

## THE HIGH COURT

[2016 No. 10197 P.]

BETWEEN

STERIMED TECHNOLOGIES INTERNATIONAL LIMITED AND STERIMED TECHNOLOGIES LIMITED

PLAINTIFFS

AND

SCHIVO PRECISION LIMITED, SEAMUS KILGANNON AND

SCHIVO GROUP LIMITED

DEFENDANTS

**JUDGMENT of Mr. Justice Brian J. McGovern delivered on the 27th day of January, 2017.**

1. In these proceedings, the plaintiffs seek an injunction and other relief arising from an alleged infringement of the plaintiffs' copyright and/or design rights in a medical waste disposal system which is the subject of a European Community Trademark no. 011597011 "STERIMED" by the defendants. The plaintiffs also seek various forms of consequential relief including the taking of all accounts and inquiries including an account of the defendants' profits and for damages including aggravated and/or exemplary damages.

2. The defendants have brought a motion to stay the proceedings in favour of arbitration. The application is brought pursuant to O 56, r 4(1) of the Rules of the Superior Courts, as amended, Article 8(1) of the UNCITRAL Model Law on International Commercial Arbitration, the Arbitration Act 2010 and/or under the inherent jurisdiction of the court.

3. The first named plaintiff and the first named defendant are companies registered in Ireland. It is common case that there are a number of agreements which affect the relationship of the parties to the proceedings and some of them include others who are not parties to the proceedings. There is no dispute that two of the agreements contained arbitration clauses. A manufacturing service and supply agreement (the "MSS agreement") was entered into on 30th September, 2013, between the first named plaintiff and the first named defendant. Clause 19.4 of the agreement provided for the arbitration of disputes arising out of the contract. The arbitrator was to be agreed by the parties or, in default, was to be appointed by the President of the Law Society of Ireland. That agreement was subject to Irish law.

4. The other agreement which contained an arbitration clause is the authorised reseller agreement of 1st September, 2014, ("the reseller agreement"). The first named defendant was not a party to this agreement which was entered into between Innovative Healthcare Distribution LLC ("IHD") and the first named plaintiff. Clause 11(h) of the agreement provided for arbitration in Charlotte, North Carolina, in accordance with the International Arbitration Rules of the International Centre for Dispute Resolution.

5. On 8th September, 2014, a further agreement was concluded; namely, a rider to the reseller agreement ("the rider agreement"). The parties to this agreement were IHD, the first named plaintiff and the first named defendant. The rider agreement incorporated all the terms of the reseller agreement. It also contained a "complete agreement clause" referred to later in para 9 of this judgment.

6. There was a further authorised reseller agreement dated 30th September, 2014, between IHD and the first named plaintiff. The first named defendant is not a party to that agreement and it does not appear to contain an arbitration clause.

7. The MSS agreement was terminated by an agreement in writing called a termination settlement and release agreement dated 30th June, 2015, (the "termination agreement"). The parties to the agreement were the first named plaintiff and the first named defendant. Clause 1.1 of the agreement states:-

"The MSSA is hereby terminated and shall be of no further force or effect from and after the date hereof, except for the undertakings which will remain in full force and effect as specified in s 10 (continuing obligations) of the LOU."

8. The "LOU" refers to the letter of understanding dated 15th May, 2015, and evidences an arrangement between the first named plaintiff and first named defendant whereby the provisions in the MSS agreement dealing with intellectual property and confidentiality would survive any termination of the MSS agreement. Clause 10 of the LOU provided for continuing obligations and says:-

"Section 11 (intellectual property) and s 16 (confidentiality) of the [MSS] agreement would survive the termination."

9. The reseller agreement of 30th September, 2014, post dates the MSS agreement and the authorised reseller agreement and rider to the reseller agreement. Clause 9(f) of the agreement (the complete agreement clause) of 30th September, 2014, is in the following terms:-

"Complete Agreement

This Agreement, together with the Exhibits hereto, contains the entire Agreement between the Parties and supersedes any prior Agreement or understanding concerning the subject matter herein between the Parties, including any and all return policy terms and conditions that may be presented to Buyer.

THE TERMS OF ANY PURCHASE ORDER, ORDER ACKNOWLEDGEMENT, INVOICE, OR OTHER DOCUMENT ISSUED BUYER OR MANUFACTURER SHALL NOT SUPERSEDE OR SUPPLEMENT THIS AGREEMENT UNLESS SPECIFICALLY STATED TO DO SO WITH REFERENCE TO THIS AGREEMENT, UNLESS SIGNED BY BOTH PARTIES."

10. Mr Richard Admani (of IHD), Mr Dwight Morgan (formerly of SteriMed Ireland) and Mr Seamus Kilgannon (of Schivo Precision Limited) have deposed to the fact that the reseller and continuous supply agreements, although dated 1st and 8th September, respectively were actually signed on 9th March and 10th March, 2015, respectively. The defendants claim that this was done in the context of a desire between the parties to continue doing business together and allowing the defendants to manufacture the plaintiffs' product under license. This is disputed by the plaintiffs. The significance of this is that, if the reseller agreement post dated an earlier reseller agreement of 30th September, 2014, it was not affected by the complete agreement clause and would leave in place the arbitration clause providing for arbitration in Charlotte, North Carolina.

11. The plaintiffs maintain that 1st September reseller agreement including its rider agreement is a sham and a nullity and not only is the first named plaintiff not a party to the commercial elements of the purported agreement but it is for no purpose a party to it on account of the known absence of authority of Mr Morgan as agent. The plaintiffs allege that Mr Morgan was in breach of his fiduciary duty to the company and had fraudulently entered into that agreement on behalf of the first named plaintiff at a time when he was trying to set up a rival venture to the detriment of the plaintiffs.

12. The onus is on the defendants to establish the existence of the arbitration agreement. If it discharges that burden then the onus shifts the plaintiffs to show that the arbitration agreement was null and void if the court proceedings are not to be stayed.

13. The fact that this was the real issue before the court in this application is of some relevance in deciding the proper basis on which the court should determine the application. There are contrasting High Court judgments on the level of judicial scrutiny required. One line of authority applies a *prima facie* judicial review which involves the court referring the matter to arbitration where a party established a *prima facie* case for the existence of an arbitration agreement. The other line of authority involves a full judicial review where the court makes a final determination on the existence of an arbitration agreement.

14. The *prima facie* test was applied by Mac Eochaidh J in *P Elliot & Co Ltd (In Receivership and In Liquidation) v FCC Elliot Construction Ltd* [2012] IEHC 361, which adopted the judgment of Hinkson J in the Canadian Court of Appeal in *Gulf Canada Resources Ltd v Arochen International Ltd* [1992] BCJ 500, where the learned judge said:-

"The test formulated is that a stay of proceedings should be ordered where: (i) it is arguable that the subject dispute falls within the terms of the arbitration agreement; and (ii) where it is arguable that a party to the legal proceedings is a party to the arbitration agreement."

15. In the course of submissions it was brought to my attention that in *Go Code Ltd v Capita Business Services Ltd* [2015] IEHC 673, I had noted Mac Eochaidh J's approval of Hinkson J's statement and expressly accepted that interpretation; however, in my decision in *Go Code Ltd*, I expressed the view that there was no evidence to suggest that the agreement was either null or void or inoperative or incapable of being performed. To that extent, I am of the view that the case can be distinguished from the present one where it is expressly argued that the reseller agreement and rider agreement purporting to supplant the arbitration clause were a sham. I accept that, in my decision in *Go Code Ltd*, I did not have to specifically address that issue and I agree with the submission of the plaintiff that that remark can be considered obiter. So far as the issues arising in this Article 8 determination are concerned, I accept that the court will have to give more extensive scrutiny to the agreement and to give full judicial consideration to the issue as to whether or not there is an arbitration agreement between the parties. I would adopt the views expressed by Cregan J in that regard in the case of *Lisheen Mine v Mullock & Sons (Shipbrokers) Ltd* [2015] IEHC 50 for the reasons set out by the learned judge in that case.

16. There was no dispute between the parties as to which agreements contained arbitration clauses and which did not. The real issue is whether the complete agreement clause in the rider to the reseller agreement has the effect of supplanting the arbitration clause in the MSS agreement providing for an arbitration in Ireland and the authorised reseller agreement and the rider to this agreement which provided for arbitration in Charlotte, North Carolina in the United States of America.

17. The defendants have discharged the burden of proof in establishing that those agreements contained arbitration clauses so the question arises as to whether or not the plaintiffs have discharged the burden of proving that the arbitration clauses are null and void. In my view, the plaintiffs have failed to discharge that burden. I reach that conclusion for the following reasons:-

(i) While the court cannot make any final determination on the basis of disputed facts on affidavit, the three parties who signed the reseller and continuous supply agreements all agree that although they were dated 1st and 8th September, 2014, respectively, they were actually signed on 9th and 10th March, 2015, on the basis of a continuing relationship.

(ii) While the plaintiffs maintain that Mr Morgan did not have authority to sign those agreements, raising a question as to his actual authority, it is nevertheless clear that he had ostensible authority. At all material times Mr Morgan was the managing director of the first named plaintiff and a former CEO of its parent SteriMed Holdings Inc and operating company SteriMed Waste Solutions Inc. He signed the following agreements on behalf of the first named plaintiff:-

- (a) the MSS agreement dated 30th September, 2013;
- (b) the letter of understanding dated 15th May, 2015;
- (c) the authorised reseller agreement of 1st September, 2014;
- (d) the rider to the reseller agreement dated 8th September, 2014;
- (e) the authorised reseller agreement of 30th September, 2014; and,
- (f) the termination settlement and release agreement of 30th June, 2015.

(iii) Mr Kilgannon has sworn an affidavit in which he stated that he had no doubt about Mr Morgan's authority and capacity to act for and bind the first named plaintiff. This evidence is uncontradicted. A limited liability company impliedly authorises an officer of the company to do all such things as fall within the usual scope of that office; see, *Thomas Williamson Ltd v Baillieborough Co-Operative Agricultural Society Ltd* (Unreported, High Court, Costello J, 31st July, 1986). Whether Mr Morgan was in breach of his duty of care to the company or acted in a fraudulent manner is something which will have to be determined at a later date.

(iv) There has been no direct challenge to the evidence of the parties who stated that they signed the reseller and continuous supply agreement in March, 2015, on the basis of a continuing relationship.

(v) The evidence before the court establishes that, until some time around September, 2016, the parties continued to have a working relationship in some form.

(vi) The plaintiffs have not challenged the authority of Mr Morgan to sign the agreements set out above other than the reseller agreement of 1st September, 2014, and the rider agreement of 8th September, 2014.

(vii) The plaintiffs rely, *inter alia*, on the termination agreement which was signed by Mr Morgan on behalf of the first named plaintiff

18. On the state of the evidence at present, I must conclude that the reseller agreement of 1st September, 2014, and the continuous supply agreement of 8th September, 2014, were signed by the parties on 9th March, 2015 and 10th March, 2015, respectively which was after the reseller agreement of 30th September, 2014, containing the complete agreement clause. It follows, therefore, that the reseller agreement of 1st September, 2014, subsequently executed on 9th March, 2015, is valid and contains arbitration clause 11(h) providing for any controversy or claim arising out of or in relation to the contract to be determined by arbitration conducted in Charlotte, North Carolina in accordance with the International Arbitration Rules of the International Centre for Dispute Resolution. The clause also provides that the agreement shall be governed by the laws of the State of North Carolina.

19. The MSS agreement was terminated by the termination agreement of 30th June, 2015, subject to the obligations under s11 "intellectual property" and s 16 "confidentiality". The matters in dispute in these proceedings concern the use of the plaintiffs' intellectual property and to that extent the continuing obligations of the parties relating to the plaintiffs' intellectual property (s 11) and issues of confidentiality (s 16) survive; however, the arbitration clause in that agreement is clause 19.4 and it does not survive the termination. Therefore, insofar as there is any dispute relating to obligations surrounding the intellectual property of the plaintiffs or issues of confidentiality arising under the MSS agreement, there is no agreement to arbitrate.

20. It seems to me that any issue that might arise in respect of those two clauses are covered by the arbitration clause in the reseller agreement.

21. As there is a valid arbitration clause in existence, I direct that these proceedings be stayed pending the outcome of the arbitration in Charlotte, North Carolina in the United States of America.