

- (ii) Using Zeald's confidential information and intellectual property for the benefit of one of its competitors, Forge Online Limited (Forge);**
- (iii) Failing to disclose his association with Protec Automotive Limited (Protec Auto) as a conflict of interest at the outset of his employment with Zeald;**
- (iv) Doing work for Protec Auto whilst employed by Zeald without disclosing it;**
- (v) Setting up and running/administering his four websites (both while employed by Zeald and also whilst subject to his restraint covenant);**
- (vi) Soliciting three of Zeald's employees to leave their employment;**
- (vii) Soliciting at least 51 of Zeald's customers (10 whilst he was employed and at least 41 during his restraint) for his own benefit;**
- (viii) Starting work for Forge while still employed by Zeald;**
- (ix) Continuing to work for Forge knowing he was in breach of his restraint of trade covenant.**

B. Mr Bernard is ordered to pay Zeald damages of:

- (i) \$937 to reimburse the income he received from doing work for third parties arising from the breaches of his employment agreement;**
- (ii) \$6,778.17 to reimburse Zeald for the costs it incurred in engaging private investigator to investigate his activities.**

C. A penalty of \$50,000 is imposed on Mr Bernard to punish him for the (at least) 263 breaches of his employment agreement.

D. Mr Bernard is ordered to pay the full \$50,000 penalty to Zeald to acknowledge the harm he has caused it.

Employment relationship problem

[1] Mr Bernard is a bankrupt. The activities addressed in this determination arose after Mr Bernard was adjudged bankrupt on 25 August 2011 so Zeald did not require leave from the High Court to pursue these proceedings.

[2] Zeald employed Mr Bernard from 14 October 2011 until 11 April 2013. Mr Bernard gave four weeks' contractual notice of termination on 14 March 2013. He took accrued annual leave during the last week of his notice period and started work with one of Zeald's competitors (Forge) before his employment with Zeald had ended.

[3] When Zeald asked Mr Bernard what he intended to do after he had resigned he said he would be working for another company which did not compete with Zeald but was unable to give any other details than that. On that basis Mr Bernard was not placed on garden leave by Zeald.

[4] Mr Bernard knew he was subject to a restraint which prevented him working for one of Zeald's competitors for three months after his employment with Zeald ended so he purposely avoided giving Zeald any information which would have alerted it to the fact that he was intending to knowingly breach his restraint.

[5] Mr Bernard was initially employed by Zeald on a part time basis in a Customer Support role. His initial terms of employment were governed by a written individual employment agreement dated 14 October 2011 which contains confidentiality obligations and various restrictive covenants which endure beyond the termination of his employment. Mr Bernard's employment agreement also includes Confidential Information and Intellectual Property, Conflict of Interest, Employer's Policies, and Employer's Property clauses which applied during his employment.

[6] In February 2012 Mr Bernard was promoted by Zeald into a new full time role as a Website Results Specialist. Mr Bernard signed a new employment agreement on 28 February 2012 which was the same as his previous employment agreement apart from including updated details relevant to his new role to reflect his new position.

[7] Mr Bernard's Website Results Specialist role required him to have greater in-depth interaction with specific individual customers and involvement in the planning process for various customers' websites. As part of this role Mr Bernard had access to and was trained in the use of Zeald's confidential business know how and intellectual property.

[8] Mr Bernard does not dispute the validity of his post-employment restraints. That was the correct position for him to adopt because the restraints were reasonable and enforceable - they were no more than was necessary to protect Zeald's legitimate proprietary interests for three months post termination of employment. The nature and effect of these restrictions were explained to Mr Bernard at the outset of his employment and he received consideration for them.

[9] Mr Bernard worked in Zeald's professional services department team and his duties included completing the website marketing and implementation planning for Zeald customers, content loading, copywriting, pay-per click advertising, website results consulting, basic Search Engine Optimisation (SEO) and other related website support services as driven by customer demand.

[10] On 19 February 2012 Mr Bernard complained about a senior Zeald manager. Although Zeald investigated and resolved the issue Mr Bernard remained unhappy about it. On 27 June 2012 a staff member complained about Mr Bernard. This was also investigated and resolved but Mr Bernard again remained unhappy about it. Around the same time Mr Bernard was given an unsolicited 20% pay rise which he was told would be an encouragement to him regarding his long term future with Zeald. He was also told that he was a valued member of Zeald's team.

[11] Unbeknownst to Zeald Mr Bernard subsequently become very disillusioned and dissatisfied with his employment. He remained aggrieved about the two complaints (despite them being resolved) and believed he was being overworked and underpaid (although he had not raised that concern with Zeald). Mr Bernard was also unhappy that one of his managers had left and he blamed Zeald for that.

[12] I am satisfied Mr Bernard's adverse view of Zeald was based on his own misguided feelings rather than any improper conduct or actions by Zeald. It had dealt with both complaints properly and Mr Bernard was treated fairly and reasonably.

[13] Zeald regarded Mr Bernard highly and was keen for him to have a long and successful tenure with it. There was plenty of evidence that Zeald had treated Mr Bernard well. Zeald also made it clear to Mr Bernard that it wanted to retain his services for the long term if he was open to that. Mr Bernard's adverse views about Zeald have been a huge shock to it.

[14] On 15 May 2013 Zeald became aware from a number of its clients that they had received an email from Mr Bernard soliciting work from them. The email they received offered Mr Bernard's services as a SEO specialist and it encouraged them to visit two websites he operated. At least one customer who received this communication had not previously worked with Mr Bernard so Zeald became concerned that Mr Bernard may have taken its customer database.

[15] Zeald carried out research on its internal systems and on the internet and discovered:

- (a) Mr Bernard was advertising his services as a SEO and online marketing specialist and as someone who could build websites through various websites he operated;
- (b) Mr Bernard's websites were advertised on at least five different internet advertising directories both whilst he was employed by Zeald and whilst he was subject to the Zeald restraints;
- (c) The website domain names had been acquired during Mr Bernard's employment with Zeald without its knowledge because he had failed to disclose these as conflicts of interest;
- (d) One website invited customers to "*get a website quote*";
- (e) Screenshots of the websites Mr Bernard operates shows they were promoting various services which competed with Zeald's services including SEO services, conversion rate optimisation, copywriting and pay per click advertising;
- (f) A website named www.protecauto.co.nz credited one of Mr Bernard's websites with the design and build of its website;

- (g) An internal Zeald chat log conversation between Mr Bernard and a colleague suggested he intended to damage Zeald after he left its employment;
- (h) An attempt by Mr Bernard while on his notice period to solicit a Zeald employee who subsequently left their employment;
- (i) An email sent by Mr Bernard (while working out his notice) to a Zeald customer that he was going to work for a media company as “*their systems and processes manager*”.

[16] As a result of this information Zeald instructed a private investigator to find out who Mr Bernard was working for. Those inquiries established Mr Bernard was employed by Forge which advertises online marketing, website design, e-commerce, SEO services, and email marketing in direct competition to Zeald.

[17] Forge says Mr Bernard started work on 09 April. This was two days before his Zeald employment ended so Mr Bernard was on paid annual leave from Zeald during the first three days of his employment with Forge.

[18] Forge claims it was not aware of Mr Bernard’s post-employment restraints. It suspended him once it became aware he was working in breach of his Zeald restraints. Mr Bernard admits deliberately not disclosing his Zeald restraints to Forge.

[19] Zeald wrote to Forge and to Mr Bernard on 23 May and its letter was delivered to Mr Bernard at his Forge worksite by the private investigator, who also spoke to Mr Dennis about Zeald’s concerns. Zeald considers Forge’s response to its concerns about Mr Bernard’s activities is unsatisfactory.

[20] Mr Bernard acknowledged to the private investigator he had taken the actions complained of in the letter because he was dissatisfied with Zeald. Zeald claims Mr Bernard’s actions in breach of his employment obligations were deliberate and that he had a pre-meditated intention to damage its business by breaching his employment agreement.

[21] Zeald met with Mr Bernard on 24 May to express its concerns. Mr Bernard responded by handing over a lawyer’s letter² admitting his actions had been in error

² Forge paid for this initial legal advice to Mr Bernard.

and offering limited undertakings which Zeald considered unsatisfactory. He did not respond to some of the concerns Zeald had raised.

[22] During this meeting Mr Bernard also handed over a flash drive of electronic documents he had assembled while at Zeald and had deliberately taken with him when he left together with 50 business cards belonging to Zeald's customers with whom he had dealings. The documents on the flash drive and the business cards were clearly Zeald's property and should not have been removed by Mr Bernard.

[23] The flash drive contains not just Zeald's confidential information but also the confidential information of 100 of Zeald's customers. This electronic information included Zeald's intellectual property, two confidential presentations it had produced to train staff on successful SEO and conversion rate optimisation, and the planning and online strategy documents of 100 Zeald customers which contain commercially sensitive information about each customers' online marketing strategy.

[24] Mr Bernard told Zeald on 24 May:

- (a) He was employed by Forge to negotiate supply agreements with Indian based web developers but he was unwilling to answer questions about his employment with Forge;
- (b) He intended to continue working for Forge³;
- (c) His actions were motivated by dissatisfaction with Zeald;
- (d) He had received one referral from a website he operated which he had passed on to Forge.

[25] Zeald claims Mr Bernard breached the Conflict of Interest; Employer's Policies (Gifts & Benefits Policy, Conflict of Interest Policy and Information Security Policy); Confidentiality and Intellectual Property; Employer's Property and Restraint of Trade clauses in his employment agreement.

[26] Zeald seeks damages from Mr Bernard. It wants him to account for the income he earned doing work for third parties arising from his solicitation of its

³ Forge suspended Mr Bernard late on 24 May (after Mr Bernard's meeting with Zeald) and it ended his employment on 14 August but then immediately engaged him as a short term contractor and invited him to apply for a permanent role it had advertised. Forge is currently in a contracting relationship with Mr Bernard.

customers and in carrying out private work (both during his employment and during his restraint period) which it says should otherwise have been directed to it. Zeald also seeks reimbursement of the costs of the private investigator it hired to investigate Mr Bernard's actions prior to these proceedings being filed.

[27] In addition to damages Zeald seeks significant penalties be imposed on Mr Bernard for each breach of his employment agreement on the basis such breaches were flagrant and deliberately intended to harm Zeald.

[28] Mr Bernard admits:

- (a) copying and removing the website planning documents of 100 Zeald customers;
- (b) the website documents were Zeald's confidential information and also contained confidential and commercially sensitive information about its clients' website instructions, processes and strategies;
- (c) retaining SEO training documents;
- (d) removing approximately 50 business cards of Zeald customers he had obtained in the course of his employment;
- (e) retaining the email addresses of approximately 50 of Zeald's customers which were on his personal computer email address book as a result of his employment with Zeald;
- (f) emailing 3-6 Zeald customers (while working out his notice) encouraging them to contact him directly for tips and free advice after his employment ended;
- (g) sending emails to approximately 40 of Zeald's customers soliciting their business in breach of his restraint;
- (h) starting work with Forge on 09 April 2013 whilst still employed by Zeald (he was on paid annual leave at the time);
- (i) continuing to work for Forge knowing he was in breach of his restraint of trade covenant.

[29] Mr Bernard denies breaching the Conflict of Interest clause in his employment agreement or the Conflict of Interest Policy and Gifts & Benefits Policy. He says he disclosed to Zeald at the outset of his employment that he had set up the Protec Auto website and was its administrator. He says he was not required to disclose the website refresh he did for Protec Auto whilst employed by Zeald because it a minor piece of work.

[30] Mr Bernard admits he set up four websites during his employment but denies that these websites breached his employment agreement. He says the websites were designed to provide a testing environment for SEO services so he could train himself in SEO. He therefore claims the websites were essentially set up for Zeald's benefit because he was up-skilling himself in his own time. Mr Bernard says his four websites were not designed to generate fee paying work and did not generate fee paying work so did not compete with Zeald.

[31] Mr Bernard denies soliciting employees in breach of the Restraint of Trade clause in his employment agreement.

Issues

[32] The following issues are to be determined:

(i) Did Mr Bernard breach his employment agreement by:

- Copying, removing and misusing Zeald's confidential information and/or intellectual property for his own benefit;
- Using Zeald's confidential information and/or intellectual property for the benefit of a competitor - Forge;
- Failing to disclose his association with Protec Automotive Limited (Protec Auto) as a conflict of interest at the outset of his employment;
- Doing work for Protec Auto whilst employed by Zeald without disclosing it;
- Setting up and running/administrating his four websites during his employment;

- Soliciting three of Zeald’s employees;
 - Soliciting Zeald’s customers for his own benefit;
 - Working for Forge.
- (ii) Should Zeald be awarded damages?
- (iii) What if any penalties should be imposed on Mr Bernard?
- (iv) Should some or all of any penalties imposed be paid to Zeald?

Did Mr Bernard breach his employment agreement with Zeald?

(i) *Did he copy, remove and use Zeald’s confidential information and/or intellectual property for his own benefit?*

[33] Mr Bernard initially denied the 100 website planning documents he removed contained confidential information but during the course of the Authority’s investigation meeting he accepted they did. He also acknowledged the website planning documents contain the confidential information of 100 of Zeald’s customers.

[34] Clause 19 of Mr Bernard’s employment agreement prohibits him from using Zeald’s confidential information except for purposes directly related to furthering Zeald’s business. Mr Bernard breached this clause by using Zeald’s confidential information to solicit business for himself.

[35] Mr Bernard’s actions also breached Zeald’s Information and Security Policy which is a contractual term of his employment. This Policy requires Mr Bernard not to:

“[...] copy and/or electronic files or information from our servers, computers or data bases without express permission. Our servers, computers and data bases contain valuable confidential information and you are reminded of the confidentiality obligations contained in your employment agreement which last even after your employment with us has ended.”

[36] The common law further imposes the duty of confidentiality on Mr Bernard although that is more limited than the express provisions outlined above. Mr Bernard’s removal of Zeald’s confidential information whilst still employed by it breached his duty of fidelity.

[37] The website planning documents are Zeald's confidential information and its intellectual property. Clause 19 of Mr Bernard's employment agreement defines confidential information as including details of the contractual relationship Zeald has with its customers and its customers' instructions to Zeald regarding their websites.

[38] The website planning documents contain the contact details of Zeald's customers and the customer's confidential information regarding their online marketing strategy which Mr Bernard was under a legal obligation to keep confidential. Each website planning document contained the process which Zeald uses to plan a website for its customers and is its intellectual property. It is clear that by removing this information for his own benefit Mr Bernard breached his employment agreement.

(ii) Did he use Zeald's confidential information and/or intellectual property for a competitor's (Forge's) benefit?

[39] Zeald says that by downloading multiple examples of how its template worked in practice across a range of industries Mr Bernard ensured he had a guide for reproducing the same results which gave Zeald its competitive advantage for his (or a competitor's) customers with regard to the specific industry in which the customer operated.

[40] The Authority heard from Mr Paul Dennis, CEO of Forge and Mr Bernard's manager Mr Stephen Cadman after Mr Bernard had given his evidence. It came out for the first time during cross examination of Mr Cadman that Mr Bernard had produced a template for Forge to use with its customers.

[41] This contradicted Forge's lawyer's letter to Zeald on 30 May which said it had made inquiries and it had not received any of Zeald's confidential information. I note that Forge declined to provide Zeald with the statutory declaration it had sought addressing Forge's knowledge of Mr Bernard's activities. Forge also declined Zeald's invitation to meet to discuss its concerns about Forge's association with Mr Bernard.

[42] Mr Bernard failed to disclose he had prepared a template for Forge despite being cross examined extensively about what activities he had undertaken at Forge. He had also strongly rejected Mr David Kelly's (CEO and Director of Zeald) stated concerns that Mr Bernard had removed Zeald's website template planning documents so he could use them to obtain a competitive advantage over Zeald.

[43] The Authority's investigation meeting was reconvened after the Forge template Mr Bernard had prepared was located and produced. Forge says it did not produce this document to the Authority when its witnesses first gave their evidence because Forge had decided not to use the template with its customers so it was not readily available to retrieve. Forge claims it had deleted the template so had to retrieve it from its archives.

[44] An examination of the Forge and Zeald templates reveals Mr Bernard appears to have copied sections of Zeald's website planning template into the Forge template he prepared.

[45] Such copying breached Mr Bernard's duty to keep Zeald's confidential information confidential. I do not consider Mr Bernard's explanation that he recalled whole extracts of the Zeald template and implemented them into the Forge template without reference to any of the 100 templates he had unlawfully downloaded from Zeald's file storage systems credible.

[46] I conclude on the balance of probabilities that Mr Bernard used Zeald's template to assist him in preparing Forge's template. In other words he used Zeald's confidential information and intellectual property to benefit Zeald's competitor Forge.

[47] Mr Bernard claims the verbatim sections and other similarities are a mere coincidence. He says he was so familiar with the Zeald template and had written parts of it himself that he did not need to revert to it when preparing the Forge template. I do not accept his evidence for the following reasons:

- (a) Mr Bernard failed to disclose his preparation of the Forge template;
- (b) Even when Mr Cadman referred to the Forge template Mr Bernard did not disclose his activities in connection with the preparation of it;
- (c) Mr Bernard had available to him whilst preparing the Forge template the website templates for 100 of Zeald's clients across different industries;
- (d) Twenty six questions were copied verbatim and in the same order in which they appear in Zeald's template;

- (e) There was copying of the key elements of Zeald's template in terms of the order and flow in which the document was put together;
- (f) Most of the other questions within the Forge document that were not verbatim from Zeald's template were simply copies of the same questions contained in the Zeald template but reworded in a slightly different way;
- (g) Mr Bernard's evidence that he only removed 100 of Zeald's website planning documents in order to harvest the customer's email addresses is unlikely. He could have obtained just the email addresses from Zeald's database. Instead he removed over a thousand pages of information (100 documents each 10-12 pages long) which suggests they would have been of more benefit to him than merely providing email contact details for customers.

(iii) Did he breach his employment agreement by not disclosing his association with Protec Auto?

[48] Zeald has a robust process for requiring all employees to disclose potential conflicts of interest before they are employed. This process was applied to Mr Bernard. Mr Bernard also had an on-going duty while employed to keep Zeald updated about any future developments that may amount to a conflict of interest.

[49] Mr Bernard completed a conflict of interest declaration at the outset of his employment which disclosed two potential conflicts but not that he was the Protec Auto website administrator. Mr Bernard also failed to inform Zeald or seek its permission to undertake a website refresh for Protec Auto whilst employed by Zeald.

[50] I do not accept Mr Bernard's evidence that he disclosed his association with Protec Auto at the outset of his employment because it was not recorded, whilst the two other conflicts he disclosed were noted and approved. It does not make sense that Zeald would fail to record any information about Protec Auto if it had in fact been disclosed by Mr Bernard because that was a real conflict of interest which Zeald would have had to manage appropriately.

[51] I find that Mr Bernard's role as Protec Auto's website administrator and his upgrade of its website were actual conflicts of interest with his Zeald role so should have been disclosed to Zeald to enable it to properly manage these conflicts. Mr

Bernard therefore breached his employment by not disclosing his association with Protec Auto and the website refresh.

(iv) Did he breach his employment agreement by working for Protec Auto?

[52] Mr Bernard admits refreshing Protec Auto's website whilst employed by Zeald. Clause 9 of his employment agreement prohibits him from competing with Zeald during his employment. Zeald is the website administrator for its customers and it also provides website upgrades and refreshes for customers.

[53] Mr Bernard's role as Protec Auto's website administrator and the refresh he did to its website without Zeald's approval or knowledge directly competed with Zeald while he was still employed by it. It therefore breached his employment agreement.

[54] Clause 9 of Mr Bernard's employment agreement places a positive obligation on him to disclose any involvement with another business. He was also reminded of that when he declared his conflicts of interest at the outset of his employment.

[55] Zeald's Gifts & Benefits Policy prohibits Mr Bernard from receiving any gifts or benefits of any kind in relation to his duties with Zeald. Mr Bernard accepts he received services in kind from Protec Auto in return for his work on the website. I consider that breached the Gifts & Benefits Policy which forms part of Mr Bernard's contractual terms of employment.

[56] The Protec Auto website advertises Mr Bernard's own SEO services website and provides a back-link to that website which I also consider is a conflict of interest because that is the work Zeald employed him to do. Mr Bernard took this opportunity for himself in conflict with his contractual and common law obligations to Zeald.

[57] I consider Mr Bernard's failure to disclose the Protec Auto website refresh he did as a conflict of interest was a serious breach of his employment agreement.

[58] It would have created significant difficulties for Zeald if Mr Bernard did work for a Zeald customer who competed with Protec Auto. Zeald's customer would be very unhappy it had shared its commercially sensitive and confidential information and details about its own website marketing strategies with Mr Bernard and then

found out he was closely associated with a competitor and was helping the competitor develop their own website.

[59] It should have been obvious to Mr Bernard that this was exactly the sort of scenario that the conflict of interest policy was design to avoid.

(v) Did setting up and running/administering his four websites breach his employment agreement?

[60] Mr Bernard's evidence that he set up his four websites to assist with his own self-directed learning of SEO in order to benefit Zeald is not credible.

[61] If he had wanted to undertake self-directed learning he could and should have approached Zeald to set up a real live environment for him to test. The fact he did not suggests Mr Bernard's websites were intended for his own benefit, not to benefit Zeald. Mr Bernard's evidence on this issue did not ring true because it would have been of more benefit to him to be working with Zeald rather than in his own time, particularly given the dissatisfaction he has expressed about having to work long hours.

[62] I prefer Zeald's submission that a more credible explanation for Mr Bernard's activities with his four websites was that he was attempting to establish a business or businesses of his own for personal gain. I am influenced by the following factors:

- (a) Mr Bernard chose not to disclose his websites to Zeald during his employment;
- (b) The registered contact names for two of the websites and the registrant name of two of the websites was Mr Bernard's girlfriend rather than him from which I infer that the intended purposes of the websites was to be a business for them. The involvement of his girlfriend does not make sense if the websites were intended to benefit Zeald;
- (c) Mr Bernard's girlfriend admitted in a conversation with Zeald's private investigator that she had gone into business with Mr Bernard before correcting herself to say they would be going into business in future. Mr Bernard says his girlfriend would have been referring to a business that they had intended when he was discharged from bankruptcy. I do not accept that explanation. It does not make sense for Mr Bernard's

girlfriend to have referred to some future business which had not at that point been set up and which was not intended to come to fruition according to Mr Bernard for at least 18 months. She was already involved with his websites and she was being asked by the private investigator how she was involved with Mr Bernard in the websites he was at that point associated with (not about any future plans);

(d) Mr Bernard never advised Zeald or even indicated to it that he wished to test SEO strategies on live websites during his employment. Had he done so then Zeald would have found a way for that to occur using websites it had provided him. There would have been a number of benefits to both parties had that occurred, including:

(i) Mr Bernard would have avoided the costs of registering new domain names and hosting websites at his own personal expense which is a significant factor given his stated financial pressures and his status as an un-discharged bankrupt;

(ii) Mr Bernard would not have had to invest his own personal unpaid time in designing and developing new websites as those tasks would have been completed by Zeald staff. This is an important factor given Mr Bernard's evidence that spending quality time with his dependants and new partner was a key objective and continual challenge for him and led to him becoming resentful of the time he was spending working for Zeald;

(iii) Mr Bernard would have been paid for the time he spent testing SEO strategies. Zeald has always offered to pay overtime to Mr Bernard and given his financial challenges the extra wages that would have been paid to him by Zeald would have been of benefit to him;

(iv) The knowledge gained from the testing of SEO strategies by Mr Bernard on Zeald's websites could have been shared with Mr Bernard's wider team within Zeald's organisation therefore benefiting the organisation as a whole in

its basic knowledge rather than being confined solely to Mr Bernard.

[63] There was no reference to Zeald on any of Mr Bernard's websites from which I infer there was no intention to pass on any benefits obtained as a result of those websites to Zeald. Mr Bernard's websites record that he builds websites using open source technology which is not how Zeald works.

[64] Mr Bernard was advertising his websites and services through Trade Me. He was advertising one of his websites and his SEO services on an internet directory as early as 27 December 2012. He was also advertising his websites on many other internet directories. Mr Bernard did not refer any of the inquiries he received from these websites during his employment with Zeald to it.

[65] In an email of 09 March 2013 (prior to his resignation) Mr Bernard acknowledges he is "*just getting established independently as a 'go to' guy for SEO hopefully*". I consider this and a further comment he makes in another email dated 28 March that he is not being paid for his services "*at this stage*" are evidence of an intention to set up business in competition with Zeald.

[66] Although Mr Bernard maintains that he acquired one of the domains during his notice period but did not finish its construction until 17 May, the internet archives shows a virtually completely website with a "*get a quote*" link on 09 April, two days before his employment with Zeald ended. Further Mr Bernard received an inquiry to this website on 05 May during his restraint period.

[67] Mr Bernard mentioned to other Zeald employees that he intended to set up a SEO business and that he had a website which was ranking really well on Google. I do not accept Mr Bernard's evidence that these discussions about his business related to an entirely different website he intended to set up after he was discharged from bankruptcy (the earliest that could occur is 25 August 2014). I consider it more likely Mr Bernard was referring to the websites he was actually running at the time the comments were made (i.e. the websites in issue in this case).

[68] It is clear that Mr Bernard carried out activities in connection with these websites which were designed to increase the popularity of his websites and therefore establish him in business which competed with Zeald.

[69] Mr Bernard claims that one of his websites was designed to become a curriculum vitae for him because he did not anticipate getting glowing references from Zeald. I accept Zeald's evidence that Mr Bernard was a valued employee who it thought highly of. There was nothing to suggest he would not have been given a favourable reference.

[70] I consider Mr Bernard's evidence around this "CV" website is not credible in light of the links/pages on it which include references to "*hire me, seminars, companies, SEO services and the like.*" The timing of the website is also relevant because it went live after he gave undertakings to Zeald that he would take down all of his SEO websites. Mr Bernard gave evidence that one page had accidentally gone live without his knowledge. Subsequent to this evidence Zeald discovered that four pages of the website were live.

[71] Mr Bernard says the website did not breach his employment agreement because he offered free services. I consider it irrelevant that some of Mr Bernard's websites offered free services because the purpose of them was to:

- (a) *establish high Google rankings so that he had a springboard to launch his own business; and*
- (b) *to establish credibility in the market place and SEO expertise which he would use to promote paid services which he did in an email to one of Zeald's clients.*

[72] I find that the setting up of these four websites while he was in Zeald's employment was a breach of his duty of fidelity since these were steps taken in order to enable him to compete with his employer. Mr Bernard also received referrals from these websites which should have been, but were not, referred to Zeald as his employer.

[73] Mr Bernard's activities with the four websites he set up and was running breached his employment agreement because the purpose of the websites was to build his own credibility and presence within the SEO and wider web market for his own personal benefit unrelated to his Zeald role and in breach of his restraint of trade clause.

(v) *Did he solicit three of Zeald's employees?*

[74] Mr Bernard:

- (a) encouraged employee A to leave her employment with Zeald (she later did);
- (b) attempted to entice employee B into a sales role with him;
- (c) offered employee C a job similar to what she was doing for Zeald.

[75] Mr Bernard does not dispute having discussions with three of Zeald's employees but says employee A wanted to leave anyway and the discussions he had with employees B & C related to his long term plans for his 2014 business.

[76] I consider it more likely that the discussions Mr Bernard had with Zeald's employees related to his Forge employment and/or the website activities he was engaging in at the time the discussions occurred. Mr Bernard did not indicate to Zeald's employees that he was speaking about a role (at least more than 18 months in future) in a business he had not at that point started and which he could not progress until he was discharged from bankruptcy.

[77] When Mr Bernard was first questioned by Zeald's private investigator he admitted he had been in contact with Zeald's employees and wanted to employ them. I accept that Mr Bernard did not have the authority to offer employment or to hire employees on behalf of Forge. However, I consider Mr Bernard did solicit three of Zeald's employees to leave their employment.

[78] Mr Bernard has an implied duty of fidelity which requires him to be faithful to Zeald as his employer. I accept Zeald's submission that his attempts to encourage employees to resign their employment is inconsistent with this duty of fidelity irrespective of whether or not there was an actual job to go to.

[79] Clause 20(a)(i) of his employment agreement prohibits Mr Bernard from soliciting Zeald's employees for three months after his employment ends. Mr Bernard breached his obligation by soliciting three of Zeald's employees during the period of his restraint covenant.

(vi) *Did he solicit Zeald's customers for his own benefit?*

[80] There are two aspects to this claim;

(a) he solicited ten of Zeald's customers during his notice period; and

(b) he solicited at least 41 of Zeald's customers during his restraint period.

[81] Mr Bernard has an implied duty of fidelity in respect of the non-solicitation of customers for his own benefit during his employment with Zeald. Clause 20(a)(ii) of his employment agreement prohibits him from soliciting Zeald's customers for three months after his employment ends. Mr Bernard has not claimed the restraint was unreasonable and/or unenforceable and any such argument would not have succeeded.

[82] Mr Bernard admits breaching this clause during his employment by inviting 3-6 Zeald customers to contact him directly after his employment with Zeald ended. I find it was ten Zeald customers based on the emails produced to the Authority.

[83] This was a breach of Mr Bernard's duty of fidelity because it occurred during the employment relationship. He should not have used his notice period to encourage any of Zeald's customers to contact him after his employment ended, particularly when he knew he was subject to a three month restraint.

[84] Mr Bernard admits to emailing approximately 40 Zeald customers during his restraint period. He says he sent emails on 18 April, 28 April and 15 May soliciting work from Zeald's customers.

[85] It has been difficult to establish with certainty the number of Zeald customers Mr Bernard solicited during his restraint. Zeald produced an email Mr Bernard sent to a customer (who was also a client of Mr Smyth's) which does not fall within the categories of customers Mr Bernard admits emailing. Mr Barnard was unable to satisfactorily explain this extra unaccounted for email to a Zeald customer or why it was not referred to by him at any point in the Authority's investigation.

[86] Zeald is concerned Mr Bernard has still not given it the whole picture regarding his solicitation of its customers during his restraint. It submits that Mr Bernard's position has altered throughout the investigation into his conduct and that he has lacked transparency in respect of his actions. I accept that submission for the following reasons:

- (a) When Mr Bernard was asked by the private investigator on 23 May about soliciting Zeald's customers he said he had obtained the addresses from business cards or from his personal email address book. Mr Bernard did not say anything about having downloaded and retained 100 website planning documents of Zeald's customers. His explanation that he downloaded over a thousand pages of information to obtain 100 email addresses is not credible;
- (b) Mr Bernard told the private investigator he sent two sets of emails. This subsequently changed to three batches of emails sent to Zeald customers soliciting their business;
- (c) Mr Bernard never discloses the existence of an email to a Zeald customer who is also Mr Smyth's client. Although Mr Bernard lists the emails he sent to Zeald customers which he says he subsequently deleted, the email to this Zeald client was not one of them. I accept that this is a significant email for the reasons referred to in Zeald's submissions. This leads me to conclude that Mr Bernard's evidence about the full extent of his solicitation of Zeald's customers may not be reliable;
- (d) Mr Bernard also initially denied he had received any financial reward from his attempts to solicit Zeald's customers. However that changed when he filed the Statement of Reply in which he admitted to receiving two payments. An additional two payments which had never previously been referred to were also recorded in Mr Bernard's first witness statement.

[87] I find that Mr Bernard breached his duty of fidelity whilst employed by Zeald. He also breached clause 20(a)(ii) of his employment agreement by soliciting Zeald's customers after his employment had ended but whilst subject to a restraint covenant which prevented him from doing so.

(vi) *Did his work with Forge breach his employment agreement?*

[88] Mr Bernard's employment with Zeald ended on 11 April. He started work with Forge on 09 April whilst on paid annual leave from Zeald. This was a breach of his

implied duty of fidelity to Zeald as its employee. It was also an obvious conflict of interest that should have been, but was not, disclosed to Zeald.

[89] Clause 20(a)(i) of Mr Bernard's employment agreement prohibits him having an interest in and being engaged in any way (e.g. as an employee) in a similar or competing business to Zeald for three months after his employment ends.

[90] Forge was a competitor of Zeald so it is clear he breached this clause by working for Forge whilst subject to a restraint. I find this was a flagrant, wilful and deliberate breach. Mr Bernard's manager put him on notice about his restraint obligations and he acknowledged that he understood the restrictions on him after his employment with Zeald ended.

[91] Mr Bernard was specifically asked by Zeald where he was going to work but he declined to say. Mr Bernard says he knew Zeald would have had an issue with him going to work for Forge during his restraint period which is why he did not mention it.

[92] Mr Bernard also deliberately misled Forge when it asked whether there were any matters which would impinge on his ability to work for Forge. That was the time to have disclosed his Zeald restraint. Instead of doing so Mr Bernard made the deliberate decision to conceal his restraint so he could knowingly start work at Forge in breach of his obligations to Zeald.

[93] I consider this was a serious breach because I consider it more likely than not that Mr Bernard also provided Forge with proprietary information regarding Zeald's business processes, product offerings, customers' responses to Zeald's business processes and product offerings and that he used Zeald's confidential information to create a template for Forge.

Should Zeald be awarded damages?

[94] Zeald limits its damages claim to the financial reward Mr Bernard received from carrying out work for third parties in breach in his employment agreement. Mr Bernard is ordered to pay Zeald \$937.00 damages to compensate it for the loss of that income.

[95] As a consequence of Mr Bernard's actions Zeald incurred the costs associated with hiring a private investigator to look into his conduct. These costs were incurred

prior to the commencement of legal proceedings and therefore do not form part of the costs associated with these proceedings. I consider they may be recovered by Zeald as damages.

[96] The fees actually incurred amount to \$6,778.17 plus GST.⁴ I was provided with affidavit evidence regarding these costs and am satisfied that they were reasonably and properly incurred so consider they are recoverable.

[97] Mr Bernard is ordered to pay Zeald \$6,778.17 as damages to reimburse Zeald for the fees it has incurred by engaging a private investigator prior to commencement of legal proceedings.

What if any penalties should be imposed on Mr Bernard?

Legislation

[98] Under s.134 of the Employment Relations Act 2000 (the Act) a party to an employment agreement who breaches it is liable to a penalty. The maximum penalties increased on 01 April 2011 to \$10,000 per breach for an individual.

Standard of proof

[99] Penalty claims must be proved on the balance of probabilities but given the punitive nature of such claims it is necessary for the higher end of that scale to be met. I am satisfied that all of the breaches I have found in this case meet that test and also are sufficiently serious to warrant a significant penalty.

Summary of breaches

[100] I find that Mr Bernard breached his employment agreement at least 263 times. His breaches include:

- (a) 100 breaches relating to removing Zeald's confidential information & intellectual property – downloading 100 website planning documents (in excess of 1000 pages of information);
- (b) One breach - starting work with Forge whilst still employed by Zeald;

⁴ This excludes any costs associated with preparing a criminal complaint regarding Mr Bernard's actions

- (c) At least one breach (although possibly more depending on how many of Zeald's website templates he used to prepare the Forge template) - using Zeald's confidential information to assist him in preparing a template for Forge;
- (d) Approximately 50 breaches - failing to return approximately 50 business cards to Zeald when his employment ended;
- (e) Approximately 50 breaches - failing to delete the email addresses of approximately 50 of Zeald's customers he had retained in his personal address book after his employment ended;
- (f) One breach - not disclosing at the outset of, and during, his employment the conflict of interest inherent in him being Protec Auto's website administrator;
- (g) One breach - breaching his duty of fidelity by refreshing Protec Auto's website and receiving services in kind without disclosing this while employed by Zeald;
- (h) At least four breaches - creating four websites which competed with Zeald in breach of his duty of fidelity and restraint;
- (i) Three breaches - soliciting three of Zeald's employees to leave their employment;
- (j) Ten breaches - soliciting ten of Zeald's customers during his notice period;
- (k) At least 41 breaches - soliciting at least 41 Zeald customers while subject to a restraint of trade;
- (l) One breach – continuing to work for Forge whilst subject to his Zeald restraint of trade covenant.

Totality principle

[101] Zeald submits that each category of breach should be treated separately when awarding penalties so a separate penalty should be imposed for each individual breach. I decline to do so and instead adopt the usual approach of imposing penalties based on the totality principle. This means that one overall penalty will be imposed to reflect all of the breaches in all of the categories, including the multiple breaches which have occurred in each category.

Is a penalty appropriate?

[102] In deciding whether penalties should be imposed and if so at what level the Employment Court in *Xu v. McIntosh*⁵ set out two stage test summarised as follows:

- (a) how much harm has the breach occasioned? How important is it to bring home to the party in default that such behaviour is unacceptable or to deter others from it?
- (b) was the breach technically inadvertent or was it flagrant and deliberate? Regard must be had to the degree of harm suffered as a result of the breach.

Harm to Zeald

[103] Zeald has devoted a significant amount of time and made a significant monetary investment in its website planning templates which it believes gives it a competitive advantage in the marketplace. The website planning template appears to have been used by Mr Bernard to benefit Forge, Zeald's competitor. Mr Bernard also admits discussing Zeald's confidential website planning processes with Forge.

[104] Zeald has been caused serious harm. Mr Bernard has not only breached his restraints but has shared Zeald's confidential information and intellectual property with a competitor, Forge who is looking to expand its online business offering.

[105] Mr Bernard's decision to carry out private work whilst still employed by Zeald strikes at the heart of the employment relationship since it diverts revenue from the employer to the employee and in this case gave Mr Bernard a springboard for establishing his own business in competition.

⁵ [2004] 2 ERNZ 448.

[106] Zeald says it has invested heavily in its employees so they carry significant know-how which is of benefit to a competitor. By encouraging Zeald's employees to leave their employment Mr Bernard is attempting to undermine Zeald's investment in those employees. If they had left Zeald then it would incur the cost of training new employees which gives a competitor a springboard for their own business.

[107] Mr Bernard's solicitation of at least 51 of Zeald's customers directly harmed Zeald's goodwill and relationships with its own customers who complained that Zeald had on-sold their details without their permission.

[108] The damage Mr Bernard has caused Zeald is hard to quantify in the short term and Zeald submits it is irreparable. Mr Bernard has engaged in multiple breaches of his employment agreement. He has also engaged in multiple breaches within each discrete breach of his employment agreement.

[109] These are serious breaches which must attract a significant penalty. It is very important to bring home to Mr Bernard that his conduct is unacceptable. These were not technical or minor breaches. They were flagrant, deliberate and ongoing. It is necessary to impose a significant penalty on him to punish his conduct and to act as a deterrent to other employees who may contemplate breaching their employment obligations.

Aggravating factors

[110] There are a number of aggravating factors which need to be reflected in the level of penalty imposed.

[111] On 05 April while still employed by Zeald Mr Bernard emailed Mr Dennis at Forge adverse comments about Zeald and their product offering and suggestions on how his insider knowledge of Zeald's processes could be used to Forge's advantage in terms of its marketing strategy. Although Zeald has not pursued this as a separate breach it is nevertheless also a serious breach of Mr Bernard's duty of fidelity to Zeald. I consider it shows that Mr Bernard was actively working against Zeald for Forge's benefit whilst employed still by Zeald.

[112] I am also satisfied on the balance of probabilities that Mr Bernard deliberately intended to harm Zeald. He admitted to Zeald's private investigator he had a vendetta against Zeald. His anger (which I consider is misdirected and misguided) towards

Zeald has been evident at every stage of these proceedings. It is unlawful for Mr Bernard to seek to take revenge on Zeald in the manner in which he did and the penalty must reflect abhorrence of that type of conduct by a disaffected employee.

[113] It is of concern that Mr Bernard also appears to have breached his employment obligations to Forge. When employed by Forge he not only deliberately chose not to disclose his Zeald restraints he actively misled Forge that there was no impediment to him starting working for it immediately.

[114] Mr Bernard also failed to declare all four of the websites he was operating, which Mr Dennis told me he considers breached the conflict of interest clause in Forge's employment agreement with Mr Bernard. An email was also produced to the Authority in which (during his normal Forge working hours) Mr Bernard offers to come to a personal arrangement with someone to do work which fell within his normal Forge duties. This indicates Mr Bernard was he was prepared to make arrangements to obtain personal benefits at the expense of his employer, which suggests he does not take his employment obligations seriously. The penalty needs to send him a clear message that such behaviour is unacceptable.

[115] The number of breaches and the length of time over which they occurred are also aggravating factors. The steps Mr Bernard took to conceal his deliberate breaches of the restraint covenants are also of serious concern.

[116] Mr Bernard says there is a perception amongst former Zeald employees that it would not take action to enforce its legal rights and he knew of other ex-employees who had "*got away with it*". Significant penalties are required to correct any such misperception.

[117] Mr Bernard's responses to Zeald when it raised concerns about his breaches were inadequate and deliberately misleading. Mr Bernard acknowledges he has sought to minimise his actions and says he was reluctant to fully disclose his activities for fear of the consequences. Mr Bernard also appears to have deliberately misled Zeald and the Authority during its investigation as to the true nature of his duties at Forge. These factors should attract a high penalty.

Mitigating factors

[118] Mr Bernard has apologised to Zeald for the harm he has caused and has offered to repay the money he earned from his websites. He also has the care of a dependent child (whose mother lives overseas and is not paying child support) and he is an un-discharged bankrupt with limited financial means. Mr Bernard's future employment prospects are uncertain. He is currently engaged by Forge as a contractor and he has been invited to apply for a permanent position (competing with other applicants) with Forge.

Outcome

[119] I impose a penalty of \$50,000 on Mr Bernard for his multiple breaches of his employment agreement. I do not consider that an award of a penalty is futile merely because Mr Bernard is a bankrupt. Mr Bernard's ability to pay is an issue which should be addressed at the penalty recovery stage, whenever that may be.

Should some or all of the penalty be paid to Zeald?

[120] It is usual for penalties to be paid to the Crown bank account. However, in this case I consider it more appropriate to award the full \$50,000 penalty to Zeald. This leaves enforcement in Zeald's hands rather than with the Crown.

[121] These breaches relate to breaches by Mr Bernard of his contractual relationship with Zeald rather than to breaches of statutory obligations. Zeald has suffered significant harm as a result of Mr Bernard's actions and not all of the damage that it has sustained and/or costs it has incurred will be recoverable and/or recovered.

[122] I therefore consider it appropriate to award Zeald all of the penalty to go some way towards addressing Mr Bernard's unacceptable actions towards it.

Costs

[123] Zeald as the successful party is entitled to a contribution towards its actual costs. The parties are encouraged to resolve costs by agreement. If that is not possible Zeald has 14 days within which to file a costs application. Mr Bernard has 14 days within which to respond, with Zeald having a further 7 days within which to reply.

Rachel Larmer
Member of the Employment Relations Authority