



**RESTRICTIVE COVENANTS –  
CONTROLLING EMPLOYEES POST-TERMINATION**

---

**RICHARD CARTER**  
**Employment Barrister**  
**St John's Buildings**

## RESTRICTIVE COVENANTS

**Any term in a contract of employment which seeks to restrict an individual's freedom to work for others or to follow his or her trade or business will be unenforceable by the courts unless it is reasonable by reference to the interests of the parties and to the public interest. This principle is called the doctrine of restraint of trade.**

---

### 1. Overview

1.1. The doctrine of restraint of trade is a common law doctrine that ensures that an individual is free to follow his or her trade without undue hindrance. However, the common law also dictates that there should be freedom of contract. These two competing common law principles are at the heart of any examination of a contractual term that apparently seeks to restrain an individual in his or her trade.

1.2. Proceedings relating to the enforcement of a contractual term is brought within the Civil Courts (often the High Court due to the need to obtain interim relief) rather than the Employment Tribunals. The primary law applied is the law of contract.

1.3. The question of whether a clause in restraint of trade is enforceable is to be considered on the facts that existed at the time of contracting and not at any later date, for example, at the date of alleged breach or enforcement and the key question is whether the covenant is reasonable, in the interests of the parties and in the public interest. The Court will look at whether the Employer has legitimate business interests that need protection – the nature of the Employer's business and the position of the employee within that business are therefore primary questions.

1.4. The matters which an Employer may, in principle, seek to protect are:

1.4.1. Trade secrets and other confidential information;

1.4.2. Trade connections including customers, suppliers and even contacts;

1.4.3. Workforce skills.

1.5. The origins of the doctrine: The origin of the doctrine of restraint of trade can be traced back to the speech of Lord McNaghten in *Nordenfelt v Maxim Nordenfelt Guns & Ammunition Co Ltd* [1894] A.C. 535 where he stated:

"All interference with individual liberty of action in trading, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy, and therefore void. That is the general rule. But there are exceptions: restraints of trade and interference with individual liberty of action may be justified by the special circumstances of a particular case. It is a sufficient justification, and indeed, it is the only justification, if the restriction is reasonable - reasonable, that is, in reference to the interests of the parties concerned and reasonable in reference to the interests of the public, so framed and so guarded as to afford adequate protection to the party in whose favour it is imposed, while at the same time it is in no way injurious to the public."

1.6. So, when applying the common law doctrine of restraint of trade it is necessary to consider: what types of restraints are covered, what are the legitimate interests of the parties and whether the restraint harms the public interest. Whilst some restraints have become a routine part of everyday commercial life, such that, by default, they may not even be viewed as undue restraints, restrictive covenants between employers and employees are not within such a category (see *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd* [1968] A.C. 269). Therefore, all such restraints are unenforceable, unless reasonable in the circumstances.

### **Types of restraint**

1.7. The doctrine will apply to restraints imposed on the employee's working activities or fields of work both during the employment relationship and after it has ended. So, in Lord Pearce's speech in the case of *Esso Petroleum* he stated:

"If, however, the contract ties the trading activities of either party after its determination, it is a restraint of trade and the question of reasonableness arises. So, too, if during the contract one of the parties is too unilaterally fettered so that the contract loses its character of a contract for the regulation and promotion of trade and acquires the predominant character of a contract in restraint of trade. In that case, the question whether it is reasonable arises. "

1.8. So, extremely oppressive and one-sided employment contracts may be held unenforceable during the currency of the contract.

1.9. Equally, the doctrine may apply to render unenforceable a contractual term which inhibits the freedom of an employee to move jobs (for example, where there is a provision clawing back bonuses or commission or requires an employee to repay costly training in full if an employee goes to work for a competitor) - see *Sadler v Imperial Life Assurance Co of Canada Ltd* [1988] I.R.L.R. 388.

1.10. The key issue is whether the contractual term is likely to prevent an employee from feeling able to accept employment elsewhere (see *Stenhouse Australia v Phillips* [1974] A.C. 391).

## Trade secrets & confidential information

1.11. The term "trade secrets" refers to both confidential processes (for example, design methods; construction processes; chemical formulae) and also to confidential information (such as client lists, costings, price lists) (see *Herbert Morris Ltd v Saxelby* [1916] 1 A.C. 688).

1.12. In determining what types of information are "confidential" to the employer, there is a difference between information which can be regarded as the employer's property and that which has become part of the employee's general knowledge through his increased skills and experience gained as a result of working for the employer (see *Provident Clothing & Supply Co Ltd v Mason* [1913] A.C. 724).

1.13. In *FSS Travel & Leisure Systems Ltd v Johnson* [1998] I.R.L.R. 382 Mummery L.J. observed that it must be possible to identify information used in the relevant business, "the use and dissemination of which is likely to harm the employer".

1.14. In *SBJ Stephenson Ltd v Mandy* [2000] I.R.L.R. 233, the covenant sought to restrict the disclosure of any information relating to the employer's business, before or after termination.

1.15. Bell J considered whether the provision was too wide, as it would include information in the employee's head, such as the names of clients. He had regard to the distinction drawn in *Herbert Morris Ltd v Saxelby* [1916] 1 A.C. 688 as to whether such information constituted "objective knowledge" which would be the employer's property and so capable of protection, or whether the information should be regarded as "subjective knowledge" comprising the employee's own skills and abilities which would not be capable of protection. He concluded that the client list constituted "objective knowledge" and was a legitimate interest such that the covenant was enforceable.

1.16. An employer can have no legitimate interest in protecting information which is not confidential because, for example, it has already been published or where publication would not harm the employer's business interests. In considering whether information has the necessary qualities to constitute "confidential" information, the following test should be applied (per Megarry V-C in *Thomas Marshall (Exports) Ltd v Guinle* [1979] Ch. 227):

1.16.1. Does the employer think disclosure of the information would be harmful to him and/or advantageous to competitors or others?

1.16.2. Does the employer believe that the information is still confidential in that it is not already in the public domain?

1.16.3. Are those beliefs reasonable (in the context of the practices of the particular trade or industry concerned)?

1.17. Often, an employer seeks to protect against the disclosure of confidential information by relying on the implied obligation of confidentiality (both during the currency of employment and post-termination). In the case of *Faccenda Chicken Ltd v Fowler* [1987] Ch. The Court of Appeal held that to determine whether information could be protected after termination under the implied duty of confidentiality, a court should have regard to the following factors:

1.17.1. The nature of the employment - for example, was the employee's role such that he routinely handled confidential information so that he ought to be aware of its sensitivity?

1.17.2. The nature of the information - only information that could properly be characterised as a trade secret or similarly highly confidential could be protected post-termination.

1.17.3. Whether the employee had been informed as to the confidentiality of the information.

1.17.4. Whether the information could be separable from other information that the employee would be free to use or disclose.

1.18. So, whether a particular category of information can be protected by way of a post-termination restrictive covenant (or the application of the implied duty of confidentiality) will depend on the nature of the information, the commercial damage which might be done to the employer if it is revealed (to a competitor) and the extent to which the confidentiality of the material was explained to the employee or would have been, in any event, apparent to him.

### **Trade connections**

1.19. It is inevitable that employers will face competition from others, including former employees.

1.20. The doctrine of restraint of trade cannot be deployed to stop an ex-employee competing wholesale with his former employer. However, employers are entitled to protect their legitimate interests by preventing ex-employees making use of that which should properly be regarded as belonging to the employer.

1.21. Similarly, an employer cannot stop an employee soliciting his customers if that employee had no significant contact with the customers – unless of course he is using confidential information.

1.22. The test for enforcing a restrictive covenant that seeks to prevent an employee from using his former employer's trade connections must balance the ambit of the covenant (i.e., how restrictive it is) against the benefit to be derived by the employer from enforcing the covenant. In other words, the question to be asked is what is reasonably required to protect the legitimate interests of the employer.

### **Workforce skills**

1.23. An employer may also have a legitimate interest in retaining its workforce and thus preventing ex-employees from soliciting staff (see *Dawney Day & Co Ltd v de Braconier d'Alphen* [1998] I.C.R. 1068).

1.24. However, a non-solicitation of staff clause cannot be unreasonably wide. Therefore, whilst a company has a legitimate interest in maintaining a stable and trained workforce, a restrictive covenant will usually need to be limited to a particular category of defined employees (e.g., directors) in order to be enforceable (*TSC Europe (UK) Ltd v Massey* [1999] I.R.L.R. 22).

### **Enforceability of covenants in restraint of trade**

1.25. A covenant must be protective not penal. In other words, it must be no more than is adequate to protect the legitimate interests of the employer (see *Office Angels v Rainer-Thomas* [1991] I.R.L.R. 214).

1.26. The normal rules of construction apply to restrictive covenants. So, the court will try to interpret the words used in order to give effect to the objective intention of the parties (see *Investors Compensation Scheme Ltd v West Bromwich Building Society (No.1)* [1998] 1 W.L.R. 896).

1.27. The court will also ensure that the covenant is construed realistically. It will not adopt a literal interpretation if that would defeat the obvious intention of the parties. The court will consider whether the covenant is enforceable by reference to the facts that existed at the time of contracting, not any later date (see *Pat Systems Holdings Ltd v Neilly* [2012] EWHC 2609 (QB); [2012] I.R.L.R. 979).

1.28. The more senior the employee, the wider the restraint is permitted to be, so as to afford sufficient protection to the employer. However, the nature of the covenant must be rationally connected to the business interest it seeks to protect.

1.29. The Courts must first identify the interest sought to be protected and then consider whether the nature of the restraint is reasonable to effect such protection. If the employer has expressly identified the interest to be protected (e.g., trade connections), then the employer cannot later claim that the

restrictive covenant is aimed at protecting a different interest (e.g., trade secrets).

1.30. Where an employer seeks to protect trade connections or workforce skills, a non-compete clause may well be unenforceable because it is disproportionate to the interest which is being protected, given that an alternative restraint - such as a non-solicitation clause - would have provided the necessary protection.

1.31. Consequently, non-compete clauses are often only upheld when the interest the Employer is seeking to protect are trade secrets and confidential information. Because it is difficult to enforce covenants which merely restrain the disclosure or use of confidential information - as proving a breach can be challenging - the Courts will allow the use of non-compete clauses to achieve that aim. Similarly, it can be difficult for an ex-employee to know what information is properly confidential and which is simply part of his accumulated knowledge and experience and so disclosable or usable in some way (see *Littlewoods Organisation Ltd v Harris* [1977] 1 W.L.R. 1472). A non-compete clause provides a degree of certainty, although issue around confidentiality may continue after the end of any specific covenant.

1.32. However, even where a non-compete clause might be justifiable in the context of the interest to be protected, it must not be drawn too widely. Therefore, the period of restraint must be reasonable and the field of activity in which competition is prohibited must be carefully delineated, for example, by narrowly defining the term "competitor" (see *Norbrook Laboratories (GB) Ltd v Adair* [2008] EWHC 978 (QB); [2008] I.R.L.R. 878).

1.33. Each case depends on its particular facts so it is notoriously difficult to distil general guidance from the case law. Whilst a restrictive covenant that is more than adequate or necessary will not be enforceable, one that is no more than adequate will not automatically be upheld but it "may" be, depending on both the nature of the employer's interest and on the effect on the employee as well as any harm to the public interest.

1.34. From the point of advising clients therefore, one is forced to scatter caveats - the particular Judge may have a reputation for a willingness to grant Injunctions, the question of reasonableness is open to interpretation. As the costs of interim injunctions in the High Court can be very high, the risk to both an Employer and an Employee can be substantial.

1.35. Some restraints may be worldwide and can be enforceable, for example, where they are necessary to protect trade secrets or confidential information. However, where a local business only has customers within a five mile radius, a radial restraint of ten miles will not be justifiable. The problem with radial or geographic restrictions is that they are often not necessary where an employer is seeking to protect trade connections as a non-solicitation or a non-compete

clause will be sufficient. And, radial restraints are also unlikely to be necessary to protect confidential information since such an interest, whilst legitimate, is not confined to geographical boundaries (see *Scully UK Ltd v Lee* [1998] I.R.L.R. 259).

1.36. Whether the length of any restrictive covenant renders it unenforceable is a matter of impression for the court (see *Stenhouse Australia v Phillips* [1974] A.C. 391). The question to be determined is what constitutes a reasonable time during which the employer is entitled to protection (see *Printers & Finishers Ltd v Holloway (No.2)* [1965] 1 W.L.R. 1).

1.37. Even where a restrictive covenant represents a fair balance between the interests of employer and employee, it may nevertheless be unenforceable in the public interest (see *Nordenfelt v Maxim Nordenfelt Guns & Ammunition Co Ltd* [1894] A.C. 535 and *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd* [1968] A.C. 269) although it is rare to see the Courts apply such an approach in recent caselaw.

### **Severance**

1.38. A court is not permitted to uphold a restrictive covenant by imposing a new restraint on the parties (see *JA Mont (UK) Ltd v Mills* [1993] I.R.L.R. 172). This is because either the covenant is reasonable and enforceable or it is not.

1.39. However, the court does have the power to sever the whole or parts of the covenant that is too wide to be enforceable, leaving in place those bits which the court considers to be reasonable. This is possible, in particular, with compound covenants - for example, a covenant that seeks to prevent an employee from soliciting, canvassing, enticing away, or dealing with any client of the employer. A court may conclude that it would be reasonable for an employer to protect itself against solicitation of its clients but not against an ex-employee merely dealing with those clients.

1.40. In such a case, the court could uphold part of the restrictions whilst refusing to enforce other restrictions. The process by which the court achieves this result is often referred to as "blue-pencilling". In other words, the court strikes out those parts of the covenant that are unenforceable.

1.41. In order to permit the court to sever the unreasonable part of a covenant, the severed part must be independent of the other parts of the provision (see *T Lucas & Co Ltd v Mitchell* [1974] Ch. 129).

1.42. The three-fold test to be applied for the severance of restrictive covenants in employment contracts was enunciated in *Sadler v Imperial Life Assurance Co of Canada Ltd* [1988] I.R.L.R. 388)

1.42.1. The court must be able to sever without having to add words to the agreement, or modify the wording of what remains.

1.42.2. There must remain adequate consideration to support the part(s) of the covenant that remain.

1.42.3. The removal of the unenforceable provision must not so change the character of the contract that it becomes "not the sort of contract that the parties entered into at all".

### **Wrongful and constructive dismissal**

1.43. A wrongful dismissal will free the employee from any covenant in restraint of trade - see *General Billposting Co Ltd v Atkinson* [1909] A.C.118. This is because the employer has repudiated the contract of employment. The employee is, therefore, entitled to treat himself as discharged from any further performance of his obligations under the contract of employment

1.44. Equally, where an employee elects to resign by reason of his employer's repudiatory conduct, he will be freed from any restrictive covenant (see *Cantor Fitzgerald International v Bird* [2002] I.R.L.R. 867).

1.45. Conversely, an unfair dismissal does not operate to negate a restrictive covenant. This is because, unlike wrongful or constructive dismissal, unfair dismissal operates through statute and not the contract - an unfair dismissal does not destroy the contract in the same way. This was accepted by the judge in *Lonmar Global Risks Ltd v West* [2010] EWHC 2878 (QB); [2011] I.R.L.R. 138. This was a first instance decision so there is no appellate authority on the point.

## RECENT CASELAW

2. This is an area of law where there is a constant flow of cases, both at first instance and on appeal, that reach the reports. As noted above many cases are fact sensitive, and so the authorities can be of little assistance, other than to confuse matters and make predicting the outcome of any proposed claim yet more difficult. All clients want certainty when seeking advice on taking or fighting proceedings and this is an area of the law where that certainty is missing.

*2.1 Ashcourt Rowan Financial Planning Ltd v Hall* [2013] EWHC 1185 (QB) – Andrew Smith J.

The defendant was employed by the claimant company as a wealth management director.

His contract included:

- (i) clauses which sought to prevent him from working for a competing company for six months following the termination of his employment (the non-compete clause);
- (ii) provision for the claimant to alter the defendant's duties during his six month notice period
- (iii) provision for any period spent by the defendant on garden leave to be deducted from the restriction in the non-compete clause.

Clause 14 also provided for the defendant to be paid his salary and benefits 'in full during any such period (the garden leave period).

In September 2012, the defendant gave six months' notice to the claimant. The claimant activated the provisions in cl 14 of the contract and required the defendant to modify his duties during his notice period, but required him to work through his notice period.

In March 2013, the defendant's employment with the claimant ended.

In April 2013, he started to work for a competing company.

The claimant commenced proceedings to enforce the non-compete clause. The defendant submitted, inter alia, that:

- (i) the proper construction of cl 14 was that his notice period fell within the definition of 'the garden leave period';
- (ii) that his notice period was to be deducted from the non-compete clause;

(iii) that the non-compete clause was, in any event, unenforceable as it was wider than what was reasonably necessary for the claimant to protect its legitimate business interests.

The relevant restraint clause read as follows:

*"1. In this appendix, unless the context otherwise requires, the following expressions shall have the following meanings:*

*1.1 "Associated Company" shall mean any company which is for the time being the Company's subsidiary or holding company or a subsidiary of such holding company other than the Company itself in any jurisdiction in any part of the world as are defined in s736–736B of the Companies Act 1985 ;"*

*1.2 "Business" shall mean any business of or commercial activities carried on by the Company or any Associated Company as at the Termination Date;*

*1.3 "Prospective Customer/Client" shall mean any person, firm, company or organisation who or which had at the Termination Date or at any time in the 12 months immediately preceding the Termination Date been negotiating with the Company or any Associated Company with a view to dealing with the Company or any Associated Company as a customer/client;*

*1.4 "the Termination Date" shall mean the date on which your employment with the Company terminates.*

*2. You covenant that you shall not at any time during your employment or for the period of 6 months from the Termination Date without the prior written consent of the Company either alone or jointly with or as employee, manager, officer, director, agent, consultant, contractor or partner of any other person, firm, company or organisation directly or indirectly be engaged or concerned in any business or activity which competes directly with the Business and with which Business you have been concerned in the performance of your duties under these Terms and Conditions during the 12 months immediately preceding the Termination Date.*

*3. You covenant that you shall not at any time during your employment or for the period of 6 months from the Termination Date without the prior written consent of the Company, either alone or jointly with or as employee, manager, officer, director, agent, consultant, contractor or partner of any other person, firm, company or organisation directly or indirectly:*

*(a) in relation to any Business and in competition with the Company or any Associated Company canvass, solicit or endeavour to take away from the Company or any Associated Company the business or custom of any person, firm, company or organisation who or which was, at the Termination Date or at any time during the 12 months immediately preceding the Termination*

*Date, a customer/client of the Company or any Associated Company with whom or which you shall have dealt in the performance of your duties under these Terms and Conditions during the 12 months immediately preceding the Termination Date;*

*(b) in relation to any Business and in competition with the Company or any Associated Company canvass, solicit or endeavour to take away from the Company or any Associated Company the business or custom of any person, firm, company or organisation who or which was, at the Termination Date or at any time during the 12 months immediately preceding the Termination Date a Prospective Customer/Client of the Company or any Associated Company with whom or which you have dealt with in the performance of your duties under these Terms and Conditions during the 12 months immediately preceding the Termination Date.*

*4. You covenant that you shall not at any time during your employment or for the period of 12 months from the Termination Date without the prior written consent of the Company, either alone or jointly with or as employee, manager, officer, director, agent, consultant, contractor or partner of any other person, firm, company or organisation in competition with the Company or any Associated Company solicit or endeavour to entice away from the Company or any Associated Company any person who was on the Termination Date a director of the Company or of any Associated Company, a fund manager of the Company, a senior executive of the Company or any other employee identified within the Company's or any Associated Company's organisations as a key employee and with whom you have had personal dealings in the 12 months immediately preceding the Termination Date.*

*5. You acknowledge and agree that the restrictions set out in clauses 2, 3 and 4 are fair and reasonable in the circumstances and that if any one or more or any part of such restrictions shall be rendered or judged invalid or unenforceable such restriction or part shall be deemed to be severed from this Agreement and such invalidity or unenforceability shall not in any way affect the validity or enforceability of the remaining restrictions.*

*6. Following termination of these Terms and Conditions you shall not falsely represent yourself or permit yourself to be represented as being in any way connected with or interested in the business of the Company other than as a shareholder.*

*7. You hereby acknowledge that the restrictions contained in clauses 2, 3 and 4 shall operate for the benefit of the business and commercial activities carried on by the Company or any Associated Company and such restrictions shall be enforceable against you by the owner for the time being of such*

*business and commercial activities as previously carried on by the Company or any Associated Company.*

*8. Any period spent by you on garden leave as envisaged by clause 14.4 above shall be deducted from the period of restrictions referred to in clauses 2, 3 and 4.*

The court ruled:

(1) It was clear that the powers given to the claimant in cl 14 together with the definition 'the garden leave period' applied in the same circumstances. However, the expression 'garden leave' most naturally connoted a time when an employee was not required or permitted to do any work. Clause 8 of appendix II had not referred to 'the garden leave period' or directly referred to the last sentence of cl 14. It simply referred to it being envisaged in cl 14 that the defendant might spend a period on garden leave, and cl 14 undoubtedly envisaged that the he might have been put on garden leave in the conventional sense. Whatever was covered by the phrase 'the garden leave period' on the proper interpretation of cl 14, there seemed to be no reason to expand the natural meaning of 'on garden leave' in cl 8 of appendix II. The defendant had not been on garden leave in that sense any time before his employment ended, and he was not entitled to have any of his notice period deducted from the period of the non-compete clause.

(2) The question of whether a non-compete clause could be justified by the need for covenants that worked in practice and could be policed by the employer was fact-sensitive and depended on the facts of the particular case.

It required an assessment, as at the contract date, of the balance between the restraints that the covenant might impose on the employee even though he was not trespassing on the legitimate business interests of the previous employer, and the need for such additional restraints in order to police the covenant or to give it practical effect. In the instant case, the application of the non-compete clause was not defined by whether there was direct competition from the defendant in his new employment or from his own 'business or activity'.

The wide words contained in the non-compete clause and the looseness of the connection between the defendant's own work or activity and the prohibited business and activity meant that the scope of the covenant was wider than the claimant acknowledged.

The words of the non-compete clause were wide enough to prohibit the defendant from being indirectly concerned in the business or activity of a direct competitor, whether or not the work done by his or his 'activity' itself directly competed.

Accordingly, the additional restraints of the non-compete clause would, if enforced, have prohibited the defendant from work in many parts of the financial services industry where, and in ways in which, it could not reasonably have been said that the claimant's legitimate interests would or might have been compromised.

Balancing the relevant considerations, the non-compete clause was in restraint of trade and not enforceable.

**Comment:** It is clear from this case the difficulty of predicting whether a Court will find that a particular (especially a non-compete) clause is reasonable or not. Although in this case a non-compete clause for a senior executive might be thought to be acceptable, the actual effect of that clause was such that it went beyond the narrow scope that was probably intended by the Employer when it drafted it.

## 2.2 *White Digital Media Ltd v Weaver and another* [2013] EWHC 1681 (QB) Tugendhat J.

The claimant and the second defendant were publishers of electronic magazines that were each funded by paid advertisements. The first defendant was employed by the claimant as its regional director of operations. A non-compete deed prevented the first defendant from competing with the claimant (the competition clause), whether that be as 'a principal, shareholder, director, employee, agent, consultant, partner or otherwise' for a year.

The first defendant's contract of employment also included an express confidentiality clause.

In January 2013, the first defendant informed an employee of the claimant that he was planning to purchase a competing business and cease his employment with the claimant. He also informed the claimant's employee that he had offered employment to two other employees of the claimant and that they had accepted the positions that they had been offered.

The first defendant and the two employees subsequently resigned and the first defendant set up in competition with the claimant. The first defendant admitted to having taken confidential information in the form of customer lists when he had ceased his employment with the claimant.

He contended, however, that he no longer held that information, and that, in fact, he had no need for that information as he had inherited a more extensive and more comprehensive customer list following his purchase of the competing business.

The claimant accepted, however, that the information from its customer lists would enter the public domain on publication and would thereafter lose its quality of confidence. The claimant brought proceedings against the first and second defendant and, in the instant proceedings, sought interim injunctions against both defendants.

It fell to be determined:

- (i) whether the competition clause was too wide so as to be unenforceable; and
- (ii) whether the court should grant an interim injunction restraining the use of confidential information that had been obtained from the claimant.

The court ruled:

(1) It was settled law that a clause that restrained a person from being involved in a competing business as a shareholder or in any other capacity would be unenforceable. Further, restrictive covenants were unenforceable unless the claimant could show that:

- (i) the restriction was for the protection of legitimate business interests; and
- (ii) the restriction extended no further than was reasonably necessary for the protection of those interests.

On the facts, the one-year period of time prescribed in the clause would not be considered unreasonable of itself; however, the competition clause was unenforceable because it went wider than was reasonable (see [23], [27] of the judgment).

(2) The claimant had shown a good arguable case that the defendants had breached obligations of confidentiality that were owed to the claimant. That was not, however, a finding of fact; such a finding of fact would have to be made on contested evidence. The claimant had not, however, shown a good arguable case that there was a risk that the defendants would breach their obligations of confidence in the future. The claimant had failed to identify what information - if any - remained confidential and what would remain so for any future period during which the proposed injunction would be in force. It would therefore be wrong to grant an injunction on terms where the defendants would not know what it was that they were prohibited from doing.

**Comment:** This is perhaps a fairly standard case: the 12 month period is commonly regarded as reasonable (here it was conceded by Counsel to be reasonable, although it is still fact dependant) but non-compete clauses remain a problem, and other clauses can cause problems where they extend too far – in this case, the definition of customers was the falling point.

2.3 *Safety Net Security Ltd v Coppage and another* [2013] EWCA Civ 1176 CA (Lord Justice Ryder, Sir Bernard Rix and Sir Stanley Burnton).

In 2008, the first defendant employee commenced employment with the claimant company employer. In 2010, the employee became a director and entered into a new contract of employment. The employment contract contained a restrictive covenant that provided that, for a period of six months following termination of his employment, the employee would not, directly or indirectly, approach any customer of the employer (who had been a customer during the employee's period of employment) with the purpose of soliciting business which could have been undertaken by the employer.

In 2012, the employer's sole shareholder and chief executive planned to take back more of the employee's functions to himself and commenced a redundancy consultation. The employee resigned.

An hour later, H (another employee of the employing company) also resigned and incorporated the second defendant company (FSS). Two weeks later, the employee formally became a director of FSS. There had been a great deal of communication between the employee and H during that two-week period.

Once FSS was incorporated, a number of the employer's clients terminated their contracts, some of whom openly stated that they were moving their business to FSS.

The employer commenced proceedings against the employee and FSS, based upon breach of the restrictive covenant in the employment contract and/or breach of fiduciary duty.

The judge found that the employee had played a large role in the employer as its outward 'face' and that he had had contact with all of the employer's customers since he had taken on the role of director. The judge held that each of the claims was satisfied and that damages of at least £50,000 were proved. The defendants appealed.

They submitted, inter alia:

- (i) that the restrictive covenant had been unreasonable because it ought to have been restricted to the non-solicitation of then current customers, namely those from the previous 12 months prior to termination of the employment contract; and
- (ii) that the judge had had no basis on which he could have found a loss of £50,000.

The appeal would be dismissed.

(1) There had been no error in the judge's approach, inter alia: the clause in question was a non-solicitation clause and not a non-competition clause; the post-termination restraint was only for six months, that was a fundamental consideration of reasonableness; and the employee in the instant proceedings had been a key employee; he had been in contact with all of the employer's customers since 2010 - that indicated that he had realistically had the power to influence all customers with whom he had come into contact, both current and past.

(2) In respect of quantum, the judge had not made an arbitrary award. He had had before him evidence of the gross revenue lost from the customers who had terminated their contracts with the employer in addition to general evidence as to its profitability and he had been entitled to form a view as to the minimum sum to be earned as a matter of profit out of that revenue.

**Comment:** Once more, the definition of customer raises its head. It is important when defining customer to ensure that there is no "generic" description. The extent of the customers the ex-employee is restrained from dealing with must reflect the individual role. There are a number of cases I have come across where there is either a definition that does not reflect the business or does not reflect the employee or even no definition at all!

### 2.3 *Invideous Ltd and others v Thorogood and others* [2013] EWHC 3015 (Ch) Rose J

The first claimant company (Invideous) was concerned with the monetising of video content on the internet. The second claimant (Invideous Dooel-Skopje) was a wholly owned subsidiary of Invideous and was also based in Macedonia. The third claimant was an investor in Invideous.

The claimants alleged that the first defendant (T), at a time when he was a shareholder in, and director and employee of Invideous, had acted in breach of his duties to Invideous in various ways, and that he had breached various orders made by the court in respect of those alleged breaches.

T had been appointed a director of the company from its inception until he resigned on 25 February 2013. The main allegation was that he had taken advantage of lucrative business opportunities which had come his way during his work for Invideous and which he should have pursued on behalf of that company.

Instead, he had allegedly pursued them on his own behalf through the vehicle of the second defendant (NOVP Doo-Skopje), a company incorporated in Macedonia, or the fifth defendant (NOVP LLC), a company incorporated in the USA.

The claimants alleged that T had poached employees of Invideous Dooel-Skopje to work for NOVP Doo-Skopje and that he took funds and property from Invideous Dooel-Skopje that he had not accounted for.

They contended that T had been bound by cl 10 of a written contract of employment between T and Invideous dated 22 November 2011, which provided that the 'Director shall unless prevented by incapacity devote his whole time and attention to the business of the Company and shall not without the prior written consent of the Board: 10.1 engage in any other business ...'.

There was no dispute that T was bound by the terms of a shareholders' agreement signed as a deed on 8 December 2011. Under that agreement, T had agreed that he would not dispose of his shares in the company prior to the third anniversary of the date of the agreement, i.e. before 8 December 2014. Further, cl 18 of the shareholders' agreement contained restrictive covenants. The claimants sought against T and the other defendants, injunctive relief, damages and an account of profits.

The issues for consideration were whether T had committed breaches of his obligations, under his written contract of employment with Invideous Ltd, under the shareholders' agreement, and of his fiduciary duties as a director of Invideous by:

- (i) setting up and working for NOVP Doo-Skopje;
- (ii) pursuing a business opportunity (the Technicolor Showcase portal opportunity) on behalf of NOVP Doo-Skopje rather than on behalf of Invideous Ltd;
- (iii) pursuing business opportunities with Nexeven on behalf of NOVP Doo-Skopje rather than on behalf of Invideous Ltd;
- (iv) dismissing or arranging for the dismissal of employees of Invideous Dooel-Skopje in October 2012 so that they could be employed instead by NOVP Doo-Skopje.

Further, it fell to be considered whether T had been in breach of court orders made against him by reason of the continued operation of NOVP Doo-Skopje after 1 March 2013, and/or after 28 March 2013; and whether he was in breach of court orders made against him by failing to give disclosure required of him, by failing to preserve evidence and by giving false evidence in his first affidavit made in purported compliance with the court order. Consideration was given to ss 170 to 177 of the Companies Act 2006.

The court ruled:

(1) It was settled law that the mere fact that activities were described by an employee as 'preparatory' to competition did not mean that they were legitimate. It was a breach of the duty of fidelity for an employee to recruit or solicit another employee to act in competition. Attempts by senior employees to solicit more junior staff constituted particularly serious misconduct. It was a breach of the duty of fidelity for an employee to misuse confidential information belonging to his employer.

The court should ask whether the activities in which the employee was engaged affected his ability to serve his employer faithfully and honestly and to the best of his abilities.

Under ss 170 to 177 of the Act, directors had a duty to: (i) promote the best interests of the company; (ii) not to act in competition with the company; (iii) not to make a secret profit; and (iv) to avoid a conflict of interest. In respect of the question of whether a transaction 'might possibly conflict' with the interest of the company, it was settled law that the reasonable man, looking at the relevant facts and circumstances of the particular case, would think there was a real sensible possibility of conflict; not that it could be imagined some situation arising which might, in some conceivable possibility in events not contemplated as real sensible possibilities by any reasonable person, result in a conflict (see [45], [76],[79] of the judgment).

Applying those principles to the facts of the instant case, T had undoubtedly been appointed as a director of Invideous from the company's inception until he resigned on 25 February 2013. He had therefore owed the company the fiduciary duties that had been established by case law and which were encapsulated in ss 170 to 177 of the Act.

Further, following his resignation as a director, T had owed a duty not to exploit for his own gain any property, information or opportunity of which he became aware at a time when he was a director (s170(2)(a) of the Act). T had been the most senior employee of Invideous and Invideous Dooel-Skopje. He had clearly owed a high degree of loyalty, fidelity and diligence to Invideous.

On the facts, T was subject to the terms of the written employment contract dated 22 November 2011. Further, there was no dispute that T was bound by the terms of the shareholders' agreement signed as a deed on 8 December 2011 and that, under that agreement, T had agreed that he would not dispose of his shares in the company prior to the third anniversary of the date of the agreement, that was before 8 December 2014.

It followed that T was therefore still a shareholder of Invideous. The restraint in cl 18 of the shareholders' agreement was reasonably necessary to protect

the legitimate interests of Invideous. In all the circumstances, the restraint in cl 18 was not void in restraint of trade and was enforceable against T.

In conclusion, T had committed breaches of his obligations under his written contract of employment with Invideous Ltd, of his obligations under the shareholders' agreement and of his fiduciary duties as a director of Invideous by: (i) setting up and working for NOVP Doo-Skopje; (ii) pursuing the Technicolor Showcase portal opportunity on behalf of NOVP Doo-Skopje rather than on behalf of Invideous Ltd; (iii) pursuing business opportunities with Nexeven on behalf of NOVP Doo-Skopje rather than on behalf of Invideous Ltd; and (iv) dismissing or arranging for the dismissal of employees of Invideous Dooel-Skopje in October 2012 so that they could be employed instead by NOVP Doo-Skopje. The other defendants were therefore also liable to the claimants for conspiring with T in those breaches as alleged in the re-amended particulars of claim.

(2) In respect of the application for contempt, the information provided by T in his affidavit of 15 March 2013 in purported compliance with the order of 11 March 2013 was deliberately untruthful in relation to his contacts with Invideous clients and with employees of Invideous Dooel-Skopje. The other allegations of contempt had not been established to the necessary standard.

It is illustrative of the difficulties that can be faced when dealing with cases such as these that the Judge made the following comment at the end of her Judgment:

"I hope that it will be apparent from this judgment that I consider that any injunction which simply prohibits Mr Thorogood from being employed or engaged in a business that is 'in competition' with Invideous Ltd or Invidius Dooel-Skopje is a recipe for further dispute and protracted litigation between these parties. The injunction is to last until December 2015. The business of Invideous Ltd is at an early stage and is still recovering from the set backs of the past year. There needs now to be careful consideration on both sides of realistic boundaries as to what business Invideous Ltd is likely to develop so that an order can be drawn up which is capable of being enforced by the court."

#### 2.4 *Prophet PLC v Higgett* CA [2014] EWCA Civ 1013; [2014] IRLR 797

Summary: The court interpreted a restrictive covenant and determined that its effect was limited to preventing an employee from working for competitors which provided specific computer software. Although that interpretation meant that the restrictive covenant had little practical effect because the employer was the only company which supplied that software, the wording of the covenant was unambiguously clear and it was not a case where something had clearly gone wrong with its drafting.

The Court held that the drafting of a proviso was unambiguously clear. It was not a case where it was clear that something had "gone wrong" with the drafting of the covenant. The proviso therefore had to be approached on the basis that it was a carefully drawn piece of legal prose in which the draftsman had chosen his words with deliberate and specific care. The fact that the proviso had been tacked onto the clause with the plain intention of saving the validity of the clause as a whole merely served to underline that (to avoid the danger of the clause being too wide). No basis could be identified upon which the judge had been entitled to re-cast the parties' bargain in the way he had done. The Court of Appeal therefore allowed the Appeal and overturned the first instance Judge's decision to write additional words into the clause.

### *2.5 Merlin Financial Consultants Ltd v Cooper [2014] EWHC 1196 (QB)*

Mr Cooper was a financial adviser who worked for Merlin Financial Consultants Limited (Merlin) between April 2008 and November 2012, when he left to set up his own business with another of Merlin's former employees. Mr Cooper had over 23 years' experience in the financial services industry before joining Merlin and had built up a significant client base of financial services clients. Prior to Mr Cooper starting work with Merlin, the parties entered into two contracts:

The "goodwill agreement" under which Merlin purchased the goodwill in, and the right to receive future income from, Mr Cooper's client base. The agreement contained a 12-month post-termination non-competition restrictive covenant which provided that during the period of four years after entering into the agreement, and for a period of one year from the termination of his employment, Mr Cooper must not, in any part of the United Kingdom, "be engaged, concerned or interested in, or provide financial support or management services or technical, commercial or professional advice to any other business which supplies goods and/or services which are competitive with or of the type supplied by [Merlin]".

An employment contract which contained post-termination restrictions preventing him from acting in competition with Merlin for six months after the termination of his employment. However, the covenants distinguished between "company clients": clients introduced by Merlin and "executive clients": the client base Mr Cooper brought with him to Merlin. The covenants in the employment contract only prevented Mr Merlin from soliciting company clients; there was no restriction on him taking executive clients with him if he left.

The goodwill agreement, as drafted, contained an error in that the term "clients" was defined in the agreement as those persons listed in schedule 1. However, schedule 1 was never produced.

The court held that the failure of the parties to produce and attach schedule 1 to the goodwill agreement, defining the clients referred to in the body of the agreement, did not render the agreement unenforceable. The payment made to Mr Cooper had been calculated by an agreed formula and although schedule 1 had been intended to formally record all the relevant clients, in the event, it was not necessary for it to be produced. The non-competition clause was not limited to Mr Cooper acting for the clients that would have been listed on the schedule; he was prevented from acting for any client in competition with Merlin during the restricted period. The missing schedule did not therefore directly affect the restrictive covenant.

The court considered that the goodwill agreement was more akin to a business sale agreement than an employment contract and noted that the law distinguishes between restrictive covenants in such agreements, the parties to a business sale agreement being considered to have more equality of bargaining power. It noted that:

"Where the parties are of equal bargaining power, the court is slow to intervene to prevent the enforceability of what has been freely agreed, as they are the best judges of what is reasonable as between themselves, but if the restraint goes further than is reasonably necessary to protect a legitimate business interest, it will be held unenforceable". (Paragraph 62(e).)

In this case, the court concluded that the non-competition clause was enforceable as the goodwill agreement was freely entered into between two parties of comparable bargaining power. The Judge undertook a useful review of the principles established by the previous case law.

## 2.6 *Croesus Financial Services Ltd v Bradshaw & Anor [2013] EWHC 3685 (QB)*

Any client or prospective client with whom the adviser had personal contact in the course of his duties in last two years of employment. Duration of 12 months.

"Personal contact" involves more than "trivial" contact.

12 month restriction was considered to be reasonable as it represented industry standard. 12 months was also a reasonable period for the ex-employer to spend building up the relationships between clients and the new adviser. Establishing new relationships would be a gradual process which could not be "artificially speeded up".

Employees may be found to have solicited clients even where the client has approached the employee first: all surrounding circumstances must be considered.

### 3. Pre Action Steps:

3.1. The most important pre-action step an Employer should take is to ensure that it has up-to-date, well-drafted contracts of employment for all its employees with appropriate restrictions that reflect their role within the business.

3.2. Include something about how to draft the actual restrictions and the evidence needed to support the drafting

3.3. Useful terms over and above the RCs themselves include:

3.3.1. A requirement that an employee bring to the employer's attention any direct or indirect attempt to recruit him or her by a competitor. Although this goes beyond the common law position it has support from the case of *Tullett Prebon v BGC Brokers LP* [2010] IRLR 648;

3.3.2. A term that requires an employee to inform the Employer as soon as he or she becomes aware that another employee has been approached or is proposing to leave for a competitor. This is certainly reasonable in relation to a senior employee (as reinforcing his or her common law duty of care);

3.3.3. A requirement that an employee produce to any new employer a copy of (redacted re salary) the instant contract. This will increase the Employer's ability to claim inducement of breach of contract against the recruiting employer;

3.3.4. Wide powers to monitor and review an employee's communications and other actions on work computers. Control over personal equipment is less straight-forward but inroads can be made by extending the right to cover devices using the Employer's wi-fi. Actual accessing of the employees personal phones/ipad etc may be illegal, but does not necessarily prevent the employer from using the information;

3.3.5. Control over work related Social Media, especially LinkedIn and similar networking accounts- the issue of social media and control of social networking information is one that we shall discuss during the Seminar.

3.3.6. Express provision for the return of company equipment immediately on demand and not only on termination. If the employer works from home, then a right to audit home computer equipment would be useful;

3.3.7. A recording that the employee has had the opportunity to seek legal advice or has received such advice on the RCs;

3.3.8. Of course, it is important to make sure that a signed copy of the contract is retained, that there is evidence that the employee has read it, and that if there is a change in the obligations (or more importantly an imposition of RCs) that there has been consideration provided for the change in the terms of employment.

3.4. It is important that information that the Employer intends to assert as being confidential is clearly marked as such and that employees are made aware that the Employer considers the information to be confidential.

3.5. Senior employees should be made aware, both in their contracts of employment and in any pre-employment discussions, that they are subject to fiduciary duties.

3.6. Watching out for warning signs: requests to see Contracts of Employment, emails going astray that show an employee is unsettled, general attitude of the employees, uncertainty in the Employer and end of golden handshake periods. Similarly in professional firms such as Solicitors and Accountants, falling-outs between senior partners can often foretell group moves. *Linkedin*

4. Where there is a termination of the contract.

4.1. What are the important issues:

4.1.1. Is there a contract with RCs, signed by the employee?

4.1.2. Is there a Garden Leave provision?

4.1.3. Is there a sufficient reason to terminate without notice?

4.1.4. If the employee is alleging constructive dismissal, is it sufficient to persuade a Court on an interim hearing that the RCs should not be upheld?

4.1.5. Is there any chance of showing that the employee was already in fundamental breach before he or she sought to accept such a breach by the Employee (although some doubt has been cast on the *RDF Media Group Plc v Clements* case, it has also received support in the *Brandeaux Advisers (UK) Ltd v Chadwick* case).

4.2. Identifying the new employer can be very difficult. Market gossip can help, as can phone calls to competitors asking to speak to the ex-employee. The ex-employer should write immediately to the new employer putting it on notice of the restrictions and advising it not to induce a breach of the contract.

4.3. Joining the new employer has attractions: costs protection and more chance of interim relief. However there are risks – the cross-undertaking in damages is potentially open-ended (not limited to lost salary), an adverse costs order is likely to be higher, and an employer is likely to be able to afford better legal advice. Care should be taken therefore before involving the new Employer.

## 5. Proceedings

5.1. As in all interim injunction applications, the American Cyanamid test applies, subject however to whether a speedy trial can take place before the period of the restraint has wholly or substantially expired. Reference should be made to the case of *Lawrence David v Ashton* [1989] ICR 123, CA.

5.2. The key therefore remains whether there is:

- 5.2.1. A serious issue to be tried;
- 5.2.2. The adequacy of damages; and
- 5.2.3. The balance of convenience.

5.3. It is vitally important in preparing for an application that these are considered, and in relation to the balance of convenience evidencing the ability of the Employer to give and to be able to satisfy any cross undertaking in damages. This is frequently forgotten or left to the last moment.

5.4. Adequacy of damages usually lies with the Employer, since the Employee's loss is at best the lost salary, which is easily assessed – if it is the establishing of a new business by the ex-employee that is more complicated. For an employer, showing the loss is much harder and can involve considerable costs in itself. It may be that neither party can be adequately compensated, but rare that the Employer can.

5.5. Beware though that the Court will carry out some assessment of the merits of the case, and even if a speedy trial is possible, may well, and is entitled to, come to the view that the case is insufficiently strong to warrant the granting of the injunction – see *Pheonix Partners Group LLP v Asoyag* [2010] IRLR 594 where there was 3 months left at the time of the Application and no chance of a speedy trial before that period was up.

## 6. Springboard Injunctions

6.1. Reference should be made to *Vestergaard Frandsen A/S v Bestnet Europe Ltd* [2011] EWCA Civ 424 and affirmed in the Supreme Court [2013] UKSC 31:

6.1.1. The general principle is that where the claimant has established that the Defendant has acted in breach of an equitable obligation of confidence and that there is a sufficient risk of repetition the Claimant is generally entitled to an injunction save in exceptional circumstances;

6.1.2. However there was never any sound authority for the proposition that an injunction can be granted to restrain continued misuse of confidential information once the information has ceased to be confidential;

6.1.3. Despite the findings of Arnold J at first instance, a “springboard” where confidential information was now in the public domain should be read in the light of the finding by the Court of Appeal that where two former employees had gone into competition against their former employer and used confidential information belonging to the employer to manufacture a competing product, a restraining injunction was appropriate even though they had only used the information to gain a head start in the market and not to shape the product design.

The Supreme Court stated *per curiam*: “Although the protection of intellectual property is vital to the economic prosperity of the country, the law should not discourage former employees from benefiting society and advancing themselves by imposing unfair potential difficulties on their honest attempts to compete with their former employers”

**RICHARD CARTER**

**ST JOHN’S BUILDINGS CHAMBERS**