THE HIGH COURT

[2005 No. 490P]

MURGITROYD AND COMPANY LIMITED

PLAINTIFF

AND
BARRY PURDY

DEFENDANT

Judgment of Mr. Justice Clarke 1st June, 2005.

1. This case first came before the court when the plaintiff company sought various interlocutory injunctions against the defendant. That application was the subject of a judgment delivered by me on 14th April, 2005. The most urgent, and indeed difficult, of the questions which arose at the interlocutory stage concerned the case made by the plaintiffs to the effect that the defendant was bound by a non competition clause in his contract of employment which they sought to enforce, initially by interlocutory order. As indicated in my judgment on that occasion I came to the view that the balance of convenience would not favour the grant of an interlocutory injunction in respect of non competition provided that that aspect of the case could be made ready for trial in a very short period of time. In those circumstances I directed that a preliminary issue should be tried as to the applicability and enforceability of the non competition clause. That issue has now come on for trial and this judgment is, therefore, the final judgment in respect of that aspect of the plaintiff's case. In the course of a discussion with counsel for both sides immediately following the delivery of my judgment on 14th April it was agreed that there were three issues as to the applicability and enforceability of the non competition clause. Before setting out those issues it is necessary to put same into context by outlining both the non disputed facts and the contentions of the parties in respect of disputed facts.

Factual Context

2. As set out in my judgment of 14th April, 2005 the plaintiff company is engaged in the provision of intellectual property services, having eight offices spread throughout Europe. The company hired the defendant who is a European patent agent to work out of the plaintiffs Dublin office. An initial letter of engagement dated 7th February, 2001 was followed by a written service agreement dated 19th February, 2001. Clause 2.2 of that agreement provided that the service agreement was to last for an initial three year period which was specified as commencing on 30th September, 2001.

3. That same clause of the agreement provided for the possibility of a renewal for a further three years in the following terms:-

> "On the Company receiving a written renewal request from the Executive in any September during the course of this agreement and thereafter unless and until the executive's employment hereunder shall be determined by either party given to the other written notice as aforementioned."

4. In the context of the agreement the defendant is "the Executive". So far as this preliminary issue is concerned it is also important to note that the service agreement provided at clause 11 as follows:-

> *"Undertaking*
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> The Executive will not within the Republic of Ireland during the period of 12 months following determination of his employment hereunder on his account and in competition with the company carry on any business which competes with the business of the company or any associated company having intellectual property work as one of its principal objects existing as of the date of termination of the executive's employment hereunder and with which the executive shall have been directly or indirectly concerned PROVIDED THAT nothing contained in this clause shall preclude the executive from holding at any time any shares or loan capital (not exceeding one per centum of the shares or loan capital of the class concerned for the time being in issue) in any company whose shares are listed or dealt in on a recognised Stock Exchange and nothing in this Agreement will affect the Executive's right to accept employment as an employee in another firm of patent attorneys".

5. It is therefore common case that the defendant commenced his employment with the plaintiff on terms that included the above non competition clause. It is also common case that on 20th December, 2004 the defendant notified the plaintiff that he intended to leave the plaintiff's employment. On foot of that notice his employment ended on 19th January, 2005. Immediately thereafter the plaintiff commenced practising as "Purdy and Associates" at premises at Mespil House, 37 Adelaide Road, Dublin 2. It is not contested that in establishing the above practice the defendant is competing with the plaintiffs in a manner which would be in breach of the above clause 11 should that clause remain part of the agreement between the parties as of the date of termination of the defendants employment and be enforceable.

The Issues

6. The three issues which therefore arise are as follows:

> (a) It is suggested by the defendant that on 18th or 19th February, 2002 he, the defendant, called Mr. Keith Young, Chief Executive of the plaintiff company, on his mobile phone and informed him that he wished to opt out of the service contract. It is contended by the defendant that an agreement was reached on that occasion to the effect that he would continue in employment but not under the service agreement. This is denied by the plaintiffs.
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> (b) Secondly the defendant places reliance upon the fact (which is common case) that the renewal of the service agreement contemplated by clause 2.2 thereof did not in fact occur. In the circumstances the defendant contends that the service agreement ceased to have any effect on the expiry of the three year term set out in its terms and thus that his continued employment after the expiry of that term in September 2004 was not on the basis of the service agreement. While accepting that there was no formal renewal of the service agreement as contemplated by the above clause the plaintiff contends that the appropriate interpretation of the continuance of the defendant in employment after the expiry of the three year period was that all of the terms and conditions previously applicable to his employment under the service agreement were to continue save that the agreement was no longer for a fixed period but indefinite.
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> (c) Thirdly the defendant contends that even if he loses on the above two issues so that as of the date of the termination of his contract of employment the non competition clause was still part of the terms of his employment that clause is unenforceable as being an unreasonable restraint of trade.

7. I deal with each of those matters in turn.

The Renegotiation
8. There is a significant measure of agreement between the parties as to the background facts relevant to this issue. Mr. Young is the Chief Executive of the plaintiff company and also company secretary. He agrees that he had a discussion with the defendant in February 2002 at which the defendant indicated that he did not wish to continue to be bound by the service agreement. What appears to between Mr. Young and Mr. Purdy is that Mr. Purdy asserts that Mr. Young agreed to release him from the service agreement whereas Mr. Young suggests that he indicated that he had no opposition to Mr. Purdy being released from the service agreement provided that Mr. Purdy entered into an appropriate form of contract of employment. It is common case that some days (or perhaps a small number of weeks) afterwards a standard form contract of employment was forwarded by Mr. Young to Mr. Purdy. It is also common case that this was never in fact executed by Mr. Purdy and, indeed, that the failure to execute was not simply an administrative failure to sign a document which represented the terms agreed between the parties. Mr. Purdy's evidence is that having taken an initial brief look at the contract when he received it he was then distracted by other work and did not return to the matter until the issue was raised during 2004 in circumstances to which I will return. It is clear that Mr. Purdy sent an email to Mr. Young indicating that he had, at that time (that is to say in 2004) just signed the agreement and that it had been sent to Mr. Young in the company's internal post. However it seems clear that he did not in fact sign it and that his email was somewhat premature. It is also clear from his evidence that having read the agreement he was not satisfied to sign it. He indicated that one unspecified provision contained in the draft agreement was such that he would have been prepared to agree to it. In those circumstances it is clear that the absence of a formal executed employment agreement was not simply a mere technical oversight on the part of the parties but stemmed from an absence of agreement as to the terms applicable.

9. Against that background it is necessary to assess the competing accounts as to what happened in February 2002. In support of the defendant's contention he draws attention to the fact that at various times in the middle of 2004 the plaintiff company and in particular Mr. Young acted as if under the impression that Mr. Purdy was employed under a contract of employment rather than under a service agreement. In particular attention is drawn to email records which appear to show an acceptance by Mr. Young of that position. However Mr. Young gave evidence that those records were created while he was on holiday and when he did not have access to his files.

10. Attention is also drawn to the existence of certain records of employees that were prepared by management in the course of negotiations which sought to "buy out" the entitlements which certain employees had as to a free motor car. The entitlements of those who were employed under a service agreement differed from those who were employed under a contract of employment and employee status under that heading was, therefore, of some importance to the position of the buy out of motor car rights. In the relevant document prepared in the middle of 2004 Mr. Purdy is described as being employed under a contract of employment.

11. There can be little doubt, therefore, that in or around the middle part of 2004 Mr. Young was of the impression that Mr. Purdy was employed under a contract of employment rather than a contract of service. In many cases that fact would be of vital importance if not decisive. However it is important to emphasise, on the facts of this case, that what is between the parties is the question of whether, as Mr. Young asserts, it was indicated to Mr. Purdy that he could terminate his service contract provided he entered into a standard form employment contract or, as Mr. Purdy asserts, the contract of service was simply discharged. Given the narrowness of that issue, coupled with the fact that Mr. Young had, it is common case, sent Mr. Purdy a copy of a standard form of contract, it does not seem to me that the fact that Mr. Young may well have been under the impression that Mr. Purdy had moved to a contract of employment is of great weight in determining the narrow issue which exists between Mr. Young and Mr. Purdy. It should finally be noted that there was evidence, which I accept, that the amount of pay to which the motor car rights of various employees was commuted differed between on the one hand those employees who were on a contract of employment and, on the other hand those who had a service agreement. Those with a service agreement received a larger sum. Mr. Purdy received the larger sum. It would thus appear that by the time the matter was resolved the undoubted confusion which existed in Mr. Young's mind (partly contributed to by the failure of Mr. Purdy to respond either way to the furnishing to him of the standard form contract of employment) had been resolved in favour of the view that Mr. Purdy was employed under a service agreement.

12. The other matter relied upon by the defendant concerns the response of senior management in the plaintiff company to his departure. Evidence was given of various communications at around the time of his departure which wished him well in his new venture. However I accept Mr. Young's evidence that it was his understanding (rightly or wrongly) that Mr. Purdy intended to take some time out before setting up his new venture. It is also probably correct that it was only when a number of clients of the plaintiff company moved their business to the defendant that particular attention was paid to the obligations of the defendant under his contract. In all the circumstances I do not believe that it is appropriate to infer from the well wishes to the defendant at the time of his departure an understanding on the part of his employer that he had been absolved from his obligations under the service agreement.

13. On the other hand there are, in my view, considerable difficulties with the defendant's case on this issue. The case which he made in evidence at the full hearing of this preliminary issue was to the effect that subsequent to his discussions with Mr. Young he believed himself to be employed on foot of the original letter of engagement of 7th February, 2001. He did not make that case in the affidavits sworn at the interlocutory stage. However it is difficult to see how that could be the case. The letter of engagement is, in its terms, subject "to the following terms and conditions and those of a three year service agreement (draft enclosed)". The letter goes on to state that Mr. Purdy's employment might be terminated "as outlined in the service agreement". It is therefore impossible to disentangle the letter of engagement from the service agreement. It is hard to see how Mr. Purdy could have been released from the service agreement but still subject to the letter of engagement. Furthermore, it is common case that no agreement was reached as to the terms of any contract of employment. If Mr. Purdy's account is, therefore, to be accepted it was agreed by Mr. Young that he would continue in employment without any specific terms of employment.

14. In all the circumstances I have come to the view on the balance of probabilities that what was offered to Mr. Purdy, and what he accepted, in February 2002 was that he could terminate the service agreement on condition that he entered into a standard form contract of employment (or such a contract with variations that might be agreed in advance between him and the plaintiffs). While the plaintiffs, and in particular Mr. Young, may have been under the mistaken impression that such a contract had in fact been completed that was never, in fact, done. The reason why it was not done was that Mr. Purdy, as he himself said, found certain of the terms too onerous. Therefore the offer that was made to him was never accepted in the full sense of the word. It was, at most, an agreement to agree whereby, provided terms for a contract of employment could be agreed and such an agreement put in place he, Mr. Purdy, would be released from the service agreement. On the basis that no terms for a contract of employment were in fact ever agreed I am therefore satisfied that any tentative arrangement entered into between the parties in February 2002 did not amount to a concluded agreement which had the effect of releasing the defendant from the service agreement.

The Continuance of the Agreement in 2004
15. The next point relied upon by the defendant is to draw attention to the fact that the service agreement was never formally extended as contemplated by clause 2.2 thereof when it came to its natural expiry in September 2004. On all the evidence it seems

clear that there were no changes whatsoever in the practical terms and conditions under which the plaintiff worked and was remunerated immediately before the termination date specified in the service agreement and immediately thereafter. The work which he did, the pay and conditions to which he was entitled and received, and all other aspects of his employment continued as if nothing had changed. In those circumstances, and in the absence of any agreement to the contrary, it seems to me that the only inference to draw from those facts is that the implied agreement of the parties was to the effect that there would be no material change in the defendant's terms of employment save that he could no longer be bound by the fixed period of the service agreement (such a fixed period having expired). His contract must, therefore, necessarily be taken to be one which could have been terminated only on reasonable notice or otherwise in accordance with the written terms of the service agreement. Subject only to that necessary modification I am satisfied that all of the terms and conditions which applied prior to the expiration of the service agreement were continued in force immediately thereafter and thus continued in force up to the date of termination of Mr. Purdy's employment. It is also noteworthy that clause 2.2 speaks of the possibility of renewal "in any September during the course of this agreement *and thereafter*" (my emphasis) until notice is given. The agreement itself, therefore, contemplates its continuance after the termination date until notice of termination.

16. I am therefore satisfied that as of the date of that termination the terms of the service agreement and in particular the terms of the anti competition clause remained operative.

Enforceability
17. The final issue which arises is as to the extent to which the non-competition clause may be said to be enforceable having regard to the well established principles concerning contracts in restraint of trade. A restraint on a person working or being engaged in one or more lines of business is by definition a restraint of trade. It is well settled that such a term will not be enforced by the courts unless it meets a two fold test:-

> (a) it is reasonable as between the parties; and
>
> (b) it is consistent with the interests of the public
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> *McEllistrom v. Ballymacelligot Co-op* (1919) AC 548 at p. 562.

18. In relation to the first test i.e. reasonableness inter partes, in the leading case of *Stenhouse (Australia) Ltd. v. Phillips* [1974] A.C., 311, Lord Wilberforce said:-

> "The proposition that an employer is not entitled to protection from mere competition by a former employee means that the employee is entitled to use to the full any personal skill or experience even if this has been acquired in the service of his employer: it is this freedom to use to the full a man's improving ability and talents which lies at the root of the policy of the law regarding this type of restraint. Leaving aside the case of misuse of trade secrets or confidential information … the employer's claim for protection must be based upon the identification of some advantage or asset inherent in the business which can properly be regarded as, in a general sense, his property, and which it would be unjust to allow the employee to appropriate for his own purposes, even though he, the employee, may have contributed to its creation".

19. The test seems to be, therefore, as to whether in all the circumstances of the case both the nature of the restriction and its extent is reasonable to protect the goodwill of the employer. Clearly certain clauses which preclude solicitation come within that definition provided that they are not excessively wide. In certain other cases clauses have been upheld which have prohibited employees setting up a similar business within a specified distance of an employer's establishment. See for example *Marian White Limited v. Francis* (1972) I WLR 1423. But it is clear that the duration of the prohibition and the geographical scope of same are important matters to be considered having regard to the nature of the work in question and the structure of the business.

20. In Halsbury 4th Ed., Vol. 47, the authors note in para. 31 that where a business is carried on by a small number of people and with customers widely distributed, a very large area will be allowed and a wider restraint may be reasonable in a business carried on by agents or correspondence than in one necessitating constant attendance in person. For example, all of England was regarded as an acceptable area of restriction for an accountant in *Isitt & Anor. –v- Ganson* [1899] 43 Sol. Jo. 744.

21. Having heard the evidence presented on behalf of the plaintiff as to the nature of the business in Ireland I am satisfied that there are only 10 (or perhaps 11 if one includes the defendant) patent attorneys operating in Ireland and that they all operate from Dublin. No difficulty would appear to be encountered in servicing the demands of the Irish business from Dublin. In those circumstances it does not seem to me that a geographical restriction based upon the jurisdiction of the Irish state is unreasonable having regard to the way in which the business operates in Ireland.

22. Having regard to the specialised nature of the business I am also satisfied that a period of 12 months is not unreasonable.

23. However, it is also clear that a more restrictive view is taken of covenants by employees than is taken of covenants given on sale of a business. Covenants against competition by former employees are never reasonable as such. They may be upheld only where the employee might obtain such personal knowledge of, and influence over, the customers of his employer as would enable him, if competition were allowed, to take advantage of his employer's trade connection. *Kores Manufacturing Co. Ltd. –v- Kolok Manufacturing Co. Ltd.* [1959] Ch. 108.

24. In those circumstances I have come to the view that the prohibition in this case on all competition is too wide. A prohibition on dealing with (in addition to soliciting of) customers of the plaintiff would, in my view, have been reasonable and sufficient to meet any legitimate requirements of the plaintiff. The wider prohibition which restricts dealing with those who might be, but are not, such customers is excessive.

25. There may be types of business where it is not practical to distinguish between customers and non-customers. This is not one of them. On the evidence, the number of customers is small and identifiable. A prohibition on dealing with those identified customers would be sufficient to prevent the defendant taking advantage of the plaintiff's trade connections. The wider restriction which prohibits competing for business in which the plaintiff might have an interest but where the client was not an existing customer, could not be directed to that end but to the wider aim of restricting competition as such. As pointed out in *Kores* that is not a permissible end.

26. In those circumstances I must view the anti-competition clause as an unreasonable restraint of trade. On that basis I must determine the preliminary issue by finding that the anti-competition charge, while applicable, is unenforceable.