

**IN THE HIGH COURT OF NEW ZEALAND  
AUCKLAND REGISTRY**

**I TE KŌTI MATUA O AOTEAROA  
TĀMAKI MAKĀURAU ROHE**

**CIV-2016-404-1773  
[2017] NZHC 2294**

UNDER the Copyright Act 1994  
IN THE MATTER of Copyright Infringement and Breach of  
Confidence  
BETWEEN OTOY NEW ZEALAND LIMITED  
Plaintiff  
AND ANDREY KOZLOV  
First Defendant  
PINKSOFT S.R.O (Discontinued)  
Second Defendant

Hearing: 25 August 2017  
Appearances: J C Dickson and J N Simpson for the Plaintiff  
No appearance for First Defendant  
Judgment: 22 September 2017

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**JUDGMENT OF MUIR J**

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*This judgment was delivered by me on Friday 22 September at 10.30 am Pursuant to Rule 11.5 of the High court Rules.*

*Registrar/Deputy Registrar*

*Date: .....*

Solicitors/Counsel:  
J C Dickson, Simpson Grierson, Auckland  
J N Simpson, Simpson Grierson, Auckland

Copy to First Defendant

## **Introduction**

[1] The plaintiff, Otoy New Zealand Ltd (Otoy), is a software development and IT company based in Auckland. Otoy owns the rights to the Octane Render 3D Rendering products (the Octane software).

[2] The first defendant, Andrey Kozlov, is a software developer and was employed by Otoy between February 2012 and April 2015. The second defendant, Pinksoft S.R.O (Pinksoft), is a company based in the Russian Federation of which Mr Kozlov is an officer.

[3] While in Otoy's employment, Mr Kozlov allegedly copied the confidential source codes for the Octane software.<sup>1</sup> After he left their employment, Otoy says that Mr Kozlov began promoting a competing software programme, FStormRender, using the same underlying source codes. Otoy says that Pinksoft is the vehicle through which he marketed and supplied the FStormRender software.

[4] Otoy now seeks judgment by way of formal proof against Mr Kozlov. It has three causes of action, namely primary and secondary copyright infringement, and breach of confidence. By way of relief it seeks declarations, permanent injunctions, an order for delivery up of the infringing objects, nominal compensatory damages, and additional/exemplary damages in the sum of \$75,000.

## **Factual background to Otoy's claims**

[5] Mr Kozlov was employed by Refractive Software Ltd (Refractive) in September 2011 to assist with the development of Refractive's Octane software.

[6] In February 2012, Otoy acquired Refractive and the rights to the Octane software, including all copyrights. Mr Kozlov was then employed by Otoy as a software development engineer. His employment agreement relevantly included provisions for the protection of confidential information and the assignment of all intellectual property rights to Otoy. It also included a restraint of trade clause that

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<sup>1</sup> The source code is a series of instructions and commands that are written by a person and that constitute a software programme.

prevented Mr Kozlov from involving himself in any way with a competing business for a period of twelve months after leaving Otoy's employment.

[7] Mr Kozlov's role as software engineer with Otoy was primarily to develop the Octane software. Mr Julian Urbach, the founder and Chief Executive Officer of Otoy Inc (the United States parent company of Otoy New Zealand Ltd), describes the Octane software as a rendering engine that runs on the computer's graphics processing unit. It creates computer-generated pictures using underlying measures of an item that it renders to create an image of that item. The Octane software is used in the film, entertainment, architecture and advertising industries, among others. Mr Urbach says that it is a "leading edge, niche, software" in which Otoy has invested significant time and expense. The Octane software generates significant revenue for Otoy and is of considerable value to the company.

[8] Mr Kozlov resigned in April 2015. He left New Zealand after his resignation, and now appears to reside in Russia. Around March 2016, Mr Urbach says that Otoy became aware that software called FStormRender was being developed and made available to users on a non-commercial basis online. The FStormRender software is registered to Pinksoft, a company that Mr Kozlov registered abroad. On further investigation, Otoy became concerned because the FStormRender software appeared to be a copy of the Octane software.

[9] Mr Kozlov initially attempted to disguise his involvement with FStormRender, listing the alias "Dron Kozy" as the administrator of the website. However, on being contacted by Mr Urbach via Facebook he acknowledged that Dron Kozy was him.

### **Entitlement to hearing by formal proof**

[10] Otoy filed proceedings against Mr Kozlov and Pinksoft on 29 July 2016, claiming breach of confidence and infringement of copyright. At the same time, it filed a without notice application for an interim injunction and ancillary orders. Woodhouse J granted that application on 29 July 2016, making orders that (broadly) restrained Mr Kozlov from using or disclosing Otoy's confidential information and

from promoting, offering for sale or download, or otherwise disseminating the FStormRender software. Mr Kozlov was served with a copy of those orders.

[11] Mr Kozlov filed a statement of defence on 23 August 2016.

[12] On 1 March 2017, Otoy filed an interlocutory application for orders striking out Mr Kozlov's statement of defence on the grounds that he had failed to comply with Woodhouse J's orders. Brewer J was satisfied that, beyond a "token effort" to comply with such orders, by blocking New Zealand users from the Russian website, Mr Kozlov was wilfully disobeying them. He continued to promote the FStormRender software and failed to disable links allowing it to be downloaded. His Honour granted Otoy's application and struck out Mr Kozlov's defence.<sup>2</sup>

[13] Otoy also sought injunctive relief in the Russian Federation, where Mr Kozlov is based, and that relief was granted on an interim basis by the Moscow City Court in April 2017.

[14] I then heard Otoy's application for a formal proof on 25 August 2017,<sup>3</sup> having declined to adjourn the hearing.<sup>4</sup> The onus is on Otoy to satisfy the Court that judgment should be entered against the two defendants.

### **Primary copyright infringement**

[15] Otoy's first cause of action is primary copyright infringement: it claims that its copyright has been infringed in the computer programme, including source and object code, for each version of the Octane software, including the "3ds Max plug-in".

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<sup>2</sup> *Otoy New Zealand Ltd v Kozlov* [2017] NZHC 1485.

<sup>3</sup> Otoy relies on r 7.48 of the High Court Rules 2016 (enforcement of interlocutory order).

<sup>4</sup> On 23 August 2017 Mr Kozlov filed a document intitled "Petition on Postponing a Court Session", which effectively amounted to asserting a defence. His defence was struck out by Brewer J, and I concluded that I had no jurisdiction to reinstate it; see *Otoy New Zealand Ltd v Kozlov* HC Auckland CIV-2016-404-1773, 25 August 2017 (Oral Minute).

[16] The Supreme Court in *Henkel KGaA v Holdfast New Zealand Ltd* has made it clear that to succeed in an action for breach of copyright the plaintiff must establish two things:<sup>5</sup>

- (a) that it is the owner of a copyright work; and
- (b) that the defendant has infringed the plaintiff's copyright in that work.

[17] A number of sub-categories exist within these two broad headings and the relevant requirements within each must also be established.

### **Owner of a copyright work**

[18] The law of copyright in New Zealand is governed by the Copyright Act 1994 (the Act). Section 2(1) of the Act defines a "copyright work" as any of the descriptions in s 14(1) in which copyright exists. Section 14 provides:

#### **14 Copyright in original works**

- (1) Copyright is a property right that exists, in accordance with this Act, in original works of the following descriptions:
  - (a) literary, dramatic, musical, or artistic works:
  - (b) sound recordings:
  - (c) films:
  - (d) communication works:
  - (e) typographical arrangements of published editions.
- (2) A work is not original if—
  - (a) it is, or to the extent that it is, a copy of another work; or
  - (b) it infringes the copyright in, or to the extent that it infringes the copyright in, another work.

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<sup>5</sup> *Henkel KGaA v Holdfast New Zealand Ltd* [2006] NZSC 102, [2007] 1 NZLR 577 at [34].

[19] I am concerned here with a literary work, which is defined in s 2(1) of the Act as including a computer programme. The Court of Appeal clarified in *Karum Group LLC v Fisher & Paykel Financial Services Ltd* that:<sup>6</sup>

The literal elements of a computer program are normally taken to comprise the source and object code. Copyright protection undoubtedly extends to source and object code.

[20] Having established that the work in which it is claiming copyright falls within the s 14(1) categories, Otoy must next demonstrate that the Octane software is an original work.<sup>7</sup> The Supreme Court has noted that “[the] threshold for originality is a low one and it can be material for other purposes how original the work is; that is, how much skill and labour has gone into its creation”.<sup>8</sup> Mr Urbach deposes that the Octane software is a unique product at the forefront of the market for rendering technology. He says it is an original work and not a copy of any software, and was purchased from Refractive Software Ltd for substantial consideration. Otoy has since invested considerable time and expense in developing the Otoy software. I am satisfied on the evidence that the Octane software is an original work for the purposes of copyright protection.

[21] Otoy must also establish that the author of the Octane software was a New Zealand citizen or resident, or a body incorporated under the law of New Zealand;<sup>9</sup> and that the Octane Software was first “published” in New Zealand.<sup>10</sup> The Octane software appears to be a work of “joint authorship” of Refractive, its creator, and Otoy, which purchased the rights to the Octane software and developed it further.<sup>11</sup> I am satisfied on Mr Urbach’s evidence that both Refractive and Otoy are companies incorporated in New Zealand and that the Octane software was first made available in New Zealand.

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<sup>6</sup> *Karum Group LLC v Fisher & Paykel Financial Services Ltd* [2014] NZCA 389, [2014] 3 NZLR 421 at [101]. See also *International Business Machines Corp v Computer Imports Ltd* [1989] 2 NZLR 395 (HC) at 408.

<sup>7</sup> Copyright Act 1994, s 14; *Henkel*, above n 5, at [37].

<sup>8</sup> *Henkel*, above n 5, at [38].

<sup>9</sup> Copyright Act, s 18(1). Section 18(2) of the Copyright Act makes additional provision for authors who are citizens or residents of a “prescribed foreign country”, but Otoy does not rely on that provision.

<sup>10</sup> Copyright Act, s 19.

<sup>11</sup> Section 18(3) of the Copyright Act governs joint authorship, and says that a work of joint authorship qualifies for copyright if, at the material time, any of the authors satisfied the requirements of subsection (1) or subsection (2).

[22] Finally, I accept that Otoy owns the Octane software in that it purchased the rights to the Octane software when it acquired Refractive in 2012. The terms of sale and purchase of the business make it clear that Otoy purchased from Refractive all the rights, title and interest in the Octane software.<sup>12</sup>

[23] I am therefore satisfied that Otoy is the owner of a copyright work, namely the Octane software.

*Infringement of copyright*

[24] The owner of a copyright work has the exclusive right to copy the work and to issue copies of the work to the public, whether by sale or otherwise.<sup>13</sup> Copyright in a work is infringed when a person makes a copy of the work without the owner's authorisation.<sup>14</sup>

[25] The plaintiff must establish the following elements in order to prove infringement:<sup>15</sup>

- (a) there must be sufficient objective similarity between the infringing work and the copyright work;
- (b) the defendant must have copied either the entirety or a "substantial part" of the copyright work; and
- (c) there must be some causal connection between the copyright work and the infringing work.

[26] The Court in *Henkel* noted that the "ultimate issue in a breach of copyright case concerns derivation, not similarity", but that "the degree of similarity between the copyright work and the allegedly infringing work has evidentiary significance".<sup>16</sup>

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<sup>12</sup> See cls 15.1 and 15.2 of the transfer agreement.

<sup>13</sup> Copyright Act, s 16(1).

<sup>14</sup> Copyright Act, s 29; see also the definition of "restricted act" in s 2(1) and *Henkel*, above n 5, at [42].

<sup>15</sup> *Wham-O MFG Co v Lincoln Industries* [1994] 1 NZLR 641 (CA) at 666; see also *Henkel*, above n 5, at [42]–[44].

<sup>16</sup> At [43].

Otoy says that there are common and identical aspects comparing the Octane software and the FStormRender software, and alleges that Mr Kozlov used the source code for the Octane software as a template for the Octane software.

[27] In particular, Otoy draws attention to the following aspects of similarity:

- (a) the default values of the user interface dialogues are the same, meaning the same options are available to users and the same response occurs when a user selects an option or options;
- (b) the FStormRender software contains the same unique human typographical errors as the Octane software within spans of identical Octane software source code of approximately 100 or more characters long, such source code having been created specifically and solely for the Octane software and appearing in no other software in the world prior to the release of the FStormRender software;
- (c) the Octane software combo box options and the FStormRender combo box options are largely the same;
- (d) several Octane software setting options have been directly repeated in the FStormRender setting options, including in particular the term “GI clamp” which is a term that is unique to, and was created for, the Octane software which is used to compress the contribution of indirect light in a scene;
- (e) screen shots demonstrate identical features and/or very close similarities between the Octane software and the FStormRender software;
- (f) there are numerous instances where the same proxy objects (being place holders for something else) as are used in the Octane software have been used in FStormRender with almost the same ideology and almost the same user interface;

- (g) there are significant underlying similarities in the textual source code and resource script;
- (h) FStormRender leverages the source code used in the Octane software to convert Octane files so these can be loaded onto the FStormRender software; and
- (i) the second version of the Octane software, which Mr Kozlov was working on prior to leaving Otoy, had lower-case letters at the start of each setting dialogue, and the FStormRender software uses similar lower-case formatting.

[28] Otoy has provided supporting evidence of each of the above allegations. Having reviewed the affidavit evidence, the attached screenshots, and relevant portions of the source code of the Octane software and FStormRender, I am satisfied that there is extensive similarity between the Octane software and FStormRender. The unique typographical errors that are repeated in the FStormRender source code (for example the duplication of ‘ff’ in floor) are a particularly good example of the level of similarity between the two works. As Hoffmann J observed in *Billhofer Maschinenfabrik GmbH v Dixon & Co Ltd*:<sup>17</sup>

It is the resemblances in inessentials, the small, redundant, even mistaken elements of the copyright work which carry the greatest weight. This is because they are least likely to have been the result of independent design.

[29] I am also satisfied that a “substantial part” of the Octane software is reproduced in the FStormRender software. Mr Urbach estimates that more than 70 per cent of the intellectual property and the overall look and feel of the FStormRender software infringes on Otoy’s rights in the Octane software. He considers that “crucial elements” of the Octane software have been copied, including user-interface portions that dictate how the customers sees and interacts with the software.

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<sup>17</sup> *Billhofer Maschinenfabrik GmbH v Dixon & Co Ltd* [1990] FSR 105 at 123, cited in *Ibcos Computers Ltd v Barclays Mercantile Highland Finance Ltd* (1994) 29 IPR 25 (Ch) at 44.

[30] As to the necessary causal connection, Mr Kozlov had access to the Octane software during his employment with Refractive and Otoy, and indeed was employed specifically to assist with the development of the Octane software. I accept Otoy's submission that the nature, type and extent of commonality between the Octane software and FStormRender can be explained only if Mr Kozlov copied or otherwise replicated substantial parts of Otoy's software code to which he had access during his employment with Otoy. In the English case *Ibcos Computers Ltd v Barclays Mercantile Highland Finance Ltd*, Jacob J considered that minor spelling mistakes common to both software programmes, alongside other similarities, indicated copying.<sup>18</sup> Like his Honour, I am "quite incapable of believing that this is all due to coincidence".<sup>19</sup> I consider it almost impossible to believe that Mr Kozlov could have independently written the FStormRender software in a way which so closely duplicates the Octane software, including the same flawed lines of code and text.

[31] It follows that I am satisfied Mr Kozlov has copied the Octane software, a work protected by copyright, and therefore Otoy's first cause of action (primary copyright infringement) is made out.

### **Secondary copyright infringement**

[32] Otoy also claims secondary copyright infringement under s 36 of the Copyright Act:

#### **36 Possessing or dealing with infringing copy**

Copyright in a work is infringed by a person who, in New Zealand, other than pursuant to a copyright licence,—

- (a) possesses in the course of a business; or
- (b) in the course of a business or otherwise, sells or lets for hire; or
- (c) in the course of a business, offers or exposes for sale or hire; or
- (d) in the course of a business, exhibits in public or distributes; or
- (e) distributes otherwise than in the course of a business to such an extent as to affect prejudicially the copyright owner—

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<sup>18</sup> *Ibcos Computers Ltd v Barclays Mercantile Highland Finance Ltd*, above n 17, at 44–45.  
<sup>19</sup> At 45.

an object that is, and that the person knows or has reason to believe is, an infringing copy of the work.

[33] The discussion of primary copyright infringement above demonstrates that FStormRender is an infringing copy of the Octane software, a work protected by copyright. As to the requirement for knowledge on the part of the defendant, I note that “knows” imposes a subjective test as to the defendant’s actual knowledge. However, the phrase “reason to believe” is broader and includes constructive knowledge.<sup>20</sup> Knowledge is appropriately attributed to the defendant where the defendant has facts within his or her knowledge from which it would be obvious that something was an infringing copy.<sup>21</sup> Here, Mr Kozlov’s employment agreement with Otoy provided that all intellectual property created or generated by Mr Kozlov during his employment, including all copyright works, was the exclusive property of Otoy. I therefore consider that Mr Kozlov had reason to believe that FStormRender was an infringing copy of the Octane software.

[34] Otoy says that Mr Kozlov has breached ss 36(a) and 36(c): Mr Kozlov first made the infringing copies during his employment with Otoy in New Zealand and therefore possessed them in the course of a business (s 36(a)); and he offered those infringing copies for sale in New Zealand and elsewhere through the FStormRender website (s 36(c)). Mr Kent Teague and Mr Andrew Brettler depose that the FStormRender website was accessible in New Zealand in 2016, and that various versions of FStormRender were available for download from that website. They say that the newer versions are substantially the same as the older versions, and continue to use the Octane software source code. They attach screenshots of the website which confirm their evidence. It is not clear on the evidence whether Mr Kozlov has yet offered FStormRender for sale, rather than simply making it available for free download, so I do not find established on the balance of probabilities a breach of s 36(c) of the Act. However, I accept that Mr Kozlov possessed infringing copies of the Octane software in the course of business in New Zealand, and therefore that he is liable for secondary copyright infringement under s 36(a) of the Act.

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<sup>20</sup> *Jeanswest Corp (New Zealand) Ltd v G-Star Raw CV* [2015] NZCA 14, (2015) 13 TCLR 787 at [110].

<sup>21</sup> *LA Gear Inc v Hi-Tec Sports plc* [1992] FSR 121 (Ch) at 129, cited in *Husqvarna Forest & Garden Ltd v Bridon New Zealand Ltd* [1997] 3 NZLR 215 (HC) at 226.

## **Breach of confidence**

[35] Otoy's third and final cause of action is in breach of confidence. It says that Mr Kozlov breached an equitable obligation of confidence owed to Otoy.

[36] To establish breach of confidence, Otoy must show:<sup>22</sup>

- (a) that the information was confidential, meaning it must not be something which is publicly known;
- (b) that the information was imparted in circumstances importing an obligation of confidence, which implies some kind of dealings between the parties (not necessarily resulting in a contract); and
- (c) an unauthorised use of the information by the defendant.

[37] The Court of Appeal has described confidential information in the following way:<sup>23</sup>

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

[38] I accept Otoy's submission that significant time, effort, investment and expertise was required to create the Octane software source code. In the words of the Court of Appeal, Mr Kozlov would otherwise need to have done a lot of work to create a source code for FStormRender afresh, and that work has been avoided by using the Octane software source code.

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<sup>22</sup> *Hunt v A* [2007] NZCA 332, [2008] 1 NZLR 368 at [65].

<sup>23</sup> *Skids Programme Management Ltd v McNeill* [2012] NZCA 314, [2013] 1 NZLR 1 at [80].

[39] I also accept that Otoy has itself taken steps to preserve the secrecy of the source code: access to the code is personally signed off by Mr Urbach, founder and CEO of Otoy Inc, and employees are only permitted to work on the code on Otoy premises. Mr Kozlov's employment agreement included comprehensive confidentiality provisions.

[40] I therefore accept that the Octane software source code has the necessary quality of confidentiality.

[41] For the same reasons, namely the restriction of access to the source code and the confidentiality provisions in Mr Kozlov's employment agreements, I consider that the information was also communicated in circumstances importing a duty of confidence. It was objectively made clear to Mr Kozlov that Otoy expected he would keep the information strictly confidential.

[42] Finally, and for the reasons expressed in relation to primary copyright infringement above, I also consider that Mr Kozlov has made unauthorised use of that confidential information (the Octane software source code) in copying it and using it to create the competing software programme FStormRender.

### **Relief**

[43] Otoy seeks the following by way of relief:

- (a) a declaration that Mr Kozlov has infringed Otoy's copyright in the Octane software (first and second causes of action);
- (b) a declaration that Mr Kozlov is in breach of an obligation of confidence (third cause of action);
- (c) permanent injunctions restraining the conduct complained of (all causes of action);
- (d) an order for delivery up of the infringing objects to the plaintiff, or destruction, pursuant to ss 122 and 134 of the Copyright Act;

- (e) damages (all causes of action);
- (f) additional damages under s 121(1) of the Copyright Act (first and second causes of action);
- (g) exemplary damages (third cause of action);
- (h) judgment in the amounts as determined by the Court (third cause of action); and
- (i) interest and costs (all causes of action).

### *Declarations*

[44] I see no restrictions in granting declarations in the following terms:

- (a) Mr Kozlov has infringed Otoy's copyright in the Octane 3D Rendering software products (primary and secondary infringement);
- (b) Mr Kozlov's use of confidential information imparted to him during his employment with Otoy and Refractive, including the use of that information in the development of the FStormRender software, is in breach of an obligation of confidence and is therefore unlawful.

### *Injunctions*

[45] The nature of copyright property means that an injunction has been described as a "peculiarly suitable and indeed the normal remedy".<sup>24</sup> Here, Otoy has established Mr Kozlov's liability for copyright infringement and breach of confidence, and those breaches are ongoing: Mr Kozlov has failed to comply with the orders of Woodhouse J restraining him from offering FStormRender for sale or download.

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<sup>24</sup> *Australasian Performing Rights Association Ltd v Koolman* [1969] NZLR 273 (SC) at 276.

[46] In the circumstances, I see no reason not to grant permanent injunctions in the following terms:

- (a) Mr Kozlov and his agents, including Pinksoft Ltd, a company registered in the Russian Federation, and the directors, officers or employees of Pinksoft Ltd, must not copy the whole or a substantial part of the Octane software, or offer for sale, download or supply the infringing FStormRender software or any other copy of the whole or a substantial part of the Octane software; and must not cause or authorise copies of the whole or a substantial part of the Octane software to be communicated and/or issued to members of the public;
- (b) Mr Kozlov and his servants or agents, including Pinksoft Ltd, a company registered in the Russian Federation, must not use Otoy's confidential information obtained by Mr Kozlov during his employment with both Otoy and Refractive, and must not disseminate to the public, through the FStormRender website or otherwise, the FStormRender software or any other of Otoy's confidential information.

### **Delivery up or destruction**

[47] Section 122 of the Copyright Act provides for delivery up of the infringing material:

#### **122 Order for delivery up in civil proceedings**

- (1) Where a person—
  - (a) has an infringing copy of a work in that person's possession, custody, or control in the course of a business; or
  - (b) has in that person's possession, custody, or control an object specifically designed or adapted for making copies of a particular copyright work, knowing or having reason to believe that the object has been or is to be used to make infringing copies,—

the owner of the copyright in the work may apply to the court for an order that the infringing copy or object be delivered up to the copyright owner or such other person as the court may direct.

- (2) No order shall be made unless the court also makes, or it appears to the court that there are grounds for making, an order under section 134.
- (3) A person to whom an infringing copy or other object is delivered up in pursuance of an order under this section shall, if an order under section 134 is not made, retain the copy or object pending the making of an order, or the decision not to make an order, under that section.
- (4) Notwithstanding any rule of court, an order may be made pursuant to this section on an *ex parte* application by the copyright owner where service of notice of the application would cause undue delay or other serious detriment to the copyright owner.
- (5) Nothing in this section affects any other power of the court.

[48] Section 122(2) makes clear that the Court may not make an order for delivery up unless there are grounds for making an order under s 134 of the Copyright Act.

[49] Following an order for delivery up, the Court may make an order for destruction of the infringing copy under s 134 of the Copyright Act. Section 134(2) requires the Court to have regard to:

- (a) whether other remedies available in proceedings for infringement of copyright would be adequate to compensate the copyright owner and to protect the interests of the copyright owner; and
- (b) the need to ensure that no infringing copy is disposed of in a manner that would adversely affect the copyright owner.

[50] Given Mr Kozlov's flagrant breaches of Woodhouse J's interim orders, I consider that delivery up is appropriate to ensure Mr Kozlov's compliance with the terms of the injunctions set out above. In *Pacific Software Technology Ltd v Perry Group Ltd*, the Court of Appeal clarified that an order for delivery up of the source code for a computer programme is possible under s 122 of the Copyright Act.<sup>25</sup> It noted that "copying" has the extended meaning in s 2(1) of the Act, and includes storing the work in a digital format.<sup>26</sup>

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<sup>25</sup> *Pacific Software Technology Ltd v Perry Group Ltd* [2004] 1 NZLR 164 (CA) at [102].

<sup>26</sup> At [102].

[51] Consequent on delivery up, I would also order destruction of the infringing copies under s 134 of the Copyright Act, as I regard this as necessary to protect Otoy's interests.

### *Damages*

[52] Compensatory damages are designed to compensate the plaintiff for their loss, putting them in the position they would have been in had the infringements not occurred. The leading New Zealand decision on assessing the quantum of compensatory damages for copyright infringement is *Electroquip Ltd v Craigco Ltd (No 2)*.<sup>27</sup> Rodney Hansen J said there are two elements to the calculation.<sup>28</sup>

- (a) the first entitles the plaintiff to recover the profits it would have earned on sales of its own product lost as a result of the infringement, which requires a determination of how many sales the plaintiff lost as a result of the infringement and then an assessment of the profit it would have earned on those sales; and
- (b) the second entitles the plaintiff to a notional royalty for the use of the plaintiff's copyright in respect of sales by the defendants.

[53] Although contending that it has suffered damage as a result of Mr Kozlov's actions, Otoy is unable to produce evidence of actual or tangible damage through lost sales as it has not had access to Mr Kozlov's sales records or financial information. It therefore seeks only nominal compensatory damages, and a substantial award of additional and/or exemplary damages to reflect the fact that it has not been effectively compensated. I therefore turn to the question of additional damages and exemplary damages.

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<sup>27</sup> *Electroquip Ltd v Craigco Ltd (No 2)* HC Auckland CIV-2006-404-6719, 29 April 2010; described as the leading case in Ian Finch (ed) *James and Wells: Intellectual Property Law in New Zealand* (3rd ed, Thomson Reuters, Wellington, 2017) at 488.

<sup>28</sup> At [4] and [29].

*Additional/exemplary damages*

[54] Otoy seeks additional damages under the Copyright Act of \$75,000 and exemplary damages for breach of confidence of the same sum.

[55] Exemplary damages are available for breach of confidence.<sup>29</sup> Additional damages are available under s 121(2) of the Copyright Act:

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

(1) ...

(2) In proceedings for infringement of copyright, the court may, having regard to all the circumstances and in particular to—

(a) the flagrancy of the infringement; and

(b) any benefit accruing to the defendant by reason of the infringement,—

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

...

[56] Additional damages under the Copyright Act have a punitive element, and are appropriate where the Court is satisfied that other remedies would not provide effective relief.<sup>30</sup> The Court of Appeal in *Skids Programme Management Ltd v McNeill* indicated that the power to award additional damages under s 121 is to be exercised applying principles that correspond to those which govern awards of exemplary damages at common law.<sup>31</sup> Drawing on that analogy, the Court indicated that.<sup>32</sup>

...first it must be shown that the claimant was the victim of “punishable behaviour”, secondly that there should be moderation in awards and thirdly that the means of the parties should be considered.

[57] In *Wellington Newspapers Ltd v Dealers Guide Ltd*, a case where Wellington Newspapers reprinted in their own newspaper a large portion of the Dealers Guide, a

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<sup>29</sup> *Skids Programme Management Ltd v McNeill*, above n 23, at [123].

<sup>30</sup> *Wellington Newspapers Ltd v Dealers Guide Ltd* [1984] 2 NZLR 66 (CA) at 70.

<sup>31</sup> *Skids Programme Management Ltd v McNeill*, above n 23, at [106].

<sup>32</sup> At [110].

publication listing current trade prices for second-hand motor vehicles, the Court of Appeal made the following comments on the flagrancy of the infringement:<sup>33</sup>

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

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

What is flagrant must of course be a question of fact and degree to be decided against the background of relevant facts. I think that what happened here can certainly be said to be glaring or outrageous. The appellant stole the respondent's property and used it in a publication which it had put together. What it did was to lessen the value of a publication the sale of which was the respondent's sole source of income. It dressed up the material as though it were its own and added it to the range of subjects dealt with in Truth. The inference is that the publication of this material was intended to help maintain, if not increase the sales of Truth. And, but for the prompt issue of the injunction proceedings, it may well have succeeded at the economic expense of the respondent. Such deliberate deceit fits the description of flagrant.

[58] In my view Mr Kozlov's conduct in copying the Octane software source code during his employment with Otoy, while subject to strict confidentiality provisions, and then using it to create a competing software programme amounts to "deliberate and calculated" copyright infringement. It is appropriately characterised as flagrant for the purposes of s 121 of the Copyright Act. This is all the more so considering Mr Kozlov's deliberate disregard for Woodhouse J's orders, in that he continued to make the FStormRender software available overseas before the hearing.<sup>34</sup> I consider that Otoy was the victim of punishable behaviour.

[59] Further, while Otoy did not provide evidence as to the benefit accruing to Mr Kozlov as a result of the infringement, it is reasonable to infer that Mr Kozlov is likely to have benefited financially to some extent from his distribution of FStormRender.

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<sup>33</sup> *Wellington Newspapers Ltd v Dealers Guide Ltd*, above n 30, at 69–70.

<sup>34</sup> The Court may take into account all the conduct of the parties up until the time of judgment; *Skids Programme Management Ltd v McNeill*, above n 23, at [108].

[60] *Jeanswest Corp (New Zealand) Ltd v G-Star Raw CV* provides useful guidance as to the quantum of additional damages.<sup>35</sup> In that case, the Court of Appeal awarded \$50,000 in additional damages. Jeanswest had blatantly copied G-Star's original designs for biker jeans, but the quantity it imported was very small – just 63 pairs of jeans. Further, Jeanswest immediately desisted selling the jeans when it received a letter from G-Star's solicitors, although by that time all the jeans had admittedly been sold. Aspects of the way Jeanswest had defended the claim reflected badly on it, for example the very late disclosure of a sample order. Jeanswest was also required to pay \$325, representing the profit it had made on the sale of the jeans.

[61] The Court in *Jeanswest* annexed a table of copyright infringement cases in which additional damages were awarded. I set out those which are relevant or comparable to the present case:

- (a) In *Callista Group Ltd v Zhang*,<sup>36</sup> Mr Zhang was a computer programmer who was employed by the plaintiff for approximately five years. During that time, he developed computer programmes for other entities that were based substantially on the plaintiff's software programmes. He did so in such a way that the security of the plaintiff's protective Keycode systems embedded in their programmes was jeopardised. The plaintiff provided detailed evidence of the losses that they suffered and costs they incurred in investigating Mr Zhang's wrongdoing. They estimated their total losses at \$382,029, and Mr Zhang's economic benefit from his copyright infringement at \$122,360. The plaintiff was ultimately awarded \$150,000 in damages. That figure included compensatory damages as well as additional damages, with no attempt to separate the two.
  
- (b) In *Skids Programme Management*, Skids Programme Management operated a childcare franchise. After termination of their franchise agreement with Skids, the defendants set up a competing business and

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<sup>35</sup> *Jeanswest Corp (New Zealand) Ltd v G-Star Raw CV*, above n 20.

<sup>36</sup> *Callista Group Ltd v Zhang* HC Auckland CIV-2003-404-5127, 11 July 2005.

infringed Skids' copyright by copying Skids' policies and procedural manual as well as other documents. The Court of Appeal considered the copying was extensive and deliberate; the defendant repeatedly denied copying throughout the trial; and this was the only penalty, but on the other hand the defendant was an enterprise of a modest nature. Skids was awarded \$20,000 in additional damages, described as a "moderate but distinct award which marks what we consider to be outrageous behaviour".<sup>37</sup>

- (c) In *Venus Adult Shops Pty Ltd v Fraserside Holdings Ltd*,<sup>38</sup> an Australian case, Venus infringed Fraserside's copyright in pornographic films. The first instance Judge found that Venus knew the copying was illegal, making its conduct flagrant. The Judge also took account of the fact that Venus had failed on a number of occasions to comply with court orders (such as orders for delivery up) and rarely met deadlines. The Judge awarded AU\$85,000 in additional damages.
- (d) In *Review Australia Pty Ltd v New Cover Group Pty Ltd*,<sup>39</sup> the Federal Court of Australia awarded additional damages of AU\$50,000: although not satisfied that the defendant's copying of a registered dress design was flagrant, the Court considered that the defendant's conduct in the proceedings (deficiencies in discovery; inadequate responses to the plaintiff's notice to produce; failure to attend court for cross-examination) warranted additional damages.

[62] In my view an award of additional/exemplary damages in the order of \$50,000 would be more appropriate than the \$75,000 Otoy seeks. This takes into account Mr Kozlov's deliberate copying and concealment of that copying, as well as his flagrant disregard for court orders. However, it remains a modest award in keeping with cases such as *Skids Programme Management* and the Court of Appeal's comments that moderation is needed in awards of additional/exemplary damages.

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<sup>37</sup> At [119].

<sup>38</sup> *Venus Adult Shops Pty Ltd v Fraserside Holdings Ltd* [2006] FCAFC 188, (2006) 157 FCR 442.

<sup>39</sup> *Review Australia Pty Ltd v New Cover Group Pty Ltd* [2008] FCA 1589, (2008) 79 IPR 236.

## **Result**

[63] I award compensatory damages in the amount of \$1 (cumulatively on all causes of action)

[64] I award additional/exemplary damages of \$50,000 (cumulatively on all causes of action).

[65] I grant declarations in the terms set out in [44].

[66] I grant permanent injunctions in the terms set out in [46].

[67] I grant an order for delivery up of the infringing copies to the plaintiff and for their subsequent destruction.

## **Costs**

[68] Otoy is entitled to costs on its application. These may be settled by the Registrar on provision of appropriate supporting documents.

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**Muir J**