

IN THE HIGH COURT OF NEW ZEALAND
HAMILTON REGISTRY

A.237/83

110

BETWEEN URBAN SPORTS APPAREL (NEW ZEALAND) LIMITED a duly incorporated company having its registered office at Christchurch and carrying on business there and elsewhere as apparel merchandisers

PLAINTIFF

AND URBAN SPORTS APPAREL (REMUERA) LIMITED a duly incorporated company having its registered office at 156 Vincent Street, Auckland, and carrying on business as apparel retailers

DEFENDANT

Hearing: 3rd February, 1984
Counsel: J.R.Milligan for Plaintiff
M.R.Ring for Defendant
Judgment: 17 - 2 - 84

JUDGMENT OF GALLEN, J.

This is a notice of motion for an interlocutory injunction.

Before referring to the factual background, it is necessary for me to refer to certain procedural matters. In October 1983 the plaintiff company filed a notice of motion for an interlocutory injunction in respect of certain alleged activities in Hamilton which, in fact, form the basis and substance of the present proceedings. This notice of motion sought an interlocutory injunction against a company named as Urban Sports Apparel (Auckland)

Limited as first defendant and Mr. Farrell as second defendant. For convenience I refer to these proceedings as the first proceedings. These came before Prichard, J. in Hamilton on 2nd December when apparently it became clear that the activities in Hamilton about which complaint was made were being conducted not by Urban Sports Apparel (Auckland) Limited but by a completely separate company, Urban Sports Apparel (Remuera) Limited. An adjournment was sought and obtained so that consideration could be given to either adding parties or reconstituting the action. The plaintiff, having determined that the activities in Hamilton were being conducted by the defendant in these proceedings, elected to commence these proceedings.

The notice of motion in these proceedings appears to have been received in the Hamilton Registry of the High Court on the 9th December, 1983. The notice of motion, the affidavit in support and the writ of summons and statement of claim filed in conjunction were served on the defendant company, Urban Sports Apparel (Remuera) Limited on the 19th December, 1983. It is not suggested that Mr. Farrell did not become aware of the proceedings. Subsequently Mr. Farrell left, like a good many other people, on annual holidays. However, he chose to take his in the vicinity of the Barrier Islands. The plaintiff meanwhile, being concerned over the continuing situation, sought a fixture for these proceedings and was advised that time could be made available on Friday, 3rd February, 1984.

The Court advised the solicitor to the defendant Urban Sports Apparel (Remuera) Limited of this fixture by letter dated 26th January, 1984. I am not aware when that letter was received. Certainly it was subsequent to the 26th January. The defendant's solicitor not surprisingly endeavoured to get in touch with Mr. Farrell but was unable to do so and as at the 3rd February Mr. Farrell had not been advised of the fixture and would not have been aware that a hearing was to take place on that day. Mr. Ring, the solicitor for the defendant, who also appeared as counsel, having attempted to get in touch with Mr. Farrell and failed, with commendable promptness obtained an affidavit in opposition from a Mr. Woodyear-Smith, a director of the defendant company. When the plaintiff's notice of motion was called for hearing Mr. Ring appeared and sought an adjournment. He indicated that he was embarrassed by the inability to obtain instructions from Mr. Farrell and asked for an adjournment for 2 weeks to enable him to involve Mr. Farrell and to obtain any necessary instructions. The application was strenuously opposed by Mr. Milligan for the plaintiff who had travelled from Christchurch for the purposes of the hearing. Mr. Milligan maintained that the matter was urgent from the point of view of his client because all parties were at present engaged in negotiations relating to the future of the chain of premises which his client company operated and to some extent the outcome of those negotiations depended on the outcome of this application. He submitted that the procedure invoked existed for the very purpose of

dealing urgently with matters of urgency, that Mr. Farrell and his advisers were aware of the proceedings having been served by them in December and were fully aware of the general background because of the continuing dispute which had already been before the Court. He maintained the nature of the proceedings involved the likelihood that an urgent fixture would be sought. I asked Mr. Ring to what extent his inability to obtain instructions from Mr. Farrell affected the factual situation disclosed by the affidavits and whether his inability to obtain those instructions amounted to inconvenience or was likely to lead to an injustice as far as his client company was concerned. Mr. Ring very fairly indicated that the only area where he would have appreciated information from Mr. Farrell and which he had been unable to obtain related to the negotiations which Mr. Milligan put forward as a reason for urgency.

In order to allow the matter to proceed, Mr. Milligan indicated that he would be prepared, for the purposes of this hearing, to leave out of consideration any question relating to the bona fides of Mr. Farrell personally and which Mr. Farrell might have been able to answer by way of affidavit had it been possible for Mr. Ring to discuss the matter with him. It was further agreed that the affidavit filed by Mr. Farrell in the first proceedings could be taken into account in these proceedings. Under those circumstances I understood Mr. Ring to agree that the application might proceed, and the hearing continued on that basis.

Mr. K.M.Prier maintains that in 1980 he conceived of a marketing package for the nationwide retailing of what he describes as casual wear, the source of the major part of this being manufactured by Lane, Walker, Rudkin Limited. The manufacturer identifies the wear concerned by what is referred to as a trade mark "The Authentics". Mr. Prier maintains that his original conception involved the establishment of trading premises throughout New Zealand identified by the name "Urban Sports Apparel" and associated with the letters "U.S.A." as a means of identification. It was his intention that the premises concerned should be associated the one with the other and should retail the line of casual wear manufactured by Lane, Walker, Rudkin and identified as "The Authentics". Mr. Prier maintains that he applied to the Registrar of Companies for approval of the name "Urban Sports Apparel Limited" but consent was declined as he believes on the basis that the use of the initial letters "U.S.A." was not acceptable. A company was then incorporated under the name "S.A.Smith Urban Sports Apparel Limited". This company which subsequently changed its name is the plaintiff company. Following incorporation this company commenced business in Christchurch, using as a means of shop identification the words "Urban Sports Apparel" accompanied by the letters "U.S.A." and a symbol consisting of three interlocking coloured rings. In December 1980 S.A.Smith Urban Sports Apparel Limited applied under the provisions of the Trade Marks Act 1953 for registration of a trade mark which featured prominently the three interlocking coloured rings and the name of the company in such a manner

as to place a substantial emphasis on the letters "U.S.A." Consideration of this application has not yet been completed by the Commissioner of Trade Marks. Subsequently certain further applications were made. In 1981 some discussions took place between Mr. Prier and a Mr. Farrell who was a director of a company known as "Customs & Shipping Services (Auck) Limited". Mr. Prier and Mr. Farrell are brothers-in-law. Up to this point there appears to be little or no dispute as to the factual background.

Subsequent to negotiations between the parties referred to above, a draft franchising agreement was prepared by the plaintiff company and taken away by Mr. Farrell for consideration. By letter dated the 9th April, 1981, addressed to Mr. Prier, Mr. Farrell commented on the proposals and the letter contained in particular the following paragraph:

"Firstly, in the agreement, it refers to using the name S.A.Smith Urban Sports Apparel Ltd. all we want to do is have the right to use the trademark U.S.A.Urban Sports Apparel, and the symbols which have been registered. I think you will agree there is not much point in having S.A.Smith U.S.A.Ltd. in Auckland. It is just the trading name that we require."

The underlining is mine.

On the 29th June, 1981, Customs & Shipping Services (Auck) Limited entered into a franchising agreement with the company S.A.Smith Urban Sports Apparel Limited. The recitals of that agreement include the following:

"WHEREAS the company is engaged in the business of designing, manufacturing, supplying and retailing clothing, footwear and other related products under the label of 'Export U.S.A.' and 'S.A.Smith Urban Sports Apparel Limited'

AND WHEREAS the company has substantial goodwill associated in the information, legal rights and methods represented by 'the package' as hereinafter defined

AND WHEREAS the company wishes to protect and improve all its assets represented by the package

AND WHEREAS the company wishes to grant franchises or licences permitting the franchisee to retail the products hereinbefore described from approved outlets

AND WHEREAS in this agreement 'the package' means and includes:-

- (a) The use by the franchisee of the company's name, the label 'Export U.S.A.', printed articles and sign-writing involved in any copyrights belonging to the company.
- (b) The benefit of advertising and other sales promotion that may from time to time be organized by the company.
- (c) The right to the supply of products designed and manufactured by or at the request of the company at a price to be advised by the company or the manufacturer from time to time.
- (d) The right to retail products under the company's name, trade marks and copyrights."

Customs & Shipping Services (Auck) Limited opened its Auckland store in June 1981. Mr. Prier claims that in October of that year Mr. Farrell made a complaint of another store trading in Auckland using a similar form of shop identification and selling similar clothing. Mr. Prier maintains that, as a result of this complaint, his solicitors sent warning letters to the store concerned

which ceased the operation of which complaint had been made.

In September 1981 the plaintiff company entered into a franchising agreement of a similar nature with a firm in Invercargill and in December 1981 with another in Palmerston North. In May 1982 Mr. Farrell states that he learned the memorandum of association of Customs & Shipping Services (Auck) Limited might not have been sufficiently wide to allow that company to enter into the franchise agreement. Mr. Farrell says that he advised Mr. Prier of this and told Mr. Prier that he intended to incorporate a new company in the name of Urban Sports Apparel Limited or similar, to which the benefit of the franchise agreement could be assigned. In June 1982 application was made to the Registrar of Companies for approval of the name "Urban Sports Apparel Limited" or alternatively "Urban Sports Apparel (Auckland) Limited" or "Farrell's Urban Sports Apparel Limited". The shareholders of the company were indicated to be John Alexander Farrell and Yolanda Helen Farrell. The Registrar approved the name "Urban Sports Apparel (Auckland) Limited" and when incorporated this company took over the business from Customs & Shipping Services (Auck) Limited. In his affidavit Mr. Farrell states -

"The plaintiff never insisted on a formal assignment of the benefit of the franchise agreement."

The agreement was never in fact assigned.

Some time in 1982 Mr. Prier claims a store with which Mr. Farrell appeared to be involved was opened in Remuera. Mr. Farrell in his affidavit refers only to shops in the central City and in Takapuna. The papers do not indicate with clarity the origin or trading operations of Urban Sports Apparel (Remuera) Limited except in relation to its Hamilton operations. In the meantime the plaintiff continued with its policy of entering into franchise agreements with stores in various part of the country: In September 1982 Dunedin, November 1982 Nelson, May 1983 Mt. Maunganui. On 20th May, 1983, Customs & Shipping Services (Auck) Limited gave notice to the plaintiff of its intention to terminate the franchise agreement. This it was entitled to do under the provisions of the agreement itself. It appears that since that time the shops in Auckland have continued to operate and separate proceedings have been issued by the plaintiff against the companies operating those shops. I have not, of course, seen these proceedings and am not directly concerned with them.

In May 1983 the plaintiff applied to the Registrar of Companies to change its name from S.A.Smith Urban Sports Apparel Limited to Urban Sports Apparel (New Zealand) Limited. Mr. Prier states that that occurred because it had discovered the companies in which Mr. Farrell had an interest had been permitted by the Companies office to be registered under the name "Urban Sports Apparel (Auckland) Limited". It will be remembered that Mr. Prier had endeavoured to obtain approval of a not dissimilar name

at the initial stages of his venture but had been refused permission. Mr. Prier's contention is that he now tried again knowing that the defendant had been successful. The plaintiff was informed that, as the register then stood with the Auckland companies registered, the plaintiff company's name could only be changed with the consent of the Auckland companies. The plaintiff therefore sought and was granted that consent and changed its name accordingly. The defendant places considerable significance on this step. The plaintiff continued to proceed with its franchising agreements: in August 1983 New Plymouth and Wellington, in September 1983 in Hamilton, to which specific reference will need to be made, and in October 1983 in Hastings and Queenstown.

The Hamilton operation: Mr. Prier says that in February or March 1983 a Mr. S.A. Smith, a director of the plaintiff, visited Hamilton to investigate the possibility of franchising an outlet in that area. Mr. Woodyear-Smith says that the defendant formed the intention to open a shop in Hamilton around the beginning of 1983. He says that on the 6th May, 1983, a property consultant visited the defendant's shop in Remuera, Auckland, to discuss the availability of a shop in Hamilton in a building managed by the consultant's company. Later in the same month it is alleged that discussions were held with representatives of Lane, Walker, Rudkin, to discuss the business prospects of opening a shop in Hamilton which would stock the range manufactured by that company. By letter dated 3rd June, 1983, the defendant was offered shopping space for that

purpose in the Collingwood Court shopping centre in Hamilton. Shortly after that Mr. Farrell visited Hamilton and advised the property consultant, a Mr. Cross, that the defendant would take shop No.13 on the ground floor. An assignment from the existing tenant was necessary. This was not forthcoming and alternative sites fell to be considered. In August 1983 the plaintiff company made further enquiries as to personnel who might be able to operate a Hamilton outlet. In the same month, on the 18th to be precise, the defendant ordered stock for a proposed Hamilton shop from Lane, Walker, Rudkin. Some time later space for a shop was offered in King's Arcade, Victoria Street, also managed by Mr. Cross's company. This shop was visited by Mr. Farrell and Mr. Woodyear-Smith who agreed to enter into a lease of it. The defendant company about the middle of September commenced an advertising campaign to indicate its intended presence in Hamilton. In the meantime on the 3rd and 5th September, 1983, the plaintiff had put advertisements in the Waikato Times seeking persons who might be interested to operate a franchise outlet. As a result of these advertisements applicants were interviewed on the 23rd September and a Mrs. L. Shepherd was selected. The defendant made enquires as to premises and selected premises at 546 Victoria Street. Mr. Prier maintains that he had rejected as unsuitable a shop known as Shop 8 in King's Arcade. This appears to be the premises which were selected by the defendant company. Mr. Woodyear-Smith says it was intended to open the defendant's outlet on the 10th October, 1983, but as the

result of contractors' delays this was not possible. On the 14th October, 1983, Mrs. Shepherd, as franchisee of the plaintiff, commenced business at 546 Victoria Street, Hamilton. On the 17th October, 1983, the defendant commenced trading from Shop 8 in King's Arcade. Mrs. Shepherd had a shop identification and trading style which Mr. Prier says was virtually identical to those of the plaintiff and its other franchisees. Photographs were exhibited to the affidavit of Mr. Prier. These photographs do not include the Hamilton premises of Mrs. Shepherd. Defendant's Hamilton premises, of which photographs were included, are identified as being those of "Urban Sports Apparel". There appears to have been significant advertising by both parties in the Waikato area in the Waikato Times and on local radio stations.

The present situation appears to be then that both parties are trading in Hamilton, the plaintiff from premises in Victoria Street with a road frontage and the defendant from premises in King's Arcade which do not have a road frontage. Both businesses appear to obtain the majority of the merchandise to sell from Lane, Walker, Rudkin Limited. Both premises include prominently the name "Urban Sports Apparel". The defendant claims that the colour schemes are different. The information supplied to me is insufficient to come to any conclusion with regard to this. The plaintiff's franchisee uses the logo of three interlocking circles referred to in the original trade mark application and in the franchise agreement between the plaintiff and Customs & Shipping Services (Auck) Limited.

The defendant does not use such a logo but does have a logo consisting of three cones that are not interlocking but the base of the cones which is clearly circular in shape is prominently identified and in the newspaper advertisement annexed to the affidavit of Mr. Prier the cones show in such a manner that the circles are almost but not quite touching.

The only other factual matter to which I need refer is that negotiations are at present proceeding between the plaintiff and Lane, Walker, Rudkin Limited with a view to Lane, Walker, Rudkin Limited taking over the benefit of the plaintiff's operations, including the franchise outlets, and also between Lane, Walker, Rudkin Limited and the defendant and associated companies.

In these circumstances the plaintiff seeks an interlocutory injunction restraining the defendant by itself or by its servants or agents or otherwise from continuing in business in Hamilton in a manner whereby its premises or business is identified with the name "Urban Sports Apparel" or the symbol "U.S.A." either by themselves or in conjunction with each other or otherwise passing off its premises or business as being in any way associated with or in franchise by the plaintiff. Clearly the plaintiff founds its claim for relief upon allegations of passing off.

In these proceedings, as distinct from the substantive hearing, I must first consider whether or not there is a serious question to be tried. Mr. Ring for the

defendant conceded that in general terms there was a serious question to be tried but in the specific case contended that became illusory because the plaintiff had no goodwill to protect and specifically had no goodwill in Hamilton. Mr. Ring then proceeded to indicate the basis for this submission by analysing the nature of the advantage which the Customs company had obtained under the franchise agreement, namely, a certain package relating to identification. He also referred to the fact that the plaintiff did not have any franchisees in Auckland and had not established any goodwill in Hamilton before the present contest commenced. That summary does less than justice to a carefully presented and detailed argument. What constitutes a serious question to be tried is now well established. Clearly there are cases where the particular circumstances will require the case put forward to be examined in considerable depth and, as has been recognised, there will be cases where the substantive question at issue may be decided in interlocutory proceedings, for example, where there is a principle of law involved which is decisive of the matter or matters in contention. In my view the plaintiff has established, having regard to the circumstances of this case, that there is a serious question to be tried. There is sufficient evidence to support an argument on passing off and to raise at least for consideration the necessary elements of such a cause of action.

The facts establish that the trading name has been of considerable significance to the parties from

the beginning. When incorporating a new company Mr. Farrell specifically used the words "Urban Sports Apparel". The name had a prominence in the franchise agreement and has been included presumably in the other franchise agreements, because the photographs produced indicate clearly that all shops, including those of the defendant, are identified to the public by reference to the words concerned. The emphasis on the name and its prominence in relation to the public must in my view at least raise the possibility that the public will be deceived or confused. I do not think that the contentions of the defendant as to goodwill and localised goodwill are at this stage of the proceedings sufficiently determinative to remove any possibility of a passing off action succeeding. In this case there are questions of fact which will need to be determined and which cannot be determined in these interlocutory proceedings.

It is therefore appropriate to move on to those other factors which collectively fall to be considered under the generic heading of balance of convenience in the course of the overall exercise of discretion appropriate to the remedy sought. Assuming that the plaintiff succeeds in its substantive proceedings, would it be adequately compensated by an award of damages? There are two separate considerations here which need to be taken into account. The first relates to the loss of business, if any, occasioned by the passing off if this is established. Such calculations are notoriously difficult of quantification,

see the decision of Chilwell, J. in New Zealand Farmers Co-operative Association of Canterbury Ltd. v. Farmers Trading Co. Ltd., First Defendant, and Calder Mackay Co. Ltd. Second Defendant, Christchurch Registry, 15th February 1979. It may be said that, in the event of the plaintiff's failure, it will be equally difficult to quantify such damages as the defendant may be entitled to if it is prevented from trading under the name in contention for such period as elapses between the granting of an interlocutory injunction and the substantive hearing. This is true, but there is another consideration which would substantially weaken such a contention. This arises out of the analysis of the attitudes of the parties to the significance of the name. The plaintiff says that the name is all-important and seeks to restrain the use of it. Defendant says the name was no more than part of a package which was covered by the franchise agreement and, moreover, is one in which the plaintiff has no property. It further says that the name is not one which is associated in any way with the plaintiff in either Hamilton or Auckland.

If the name is not important, then it is difficult to see how the defendant would be prejudiced by the issue of an injunction, except to the extent that its preliminary and current advertising would have been wasted. It should not be too difficult to quantify the cost of correcting advertising if the defendant is ultimately successful, although I accept that there would be a grey area relating to goodwill which would be difficult to quantify.

As a second factor the plaintiff says that its position will be irretrievably affected in the negotiations now under way with Lane, Walker, Rudkin, if it is unable to protect its Hamilton franchisee against competition which amounts to passing off. Mr. Ring submitted that an interlocutory injunction should not be used to improve the plaintiff's bargaining position in negotiations with other parties. Mr. Ring's submission is not without merit, but, in fact, if the plaintiff has succeeded, and I think it has succeeded, in establishing that there is a serious question to be tried that the defendant by its operations is using the name in a manner which amounts to passing off, then the plaintiff is entitled to have that put right before its position further deteriorates.

Considerable reliance was placed on the fact that Mr. Farrell succeeded in obtaining registration of the names of the Auckland companies and that the plaintiff subsequently changed its name with the consent of those companies. No doubt this will be a matter to be canvassed at the substantive hearing. I am not in these proceedings prepared to accept that the action of the plaintiff in seeking consent and changing its name watered down its prior rights to any significant degree or amounted to acquiescence in a manner sufficient to divest itself of such rights as may have already accrued to it.

Reliance was also placed on the fact that the plaintiff did not seek to require the Customs company to assign the benefit of the franchise agreement to the newly

registered Auckland company or companies and that the plaintiff did not take action earlier in respect of their activities. In my view these circumstances are at best neutral. At that time the parties appear to have had a reasonably amicable relationship and were certainly related as well on a family basis. I do not think that the lack of action on the part of the plaintiff at that time should be allowed to affect its legal rights without considerably more evidence than is before me.

It seems to me that this is a case where the plaintiff was entitled to the benefit of a conception relating to the retailing of a particular class of clothing in a particular manner, that this was identified by name as well as in other ways, that Mr. Farrell recognised the advantages of the name by his company entering into the franchise agreement, by his registration of the Auckland companies under that name and by his attempt to establish the Hamilton outlet again with the same name, that if it was not thought that the public would be influenced by such a name, then it is difficult to see why it should matter that the name had to be changed except for the reasonably readily quantifiable cost of change and re-advertising and that, having regard to all the circumstances, the balance of convenience favours the plaintiff.

There will, therefore, be an order that an interim injunction do issue against the defendant restraining

it by its servants or agents or otherwise from identifying its premises or business in Hamilton with the name "Urban Sports Apparel" or the symbol "U.S.A." either by themselves or in conjunction with each other. This would seem to me to be sufficient to protect the plaintiff's position. I do not see the necessity to extend the injunction beyond the name on the evidence which is before me.

R. S. S. J.

Solicitors:

T. Harman & Son, Christchurch, for Plaintiff

Milne, Meek & Partners, Auckland, for Defendant