Neutral Citation Number: [2011] IEHC 160

THE HIGH COURT

2011 1574 P

BETWEEN

NET AFFINITY LIMITED

PLAINTIFF

AND

MICHELLE CONAGHAN

AND

REVMAC LIMITED TRADING AS AVVIO

DEFENDANTS

JUDGMENT of Ms. Justice Dunne delivered the 22 day of March 2011

The plaintiff in theses proceedings has sought a number of injunctions against the first named Defendant (Ms. Conaghan) and the second named Defendant (Avvio) at an interlocutory hearing before me. The relief sought on the notice of motion issued herein on the 17th February, 2011 and which came on for hearing before on the 10th March, 2011, is as follows:-

> "1. An injunction restraining the first named defendant from assisting and/or becoming engaged or employed by the second named defendant for a period of twelve months, or such suitable period as to this Court shall appear appropriate;
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> 2. An injunction restraining the second named defendant from engaging or employing the first named defendant for a period of twelve months, or such suitable period as to this Court shall appear appropriate;
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> 3. An injunction restraining the second named defendant from using the materials, documents, confidential information of the plaintiff in the conduct of its business;
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> 4. An injunction restraining the first named defendant from commence (sic) or assist any competing individual, company or entity for a period of twelve months or such suitable period as to this Court shall appear appropriate;
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> 5. An injunction restraining the first named defendant from soliciting any existing customers of the plaintiff or customers who have been such in the last six months, to do business with the second named defendant or any other competitor of the plaintiff for a period of twelve months;
>
> 6. An injunction restraining the first named defendant from discussing or disclosing any information of a confidential nature and/or the intellectual property of the plaintiff such as business information, secrets, secret processes, methods of manufacture, prices, accounts, dealings, transactions, affairs and other information relating to the plaintiff with the second named defendant or any third party;
>
> 7. An injunction restraining the second named defendant from discussing or disclosing any information of a confidential nature and/or the intellectual property of the plaintiff such as business information, secrets, secret processes, methods of manufacture, prices, accounts, dealings, transactions, affairs and other information relating to the plaintiff with the first named defendant or any third party;
>
> 8. An injunction requiring the first named defendant and/or the second named defendant to deliver up and return to the offices of the plaintiff all documents, materials and related files, articles and copies in their possession, power or control which contain information or data of or relating to the business and to clients of the plaintiff, to include material in hard copy and/or in digital format including inter alia, memory sticks and any other devices holding and storing data relevant to the plaintiff's business."

The notice of motion also sought damages for breach of contract, breach of duty and/or interference with the plaintiff's business relationships and/or for inducement of breach of contract. Of course those are issues that can only be dealt with at the full hearing of the proceedings between the parties.

Background

Net Affinity is a small company set up by William Cotter in 2000. It is a hotel marketing agency specialising in the provision of reservation and booking engine systems for independent and group hotels in Ireland. According to the grounding affidavit of William Cotter the plaintiff is engaged in the provision of digital marketing and technology services to the hotel sector. He describes this as a specialist niche service which focuses on helping hotels to market their business on line and assisting premises in the hospitality business to market themselves using social media and digital marketing strategies.

Ms. Conaghan joined net affinity in or around the 31st August, 2009. She had previously worked in the recruitment business and had extensive contacts in the hotel and hospitality industry. Ms. Conaghan on taking up her employment with Net Affinity was subject to a contract of employment which was signed by her and Mr. Cotter on the 31st August, 2009. One section of that contract of employment has been at the heart of these proceedings and for that reason I propose at this stage to set it out in full. In a clause headed "Confidentiality" the following appears:-

> "You may not discuss any information of a confidential nature relating to the company or any associated companies or their business or in respect of which the company owes an obligation of confidence to any third party during or after your employment, except in the proper course of your employment or as required by law.

> You will both during the continuance of you (sic) employment with the company and also after termination thereof observe the utmost confidentiality and respect of all intellectual properties such as business in information, secrets, secret processes, methods of manufacture, prices, accounts, dealings, transactions, affairs and other information of the company and shall not without the prior written consent of the company disclose the same to any person otherwise than to a person to whom it is proper for you to make such disclosure in pursuance of your duties hereunder or save as may be ordered by a court of competent jurisdiction nor yourself use the same for any purpose otherwise than bona fide for the purposes and in the interest of the company.
>
> You will not set up, consult, contract or work on a part time basis for any individual or company that provides or plans to provide services similar to that which is provided by the company whilst in employment and for a period of twelve months after termination of contract.
>
> You may not remove any documents or things belonging to the company which contain any confidential information from the company's business at any time without proper advance authorisation.
>
> You must return to the company upon request and in any event upon the termination of your employment all documents and things belonging to the company which contain or refer to any confidential matters which are in your possession or control."

The paragraph headed "Confidentiality" contained in the contract of employment is at the heart of these proceedings and the third paragraph within that clause, which deals with the possibility of an employee competing with the employer during the course of the contract of employment and for a period of twelve months after the termination of the contract, is central. I will refer to that part of the confidentiality clause for the sake of convenience as the "non-compete clause".

It is a fundamental part of the case made by Net Affinity that Ms. Conaghan was at all times aware of the importance of the confidentiality clause. This is a reasonable view on the part of Mr. Cotter having regard to the Affidavits sworn herein.

According to the grounding affidavit of Mr. Cotter Avvio is one of his main competitors in the market and indeed he goes so far as to describe Avvio as the dominant player in the market. He stated that Avvio has around 700 clients and over 85% of the five star hotel market in Ireland and has approximately 40 employees. The plaintiff has 95 clients and 10 employees. In the grounding affidavit he described how he has positioned the plaintiff company as an expert in the area of new social media for hotels including Facebook and Twitter. He described a social media module which has been added to the booking engine that the plaintiff sells to hotels. He stated that it was a module unique to Net Affinity which has yet to be replicated by its competitors. He said that he has developed Net Affinity as an expert in training to assist hotels in increasing their business using new social media and that he trained Ms. Conaghan in the technical skills and knowledge to drive this aspect of the business. He claimed that Net Affinity had progressed faster than Avvio in that area.

On Monday the 14th February, 2011, Ms. Conaghan went to Mr. Cotter and informed him that she was going to work for Avvio. That announcement precipitated a chain of events that has culminated in theses proceedings.

Mr. Cotter in the affidavit grounding this application stated that Ms. Conaghan had a conversation with him for about 15 minutes and then left the office and premises. He stated he did not have a chance to find out the details as to when she was going to work for Avvio. He noted that she was required to provide four weeks notice but went on to say that he believed that she has gone or had plans to go immediately for work for Avvio. That averment was repeated subsequently in that affidavit, even though Mr. Cotter exhibited the letter of the 14th February, 2011, in which Ms. Conaghan formally tendered her resignation and gave one months notice. She added in that letter:-

> "I understand that you will not be happy that I am moving to a competitor. However, I can assure that I will not approach any Net Affinity hotel clients for a twelve month period. Please trust that I hold Net Affinity and you in the highest regard."

It seems to me to be somewhat curious that having been given a months notice by Ms. Conaghan that Mr. Cotter could have believed that she was going to work immediately for Avvio. The impression given in his affidavit is that she had failed to give the requisite notice despite the fact that she clearly did given such notice in the letter of the 14th February, 2011, which was exhibited by Mr Cotter in that affidavit.

There is a conflict on the affidavits before me as to what occurred on the 14th February, 2011, when Ms. Conaghan submitted her resignation to Mr. Cotter. In her second replying affidavit, Ms. Conaghan gives her account of what occurred on that day. According to her, having dealt with various matters that she was required to do by way of a "debrief", she had a conversation with Mr. Cotter in which he asked her where her keys were and she asked him if he wanted her to leave at that stage. He confirmed that he did.

In his fourth affidavit, Mr. Cotter deals in more detail with the circumstances in which Ms. Conaghan left. It is not possible for me in the course of this application to resolve the conflict between Mr. Cotter and Ms. Conaghan as to the precise details of what occurred on that morning. However, it does seem to me as a matter of fact that Ms. Conaghan notified Mr. Cotter on that morning both orally and in writing that she was resigning, that she gave four weeks notice and that it was Mr. Cotter who asked her to leave that day and not to work out her notice. It is also fair to say, having regard to the affidavits and material before me, that Ms. Conaghan had anticipated correctly that she might not be asked to work out her notice and in that context she had taken steps to ensure that she was in a position to leave as and from the 14th February, 2011. I reiterate that I am at somewhat at a loss to understand why Mr. Cotter came to the conclusion, which he clearly did, that Ms. Conaghan was going to start work immediately for Avvio. No doubt, this is something that can be clarified at the full hearing of these proceedings in due course.

At the time of leaving the offices of Net Affinity, Ms. Conaghan left behind her work laptop computer and her work mobile telephone.

Mr. Cotter was clearly concerned about the circumstances in which Ms. Conaghan left his employment and in particular was concerned by the fact that she had informed him that she was going to take up employment with Avvio, a major competitor of Net Affinity. He has described Ms. Conaghan as a pivotal person in his company. She had originally been taken on as a business development manger and was subsequently promoted around June 2010, to the position of head of client development. Mr. Cotter described her as being a person within the organisation occupying the No. 2/3 key position with the company. He stated that Ms. Conaghan knows everything about the plaintiff's business, its clients, its sales figures, proposals, service agreements, the renewal dates on the service agreements, its important clients, its competitive strategy and details of plans to enter the UK and European Markets. He added that she knows the plaintiff's strength and weaknesses and would assist Avvio to exploit those. Mr. Cotter in his

grounding affidavit went on to explain his fears in relation to the prospect of Ms. Conaghan going to work for Avvio. He stated in his affidavit as follows:-

> "As a result of the specialist and highly skilled training which I have provided to her, the knowledge of my business and how it works, allied with the people skills which admittedly the first named defendant brought to the plaintiff, the plaintiff is a key component in my business. If these skills have been poached by defendant I can expect a serious detriment to my business such that I may in fact be required to close down. The plaintiff will therefore suffer a detriment on two fronts, by the loss of a key person to its detriment and by the potential for confidential information to be used by the first named defendant while working for the defendant. Such is the information that first named defendant has that is would be impossible for her to work with my main competitor without utilising this confidential to her advantage and that of the second named defendant. For example if she is dealing with the potential customer, she will know the rates which my company would have been prepared to offer and she would be an asset [position] to either undercut them or to offer additional extras. She will also be familiar with the detail of my contracts with these parties and their special requirements."

During the course of the hearing before me a great deal of emphasis was placed on what was described as Ms. Conaghans's customer connections with the clients of Net Affinity. It is fair to say that a main part of the concern of the plaintiff company is that Ms. Conaghan has such connections and is in a position to and will exploit those connections with the clients of Net Affinity in her future employment. Mr. Cotter went on his affidavit to give an example of what he contends has been a previous breach by Ms. Conaghan in relation to her contract of employment. Not surprisingly, that account is disputed vigorously by Ms. Conaghan. The matters raised by Mr. Cotter in this regard cannot be determined on affidavit and will require a full hearing on oral evidence. What is clear is that the question of confidentiality is a significant issue from the point of view of Net Affinity.

Following the departure of Ms. Conaghan from the premises of Net Affinity, Mr. Cotter consulted his solicitors. A letter was sent to Ms. Conaghan on the 15th February, 2011, and a similar letter was sent to Avvio. The letters set in train a torrent of heated correspondence between the parties and have resulted in a number of interim applications to the court prior to the hearing before me. Apart from the general issue of the non-compete clause and the issue of confidentiality, issues arose in relation to what I will broadly describe as computers and the storage of electronic data. Those issues have led to a forensic investigation of laptops and electronic storage devices used by Ms. Conaghan. Before dealing with those specific issues I want to refer briefly to the letter of the 15th February, from Merrion Legal, Net Affinity's solicitors, to Ms. Conaghan. That letter set out the entirety of the confidentiality clause contained in the contract between Ms. Conaghan and Net Affinity. It went on to emphasise the obligation of confidentiality of information and referred also to the non-compete clause. A number of demands were made of Ms. Conaghan and it is necessary to refer to those. She was called upon to ensure that she would return any and all documents, materials and items electronic or otherwise which related to Net Affinity or which were obtained pursuant to her relationship with Net Affinity and the letter went on to indicate items that were at issue including, inter alia, client listings, client information, pricing information, marketing and strategy documentation and information, financial and budgetary information. The letter then went on the following terms:-

> "We therefore request having notified you of the above, that you immediately give the following undertaking:
>
> Immediately withdraw your threats to assist and/or become engaged or employed by Avvio for a period of twelve months;
>
> Immediately withdraw your actions and threats to our clients to use its materials, documents, confidential information and related items;
>
> That you will not commence or assist any competing individual, company or entity for a period of twelve months;
>
> That you will deliver up and return to our offices all documents, materials and related files, articles and copies in your possession, power or control which contain information or data of or relating to our client."

Ms. Conaghan was asked to give those undertakings within a 24 hour period and would advise that in default of doing so, the issue of High Court proceedings would be considered including the seeking of an injunction and damages.

As I have said a similar letter was sent to Avvio. Her reply was sent by letter dated the 17th February, 2011, by Thorntons, Solicitors, acting on behalf of the two defendants. In that letter it was indicated that Ms. Conaghan was not motivated to exploit the commercially sensitive information obtained by her with Net Affinity Limited and that Avvio had no desire to injure or impede Net Affinity in any way. It was also indicated that Avvio would never receive, use or handle confidential information from a third party. It was stated that:-

> "Ms. Conaghan has not information of the nature described in your letter to her but gives the required undertaking nonetheless and will make a thorough search to ensure that she has not unwittingly removed any material and if she has same will be returned to you immediately. We would ask that your client disable her logins so as to preclude any future suggestions of impropriety and please confirm when you have done so."

It was also indicated that any undertaking required in relation to "IP" matters would be given by both defendants. It was also made clear that it was the view of the defendants' solicitors that the non-compete clause was too wide and that any proceedings would be fully defended on that basis.

These proceedings were issued on behalf of the plaintiff and an application was made *ex parte* before Laffoy J. on Thursday the 17th February, 2001. Interim orders were made by the court. The letter from Thorntons, solicitors, was made available to the court at that hearing which took place shortly after the letter had been transmitted. It was provided that the matter would be returnable before the court, on the 22nd February, 2011 and there have been a number of applications in court since then.

Computers and Electronic Devices

I referred above to the passage from the letters of Thorntons relating to the fact that Ms. Conaghan had no information of the nature described and was going to make a thorough search. That paragraph has been emphasised by counsel on behalf of the plaintiff in circumstances where, on the morning of the 17th February, Ms. Conaghan had arranged for the return of certain items to Net Affinity by way of a courier. The courier collected a box from Ms. Conaghan at 10.26 am on that morning and delivered it to the premises of Net Affinity at approximately 11.28. It was thus that Ms. Conaghan has subsequently deposed to the fact that when the letter from Thornton solicitors was sent, she was of the view that she no longer held any material belonging to the plaintiff. An averment to that effect was made by Ms. Conaghan in an affidavit sworn on the 22nd February, 2011 in which she stated:-

> "I say and so believe that as of 10.26 am on the 17th February, 2011, I have not held any information documents or materials of any nature, confidential or otherwise, belonging to the plaintiff".

I should just briefly say that the box concerned contained files, documents, leaflets, the property of the plaintiff and a memory stick. As matters transpired, that averment was not correct. In his third affidavit, Mr. Cotter describes the materials that were contained in the box in some more detail. He described himself as having been astounded in relation to some of the items contained in the box. I can understand his concern in relation to some of the items, particularly files contained in the memory stick, which were clearly matters he viewed as confidential, but there were other matters and clearly they could not have been of any significance whatsoever in the overall context of this case, for example, a Blackberry CD and a wireless mouse. I would have thought that he would have no real concerns in regard to the fact that the box contained Net Affinity sales leaflets and business cards and material of that kind. However, the memory stick returned in the box contained a number of folders which are described in the said affidavit of Mr. Cotter. It is not just the contents of the memory stick that is a source of concern. There is no doubt that the memory stick showed a degree of activity on the part of Ms. Conaghan on the night before she handed in her notice. It shows her accessing and copying various files onto the memory stick. Those files were contained in various folders. Some of those files contained confidential information belonging to Net Affinity. From the point of view of Mr. Cotter, there was an additional concern caused by the fact that the folders as described above had various headings which seemed to suggest that the files contained therein related to matters not relevant to or concerned with Net Affinity, for example, folder C was headed "IHI" which is the acronym for a hospitality industry body of which Ms. Conaghan was a member. It contained documents relating to the Irish Hospitality Institute but it also contained what is described by Mr. Cotter as "a very important and sensitive Excel file detailing the first named defendant's targets for 2011 and more importantly the hotels we had identified as being key prospects in her territory that were assigned to her to win".

There is no doubt that the discovery of the confidential information on the memory stick, but more importantly perhaps, the fact that the memory stick showed that there had been a process of copying carried out by Ms. Conaghan the night before she handed in her notice, was something which reinforced Mr. Cotter's suspicions and alarmed him to a considerable extent. There is no issue but that Ms. Conaghan in the night before she carried out a number of steps in relation to copying of material from her work laptop to the memory stick. Equally, there is no doubt that some of the material copied by Ms. Conaghan was confidential information, the property to Net Affinity. Some of the material may not be confidential but would certainly be intellectual property of Net Affinity. There is a dispute between the parties as to the confidentiality of certain parts of the material.

Subsequently a number of further affidavits have been sworn by Mr. Cotter and Ms. Conaghan in relation to these activities. As a result of the examination by Mr. Cotter of the material on the memory stick, a further order was made by the court directing the handover of any other electronic devices held by Ms. Conaghan. That led to the production of a second memory stick, a laptop purchased by Ms. Conaghan on the 16th February, 2011, and the production of an external hard drive.

I have had the benefit of a number of further affidavits which have been exchanged between the parties dealing with issues arising from the production of those items and the activities of Ms. Conaghan around the 13th February, 2011. A report was furnished to the plaintiff's solicitors by Grant Thornton who carried out a forensic investigation of the various devices. In their preliminary report of the 8th March, 2011, they have described various steps taken by them in relation to the extraction and comparison of data contained on Ms. Conaghan's original laptop which was supplied by Net Affinity during the course of her employment, the original memory stick, the second memory stick, her laptop which she said she purchased on the 16th February, 2011 and the external hard drive. It is clear from their report that the forensic investigation is not complete, but they have identified a number of issues. Ms. Conaghan in her third affidavit explained that she had down loaded a number of documents and files in preparation for her resignation from her employment with the plaintiff the next day. In her third affidavit she went on to describe activities that took place on the 13th February, 2011 and also on the 23rd January, 2011. She explained that she bought the first memory stick referred to, to transfer files to give back to the plaintiff. She has also in that affidavit dealt with certain other issues in relation to on-line storage facilities such as "Google docs" and so on. I am of the view that the complaints made by Mr. Cotter in respect of those matters are not of any major significance in relation to this application.

It is clear from his affidavits that Mr. Cotter harbours the most serious suspicions as to the conduct of Ms. Conaghan in relation to the copying of documents and the retention by her of those documents on electronic devices other than the work laptop she had when employed by Net Affinity. I note the explanation given by Ms. Conaghan in her affidavits as to the circumstances in which some documents were retained by her subsequent to the letter of the 17th February, 2011 from her solicitors in which it was indicated that she had already returned everything that belonged to Net Affinity to Net Affinity. I should say in parenthesis that when I discuss or refer to documents having been copied I am, of course, referring to documents copied in an electronic format by electronic means.

Finally I should add that Ms. Conaghan has in the various affidavits sworn herein reiterated that she had no intention of using any confidential information of Net Affinity following her employment with them. Ms. Conaghan has given an explanation as to how these materials were retained on separate devices owned by her following her departure from Net Affinity. Ultimately, the question of what was done by Ms. Conaghan and the purpose behind that will be a matter for the trial judge at a plenary hearing of these proceedings. For present purposes, I accept that following the departure of Ms. Conaghan from Net Affinity, Mr. Cotter became aware of the fact that Ms. Conaghan had copied various documents including confidential documents from a company laptop onto other devices which she then retained. It is clear that that discovery has caused Mr. Cotter genuine concerns and has led to the situation in which there is a complete breakdown of trust between Net Affinity on the one hand and Ms. Conaghan and to some extent Avvio as well on the other hand.

Before dealing with the issues that arise for consideration on this application and the law relating to those issues I should just briefly mention that a number of other affidavits have been sworn herein by the various parties. I have considered those affidavits, but I do not feel that it is necessary to refer to them explicitly at this point in time. Those affidavits include affidavits sworn by Brian Reeves, the Chief Executive of Avvio. I have read and considered all of the affidavits sworn herein.

It is in the context described above that I now have to consider the legal issues raised in these proceedings.

The Issues

In the written legal submissions furnished to the court on behalf of the plaintiff, it was submitted that three questions arose for consideration on this application, namely:-

1. "Whether the prohibition on working for a competitor is void as being in unlawful restraint of trade.

2. What measures are required to enforce the protection of confidential information/intellectual property?

3. Whether the first defendant is in breach of her duty of confidence/contract of employment."

It seems to me that in considering those three questions there are a couple of observations to be made. If the non-compete clause is not void as being an unlawful restraint of trade, then the question that will arise for consideration is whether injunctive relief should be given to enforce that clause. If the non-compete clause is found to be an unlawful restraint of trade, the issue as to the protection of confidential information/intellectual property remains to be considered. In the event that a conclusion is reached that measures are required to enforce the protection of such information, the question arises as to whether the plaintiff is entitled to the injunctive relief sought herein.

The final question raised by the plaintiff relates to whether or not there has been a breach of the duty of confidence/contract of employment by Ms. Conaghan. Net Affinity has submitted that her conduct to date justifies the making of an order preventing her from working for Avvio pending the trial of the action or for 12 months. There is no doubt, and it is not in dispute between the parties that Ms. Conaghan on leaving Net Affinity retained material/documentation of a confidential nature belonging to Net Affinity. There is an explanation from Ms. Conaghan as to how this occurred. She also retained some documentation which says is not confidential but over which Net Affinity claims intellectual property rights. There is an issue between the parties as to whether Net Affinity has such intellectual property rights over some of the documentation retained by Ms. Conaghan. Let me say at this point that insofar as Ms. Conaghan retained documentation which she prepared during the course of her employment, even if that documentation or material was created in part by down loading and collating material from the internet, it seems to me that such documentation or material would be the intellectual property of the plaintiff, her employer. In making that observation at this stage, I do so without having seen the documentation or material concerned and it may be that on an examination of that documentation or material at the trial of the action, a different view will be reached, but for the purposes of this application I accept that the documentation retained by Ms. Conaghan includes documentation/material of a confidential nature and documentation/material over which Net Affinity has intellectual property rights. I have already observed that the affidavits sworn by Mr. Cotter on behalf of Net Affinity are replete with suspicion while those sworn by Ms. Conaghan give an explanation for how documents came to be retained by her, down loaded by her, copied by her and deleted by her. She has reiterated in a number of affidavits that she would not use confidential information belonging to Net Affinity. Thus, it is clear that at any trial of the action, there will be a significant issue as to whether or not Ms. Conaghan has been in breach of the duty of confidence owed to Net Affinity and has been in breach of her contract of employment.

I note at this point that during the course of the hearing before me, one of the issues that arose was the date upon which Ms. Conaghan was due to commence work with Avvio. I have referred to this dispute already and my views on that issue. There is no doubt whatsoever that Ms. Conaghan, a person who had previously worked in the recruitment business, was aware of the possibility when she handed in her notice that she would be asked to leave her employment there and then and that she would not be expected to work out her notice. It is clear that she took a number of steps in order to deal with that possibility. Indeed it is those steps that are the subject matter of these proceedings. Having said that it was clear from her letter of resignation that she was giving one month's notice to Net Affinity and that accordingly, it is difficult to see why or how Mr. Cotter could have believed that she was taking up employment with Avvio immediately upon her leaving Net Affinity. I mention this issue again for two reasons, first, because it was such an issue during the course of the hearing before me and secondly because I think it is important to bear in mind that at this point there is no evidence whatsoever to suggest that Ms. Conaghan has provided any material belonging to Net Affinity either of a confidential nature or over which Net Affinity has intellectual property rights to Avvio. She has not yet commenced employment with Avvio.

The Non-compete Clause
A number of authorities were open to me in relation to restraint of trade/non-compete clauses. Counsel on behalf of the plaintiff referred to *McEllistrim v Ballymacelligot Co-Operative Agricultural and Dairy Society Limited* [1919] A.C. 548 at p. 560 where the classic test was set out by Lord Birkenhead as follows:-

> "A contract which is in restraint of trade cannot be enforced unless (a) it is reasonable as between the parties; (b) it is consistent with the interest of the public."

Reference was also made to the decision in *Herbert Morris Limited v. Saxelby* [1916] A.C. 688, in which Lord Parker stated at p. 707:-

> "It will be observed that in Lord McNaghten's opinion, two conditions must be fulfilled if the restraint is to be held valid. First, it must be reasonable in the interest of the contracting parties, and, secondly, it must be reasonable in the interest of the public. In the case of each condition he lays down a test of reasonableness. To be reasonable in the interest of the parties the restraint must afford adequate protection to the party in whose favour it is imposed; to be reasonable in the interest of the public it must be in no way injurious to the public.
>
> With regard to the former test, I think it is clear that what is meant is that for a restraint to be reasonable in the interests of the parties it must afford no more than adequate protection to the party in whose favour it is imposed."

That latter sentence is frequently cited as being the test applicable to restraint of trade clauses.

Both parties in the course of their submissions referred to the judgment in the case of *Stenhouse Limited v. Philips* [1974] A.C. 391 in which Lord Wilberforce said at p. 400:-

> "The accepted 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. For while it may be true that an employee is entitled - and is to be encouraged - to build up his own qualities of skill and experience, it is equally his duty to develop and improve his employer's business for the benefit of his employer. These two obligations interlock during his employment: after its termination they diverge and mark the boundary between what the employee may take with him and what he may legitimately be asked to leave behind to his employers."

Having referred to the decision in *Stenhouse Limited v. Phillips* there was a degree of divergence between the parties in relation to their submissions. Counsel on behalf of the plaintiff referred again to a passage from the judgment of Lord Parker in the *Herbert Morris Limited v. Saxelby* case where it was stated at p. 709:-

> "Where ever such covenants have been upheld it has been on the ground, not that the servant or apprentice would, by reason of his employment or training, obtain the skill and knowledge necessary to equip him as a possible competitor in the trade, but that he might obtain such personal knowledge of and influence over the customers of her employer, or such an acquaintance with his employers trade secrets as it would enable him if competition were allowed to take advantage of his employer's trade connection or utilise information confidentially obtained."

Counsel placed a great deal of emphasis on that passage and effectively said that in this case Ms. Conaghan has such personal knowledge of and influence over the customers of Net Affinity as would enable her, if competition were allowed, to take advantage of the employer's trade connections or that she could utilise information confidentially obtained.

She also placed reliance on a passage from the judgment of Lord Denning M.R. in the case of the *Littlewoods Organisation Limited v. Harris* [1978] 1 All E.R. 1026, where having referred to the passage just referred to from the *Herbert Morris* case, Lord Denning M.R. went on to say:-

> "It is thus established that an employer can stipulate more protection against having his confidential information passed on to a rival in trade. That experience has shown that it is not satisfactory to have simply a covenant against disclosing confidential information. The reason is because it is so difficult to draw the line between information which is confidential and information which is not; and it is very difficult to prove a breach when the information is of such character that a servant can carry it away in his head. The difficulty is such is that the only practical solution is to take a covenant from the servant by which he is not to go to work for a rival in trade. Such a covenant may well be held to be reasonable if limited to a short period. That appears from the judgment of Croft J. in *Printers and Finishers Limited v. Holloway* [1964] 3 All E.R. 731 at 736 . . .
>
> > 'although the law will not enforce a covenant directed against competition by an ex employee it will enforce a covenant reasonably necessary to protect trade secrets . . . if [the managing director] is right in thinking that there are features in [the plaintiff] process which can fairly be regarded as trade secrets and which [their] employees would inevitably carry away with them in their heads, then the proper way for the plaintiffs to protect themselves would be by exacting covenants from their employees restricting their field of activity after they have left their employment, not by asking the court to extend the general equitable doctrine to prevent breaking confidence beyond all reasonable bounds.'"

Again much reliance was placed on that passage by counsel on behalf of Net Affinity. I was referred to a number of other UK authorities including *C. Alsmith Glaziers (Dunfermline) Limited v. Michael John Greenan* [1993] S.C.L.R. 231, *Johnson and Bloy Holdings Limited and Johns and Bloy Limited v. Wolstenholme Rink Plc and Fallon* [1987] I.R.L.R. 499 and to a number of other decisions. Particular emphasis was placed on the decision in the case of *T.F.S. Derivatives v. Simon Morgan* [2004] E.W.H.C, 3181. That is a decision of the English High Court. It concerned a non-compete clause. The clause in that case set out in the course of the judgment of Mrs. Justice Cox is lengthy and detailed. The plaintiff company in that case was involved in inter dealer brokering of "over the counter" physical and derivative products.

It was noted at para. 11 of the judgment:

> "It is common ground that in the market there are a finite number of clients operating, predominantly banks and other financial institutions. While TFS Brokers will not work exclusively for those clients, the brokers endeavour to develop strong client relationships and to develop their knowledge with a view to solidifying and building upon TFS's position in the market. . . . the nature of the job is such that it is extremely important for the brokers to build up good relations with their trader contacts within TFS's client organisations. The market in which the brokers are dealing is a specialist one, and the number of traders operating in it is relatively small. It is essential for the brokers to cement their relationships with the traders. If a solid relationship can be established, the broker will usually be able to count on that trader for repeat business."

The judgment was opened in *extensio* to the court. At para. 40 it was noted:-

> "If a restrictive covenant applying after employment has terminated is held to be unreasonable, then it is void and unenforceable. The court cannot read down such a clause in an effort to render it reasonable and enforceable. In certain circumstances, however, if only a discrete phrase within a particular covenant is held to be unreasonable, individual words or phrases may be 'blue-pencilled' or severed, provided that what is left makes independent sense without the need to modify the wording and that the sense of the contract is not changed."

It would also be useful to look at paras. 37 to 39 of that judgment. Cox J. noted:-

> "Firstly, the court must decide what the covenant means when properly construed. Secondly, the court will consider whether the former employers have shown on the evidence that they have legitimate business interests requiring protection in relation to the employee's employment. In this case, as will be seen later on, the defendant concedes that TFS have demonstrated on the evidence legitimate business interests to protect in respect of customer connection, confidential information and the integrity or stability of the workforce, although the extent of the confidential information is in dispute in relation to its shelf life and/or the extent to which it is either memorable or portable.
>
> Thirdly, once the existence of legitimate protectable interests has been established, the covenant must be shown to be no wider than is reasonably necessary for the protection of those interests. Reasonable necessity is to be assessed from the perspective of reasonable persons in the position of the parties as at the date of the contract, having regard to the contractual provisions as a whole and to the factual matrix to which the contract would then realistically have been expected to apply.
>
> Even if the covenant is held to be reasonable, the court will then finally decide whether, as a matter of discretion, the injunctive relief sought should in all the circumstances be granted, having regard, amongst other things, to its reasonableness as at the time of trial."

There was an interesting discussion in the course of that judgment as to the role of "garden leave". In this case an open offer was made on behalf of Net Affinity to Ms. Conaghan that Net Affinity would be prepared to pay the salary of Ms. Conaghan for a period of six months before she took up employment with Avvio. There is no provision for "garden leave" in the contract of employment. However, the first question I have to consider is whether the non-compete clause in this case is reasonable in the sense that it is no

more than is reasonably necessary for the protection of the plaintiff.

Counsel on behalf of Ms. Conaghan and Avvio urged on the court that the appropriate authority to consider in assessing the non-compete clause was the decision of the High Court in the case of *Murgitroyd and Company v. Purdy* [2005] 3 I.R. 12, a decision of Clarke J. As appears from the head note, the plaintiff company was engaged in the provision of intellectual property services. The defendant was employed by the plaintiff as a European patent agent under a written service agreement which provided that it was to last for a period of three years and could be renewed for a further three years. The service agreement also contained a non-competition clause which provided that the defendant would not work within the Republic of Ireland for a period of twelve months following the termination of his employment of his own account and in competition with the plaintiff company. The defendant left the plaintiff employment and immediately commenced practising. The plaintiff sought various interlocutory injunctions against the defendant and a preliminary issue arise as to the enforceability of the non-compete clause contained in the service agreement. In the course of his judgment, Clarke J. referred to the twofold test derived from the decision in *McEllistrim v. Ballymacelligot Co-Operative Agriculture and Dairy Society* [1919] A.C. 548 at p. 562 and considered in regard to the first test i.e. reasonableness inter partes, the comments of Lord Wilberforce in *Stenhouse Limited v Phillips* referred to above. Clarke J. then went on to say:-

> "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 W.L.R. 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."

He continued:-

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

Counsel on behalf of the defendants placed particular emphasis on the next paragraph at p. 21 of the judgment where Clarke J. stated:-

> "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.
>
> 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."

The anti penultimate paragraph of that judgment seems to me to be off relevance also. Clarke J. stated:-

> "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."

It does seem to me that there is a difference of emphasis discernable between the judgments of Clarke J. in the case of *Murgitroyd and Company Limited v. Purdy* and the judgment of Cox J. in *TFS Derivatives v. Morgan*. The judgment of Clarke J. has clearly set out the applicable law in this jurisdiction and I see no reason for preferring the judgment of Cox J. in the *TFS Derivatives* case over the judgment of Clarke J. in *Murgitroyd*. Accordingly, I propose to consider the clause in this case in the light of the judgment in *Murgitroyd and Company Limited v. Purdy.*

The non-compete clause in this case is not limited at all in its scope geographically. There is a temporal limitation for a period of twelve months after termination of contract. The extent to which a temporal limitation may or may not be reasonable depends on the facts of any given case. In this case, I would have no issue with a period of twelve months.

There are two aspects of the clause that cause me concern. The first of those is that there is not geographical limited contained in the clause. One could imagine a situation where Ms. Conaghan might seek employment outside this country in a similar business to that which is run by the plaintiff. Assuming for the sake of argument that such a business operated only booking engines for hotels in the United States, having regard to the terms in which the non-compete clause is phrased, she would be precluded from taking up such employment even though that employment would not be competing in any sense with that of the plaintiff's business. If Ms. Conaghan was to take up employment in this country with a company which operated a business similar to that of the plaintiff, but which, for example, operated booking engines for hotels in France, likewise Ms. Conaghan would be precluded by virtue of the non-compete clause from taking up such employment. She is completely precluded by the clause from working "for any individual or company that provides or plans to provide services similar to that which is provided by [Net Affinity]. To my mind, the clause at issue in this case is far too wide to protect the legitimate requirements of Net Affinity. It is a clause which does in fact prohibit <u>all</u> competition by Ms. Conaghan in the area of services provided by Net Affinity. As has been made clear in the judgment of Clarke J. in the case of *Murgitroyd and Company Limited v. Purdy* such a clause is too wide. In those circumstances, I have come to the conclusion that the non-compete clause is void and unenforceable.

That does not conclude the matter. Mr. Cotter in the course of a series of affidavits in this case has raised serious concerns as to the manner in which Ms. Conaghan acted immediately prior to and subsequent to the 14th February, 2011. I have already referred to these matters at length above. In addition, counsel on behalf of Net Affinity has submitted that although it may not be possible to

enforce the non-compete clause, the court should nonetheless prevent Ms. Conaghan from taking up her employment with Avvio for a period of time in order to protect confidential information acquired by Ms. Conaghan during the course of her employment. That confidential information is not confined to the documentation or material that was the subject of the various down loads referred to previously. It includes what was described by counsel as Ms. Conaghan's "know how" and customer connections. I accept that as a matter of principle that the day to day interaction by an employee with clients or customers of an employer may be such as to require such injunctive relief where there is evidence that a close relationship has been built up between the customer and employee and such relationship is an important element of the employer's business as in the case of *T.F.S. Derivatives* referred to above. In the course of the submissions, I was referred to a number of cases where such the granting of such relief was considered, including the well known case of *Faccenda Chicken Limited v. Fowler and Ors.* [1985] 1 All E.R. 724, *Lansing Linde Limited v. Kerr* [1991] 1 All E.R. 418 and *Printers and Finishers Limited v. Holloway and Ors*. [1964] 3 All E.R. 731.

I was also referred to the decision in the case of *Norbrook Laboratories (GB) Limited v. Adair* [2008] I.R.L.R. 878. In that case Elizabeth Slade Q.C. sitting as a Deputy Judge of the High Court, stated at para. 63 of her judgment as follows:-

> "I hold that the identity of customers with relevant contacts, potential customers and five star customers would be of value to a competitor and, in the circumstances of this case as in *Lansing Linde Ltd*, is confidential. Such knowledge is not in the public domain and would assist a competitor to target their sales efforts. It would assist in making them in the words of Lord Atkinson at page 704 in *Herbert Morris* 'more formidable competitors'. The information relating to discounts, net prices, records of sales and their movements over time also fall into this category as do marketing strategies including information given about product comparisons."

Elizabeth Slade Q.C. also dealt with customer connection in the course of her judgment and found that *Norbrook* had established that it has a legitimate interest in protecting its confidential information and customer connections built up or maintained by the defendant in that case on behalf of the plaintiff. The injunction given in that case was one for a period of a year preventing Ms. Adair from soliciting or transacting business in competition with the business of Norbrook from any persons, corporations or bodies who within the period of two years preceding the date of termination of her employment had been customers of Norbrook and where Ms. Adair had dealings with such customer. As I have already said, there is no doubt that Ms. Conaghan retained confidential information of the company Net Affinity on leaving her employment. In this regard, I am referring specifically to the documentation and material described in the affidavits as having been down loaded from the company laptop. In addition, I accept that Ms. Conaghan had and retains information by virtue of her employment regarding specific clients of Net Affinity and their arrangements with Net Affinity which would be of benefit to a competitor of Net Affinity. It does seem to me that in the circumstances of this case it is appropriate to grant injunctive relief to prevent Ms. Conaghan from breaching her duty of confidentiality to Net Affinity as set out in express terms in her contract of employment. I do not, however, think that it is necessary in order to protect the legitimate interests of Net Affinity to grant an injunction against Ms. Conaghan which would have the effect of preventing her from taking up employment with Avvio. In the course of the affidavits herein, Mr. Cotter indicated that Net Affinity had some 95 clients. I appreciate that Ms. Conaghan has information and knowledge of the terms of the arrangements between those clients and Net Affinity in terms of pricing and other relevant information such as discounts that may have been provided to various clients of Net Affinity. However, as I have said, I do not think it is necessary to go so far as to prevent Ms. Conaghan from taking up her employment with Avvio. It is however, important in my view, to ensure that for a period of time Ms. Conaghan should not approach, solicit or deal with any existing customers of Net Affinity. It seems to me that the relevant period of time in this regard should be a period of twelve months. I say that on the basis that it is clear from the affidavits herein that contractual arrangements between Net Affinity and its clients are such as to involve annual contracts which are renewable accordingly. Given that customers will renew their contracts with Net Affinity over the period of twelve months it seems to me that that is the period during which Net Affinity is entitled to have protection.

There is strictly speaking no evidence before me that Ms. Conaghan has passed any documentary material or confidential information of the type that could be down loaded to Avvio. Nonetheless, during the course of her employment with Avvio, confidential information which is encompassed by the phrase, customer connections, of the type I have described above would be available to Avvio via Ms. Conaghan. If it were the case that another employee of Avvio approached, solicited or dealt with an existing customer of Net Affinity it would be virtually impossible to establish that the contact between Avvio and the existing customer did not arise from some form of contact through Ms. Conaghan. To that extent it seems to me that it would be appropriate to grant injunctive relief against Avvio which would likewise prevent Avvio from soliciting, approaching or dealing with any existing clients of Net Affinity for a period of twelve months.

During the course of the hearing there was a discussion about target sales on the part of Net Affinity. Net Affinity and Avvio are involved in similar businesses. They each have a similar type of product on offer to the same general clientele. It is clear from the affidavits sworn herein by Mr. Reeves on behalf of Avvio that both Net Affinity and Avvio attend the same sort of trade events. They compete for the same type of customer. They are entitled to compete. There may be cases in which it is appropriate to impose a restriction to prevent a breach of confidentiality on an employee taking up employment elsewhere such that the employee cannot work for a competitor for a period of time but it does seem to me that if a court is asked to consider such a restriction that, just as in the case of considering what is appropriate in the context of a restraint of trade clause, the court should impose a restriction which is no more than is reasonably necessary in order to protect the employer's legitimate interest. I am satisfied that to grant an injunction in the terms sought by the plaintiff in these proceedings would be more extensive than is reasonably necessary for the purpose of protecting the employer's interest and it is for that reason that I am not prepared to go that far. The injunctive relief I have indicated seems to me to be appropriate to meet the circumstances of the case. For that reason I do not propose to grant any further or more extensive injunctive relief.