FOLEY'S LIST

OBTAINING INJUNCTIONS AGAINST USE OF CONFIDENTIAL INFORMATION, SOLICITING CLIENTS AND COMPETING AGAINST A FORMER EMPLOYER, IN BREACH OF S.183 CORPORATIONS ACT

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Glen Pauline
Barrister
E glen.pauline@vicbar.com.au
M 0411 707 487

1. I recently appeared in the Supreme Court to obtain injunctions restraining the misuse of confidential information by two former employees. They resigned as employees and resigned as directors of the company in order to set up a new company to compete. They had both been employees since around mid 2019. They had both signed employment contracts containing express confidential information and restraint causes applying during and post their employment. They had both been directors of the company for about 3 years as well as being shareholders of the company for that time. They both had responsibility for dealing with customers including developing key relationships and proactively building the customer base in the area on behalf of the employer as well as scheduling jobs and managing the various employees needed to complete the jobs.

2. After deciding to resign they sought to negotiate an exit involving the sale of their shares in the company. However negotiations broke down without any agreed valuation of their shares. They then resigned from their employment immediately. They were still current shareholders of the employer company. They were still party to a shareholders agreement which contained express provisions relating to confidential information and restraints of trade.

3. In the 30 minutes or so that I have today I will talk about:

    a. the causes of action that are relevant to this kind of case;
    b. the restraints and confidential information obligations in the Employment Agreements and Shareholders Agreement;

c. the summons seeking injunctions and the importance of describing precisely the orders sought particularly in relation to clients and confidential information sought to be protected;
d. I will describe the evidence relied on to bring proceedings and seek injunctive relief preventing the use of confidential information for the purposes of soliciting clients in order to compete with the former employer; and
e. I will also mention case law relating to protecting employer confidential information and client connection, and the issues that arise in seeking such injunctive relief including the balance of convenience and inadequacy of damages.

4. Let's get started. In the statement of claim it was alleged that the defendants were in breach of their contractual fiduciary and statutory duties and obligations by commencing a competing business. The evidence was that the defendants through their corporate entities were competing via a new company they had incorporated and held shares in. They had in fact held shares in that company for several months prior to resigning from their employment. This evidenced an intent to prepare to compete with the employer in breach of their employment duties and the shareholder agreement. Within a few weeks they had commenced to provide competing services via the new company in blatant breach of the prohibition on having a direct or indirect interest in a competing business. This also was a direct breach of the clause of the employment contract requiring them not to carry on or be interested in or associated with or otherwise involved in any business activity that was competitive with the employer for a period of 12 months or alternatively 6 months or alternatively 3 months after the conclusion of their employment.

5. Both the employment contracts and the shareholders agreement contained clauses relating to **confidential information**. The *employment contract* defined **confidential information** relevantly to include information or material proprietary to the employer or any of its related entities information that was imparted in confidence to the employees by the employer and any of the above information relating to the employer's clients or customers. In the *shareholders agreement* **confidential information was defined** to mean any and all technical and non-technical information that is confidential to a party not in the public domain and includes all data details business information contracts customer lists forecasts sales and merchandising information marketing plans documents agreements techniques commercial knowledge in whatever form however stored regardless of whether the information is designated conspicuously as confidential.

6. The defendants were bound by employment contracts containing express terms requiring them not to disclose without written consent confidential information or any information concerning the business transactions or affairs of the employer or any related body corporate, not to use or attempt to use confidential information in any manner which may cause or be calculated to cause injury or loss to the employer, not to use the confidential information other than for purposes of performing the services under the employment agreement; and they were required by their employment contracts to use their best endeavours to safeguard the security of the confidential information and advise immediately if they became aware of any breach of confidentiality; and return all confidential information immediately upon the request of the employer. These were described as the "*safeguarding obligations*".

7. The Defendants were also bound by **three restraint clauses** in their employment contracts:

    a. First a **non-solicitation clause** applying during employment and for one year post termination prohibiting them within Australia on their own account or on behalf of any other person directly or indirectly soliciting or interfering with or endeavouring to induce the custom of a person firm company or entity that had been a client of the employer in the 12 months prior to the end of their employment.
    b. Second, a **reduce dealings clause** prohibiting during employment and post termination for *12 months and six months and three months* in the restraint area being *Australia and Victoria and within 200 kilometres of a Victorian country town* by any means directly or indirectly attempting in any manner to **persuade a client to cease dealings with or reduce dealings** with the employer which the client had customarily had or contemplated having with the employer.
    c. Third, a **competition restraint** requiring them during employment and post termination for 12 months and six months and three months in the restraint area being Australia and Victoria and within 2 kilometres of a specified Victorian country town, by any means directly or indirectly carrying on advising providing services to or engaging or being engaged concerned or interested in or associated with or otherwise involved in any business activity that is competitive with any business carried on by the employer.

8. The employment contracts contained clauses in which the defendants acknowledged that the solicitation clause operates independently and is necessary to protect the employers reasonable and legitimate business interests. They also contained acknowledgments that the covenants resulting from each

restraint and each restraint area constituted and is to be construed and will have effect as a separate distinct separable and independent provision from the other covenants although cumulative in effect. The defendants in their employment contracts also acknowledged that the employer will be entitled to injunctive relief and other equitable relief to prevent or cure any breach or threatened breach of those clauses.

9. In addition to breaches of the restraint clauses of the employment contract it was alleged that the defendants were in **breach of their fiduciary duties to the employer as directors and employees** including duties to avoid conflicts of interest or profiting from their fiduciary position *not to use information or corporate opportunities acquired as employees* other than for the benefit of the employer and not to divulge confidential information or trade secrets of the employer for their own benefit these were the employee fiduciary duties.

10. Further, under section 183 of the *Corporations Act* they were obliged not to:

    a. ***improperly use their position to gain an advantage for themselves or someone else or cause detriment to the employer***; and

    b. **both during and after cessation of employment not to properly improperly use information obtained as an employee to gain an advantage for themselves or someone else or cause detriment to the employer.**

11. In a recent decision of Derrington J *Smart EV Solutions v Guy* [2023] FCA 1580, it was said that the Confidential Information protected by section 183 arguably extends broadly to "knowledge of facts".1 Her Honour also said that the use of confidential information improperly to entice customers and divert business opportunities is in contravention of section 183.2

12. Section 1324 of the *Corporations Act* was relied upon in seeking the injunctions including on an interim basis. Sub-section (1) provides relevantly that where a person has engaged, is engaging or is proposing to engage in, conduct that constitutes a contravention, an attempt, aiding abetting counselling or procuring, or being directly or indirectly knowingly concerned in or party to such

[1] See *Smart EV Solutions v Guy* [2023] FCA 1580, Derrington J at [71].
[2] See *Smart EV Solutions v Guy* [2023] FCA 1580, Derrington J at [73].

contravention, the Court may grant an injunction on terms it things fit including restraining conduct and requiring the person to do an act or thing.

13. Sub-section (4) provides the power to grant an interim injunction, and sub-section (5) provides the power to grant an injunction by consent whether or not it is satisfied that sub-section (1) applies. Further, sub-section (6) and (7) allow the Court to exercise its power to grant both prohibitory and mandatory injunctions regardless of whether or not it appears they intend to continue to engage in the conduct (ore refuse to do an act or thing), and regardless of whether there is imminent danger of substantial damage to any person from such continued conduct or refusal.

Summonses

14. The Plaintiffs applied for interlocutory injunctive relief restraining the Defendants from conduct in breach of confidential information clauses in the Employment Agreements and Shareholders Agreement, directors and employees fiduciary duties, and section 183 of the Corporations Act 2001. They sought orders enforcing the provisions of the Shareholder Agreement with respect to the disclosure of confidential information, the return or destruction of confidential information, and interlocutory injunctions enforcing the restraint clauses in the Employment Agreements. The restraint clauses in the Shareholders Agreement were not the subject of the summons.

15. There were two orders sought in the summons relating to the post-termination employment restraints. The first sought to restrain the Defendants from directly or indirectly soliciting, interfering with or endeavouring to induce the custom of any person firm, company or entity which is, or has been in the 12 months prior to termination of their employment agreement, a client of the First Plaintiff (as named in the Schedule) ("**the solicitation order**"). The second sought to restrain the Defendants from directly or indirectly attempting in any manner to persuade a client of the First Plaintiff to cease dealing with or to reduce the dealings which the client has customarily had or contemplated having with the First Plaintiff (as named in the Schedule) ("**the reduce dealings order**").

16. The schedule to the summons contained the broad descriptions of **confidential information** taken from the combined wording of the Employment Agreements and the Shareholders Agreement. In essence, the definitions were broad and typical and included reference to

"information or material proprietary to" the employer, or any of its related entities including "all data…figures, financials, costings…processes, formulae, know-how, trade secrets… business information…intellectual property rights, contracts, customer lists, forecasts, sales and merchandising information, marketing plans, documents, agreements, techniques, commercial knowledge and other proprietary information in whatever form and however stored and regardless of whether the information is designated conspicuously or otherwise as confidential;

17. Also included was *information designated in writing as confidential during the employment; information imparted in confidence; and any such information relating to the employer's clients or customers*.

18. The summons also sought orders requiring the Defendants to swear an affidavit specifying all persons to whom they have disclosed Confidential Information including by providing; The recipient's full name and address; the Relevant date or dates on which the Confidential Information was disclosed; and Details of the Confidential Information including details of any documents comprising or containing the Confidential Information or documents disclosed, discussed with and/or provided to the recipient.

19. The schedule to the Summons also described the Return or destruction of confidential information directions sought by way of order, as follows:
    a. In the case of hardcopy information, or Confidential Information contained in or evidenced in physical form including documents, by delivery to the Plaintiff's solicitors;
    b. In the case of Confidential Information contained electronically or digitally, by delivery of an electronic copy of the Confidential Information so held to the Plaintiff's solicitors;
    c. In the case of Confidential Information contained electronically or digitally, by destruction by deletion of the electronic files so that no copy remains on the electronic device and by production of logs or records to evidence the permanent deletion and/or destruction of the files to the Plaintiffs solicitors.

20. Finally, the summons specifically named all 162 clients whom it was alleged the Defendants had a close connection with through their employment, in light of the comments of Justice McDonald in the interlocutory injunction decision His Honour made in *Crowe Horwath v Loone*.

<u>Prima facie case</u>

21. The Plaintiffs alleged a strong prima facie case that the Defendants were in breach of the Employment Agreements and Shareholder Agreement obligations, employee duties and section 183 of the Corporations Act, through disclosure and use of the employer's confidential information relating to its clients and the corporate opportunities to provide services to them that were known to them only through their employment and directorship of the employer, for the purposes of soliciting clients and persuading them to cease or reduce dealings with the employer.

22. They submitted that unless restrained from further use and disclosure of the Plaintiff's confidential information, and unless required to disclose to the Plaintiffs the extent of the disclosure of its confidential information by them, and return or destroy the confidential information they have in their possession (as required by the Shareholders Agreement), the Defendants will further breach the Shareholders Agreement, noting the obligations survive termination of the Shareholders Agreement (which had not yet occurred). They had already commenced a competing business and already secured the custom of at least two of the Plaintiff's clients of the past one year and appeared to be seeking to provide services to a key client, and there was direct evidence that they had submitted a quotation to another client.

Balance of convenience

23. The balance of convenience[3] favoured the granting of the orders sought, because there was a greater risk of injury or inconvenience to the Plaintiffs if the injunctions were not granted, than any risk of injury or inconvenience to the Defendants, who at least until determination at trial, would be able to continue to operate the new business in competition with the First Plaintiff (as no injunction was sought to stop them competing per se) but would need to do so without further disclosing or using the confidential information of the Plaintiffs.

24. The evidence was that there was another 162 clients whose primary contact with the First Plaintiff had been the Defendants whilst they were employed by the First Plaintiff. The evidence was that those clients had together generated a monthly revenue of over $800,000 prior to the Defendants leaving, and the monthly revenue had dropped sharply in the two months since, to $350,000 and then $150,000 in consecutive months, with such drop not being accounted for by any seasonal factors.

[3] *Patrick Stevedores Operations No 2 Pty Ltd* v *Maritime Union of Australia (No 3)* (1998) 195 CLR 1; see also *Australian Broadcasting Corporation v O'Neil* (2006) 227 CLR 57 at 81, 82 [65] per Gummow and Hayne JJ (see also [19], [65], [72]).

25. There was evidence of a recent comment by one of the Defendants, whilst still employed by the Plaintiff, that the other Defendant had "close contacts with the local councils" and other bodies that "would generate the daily business" (for the Plaintiff).

26. Another former employee of the Plaintiff, a relative of one of the Defendants, had been seen on the site of one of the Plaintiff's major clients, doing works of the same type carried on by him when he was employed by the First Plaintiff. The monthly revenue from that client had significantly dropped from more than $30,000 to $2,000.

27. The Plaintiff had calculated a total loss of revenue in the two months since the Defendants ceased their employment of over $100,000, with the prospect of much more loss to come.

Evidence of soliciting customers

28. There was an inference arising from the evidence, that the First and Third Plaintiffs may have directly or indirectly solicited, interfered with or endeavoured to induce the custom of one client arising from an email from that client to the Defendant whilst he was employed by the Plaintiff, the lack of any email response from him whilst employed by the Plaintiff, the confirmation from the client about a month later that she had directed the work to him and he would shortly be working for a new company.

29. A further inference arose in relation to another client where the job had been booked with the Plaintiff initially, until the Plaintiff sent its current schedule of rates to the client at the client's request. This suggested the Defendants were competing with the Plaintiff on price, using the knowledge they had of the Plaintiff's rates, in "endeavouring to induce" RDI's clients. The strong inference was that this client in fact was induced, and either directly or indirectly, persuaded to cease dealing with or reduce dealings with the Plaintiff.

30. The prima facie case was strengthened by the evidence relating to another client. The first evidence of any contact between the client and the Defendants since they had ceased employment with the Plaintiff was an email from the client to the Defendant at his email address of the new competing company. It could be inferred that the Defendant had directly or indirectly taken steps prior to that date, to solicit, interfere with or endeavour to induce the custom of that client, by providing him with his new email address.

31. The client had forwarded the email chain to the Plaintiff which was direct proof of the Defendants taking a previous corporate opportunity offered to the Plaintiff while the Defendants were employed by the Plaintiff. The email chain included the quotation by them for the job after they had commenced their competing business.

32. This was unequivocal evidence of a direct attempt to solicit the custom of the client in breach of the non-solicitation restraints and reduce dealings restraints. It was clear that the corporate opportunity was previously the First Plaintiff's while it employed the First Defendant, and that its confidential information as to its client has been used by the First Defendant which may cause injury or loss to the First Plaintiff.

33. The competition restraint had also been breached within three months being the minimum enforceable period, and within the minimum geographical area of the clause. Hence, by the Defendants involvement in the competing company providing or seeking to provide competing services to those clients within the minimum time period and geographical area, there was a prima facie case of breach of the competition restraint (if enforceable).

34. For these reasons there was a strong prima facie case that the restraints, even if enforceable only to the minimum period and area, had been breached.

Case law re confidential information

35. Turning briefly to some relevant case law on this topic, in ***Kuksal v Nine Network Australia Pty Ltd*** [2021] VSCA 248 at [21]-[23] the Court of Appeal confirmed the application of principles to be applied where a breach of confidence is alleged. The Court referred to the judgment of Mason J in *Commonwealth v John Fairfax & Sons Ltd*4 and Gummow J, as a judge of the Federal Court, in *Smith Kline & French Laboratories (Aust) Ltd v Secretary, Dept of Community*5.[4]

36. [22] In **John Fairfax** Mason J said:

"The principle is that the court will "restrain the publication of confidential information improperly or surreptitiously obtained or information imparted in confidence which ought not be divulged". In conformity with this principle,

[4] (1980) 147 CLR 39.
[5] (1990) 22 FCR 73.

employees who had access to confidential information in the possession of their employers have been restrained from divulging information to third parties in breach of duty and, if they have already divulged the information, the third parties themselves have been restrained from making disclosure or making use of the information.[5]"

The judge noted that where an obligation of confidence protected in equity exists, either because of a fiduciary relationship or on some other basis, there are four elements to be demonstrated. As authority for that proposition, the judge set out the following passage from *Smith Kline*:

a. the plaintiff must be able to identify with specificity, and not merely in global terms, that which is said to be the information in question;
b. the information has the necessary quality of confidentiality (and is not, for example, common or public knowledge);
c. the information was received by the defendant in circumstances as to import an obligation of confidence.
d. there is actual or threatened misuse of that information, without the consent of the plaintiff.

Case law re customer connection as a legitimate interest of an employer

37. The key issue in the proceeding was of course the extent to which the Plaintiff could seek to protect its client base from the Defendants.

38. In *Wallis Nominees (Computing) Pty Ltd v Pickett*6, the Court of Appeal stated the following principles7 relating to protection of an employer's legitimate interest in its customer connection:

a. The test for whether an employer has a legitimate interest in protecting its customer connection through restraint clauses has been put in various ways.
b. One variation is that a legitimate interest will arise [w]here an employee is in a position which brings him into close and personal contact with the customers of a business in such a way that he may establish personal relations with them of such a character that if he leaves his employment he may be able to take away from his former employer some of his customers and thereby substantially affect the proprietary interest of that employer in the goodwill of his business ...

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[6] (2013) 45 VR 657 [21]–[26], [50], [52]–[54] (Warren CJ and Davies AJA, Redlich JA agreeing) (citations omitted).
[7] See *KR Peters Real Estate Pty Ltd v Hickey* [2020] VSC 531 Ierodiaconou ASJ adopting the principles at [80].

c. Another variation is where there is some element in the employee-customer relationship which causes customers to rely on the employee and to regard the employee as the business to the exclusion of the employer.
d. A third variation is where the personal relation between the employee and the customer be such as to enable the employee to control the customer's business as a personal asset. This describes "the ability of the employee to use the relation of influence, which can properly be regarded as the employer's property, for the employee's purposes as distinct from those of the business".
e. A fourth variation is where the employee is described as having become the "human face" of the business. This is understood to mean that the employee has become the person who represents the business to the customer or has such a personal relation with the customer as to enable them to control the customer's business, or as a way of emphasising "that the source of influence must be the personal relationship which is likely to develop, or has developed, between the employee and customer as a result of dealings between them on behalf of the employer and its business". (emphasis added)
f. Two key points emerge from these formulations. First, that an employee must be in a position to gain trust and confidence so as to be relied on in a client's affairs. Secondly, that the relationship between employee and client is such that there is a possibility that if the employee leaves the business of the employer he or she may carry away the client's business with them.

39. In this proceeding the evidence relied upon as to the applicability of the above principles included that the Defendants families were based in the local area, hence the Defendants were "locals" and they had been able to establish the local client base and operate the business in the roles of Operations Manager. They did not work on the vehicles that were used by the business, their responsibility included dealing with customers, scheduling jobs and managing drivers and employees to complete actual jobs. The Third Defendant's role was to "source work" and included "chasing jobs" and he "had close contacts which (sic) the local councils, other authorities and private clients that would generate the general daily business for the Plaintiff". They "were the account managers who would deal with inquiries, quote jobs, book jobs, allocate resources and deal with any problems or complaints". The Plaintiff had encouraged them to develop key relationships with customers and proactively build the customer base in the area on behalf of the Plaintiff and expected these clients were their responsibility".

40. The evidence was of the dealings between the First Defendant and direct contact with a client, across two years, since 2022, and the relation of influence he had with that client whilst an employee of the Plaintiff. Together with the evidence of his dealings with the other clients, there was clear and cogent evidence upon which the Court could rely to conclude that the Plaintiff needed to protect its legitimate interest in its customer connections from the actions of the Defendants.

41. Further, the evidence was that most of the Plaintiff's customers required maintenance services on a routine and repeat basis, and depending on the customer this might be once or twice a year or required on a monthly basis, and the Plaintiff's business relied on servicing those customers' needs so they engage the Plaintiff for ongoing routine and repeat maintenance.

42. According to Justice Heydon, in his writings in '*The Restraint of Trade Doctrine*', cited in *Birdanco Nominees Pty Ltd v Money* (2012) 36 VR 341 at [45], if there is a recurring need for the employee's services, a covenant in restraint may be appropriate.[8] Further, there is recent authority Avant Group v Kiddle [2023] FCA 685 (Wheelahan J) at [104] that where customers will not necessarily return to the plaintiff regularly, or even annually, the cyclical nature of the plaintiff's business is a relevant factor as to the duration of a reasonable restraint.[9] A period of 18 months was considered reasonable including in circumstances where, although not decisive, the employee did agree that concurrent periods including a period of 18 months was reasonable.[10]

43. Justice Heydon has stated that it is not enough for the employee simply to have contact with the customers, there must be some element in the employee-customer relationship which causes customers to rely on the employee and to regard the employee as the business to the exclusion of the employer. Justice Heydon has emphasised the importance of a judge's conclusion that the personal relationship be such as to enable the employee to control the customer's business as a personal asset".[11]

44. However it is not the law that the employee must be "in a position to control whether the customer remains or leaves the employer's business. The test is not so stringent. The employer is entitled to protection against the use of personal knowledge and influence over its customers, which the employee might acquire

[8] The Honourable Justice Heydon 'The Restraint of Trade Doctrine', cited in ***Birdanco Nominees Pty Ltd v Money*** (2012) 36 VR 341 at [45].
[9] See *Avant Group v Kiddle* [2023] FCA 685 (Wheelahan J) at [104].
[10] Ibid.
[11] Ibid.

in the course of his or her employment, so as to undermine its customer connections. It is against the possibility of its business connection being adversely affected by the use of that personal knowledge and influence that the employer is entitled to be protected.[12]

45. The Plaintiff in this case did not have long term contracts for the maintenance work and was vulnerable to losing significant ongoing work if individual customers are encouraged to direct their work elsewhere. Hence, the need for orders sought to protect the Plaintiff's legitimate interests from damage, was clear.

46. A recent case of an injunction made to restrain misuse of confidential information in similar circumstances involving a former employee and director and shareholder, is *Smart EV Solutions v Guy* [2023] FCA 1580.[13] At [33] Derrington J said "courts of equity are astute to protect confidential information from misuse: see *Commonwealth v John Fairfax & Sons Ltd* (1980) 147 CLR 39, 50; *Boardman v Phipps* [1967] 2 AC 46, 127-128. That is particularly so where the information in question has been utilised by former employees or directors in pursuit of business opportunities in apparent contravention of their duties".

47. At [35] Derrington J referred to the situation where information that is confidential in nature is made explicit by the imposition of confidentiality in contracts between the employee and the company, and said the Court is permitted in assessing the balance of convenience, to consider whether the respondent was "warned or had notice of the rights that it is alleged to have infringed, such that it can be said to have embarked on the conduct the subject of the application with its "eyes wide open".

48. The potential for the conduct to have been perpetrated intentionally also confirms the desirability of an injunction.[14]

<u>Legal principles – reasonableness of restraint</u>

49. Although the restraint clauses are prima facie void as against public policy, they are enforceable if no more than necessary for the protection of the First Plaintiffs legitimate interests on the best estimate of what the parties themselves make of the future. That issue is to be determined as at the date of making the agreement. A restraint clause in an employment agreement will be enforceable only if the

[12] See *International Cleaning Services (Australia) Pty Ltd v Dmytrenko* [2020] SASC 222, Stanley J at [49].
[13] See Derrington J at [33], [35], [36], [67], [68], [69], [71], [72], [73]-[76], [80].
[14] *Smart EV Solutions v Guy* [2023] FCA 1580, Derrington J at [82].

restrictions imposed are reasonable having regard to the interests of the parties that are to be protected.[15]

50. The restraint clause must be considered in context of the whole agreement.[16] The validity of the clause has to be assessed at the time the agreement was entered into.[17]

51. In *Just Group Limited v Peck* [2016] VSCA 334, the Court of Appeal said a restraint clause in favour of an employer will be reasonable as between the parties if, at the date of the contract, the clause is imposed to protect a legitimate interest of the employer and does no more than is reasonably necessary to protect that legitimate interest in its duration or extent. It is well established that employers do have a legitimate interest in protecting confidential information and trade secrets, and the employer's customer connections.

52. For the legitimate purpose of protecting the employer's confidential information, a restraint clause does not need to be limited to a covenant against disclosing confidential information. It may restrain the employee from being involved with a competitive business that could use the confidential information.[18]

53. The onus of proving the special circumstances from which the Court may infer reasonableness between the parties is on the person seeking to enforce the covenant. However if an employee alleges that the restraint clause is against the public interest, the burden of proving that proposition is on the employee.[19]

54. The Court of Appeal in *Wallis Nominees (Computing) Pty Ltd v Pickett*[20] also stated the following principles[21] relating to whether a restraint of trade is reasonable including as to duration:
    a. Whether a restraint of trade clause is reasonable is a question of law. The relevant principles in this regard are not in dispute. The test is whether the restraint does more than what is reasonably necessary to protect the employer's legitimate interest...
    b. Secondly, in principle, a restraint clause that goes beyond solicitation, such as accepting a customer's offer, may be reasonable where there is a

[15] *Birdanco Nominees Pty Ltd v Money* (2012) 36 VR 341 Robson AJA at [36] (citations omitted).
[16] Ibid at [74].
[17] Ibid at [93].
[18] *Just Group Limited v Peck* [2016] VSCA 334 at [35].
[19] Ibid at [36].
[20] (2013) 45 VR 657 [21]–[26], [50], [52]–[54], [55] (Warren CJ and Davies AJA, Redlich JA agreeing) (citations omitted).
[21] See *KR Peters Real Estate Pty Ltd v Hickey* [2020] VSC 531 Ierodiaconou ASJ adopting the principles at [80].

strong customer connection and solicitation might not be necessary (for example, the customer might approach them).

c. Thirdly, the more significant the personal relationship between the employee and customers is to the finding of legitimate interest, the less likely it is that a restraint will be found reasonable if it relates to customers whom the employee did not deal with.
d. The principles as to how to determine a reasonable duration for a restraint clause are uncontroversial and not in dispute. The matter is not one that is capable of being settled by direct evidence. An opinion "can only be formed on a broad and common sense view" after informing oneself fully of "the facts and circumstances relating to the employer's business, the nature of the employer's interest to be protected, and the likely effect on this of solicitation.
e. The relevant question…is what is a reasonable time during which the employer is entitled to protection against solicitation of clients with whom the employee had contact and influence during employment and who were not bound to the employer be contract or by stability of association".
f. The question has also been reformulated as the length of time it would have taken a reasonably competent replacement employee to show their effectiveness and establish a rapport with the client, displacing the former employee's influence with the client or as how long the employee's hold over the client is expected to last before weakening".

55. It is for the Court, informed as fully as it can be of the facts and circumstances relating to the employer's business, the nature of the employer's interest to be protected, and the likely effect on this of solicitation, to decide whether the contractual period is reasonable, or not. An opinion as to the reasonableness of elements of it, particularly of the time during which it is to run, can seldom be precise, and can only be formed on a broad and common sense view.[22] A party's acknowledgement in the employment contract of the reasonableness of a restraint may be a relevant factor.[23]

56. Where an employee's role in the business includes business development, this prima facie supports a reasonable non-solicitation clause that covers all existing clients as being reasonable.[24]

[22] *Stenhouse Australia Ltd v Phillips* [1974] AC 391, cited in *Birdanco Nominees Pty Ltd v Money* (2012) 36 VR 341, Robson AJA at [81].
[23] *Avant Group v Kiddle* [2023] FCA 685 (Wheelahan J) at [71].
[24] Ibid at [102].

57. Even where the employment agreement lacks express words that limit the purpose of the restraint clause to the protection of goodwill arising from actual customer connection by the employee, the reasonableness of the restraints must be looked at objectively from the standpoint of the parties at the time the employment agreement was entered into. Where the parties had in contemplation that the employee might during the term of employment, have access to information identifying all the plaintiff's clients, and would be involved in business development, and exposed to the plaintiff's confidential information that identified the clients and their contact details, and the pricing structure and business strategies of the employer, it is arguable that these activities would also have fostered connections between the employee and persons who referred business to the employer on a regular or ongoing basis. In such circumstances, employers may be entitled to protection, by reasonable post-employment restraints, not only against the unfair use of customer connections, but also against the use of confidential information which is otherwise difficult to protect.[25]

58. With regard to construction of a restraint clause, it will be construed for its real meaning in accordance with accepted rules of contractual interpretation, including having regard to the object of the agreement objectively ascertained, before the Court considers whether the clause goes further that what is reasonably necessary to protect the employer's legitimate interests. [26] In *Birdanco Nominees Pty Ltd v Money*, the Court of Appeal stated the following principles[27]:
    a. A covenant in restraint of trade should be construed in a business fashion. In Southland Frozen Meat & Produce Export Co Ltd v Nelson Brothers Ltd, a decision of the Privy Council, their Lordships said that the words of a covenant in restraint of trade should be given their business meaning and not their wider possible dictionary meaning. They said having regard to the agreement, that it must be construed in a business fashion and:
    b. ... that the words must not be applied to everything that might be said to come within a possible dictionary use of them, but must be interpreted in the way in which businessmen would interpret them, when used in relation to a business matter of this description.

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[25] *See Avant Group v Kiddle* [2023] FCA 685, Wheelahan J at [101].

[26] Ibid at [68] citing *Butt v Long* [1953] HCA 76 and *Just Group v Pec*k at [38(a)] therein.

[27] *Birdanco Nominees Pty Ltd v Money* (2012) 36 VR 341 [36], [39] (Robson AJA) (citations omitted).*See also KR Peters Real Estate Pty Ltd v Hickey* [2020] VSC 531 Ierodiaconou ASJ adopting the principles at [81].

59. A court may, and in some circumstances will, enforce part of a restraint even through taken as a whole the restraint exceeds what is reasonable. That can be done where that part which is unenforceable is clearly severable without altering the nature of the contract and without having to add to, or modify, the wording in any way other than by excision.28

60. In *Crowe Horwath Pty Ltd v Loone* [2016] VSC 582 McDonald J held at [14] the plaintiff had a genuine interest in protecting its client base.29

61. McDonald J held it was strongly arguable the restraint was a valid restraint for a period of 12 months.30 This was so even though the clause went further than a non-solicitation clause. The seniority and length of service of Mr Loone was relevant to the close client connections he had doubtless established. His Honour said at [21]: "The strength of those connections is such that cl 3.1(a), the non-solicitation provision, is unlikely to offer adequate protection to the plaintiff in respect of the 89 clients with whom Mr Loone had direct dealings in the 12 months between July 2015 and July 2016".

62. As the clause did not prevent Mr Loone from "establishing an accounting business, nor does it prevent him from providing services to approximately 90 per cent of Crowe Horwath's existing clients, ie. the balance of the 881 clients deposed to... giving effect to cl 3.1(b) is the best way of achieving a balance between the legitimate interests of the plaintiff in protecting its goodwill and its client base, that is, clients with whom Mr Loone had direct dealings during the 12 months prior to July 2016, and the legitimate interest of Mr Loone in being able to establish his own business and earn a living."31

63. Crowe Horwath was entitled to an interlocutory injunction to restrain the defendant until the trial from providing services to certain of the plaintiff's clients with whom the defendant had direct dealings in the 12 months prior to termination. The injunction was made with reference to the clients listed in an exhibit to the plaintiff's affidavit material.

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[28] *Avant Group v Kiddle* [2023] FCA 685 (Wheelahan J) at [68] citing *SST Consulting Services Pty Ltd v Rieson* (2006) 225 CLR 516 at [46]; *Wallis Nominees* at [92]-[94]. The issue often turns on whether there is one covenant o, or several distinct covenants: (Wheelahan J at [68]).
[29] McDonald J at [14] citing *Lindner v Murdock's Garage* (1950) 83 CLR 628 at 636, cited with approval in *Birdanco Nominees Pty Ltd v Money* (2012) 36 VR 341; 219 IR 276 at [5], [75]-[76].
[30] McDonald J at [21] citing *Birdanco Nominees Pty Ltd v Money* (2012) 36 VR 341 at [82]-[84].
[31] McDonald J at [22].

64. A restraint that is limited to the provision of services to those particular clients that, by virtue of the employment and the opportunity to establish a continuing relationship, is precisely the kind of connection which the authorities make clear, the employer is entitled, within reasonable limits, to protect.[32]

Damages inadequate

65. In assessing the balance of convenience, a court looks to the practical consequences of making or refusing the order, including whether the grant or refusal of an injunction would have the effect of finally disposing of the proceeding.[33] This is an issue that frequently arises in applications for interlocutory injunctions to enforce restraint of trade clauses and requires that particular attention be given to the strength of the claim for final relief. That is because in such cases an interlocutory injunction does not necessarily maintain the status quo pending trial because often the correct view of the status quo is the very matter that is in dispute. While the grant of an interlocutory injunction to enforce a restraint clause might have the effect that the restraint is enforced for much of the duration of its duration before there is an opportunity for final hearing, the refusal of an interlocutory injunction may have the consequence that a plaintiff is denied the primary remedy to which it claims to be entitled in order to enforce a negative contractual covenant.[34] The inadequacy of damages as a final remedy therefore informs the balance of convenience.[35] Damages may be inadequate because once client relationships are severed, they may be difficult to repair, and an award of damages, although possible, may not be the most suitable remedy.[36]

66. Damages was an inadequate remedy for a number of reasons, including the difficulty of detection of breaches of the obligations, establishing causation between any loss of business with customers and any actions of the ex-employee and the difficulty of the calculation of the quantum of damages arising from the loss of business.[37]

67. Damages would not be an adequate remedy because as stated by McDonald J in *Crowe Horwath Pty Ltd v Loone*[38], "absent an injunction enforcing the clause,

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[32] *Birdanco Nominees Pty Ltd v Money* (2012) 36 VR 341; 219 IR 276 at [5] cited by McDonald J in *Crowe Horwath Pty Ltd v Loone* [2016] VSC 582 at [16].
[33] *Australian Broadcasting Corporation v O'Neil* (2006) 227 CLR 57 at [72] per Gummow and Hayne JJ.
[34] *Avant Group v Kiddle* [2023] FCA 685 (Wheelahan J) at [7] and the cases cited therein.
[35] Ibid.
[36] Ibid.
[37] Ibid, Derrington J at [81] citing *Emeco International Pty Ltd v O'Shea*.
[38] *Crowe Horwath Pty Ltd v Loone [2016] VSC 582 (McDonald J)* at [26]-[28].

there would be significant difficulties attending the quantification of damages in circumstances where any of the [89] clients leave Crowe Horwath and become clients of Mr Loone prior to the effluxion of the restraint period".39 McDonald J accepted "there is a monetary value, difficult to assess, constituted by the loss of opportunity to retain the [89] clients…with whom Mr Loone had direct dealings in the 12 months prior to the cessation of his employment".

68. McDonald J also said40: "Further, there is a question as to the difficulty in proving that any loss flowing from the departure of a client has been caused by Mr Loone acting in breach of a covenant. It is well established that it is a rare case involving the enforcement by injunction of a negative covenant that relief will be declined on the basis that damages are a sufficient remedy".

Conclusion

69. Happily for the Plaintiffs in my recent case the Defendants consented until further order of the Court, to the injunctions and other orders sought with some minor modifications and a reduction of the number of named clients to 149 on the basis that upon further review some had not been clients within the twelve month period specified in the Employment Agreement. The Plaintiffs gave the usual undertaking as to damages.

70. I hope this podcast has described the journey to achieving such orders well and if you would like to discuss the enforcement of restraint clauses and confidential information obligations with me then please contact me or a clerk at Foley's List.

[39] Ibid, McDonald J at [26].
[40] Ibid, McDonald J at [28]