breaches of contract by A & J Bilske;

(2) damages for misleading and deceptive conduct under the provisions of the *Trade Practices Act* by A & J Bilske;

(3) damages in tort for conspiracy;

(4) damages in equity; and

(5) consequential relief and declarations are also sought.

[15] The action against Bilske Investments Pty Ltd is for:

(1) damages for misleading and deceptive conduct under the *Trade Practices Act*;

(2) damages for conspiracy;

(3) damages for interference with the contractual rights of the plaintiff;

(4) equitable damages;

(5) an account; and

(6) declaratory and injunctive relief.

[16] The action again Mr and Mrs Bilske is for:

(1) damages for misleading and deceptive conduct under the *Trade Practices Act*;

(2) damages for conspiracy;

(3) equitable damages;

(4) an account; and

(5) declaratory and injunctive relief.

[17] The Statement of Claim also pleaded causes of action against the Bilskes as guarantors of A & J Bilske; and a claim for an alleged breach of fiduciary duty by A & J Bilske and against the Bilskes for knowingly assisting A & J Bilske to breach its fiduciary duty to the plaintiff. These claims were abandoned by counsel for the plaintiff at the commencement of the trial.

Claim against A & J Bilske in contract

[18] The claim for breach of contract as pleaded asserts that A & J Bilske participated in the "new company strategy" (see paragraph 64A of the Amended Statement of Claim). The first question is whether there is evidence to support that contention. Neither side addressed this question head-on. To the extent that there is evidence of a new company strategy, the evidence indicates that the implementation of any such strategy, and the

planning of it, was done by Mr and Mrs Bilske. Not every act of a company director is the act of that company. In order for A & J Bilske to be bound by the acts of its directors, it must be shown that the directors were acting, or purporting to act as agents for the company, or, perhaps, purporting to act in the interests of the company. There is nothing to show that Mr and Mrs Bilske did anything in any positive way in their capacities as directors of A & J Bilske until after the Franchise Agreement terminated on 30 September 2007. Up until then, the activities of Mr and Mrs Bilske in forming Bilske Investments were acts done in their individual capacities. Thereafter, the actions of Mr and Mrs Bilske, in registering the business name Aust Outback Pest Co., in advertising the new business in the *Katherine Times*, and canvassing customers by email, were plainly done to further the interests of, and as agents for, Bilske Investments.

[19] Paragraph 54A.1 of the Amended Statement of Claim provides particulars of how A & J Bilske "participated in and implemented the new company strategy". It is necessary to discuss these matters individually. First it is alleged that A & J Bilske 'terminated' the Franchise Agreement, "and ceased to conduct the pest control business previously maintained under that Agreement". In fact, the Franchise Agreement came to an end, or terminated, only because the option to renew was not exercised by A & J Bilske. It is common ground that after 30 September 2007 A & J Bilske did not conduct the pest control business "previously maintained under that

Agreement". The evidence is that A & J Bilske ceased trading on or before that date. There is no evidence to the contrary.

[20] Secondly, Paragraph 54A.1 alleges that A & J Bilske allowed and assisted Bilske Investments to "take over its pest control business". A & J Bilske, by ceasing to operate its business, created a vacuum which enabled Bilske Investments to establish itself in the industry. It did nothing to stop Bilske Investments from operating a pest control business. The assistance it gave directly was to hire its vehicles and plant and equipment to Bilske Investments for a period of nine months commencing from 1st October 2007 for a monthly hire of $6,000, plus GST. Subsequently in June 2008 A & J Bilske agreed to sell its net assets to Bilske Investments on 1 July 2008, "once financial statements have been prepared", payment to be made "by a loan repayable at call, and that no interest is payable unless otherwise agreed". The sale was eventually formalised at directors' meetings of both companies held on 10 February 2009. The "net assets" in fact amounted to a liability or debt owed to Bilske Investments by A & J Bilske of $74,204.09. This was treated as a loan repayable at call, without interest. In addition, Bilske Investments hired the former staff of A & J Bilske, and honoured the warranties given by A & J Bilske to its customers for its services. The staff of Bilske Investments included Mr and Mrs Bilske. Mr Bilske was employed as a pest controller. Mrs Bilske attended to the accounts, did office work, and gave some quotes. The business of Bilske Investments operated from Mr and Mrs Bilske's home.

[21] There is no evidence that Bilske Investments continued to use Murray's distinctive colour schemes, uniforms or the Murray Pest Control logo. Mrs Bilske's evidence was that Bilske Investments used its own uniforms and logo.

[22] So far as the computer software system provided by the plaintiff is concerned, the evidence is that a software program called SERVICEPRO was purchased by A & J Bilske from the plaintiff at the commencement of the franchise period. A & J Bilske also used a computer program, "MYOB", which it purchased from another source. The SERVICEPRO program recorded the names, addresses and other contact details of clients, the services provided to each client, the sales generated to each client, and information concerning renewals of services. The program was also used to produce monthly reports of each customer by name and the charge for the service. These reports were provided to the plaintiff to enable it to invoice A & J Bilske for the franchise fees. The SERVICEPRO program could be used to generate customer lists, but it was not used for this purpose.

[23] So far as the MYOB program is concerned, Mrs Bilske's evidence was that it recorded gross income received as a lump sum, and all expenses incurred by the business. It was not possible to identify individual client records from its program. So far as the computer itself is concerned, there is no evidence that this was provided by the plaintiff or was the plaintiff's property. So far as invoices were concerned, these were generated manually using Murray Pest Control's numbered invoice pads.

[24] Mrs Bilske's evidence was that the SERVICEPRO program was not used by Bilske Investments after 30 September 2007, except for the purpose of providing information to the defendants' solicitors for the purposes of this case. There is no direct evidence to the contrary, although the plaintiff maintains that I should infer that this program must have been accessed to solicit business for Bilske Investments.

[25] Paragraph 54A.3 of the Amended Statement of Claim alleges that A & J Bilske participated in the "new company strategy" by "allowing and assisting Bilske Investment to use the plaintiff's confidential information".

[26] Clause 101 of the Franchise Agreement provided that:

> "The franchisee must not use any of the franchisor's confidential information except for the purpose of this agreement".

This clause continued to apply after termination of the agreement (see clause 123). "Confidential information" is defined by agreement, which provides that

> "confidential information means information in relation to the *person's, or a related body corporate's:
>
> 1. Business, operations or strategies;
> 2. Intellectual or other property; or
> 3. Actual or prospective customers, suppliers or competitors.
>
> The information must be any one of the following:
>
> 1. Confidential in fact;
> 2. Reasonably regarded by the *person as confidential;
> 3. Information that a written notice from the *person to the other *person states is confidential.

Information is not confidential if:

1. It is in the public domain, unless it came into the public domain by a breach of confidentiality;
2. It is already known by the other person at the time this agreement is entered into; or
3. It is obtained lawfully from a third party without any breach of confidentiality".

[27] The asterisk next to the word "person" is to indicate that the word "person" is a defined term. That word is defined by the Agreement:

Person: includes a partnership, trust or other entity which is not a legal person.

[28] There is a tension between clause 101, which refers to the "franchisor's confidential information" and the definition of "confidential information, which refers to a "person". It is, perhaps, strange that the word "person" is used rather than "franchisor" in the definition of "confidential information". However, as at the date of the contract, the definition must have contemplated information in relation to the franchisor's actual or prospective customers, because at that stage, the business belonged to Murray's NT which was a company 'related to' the plaintiff. However, taking the client list as an example, for that to be "confidential information", the list must (1) as at the date of termination remain "information relating to ....[the plaintiff's] actual or prospective customers".... and (2) meet the second criteria of the definition of being "confidential in fact..... or etc".

[29] Mr Maurice QC submitted that the names of the customers did not fall into the definition of "confidential information". There was no evidence that the

plaintiff ever suggested to the Bilskes that they must keep the names of the customers of the business confidential. He submitted that, because the franchise business was operated in a public way, with its vehicles emblazoned with Murray's Pest Control signage and logos, and the technicians wore Murray's Pest Control uniforms, it would have been obvious to everyone who Murray's Pest Control's customers were.

[30] Mr Maurice referred to clause 57 of the Agreement, which provides that:

> "The franchisee must conduct the business as an independent proprietor under the business name at his or her sole risk and expense and not as a representative, agent, proprietor, joint venturer, or employee of the franchisor save in the discharge of licensors warranties under clause 56 or the performance of Multi-Territory contracts under clause 73.

[31] He submitted that clause 57 clearly indicated that the business being operated by A & Bilske was its business, and not the plaintiff's. Therefore it was put that the names of its customers were not "confidential information" within the meaning of the definition clause.

[32] Mr Ross-Smith submitted that the business was the plaintiff's business. The express clauses of the Franchise Agreement were relied upon to demonstrate that the plaintiff owned "the customers, the database and the goodwill of the business at the end of the franchise term". It was submitted that clause 2 of the agreement established that the nature of the relationship was the grant of a sub-licence to exploit the franchise system. It was not "the sale and purchase of customers" or a business. When Mr Ross-Smith referred to owning customers, I presume he used this as a short hard expression to refer

to information concerning the identity of Murray's customers in the territory, such as customer lists. A franchise fee, not a purchase price, was payable together with the franchise service fees and advertising levies. I accept that the plaintiff did not sell its business to A & J Bilske.

[33] Mr Ross-Smith referred to clause 91 of the agreement:

> "91. The licensor retains ownership of the goodwill attaching to the franchised system, including goodwill developed by the franchised system's use *in the business of the franchisee*". (emphasis mine)

[34] The last words of clause 91 seem to me to reinforce Mr Maurice's contention that "the business" was the business of A & J Bilske.

[35] The nature of goodwill has been authoratively discussed many times. The leading case in this country is *Federal Commissioner of Taxation v Murry*[1], discussed at some length by myself in *Alcan (NT) Alumina Pty Ltd v Commissioner of Taxes*[2] and by the Court of Appeal in *Commissioner of Territory Revenue v Alcan (NT) Alumina Pty Ltd*[3]. The essential quality of goodwill is that it has no independent existence apart from the business to which it attaches. In *Federal Commissioner of Taxation v Murry*, it was said[4]:

> "Goodwill is inseparable from the conduct of a business. It may derive from identifiable assets of a business, but it is an indivisible item of property, and it is an asset that is legally distinct from the sources – including other assets of the business – that have created the goodwill.

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[1] (1998) 193 CLR 605.
[2] (2007) 208 FLR 159 at 185-183 paras [102] – [121].
[3] (2008) 24 NTLR 33 at 60062; paras [80] – [83]; 68-70 paras [112] – [120]; and at 74-76, paras [136] –[143]. Although an appeal to the High Court was successful, the High Court did not deal with the issue of goodwill.
[4] at pps 608-609, paras [4] per Gaudron, McHugh, Gummow and Hayne JJ.

> Because that is so, goodwill does not inhere in the identifiable assets of a business, and the sale of an asset which is a source of goodwill, separate from the business itself, does not involve any disposition of the goodwill of the business".

That is not to say that in the context of a restrictive covenant, the plaintiff does not have a sufficient interest in the goodwill of the business of the franchisee to warrant protection by a valid covenant in restraint of trade.

[36] Obviously "the business of the franchisee" is capable of generating goodwill, because it is a business. Similarly, the business of the plaintiff is also capable of generating goodwill. Is the "franchised system" a business, or is it merely a collection of the assets of a business? Mr Maurice QC submitted that goodwill attached to the business of A & J Bilske; it could not be owned by the plaintiff. No submission was made by Mr Maurice QC about whether or not the "franchised system" was a business in itself, although that proposition was contended for by counsel for the plaintiff, who throughout, referred to the franchised system as the plaintiff's business.

[37] Mr Ross-Smith's submission was that "the business" was the plaintiff's, and that all A & J Bilske had was a custodial role over the business. At the end of the franchise period, A & J Bilske was required to return "the business" to the plaintiff, although it could keep the assets of the business which it owned such as motor vehicles and plant and equipment. He pointed to the following obligations contained in the agreement:

(a) Clause 91:

"The licensor retains ownership of the goodwill attaching to the franchised system, including goodwill developed by the franchised system's use in the business of the franchisee".

(b) Clause 92:

"The franchisee must not directly or individually assert any interest, either in the licensor or a third party, in any of the licensor's intellectual property or goodwill".

(c) Clause 93:

"The franchisee must not do or fail to do anything, or allow another person to do or fail to do anything, that may detract from the licensor's intellectual property or the licensor's goodwill or cause confusion between the intellectual property and the intellectual property of some other person.

(d) Clause 122:

"If this agreement ends or is terminated, the franchisee must settle accounts with the franchisor, any *related entity, and the franchisee's business creditors within 1 week. The franchisee must also do each of the following:

- Cease using the franchised system and the *image, including *marks and *confidential information.

- Cease using the business name and forthwith execute and deliver to the franchisor a transfer of the business name to the franchisor or its nominee or a notice of cessation of such business name.

- Return to the franchisor all of its property that is in the possession or under the control of the franchisee, including the *business manual, business records (whether in hard copy or electronic form) and any customer lists.

- Immediately transfer to the franchisor any telephone and fax numbers, (including mobile phone numbers), email addresses and other published listings that are connected with the business or the franchised system.

- Hand over any customer warranty documents held by the franchisee".

[38] In addition, Mr Ross-Smith referred to a number of other clauses in the agreement which, he submitted, advanced his case. I will not refer to them all, but it seems to me that clauses 53, 54, and 61-63 do add something but not much, to Mr Ross-Smith's submission.

[39] I was referred to *Kall-Kwik Printing (UK) Limited v Rush*[5], a decision of Cooke J sitting in the Chancery Division. The Franchise Agreement in that case contained clauses very similar to the clauses in this agreement. The case principally involved an alleged breach of covenant in restraint of trade, and the question of the reasonableness of the restraint of trade clause in the context of an application for an interlocutory injunction. Cooke J said, (obiter)[6]:

> "One way perhaps of looking at a franchise agreement is that this is a form of lease of goodwill for a term of years, with an obligation on the tenant, as it were, to restrain from the subject matter of the lease at the end of the lease in whatever state it is".

[40] I do not accept that a franchise agreement is a lease of goodwill, because goodwill cannot exist separately from the business to which it is attached.

[41] I was referred to a decision of the Supreme Court of Pennsylvania in *Piercing Pagoda Inc v Hoffner et. al*[7]. In that case, the Court was considering the enforceability of a restrictive covenant designed to prevent a franchisee from competing within a particular area for a certain time. The appellants contended that the covenant was invalid and unenforceable. The

[5] [1996] F.S.R. 114.
[6] at 119.
[7] 465 Pa. 500 (1976).

law in Pennsylvania was that such a restrictive covenant was not enforceable when it related to either the sale of goodwill or other subject property or to a contract of employment. It was contended that the business interest transferred to the franchisee was not the type of covenant capable of being protected. The majority of the Court held that an existing franchise was "a legitimate business interest" and therefore protectable. The decision is not very helpful because it relied on concepts which did not involve an analysis of the nature of franchise agreements generally, except that the majority observed that what the franchisor had to sell was the franchise itself.

[42] *KA & C Smith Pty Ltd v Ward and Others*[8] is another case dealing with the enforceability of a restrictive covenant in a franchise agreement, to which I was referred and is also not strictly on point. Nevertheless there are some useful observations by Austin J. His Honour referred to the plaintiff in that case as having "carried on the business as the franchisor of a franchise net..."[9]. Further his Honour said[10]:

> "...To assess the reasonableness of the restraint clause, it is necessary to identify the legitimate interests which the clause seeks to protect. This is not a case where the purchaser of a business seeks to protect the goodwill which it has acquired by restraining the vendor from competing; nor is it a case where an employer seeks to protect its confidential information by restraining a former employee from working for a competitor. A franchise agreement has some of the elements of both of these cases, although it is a commercial arrangement closer to the former than the latter: *Prontaprint Plc v Landon Litho Ltd [1987]*FSR 315 at 324; *Stokely-Van Camp Inc v New Generation Beverages Pty Ltd* (1998) 44 NSWLR 607 at 613. In my opinion, the

[8] (1998) 45 NSWLR 702.
[9] at p705.
[10] at p722.

> franchisor has an interest at stake which is analogous to the purchaser's goodwill. It has an interest in protecting the patronage built up through the operation of the franchise, which may be lost if the franchisee is permitted to compete without restriction. The franchisor also has an interest in preserving the confidentiality of confidential information provided to the franchisee, which could be used by the franchisee to compete with the franchisor if there were no restraint. However, the franchisee has an interest in protecting the goodwill of its business. The customers are customers of the franchisee's business, though the franchisor also has an "interest" in the customers since they are attracted to the business as a franchise business. The question is whether the restraint clause in the second Franchise Agreement is too wide, given the nature of the franchisor's interest and the need to balance the interests of franchisor and franchisee".

[43] I was also referred to the observations of Whitford J in *Prontaprint plc v Landon Litho Limited*[11], another case involving an interlocutory injunction to enforce a restraint of trade clause contained in a franchising agreement. After observing that the success of the business had been achieved by the use of the franchisor's name, the use of information originally given to the franchisee etc, his Honour said:

> "It cannot really be suggested that this business which has ultimately proved successful is not,.....a business which can effectively be regarded as being the business of the licensees, in relation to which it is not open to the plaintiffs [the franchisors] to claim an interest....so that at the expiry of [the term of the agreement] there is nothing in which they effectively have an interest which requires protection".

[44] In my opinion, whether or not the "business" is the plaintiff's business, the business of A & J Bilske, or whether there are two separate businesses, must turn on the facts of the case, and on the terms of the agreement. Similarly, whether or not the franchise system is a business in itself or is a bundle of rights must turn on the facts.

[11] [1987] F.S.R 315.

[45] The plaintiff, in my opinion was in the business of a sub-franchisor of a sub-franchisee network. The former business which operated in Katherine was not the plaintiff's business. It belonged to Murrays' NT, which in turn was owned by Murrays. Murrays' licensed the franchise systems to the plaintiff. There is no evidence that the plaintiff acquired the former business itself. Consistently with these facts, the Franchise Agreement does not refer to franchising the plaintiff's business or a part of the business but rather the franchise system. There is no suggestion that the business is leased to A & J Bilske, assuming that this is possible. On the other hand, the name "Murrays Pest Control" carried with it considerable value. The right to use that name, or a similar name such as Murrays Pest Control (Katherine) was a valuable asset, essential to the successful operation of the business of A & J Bilske, as were the other rights conferred by the agreement. The franchise system was itself part of the plaintiff's business, because that is what it was capable of sub-licensing. The business which A & J Bilske operated was its business, and the sub-license was an important asset of that business. I agree with Mr Maurice QC that clause 57 expressly acknowledges that the business which A & J Bilske operated, was its business. That conclusion is reinforced by clause 91 which specifically refers to "the business of the franchisee". Therefore, in my opinion there were two separate businesses. The clear intent of the franchisee agreement is to return to the plaintiff the assets which it effectively leased to A & J Bilske when the agreement terminated, and to strip A & J Bilske of

the means to carry on business in competition with another entity which may take up the franchise in the franchised area, by requiring A & J Bilske to transfer its telephone numbers, business records, customer lists, fax numbers and email addresses to the plaintiff. Except to the extent that assets were not essential to the plaintiff's business interests, the purpose of these provisions was to strip A & J Bilske of those of its valuable assets which would enable it to remain in the pest control business. The result was to ensure that any "goodwill" attached to the name "Murrays Pest Control" was returned to the plaintiff, and to strip A & J Bilske of any goodwill it had generated whilst operating its pest control business. However this does not mean that the plaintiff "owned the customers". In my opinion, nobody can own customers. Customers are free to go where they like. What the plaintiff was contractually entitled to receive back was "any customer lists" under clause 122. There is no evidence that A & J Bilske kept any customer lists at any time, except in so far as a list of customers could have been generated from the plaintiff's SERVICEPRO software. That software, (and any electronic form of the information contained on the software, to the extent that they formed part of A & J Bilske's business records) were required by clause 122 to be returned to the plaintiff.

[46] Was the information on the software concerning the customers "confidential information"? Mr Ross-Smith submitted that the information was "confidential in fact" within the meaning of the definition because the Bilskes knew that it was confidential and on their own evidence, attempted

to avoid breaching the confidence by seeking legal advice, and by the methods used to solicit former customers. Both Mr & Mrs Bilske said that they were aware that the customer lists could not be used for their own benefit or that of Bilske Investments. The agreement specifically provides for the return of any customer lists. I think that the inference is that the customer lists were confidential in fact.

[47] However, I find that the email which was sent out by Mrs Bilske, which was addressed to a number of organisations many of whom were former customers of A & J Bilske was not generated from a customer list. Mrs Bilske's evidence was that she relied upon a search of the yellow pages in the Katherine Business Directory, websites, business searches, and her own knowledge of likely future customers for Bilske Investments. Some were personal friends. Many had not previously been customers of A & J Bilske. A copy of the directory was exhibited to Mrs Bilske's affidavit, which she deposed was marked by her when the email or brochure was sent or mailed. Not all of the entries marked have an email address, but it would not have been difficult to find an email address. I infer that she was advised not to use the customer list. There is no evidence to the contrary. I accept her evidence. In any event, whatever she did was not done as the act of A & J Bilske, but done on behalf of her husband and herself, and on behalf of Bilske Investments. I am unable to find that this amounted to a breach of the Franchise Agreement by A & J Bilske.

[48] Another item of "confidential information" was the "Murray Pest Control Operations Manual Katherine". This is a very detailed document which deals with a wide variety of organisational matters, codes of safe practice and other legislative requirements relating to pest control (which refer to South Australian legislation rather than the relevant Northern Territory legislation) and methods of detection and treatment of various pests. It is clearly marked "Strictly Confidential" and I have no difficulty in finding that it is "confidential information" within the meaning of the agreement, except to the extent that the information was already in the public domain, or was known already by A & J Bilske prior to the date of the agreement. Obviously the provisions of such documents as the South Australian Health Commission Termites (Safe Use) Code of Practice and the Controlled Substances (Pesticide) Regulations, 1988 (SA) which are reproduced in the Operations Manual are in the public domain and could not be "confidential information" even if by some means they were relevant to a pesticide business in Katherine, which I doubt. So far as Mr Bilske is concerned, his evidence was that he completed his initial Pest Control Certificate Course needed to obtain a pest control licence prior to 1998 at his own expense and during a period of annual leave. In any event, as Mr Maurice QC pointed out, there are many different companies and organisations in the pest control business, and there is nothing to show that the plaintiff's methods of treatment were not in the public arena. Certainly this was not asserted by the plaintiff. Mr Bilske's evidence was that the plaintiff's methods were not

appropriate for the Northern Territory's climate conditions. He said that he did not use the plaintiff's methods, even during the franchise period, for this reason. Nor did he use the plaintiff's price-lists which he said were "way above those which the market would bear in the Northern Territory". Mr Bilske was not cross-examined on this aspect of his evidence. There is no evidence to the contrary. So far as the Operations Manual is concerned, the evidence of Mr Bilske was that this document was returned to the plaintiff along with a number of other records by no later than 10 October 2007.

[49] I am not satisfied that it has been proved that the Operations Manual was provided to or was used by Bilske Investments. The best that the plaintiff was able to identify as a possible breach of contract is that the manual and the SERVICEPRO disc were returned 10 days late, or thereabouts. Clause 122 of the agreement does not specify any time by which these documents must be returned, but clause 130 makes time of the essence of the contract so far as the franchisee's obligations are concerned. The late return of the manual and the SERVICEPRO disc were not pleaded as breaches of contract in respect of which the plaintiff sought damages

[50] The final matter pleaded as evidencing that A & J Bilske participated in the new company strategy is contained in paragraph 54A.4 of the Amended Statement of Claim. The allegation made is that A & J Bilske kept secret from the plaintiff:

(1) The incorporation of the second defendant Bilske Investments;

(2) The taking over by Bilske Investments the pest control business operations of A & J Bilske;

(3) The assistance A & J Bilske gave to Bilske Investments to take over and maintain its pest control business operations.

I find that A & J Bilske did not inform the plaintiff about any of these matters.

[51] Paragraph 65 of the Amended Statement of Claim pleads that by "participating in the new company strategy and acting in the manner described in paragraph 64A "A & J Bilske breached the terms of the Franchise Agreement. To see if this claim is made out it is necessary to discuss what is alleged in paragraph 64A.

[52] In paragraph 64A.1 it is alleged that A & J Bilske made the plaintiff's intellectual property available to Bilske Investments. This is similar to what is pleaded in paragraph 54A.3 of the Amended Statement of Claim which I have discussed previously. For the reasons given above, I find that this allegation is not made out.

[53] In paragraph 64A.2 it is alleged that A & J Bilske "assisted Bilske Investments to infringe or challenge the plaintiff's intellectual property". There is no evidence to support the contention that Bilske Investments infringed or challenged the plaintiff's intellectual property. This allegation is not made out.

[54] Paragraph 64A.3 asserts that A & J Bilske allowed Bilske Investments to detract from the plaintiff's intellectual property and goodwill. There is no evidence that Bilske Investments "detracted from" the plaintiff's intellectual property. It certainly went into the pest control business after 1 October 2007 and competed for pest control business, but this, by itself did not detract from the goodwill attached to the business name of Murray Pest Control, or, for that matter, the goodwill attached to the plaintiff's franchised system.

[55] A mere competitor does not necessarily detract from the goodwill of a business without more. The evidence led by the plaintiff that its goodwill was affected relied upon inferences to be drawn from what occurred after the 1st of October 2007. The evidence of Mr Gratton was that, following the termination, Murray Pest and Weed Control (SA) Pty Ltd "took over the operation of the Katherine branch", and made losses in each of the years ended June 2008, June 2009 and for the year ended 31 December 2009. However the accounts indicate that the plaintiff operated that business. The most significant figures relate to the income stream of the business then apparently run by the plaintiff, compared with the income previously and subsequently generated by A & J Bilske:

	Year Ended 30/06/2006	Year Ended 30/06/2007
A & J Bilske	$493,332	$453,232

	Year Ended 30/06/2008	Year Ended 30/06/2009	Year Ended 31/12/2010
Murrays Pest Management	$155,497	$226,826	$67,952
Bilske Investments	$421,390	$691,753	NA

[56] There may have been some income generated by Bilske Investments which was not related to pest control in the years 2007-2009, but the evidence does not suggest that this was a substantial part of its business, and there are no figures which separate this income from the pest control income.

[57] The most likely explanation for the difference in the sales figures is that a large number of former customers of the franchise business run by A & J Bilske became customers of Bilske Investments, as would be expected given that Mr & Mrs Bilske ran both businesses. This was supported by the evidence of the defendant's expert, Mr Finch, who prepared an analysis of the revenue generated by Bilske Investments from former customers of A & J Bilske. The total percentage revenue earned by Bilske Investments from former customers of A & J Bilske was 47% in 2007-2008; 58% in 2008-2009; and 34% in 2010. A similar analysis was not conducted by the plaintiff's expert, Mr Weise.

[58] No evidence was led that the plaintiff made any effort to find a new franchisee in 2007. Why the plaintiff "took over the operation of the Katherine branch" was left unexplained. By the time the plaintiff finally realised that A & J Bilske was not going to renew its Franchise Agreement, and at that stage intended to remain in the pest control business, there would have been little time to find a new franchisee to take over from 1st October 2007. The evidence of the defendant's expert, Mr Finch, was that it would have been difficult to sell a business in 2007 located in Katherine, with earnings and profits of the kind generated by A & J Bilske. Of course, this depended on the asking price. The evidence is that the plaintiff eventually sold its Katherine business (and not just a new franchise) for $210,000 plus plant, equipment and stock, by an agreement dated 21 December 2009.

[59] I consider that the evidence is insufficient to infer that, whatever goodwill was attached to the plaintiff's business name and the plaintiff's franchised system was affected, and that this "detracted from" the plaintiff's goodwill as alleged.

[60] The problem however is not entirely solved by this finding. It is put that A & J Bilske "allowed" Bilske Investments to detract from its goodwill. Clause 93 of the Franchise provides:

> "The franchisee must not do or fail to do anything or allow another person to do or fail to do anything that may detract from the licensor's intellectual property or the licensor's goodwill...."

[61] The evidence is that Mr & Mrs Bilske, in their capacity as directors of A & J Bilske, actively assisted Bilske Investments to establish itself in the pest control business is a variety of ways, eg by hiring to the latter its vehicles, plant and equipment and eventually selling its assets to Bilske Investments in 2008, transferring its assets to Bilske Investments. In my opinion this did not allow Bilske Investments to detract from the value of the plaintiff's goodwill, and I so find. The goodwill in the franchised system is for reasons already explained, not the same as the goodwill of the franchisee's business. The link which must be made is that the customers lost to the plaintiff were part of the goodwill of the franchised system. There is no direct evidence that the customers were attracted to the franchised system, as opposed to the personal attraction of Mr and Mrs Bilske who operated the system through A & J Bilske. Bearing in mind that the plaintiff had recommenced business under the trade name Murrays Pest Control (NT) it is doubtful if it lost anything because customers attracted to the name would have stayed with the name. Consequently I find that A & J Bilske did not breach clause 93 of the Franchise Agreement which continued in force after termination by virtue of clause 123.

[62] I turn now to paragraph 64A.4 of the Amended Statement of Claim. This asserts that A & J Bilske failed to inform the plaintiff of the alleged infringement of its intellectual property. As I am not satisfied that A & J Bilske infringed the plaintiff's intellectual property, for the reasons previously discussed, this allegation is not made out.

[63] Paragraphs 64A.5, 64A.6 and 64A.7 of the Amended Statement of Claim relate to exercise of the plaintiff's confidential information. These allegations were not made out for the reasons previously discussed. The same applies to the allegation in paragraph 65.5 of the Amended Statement of Claim.

[64] The last allegation made in amounting to a breach of contract is that A & J Bilske breached the restraint of trade clauses contained in clause 102 to 106 of the Franchise Agreement. Clauses 102 and 103 are restraint of trade clauses binding only on A & J Bilske. There is no evidence that A & J Bilske breached these clauses. However, clause 104 provides:

> "The franchisee must ensure that its associates and affiliates, and each partner, director, officer, shareholder and beneficiary of the franchisee do not do or fail to do anything that, if the franchisee did or failed to do it, would be a breach of the previous clause".

[65] Although on first blush, the 'previous clause' would ordinarily refer to clause 103, I interpret clause 104, to give it business efficacy, to refer to clause 102 as read with clause 103 for two reasons. First, clause 103 must be read with clause 102, because clause 103 by itself creates no obligations. Secondly, because the expression "the previous clause" appears in clause 103 and plainly refers to clause 102.

[66] Clauses 102 and 103 provide:

> **Protection Against Unfair Competition**
>
> "The franchisee must not have a direct or indirect interest in any capacity (including the mere capacity of shareholder, employee agent,

representative or consultant) in a business that is similar to the franchisee's business either within the Territory, or within the territory of another of the franchisor's franchisees, or within a radius of 5 kms from the nearest point of any of those territories".

Application of Previous Clause

"The previous clause creates separate obligations for each of the following times:

- During this agreement and for 2 years after it ends or is terminated;
- During this agreement and for 1 year after it ends or is terminated;
- During this agreement and for 6 months after it ends or is terminated".

If any of these separate duties is held to be an unreasonable restraint of trade, it is to be severed, leaving the rest of the duties unaffected."

[67] Mr Maurice QC submitted that clause 102 was too wide for various reasons and was void. Before dealing with that argument, it is necessary to see if A & J Bilske breached clauses 102 and 103 when read with clause 104. Mr Maurice QC did not contend that, if clause 104 referred to clauses 102 and 103 and those clauses were valid, there was no breach by A & J Bilske, who were directors and shareholders of both companies. There is ample evidence that Bilske Investments operated a business similar to the franchisee's business within "the territory", (which I interpret to mean the territory specified in Schedule 2 of the Agreement and which I have previously described). A & J Bilske could have ensured that its directors did not breach clauses 102 and 103 by entering into a deed in similar terms to these clauses. Therefore, if clauses 102 and 103 are valid, A & J Bilske is in breach of clause 104.

[68] It is not in dispute that clauses 102 and 103 are prima facie void, and that the burden lies on the plaintiff to prove facts to show that these restrictions in restraint of trade are reasonable in reference to the interests of the parties concerned and reasonable "in reference to the interests of the public, so framed and so guarded as to afford adequate protection to the party in whose favour [they are] imposed, while at the time [they are] in no way injurious to the public."[12] Once the facts have been found, there is no onus on either party. It is a question of law for the trial judge to determine whether or not the facts justify the restraint.[13] Further, the validity of the restraint must be decided as at the date imposing it.[14]

[69] Because there was no direct covenant in restraint of trade with Mr & Mrs Bilske, no evidence that A & J Bilske was itself in breach of the covenants, and liability arises by virtue of a proved breach of clause 104, in my opinion the question of reasonableness must be approached by assuming the existence of a contractual term between the Bilskes and A & J Bilske in the same terms as clauses 102 and 103, entered into at the commencement of the Franchise Agreement. For this reason, the cases dealing with employment contracts are more relevant than cases dealing with franchise agreements. Even in the case of franchise agreements, whether a more favourable view should be taken of the restrictive covenant depends upon the particular

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[12] *Nordenfeldt v Maxim Nordenfeldt Guns and Ammunition Company Ltd* [1894] AC 535 of 565 per Lord Macnaughten.
[13] *Peters American Delicacy Co. Ltd v Patricia's Chocolates and Candies Pty Ltd* (1947) 77 CLR 574. of 590 per Dixon J; at 599 per Williams J; *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1972-1973) 133 CLR 288 at 317-318 per Gibbs J.
[14] *Lindner v Murdock's Garage* (1950) 83 CLR 628 at 653.

features of the franchise relationship itself, rather than presuming in advance that the approach relevant to one rather than the other is necessarily applicable.[15]

[70] As at the time the Franchise Agreement was entered into, A & J Bilske were operating as subcontractors not to the plaintiff, but to Murrays' NT. The pest control business at that time was not the plaintiff's, and the goodwill associated with the business was not the plaintiff's. Mr & Mrs Bilske were the sole directors and shareholders of A & J Bilske and were employed by A & J Bilske. A & J Bilske had been operating as the sole sub-contractor for Murrays' NT for four years. Mr Bilske and Mrs Bilske both had direct contact with the customers of the business. Mr Bilske was employed in the field attending to pest control work. Mrs Bilske was primarily employed at home attending to the accounts and telephone enquiries. Both knew who the Murrays' NT customers were. Under the terms of the Franchise Agreement, to the knowledge of Mr and Mrs Bilske, A & J Bilske were to operate the franchise business on its own account, using the plaintiff's franchise system for a period of 5 years with three options to renew for a further term of 5 years each. The Bilskes were of course familiar with the terms of the Franchise Agreement. As directors they were signatories to it. One of the terms of the Franchise Agreement required A & J Bilske to run the business in a proper and efficient manner and promote the franchised system (clause 5). The franchise was an exclusive one over "the territory" set out in

[15] *B B Australia Pty Ltd v Karioi Pty Ltd* (2011) 278 ALR 105 and 120 [61].

Schedule 8, which I have previously described in general terms. The only town of any size in "the territory" is Katherine. The "territory" is a vast area, sparsely populated. Some of the other smaller settlements in "the territory" are Aboriginal communities, accessible by road after long journeys on unsealed roads. Clearly the parties contemplated that the vast majority of the income to be generated by the business would come from customers living in Katherine or nearby towns such as Pine Creek or Mataranka. Because there were exclusive franchises to other operators covering the rest of the Northern Territory, the franchise area was limited to "the territory". Presumably this was intended to prevent A & J Bilske from operating the franchise outside of "the territory".

[71] Looked at against these facts, what were clauses 102 and 103 designed to protect? After termination, it was not necessary to protect the plaintiff from A & J Bilske continuing to use the franchise system, trade marks, or confidential information; nor the business name, the franchisor's property or business records. These were already specifically protected by clause 122 of the Franchise Agreement, and Mr and Mrs Bilske had no right to use this information. The purpose of these provisions was to provide a period of time for the plaintiff to establish a new franchisee in the area, or if the plaintiff could not do so, re-establish Murray NT's former business using new employees. If A & J Bilske or the Bilskes themselves could establish a similar business in "the territory", their knowledge of the customer base would give them a head start and provide unfair competition.

[72] There is no evidence as to how many other franchises existed in 2002. Mr Gratton's evidence is that in September 2007 "Murray's branches" covered "all areas of South Australia, the Northern Territory, Northwest Queensland and Western Australia". There is no evidence that the Bilskes or A & J Bilske knew, or had the means to find out the precise boundaries of these "branches", assuming they existed in 2002 and had been all converted to franchises. The Franchise Agreement does not refer to the areas of other franchisees, nor does it describe them. The descriptions given of "Northwest Queensland" and "Western Victoria" are too vague to be given any certain meaning. Mr Gratton deposes that the minimum protection the plaintiff required was what he described as the "Katherine primary response area" and "within a radius of 5 kilometres from the Katherine primary response area." The affidavit of Mr Tynski reveals that in 2006-2007, 95% of sales "were in and around the town of Katherine". The area to which he refers includes Katherine, Lansdowne, Cossack and Emungalan. Lansdowne is an area about 5 kilometres north of Katherine. Cossack is an area less than 10 kilometres south west of Katherine. Emungalan is an area within a few kilometres of Katherine in a north westerly direction. Mr Gratton defines the "Katherine primary response area" more broadly to include Pine Creek, Timber Creek "and all areas south of Katherine to Daly Creek". There is no place in the Northern Territory called "Daly Creek", although there is a place called Daly Waters, where there is the Daly Waters Highway Inn and the Daly Waters Historic Pub. This small village is in the vicinity

of the junction of the Stuart Highway and the Carpentaria Highway. It is about 620 kilometres south of Darwin and about 300 kilometres south of Katherine. It is not within "the territory" according to the map contained in Schedule 8.

[73] In my opinion it would not be reasonable to extend the area covered by the restrictive covenant to cover the whole of "the territory" let alone any areas beyond it which might include the whole of the Northern Territory, South Australia, "Western Victoria" or "Northwest Queensland" (whatever those terms might mean), and this is so whether one considers the covenant from the point of binding A & J Bilske or merely the Bilskes personally. Unless the clauses can be saved in some way, by applying a "blue pencil" test for example, they are unreasonable in area and void on that ground. In reaching this conclusion there is no evidence that either the Bilskes or A & J Bilske trading as Murrays Pest Control (Katherine) were known in large parts of "the territory", in such remote places as Top Springs, Daguragu, Roper Bar, Yarralin, or Bing Bong, all of which are in "the territory". Further, the evidence is that Mr Bilske's employment is as a pest controller. The effect of such a wide restriction would effectively mean that he would need to leave not only Katherine, but the whole of the Northern Territory, when the evidence is that 95% of the sales were conducted in a small area around Katherine itself, and there is no evidence that he or his company had a Territory reputation. In my opinion it could not have been in the reasonable contemplation of the parties in 2002 that either A & J Bilske or the Bilskes

personally would have developed significant customer connections over such a wide area, so as to materially have affected the legitimate interests of the plaintiff.

[74] Mr Maurice QC also submitted that clause 102 was too wide because it operated to restrict A & J Bilske, and for these purposes the Bilskes personally, from even holding shares in a rival pest control business. His submission was that this would prevent the covenantees from holding even a minority shareholding in a similar business. Thus, even holding one share in a publicly listed company would breach the covenant. I agree with Mr Maurice that this is too wide.

[75] Mr Ross-Smith sought to rely on clause 139 of the Franchise Agreement:

> "If a clause or part of a clause can be read in a way that makes it illegal, unenforceable or invalid, but can also be read in a way that makes it legal, enforceable and valid, it must be read in the latter way. If any clause or part of a clause is illegal, unenforceable or invalid, that clause or part is to be treated as removed from this agreement, but the rest of this agreement is not affected".

[76] Mr Maurice QC objected to reliance on this clause as it had not been pleaded in the plaintiff's reply to the defence to the Amended Statement of Claim. In fact no reply had been filed. After hearing argument I reserved my decision on whether the plaintiff should be entitled to rely upon it. Mr Ross-Smith also sought to argue that the offending provisions of clause 102 could be excised using the blue pencil test. In my opinion clause 102 does no more than what can be done using the blue pencil test. This permits excision so long as the offending parts which are too wide can be removed

without altering the nature of the contract and without having to add to or modify the wording in any way other than by excision.[16] The plaintiff did not rely upon the blue pencil test by filing a reply to the defence either.

[77] The law in England, and in Australia, is that the blue pencil test cannot be used to cut down the area when the area is too widely expressed. For example, a covenant extending to an area within 25 miles of London was not cut down to an area of the covenantor's work as a covenantor in Islington.[17] Similarly, in *Lindner v Murdock's Garage*[18] the High Court refused to cut down the area to a smaller area which it would have been reasonable to have protected. [19] In this case it would have been reasonable to have protected an area within a radius of a few kilometres around Katherine but not more. Accordingly the offending provisions of clause 102 cannot be severed. It is therefore not necessary to deal with the pleading issue.

[78] In my opinion, because clause 102 is too wide the plaintiff's claim for damages based on a breach of clause 104 of the agreement must be dismissed.

[79] Another alleged breach of contract was that A & J Bilske did not comply with clause 122 by refusing to provide the MYOB records to the plaintiff. These records belonged to A & J Bilske and were never the plaintiff's records. The obligation created by clause 122 is to return to the plaintiff

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[16] J D Heydon, The Restraint of Trade Doctrine, 3rd Edn, p284-285.
[17] *Mason v Provident Clothing & Supply Co Ltd* [1913] A.C. 724 and see the cases referred to in Heydon op cit fn 91 on p285.
[18] (1950) 83 CLR 628.
[19] At 647, 648 and 658-659.

"all of its property.....including the.....business records..." As a matter of ordinary English grammar, the words "its property...including...." require the return only of those business records which belonged to the plaintiff. This interpretation of clause 122 is consistent with the legal requirement of A & J Bilske to retain its written financial records for a period of 7 years after the transactions covered by the records are completed, as required by s 286 of the *Corporations Act 2001*. Failure to comply with the requirements of s 286 is an offence. A contractual obligation to commit an offence is in any event unenforceable on public policy grounds.

[80] Next, it was also alleged that A & J Bilske breached the Franchise Agreement by refusing the plaintiff's representative access to A & J Bilske's "data-base". According to his affidavit, on 24 September 2007 Mr Tynski had a telephone conversation with Mrs Bilske, in the course of which he asked if he could meet with her on 1 October 2007 "to collect the database and other intellectual property of Murray's". Mrs Bilske said that she would be in Darwin that day but it would not be a problem because Mr Bilske will be there. On 28 September 2007, in the course of a telephone conversation between Mr Tynski and Mr and Mrs Bilske, Mr Bilske said:

> "We are not going to allow you to have access to our computer or the database. We want a list from your solicitors of what we are required to do under the franchise agreement".[20]

[20] See Affidavit of Andrew Tynski, Ext P3, paras 21 and 22.

Mr Tynski was not cross examined on his affidavit. Mr Bilske, in his affidavit [21] said that the conversation recorded by Mr Tynski in his affidavit was accurate. I find that the conversation occurred as alleged.

[81] It is alleged in paragraph 51 of the Amended Statement of Claim that this refusal by Mr Bilske amounted to a breach of clauses 60, 64, 65, 68, 78, 88 and 138 of the Franchise Agreement. In my opinion clauses 65, 68 and 78 are the only relevant provisions.

[82] Clause 65 provides:

> "The franchisee must give the franchisor access to the franchisee's premises and records during standard business hours. The franchisor must give reasonable notice that it requires access. The franchisee must allow the franchisor to copy any records or other documents".

[83] Clause 135 of the agreement provides:

> "A notice, consent, information or request that must or may be given or made to a party under this agreement is only given or made if it is:
>
> - delivered or posted to that party at the address stated below: or
> - faxed to that party or their fax number.

[84] I consider that the reasonable notice requirement of clause 65 required it to be given in writing in accordance with clause 135. In my opinion clause 135, when it refers to a notice being delivered, posted or faxed, contemplated only a written notice. This is supported by clause 136 which provides that a notice is to be treated as given or made, if it is delivered, "when it is left at the relevant address". As no written notice was given, the

[21] Ext D3, para 27.

request made orally by Mr Tynski was not valid notice that the plaintiff required access. Further, the request was made to "collect the data-base", rather than to access it. It is not clear on the facts precisely what Mr Tynski intended to collect. Did he mean the computer's hard-drive, or the SERVICEPRO disc, or both the disc including any software downloaded on the PC, and a copy of the MYOB records? Clause 65 certainly entitled the plaintiff, upon giving the relevant required notice, to attend at the premises of A & J Bilske and to access and take copies of whatever business records A & J Bilske had. However, that right expired on the termination of the agreement, which expired on 30 September 2007. There was no right of access to the records after that date under clause 65, because that clause did not enure after termination (see clause 123). Therefore, there was no right of access to A & J Bilske's records on 1st October 2007. Consequently I am unable to find that A & J Bilske breached clause 65.

[85] As to clause 68, that clause related to "computer software....and operating software as required by the franchisor". On the facts of this case, that did not include MYOB software. The obligation on A & J Bilske's part was to "consent to the franchisor accessing and downloading all information contained on the *relevant* software", which in my opinion did not include the information on the MYOB software, although it did include the information on the SERVICEPRO software. In any event, clause 68 did not enure termination either (see clause 123). I am unable to find that there was a breach of clause 68.

[86] As to clause 78, that provides:

> "The franchisee must give the franchisor any information or documents in relation to any aspect of the business that the franchisor asks for".

The expression, "the business", is not a defined term under the agreement. Construing this clause in a manner designed to give it business efficacy, I think it must refer to the business of the franchisee. This clause did not enure after termination, and no request was made for any specific information or documents. The request which Mr Tynski made was to "collect the data base and other intellectual property of Murrays" on the 1st October 2007. Assuming that the data base to which Mr Tynski referred was to the SERVICEPRO disc, there was an obligation to return this to the plaintiff under clause 122 upon termination. I have already dealt with the alleged breach of clause 122 above. I am unable to find that a breach of clause 78 has been proved.

Conclusions in relation to claim against A & J Bilske for damages for breach of contract

[87] No breach of contract having been proved, the action for damages for breach of contract by A & J Bilske is dismissed.

Claims for damages for misleading and deceptive conduct

[88] Section 52 (1) of the *Trade Practices Act 1974* (Cth) (the Act) (since repealed and replaced by s 18 of the *Competition and Consumer Act 2010* (Cth)) provided:

(1) "A corporation shall not, in trade or commerce, engage in conduct that is misleading or deceptive or is likely to mislead or deceive".

Section 52 (1) did not create a cause of action by itself, but failure to comply had consequences to be found elsewhere in the Act. Section 82 of the Act provided in effect, that a person who suffers loss and damage by a contravention of s 52 (1) may recover the amount by instituting an action against the contravenor or a person involved in the contravention. Proof of loss or damage is therefore an essential element of the cause of action.

[89] The plaintiff put its case in its final submissions on two bases. First it was put that it "is a necessary and inevitable representation coming from the company (ie A & J Bilske) and the Bilskes to MPM (the plaintiff) that none of them will perpetuate or allow someone within their control (like Bilske Investments) to take advantage of the breach by the company of its covenants given under the Franchise Agreement". To establish this claim, the plaintiff must prove that A & J Bilske engaged in conduct in trade or commerce which made that representation, that the representation was misleading or deceptive or likely to mislead or deceive, that A & J Bilske and the Bilskes breached s52 (1), that the plaintiff relied upon that representation, and as a result, the plaintiff suffered loss.

[90] Counsel for the plaintiff did not refer to any authority to support the contention that A & J Bilske, when it entered into the Franchise Agreement, made a representation which, although not shown to be misleading or deceptive at the time it was made, is liable for conduct which occurred years

subsequent to the conduct but which amounted to a breach of the representation complained of. Nor was I referred to any authority to support the broad contention that by merely entering into the Franchise Agreement with the plaintiff, A & J Bilske and the Bilskes made a representation of the kind pleaded. I am not persuaded that the plaintiff has proved that A & J Bilske and the Bilskes are liable on this ground.

[91] The second limb of the plaintiff's case was that a letter dated 16 September 2007 informing the plaintiff of their future intentions was misleading and deceptive. The letter, which is written on A & J Bilske letterhead reads:

> "After careful consideration and exploring all options and legal obligations we have decided that we will not be re-signing as a Murray Pest Control Franchisee once the current agreement has expired. We appreciate the opportunity that Murray Pest Control gave us almost 10 years ago but now feel we need to take steps towards our desired career changes such as civil contract work and an art and design business. Therefore we believe that committing to a Murray Pest Control franchise is not a wise business or financial choice for ourselves or Murray Pest Management. Until this can be achieved we plan to operate a scaled down pest control business throughout the Katherine region and would be happy to service contracts held by Murray's Head office if necessary. We hope to continue an amiable and professional relationship with Murray Pest Management".

[92] Counsel for the plaintiff submitted that this letter was misleading or deceptive because the Bilskes did not meaningfully advance a new business in civil contract work, or in art and design. They had already formed Bilske Investments some 6 weeks beforehand. They did not operate a scaled-down business, but "a facsimile of the franchise business". Mr Ross-Smith referred to the whole of the events both before and after the letter of 16 September 2007, submitting that the intention was at all times to carry on

the same pest control business as before under the control of Bilske Investments.

[93] Mrs Bilske gave evidence to the general effect that the intentions disclosed in that letter of 16 September 2007 were in fact their intentions at the time that letter was written but that they were unable to be fulfilled to guarantee sufficient income, and they subsequently found that unless they went bankrupt, they had no choice but to vigourously pursue the pest control aspect of the new business. I found these explanations less than convincing, particularly in the light of the advertising conducted shortly after that letter was written. So far as the civil contract work is concerned, Mrs Bilske's evidence was that they "went through the due diligence" at this time to purchase Glen Upstill Earthworks with a view to purchasing this business, but that they found that the business contracts it had with the Department of Primary Industries could not be transferred and they would have had to have re-tendered for the work. In addition she gave evidence that A & J Bilske had done cleaning work, and removalist work, and it was their intention to continue with this kind of work in the future. No records were produced to show the extent of these business activities, because "the computer broke down". Neither the advertisement in the *Katherine Times* nor the email sent out on 16 October 2007 referred to art work or civil engineering work or any other kind of work except pest control work. I do not accept that the Bilskes seriously contemplated that they would operating a scaled-down pest control business after 1 October 2007.

[94] Mr Maurice QC submitted that there was no evidence that the plaintiff relied on the letter of 16 September 2007. Plainly it did not, because by 1 October 2007 steps had been taken to restart Murray's pest control business in Katherine. No evidence was given on behalf of the plaintiff that it was misled in any way by the letter of 16 September 2007 or that it relied upon it in some way. In order to recover damages, the plaintiff must establish reliance and, or in other words, that the loss was caused by the misleading conduct.[22] There is no evidence to support the plaintiff's claim that it suffered any loss. Mr Ross-Smith submitted that in a case such as the present "the Court will assume reliance without express evidence of it". No authority was cited for this proposition, but in any event, even if there are cases where reliance will be inferred, the facts of this case give rise to the exact opposite inference.

Conclusion in relation to claims under the *Trade Practices Act*

[95] For the reasons given above, these claims must be dismissed.

The claim in tort for damages for conspiracy

[96] Although pleaded, Mr Ross-Smith made almost no reference to this aspect of the claim in his closing address. I was not referred to the relevant law, the elements to be proven to establish the tort, or to anything of substance. Mr Maurice QC submitted that what the plaintiff needed to establish was a subjective intention on the part of the alleged conspirators not to continue in

[22] *Wardley Australia Ltd and Anor v State of Western Australia* (1992) 109 ALR 247 at 253.

the pest control business to pay off their debts and support themselves, but to injure the plaintiff. It was put that the plaintiff had to show malice, and that the only reason or the dominant reasons for what the defendants did was to cause the plaintiff injury. Mr Maurice QC referred me to the decision of Harrison J in *Hamod v The State of New South Wales.*[23] In that decision, Harrison J made a thorough review of the authorities. The tort of conspiracy may take one of two forms, depending upon whether the agreement or combination of two or more individuals is to carry out an act which is lawful or unlawful. There is no evidence that the defendants intended to commit an unlawful act. Therefore the plaintiff was required to show that the sole or dominant purpose of the defendants was to injure the plaintiff. Harrison J said: [24]

> "It will be fatal to a claim of "lawful means" conspiracy if it can be shown that the defendants were acting for the advancement or protection or defence of their own interest: *McKernan v Fraser*[25] at 362 per Dixon J, 400 per Evatt J; or were impelled by a desire to protect or secure the interests of themselves: *Cox v Journeaux*[26] at 719 per Dixon J.

[97] I accept Mr Maurice's submission that the defendants were motivated by a desire to secure or advance their own interests, and that there is no evidence that they were motivated by a dominant desire to injure the plaintiff. No such submission was made by Mr Ross-Smith. The claim based on conspiracy must be dismissed.

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[23] (2009) NSWSC 242 at [182] to [189].
[24] At [186].
[25] (1931) 46 CLR 343.
[26] (1935) 52 CLR 713.

The claim in equity

[98] Counsel for the plaintiff in his written outline of submissions submitted, as an alternative "to the earlier contention that the second, third and fourth defendants owe a duty to the plaintiff direct not to misuse to their advantage the confidential information". I am not sure precisely what "earlier contention" Mr Ross-Smith is referring to. I assume he means the claim for the alleged breach of fiduciary duty, which he abandoned: see paragraphs 44H to J of the Amended Statement of Claim. Mr Maurice QC submitted that no alternative claims of this nature were pleaded, but I think that arguably the matter was raised by paragraphs 62D to 62H of the Amended Statement of Claim.

[99] I have already made findings that no confidential information was passed on to Bilske Investments. The Bilskes, of course, knew the names of A & J Bilske's former customers. However, there is no evidence that the names of the customers were confidential and there is no rule of law or equity that a former employee of a company must keep the names of this former employee's customers confidential in the absence of a valid restraint clause.[27] There is no such clause. The action based on the second limb of *Barnes v Addey*[28] therefore cannot succeed and must be dismissed.

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[27] *Faccenda Chicken Limited v Fowler & Ors* (1985) 6 IPR 155; *Security Storage Pty Ltd v Nielson* unrep, Supreme Court of New South Wales 25/11/1993 BC 9302338; *NP Generations Pty Ltd v Fenely* [2000] SASC 240 at para 22.
[28] (1874) LR 9 Ch App 244.

Inducing a Breach of Contract

[100] In order to succeed, the plaintiff must prove the following:

1. That a contract existed between the plaintiff and A & J Bilske;

2. A & J Bilske breached the contract;

3. That the breach by A & J Bilske was persuaded, induced or procured by the other defendants;[29]

4. The other defendants had some knowledge of the existence of the contract;[30]

5. The other defendants intentionally induced A & J Bilske to breach the contract.[31]

[101] I was not persuaded that the Bilskes, whether in their personal capacities or as directors of Bilske Investments, intentionally induced, persuaded or procured A & J Bilske to breach its contract with the plaintiff. On the facts of this case, the only breach was minor, and I formed the opinion that the Bilskes tried to do their best to achieve their purposes without causing A & J Bilske to breach its contract with the plaintiff. In any event, to the extent that the acts of the Bilskes caused A & J Bilske to breach its contract with the plaintiff, their acts were the acts of A & J Bilske because they were acting as directors of that company. Consequently an action against the

[29] *Williams v Hursey* (1959) 103 CLR 30.
[30] *Allstate Life Insurance Co v ANZ Banking Group Ltd* (1995) 130 ALR 469.
[31] *Williams v Hursey* (1959) 103 CLR 30.

Bilskes for the tort of conspiracy or for the tort of inducing a breach of contract cannot lie[32]. There is no evidence that the Bilskes in their capacity as directors of Bilske Investments intentionally procured A & J Bilske to breach its contract with the plaintiff. This claim must be dismissed.

Conclusions and orders

(1) The actions against the defendants are dismissed and I enter judgment for the defendants against the plaintiff.

(2) I will hear the parties as to costs.

[32] *O'Brien v Dawson and others* (1942) 66 CLR 18.