

**IN THE EMPLOYMENT COURT
CHRISTCHURCH**

**CC 16/09
CRC 23/09**

IN THE MATTER OF proceedings removed from the
Employment Relations Authority
AND
IN THE MATTER OF an application for interim injunction
BETWEEN JAMES & WELLS PATENT AND
TRADE MARK ATTORNEYS
Plaintiff
AND ROBERT JOHN SNOEP
Defendant

Hearing: 28 October 2009
(Heard at Christchurch)

Appearances: Richard Harrison, counsel for the plaintiff
Amy Shakespeare and Anna Chartres, counsel for the defendant

Judgment: 28 October 2009

ORAL JUDGMENT OF JUDGE A A COUCH

[1] The plaintiff is a firm of patent attorneys. In 2001, it employed the defendant with a view to training him to become a patent attorney. The terms of employment were contained in a written individual employment agreement. Those terms of employment included certain restraints on the defendant practising as a patent attorney in competition with the plaintiff if he left.

[2] The defendant was trained as anticipated and qualified as a patent attorney. He then continued to work in the plaintiff's Christchurch office. He was successful as a patent attorney and worked closely with many of the firm's clients. On 1 April 2008, he was made a "salaried partner" of the firm.

[3] On Monday 20 July 2009, the defendant resigned from his position and announced his intention to set up in practice on his own account. The plaintiff reminded him of the restraints on doing so contained in his 2001 employment agreement. The defendant initially sought to negotiate a relaxation of those restraints which would allow him to do work for several clients of the firm and to practise in Christchurch. When those negotiations proved unfruitful, the defendant said that he was not bound by the restraints. He said that his appointment as a salaried partner terminated his employment and that, as a result, he was no longer bound by the terms of the employment agreement. The plaintiff rejected that proposition and said that, until his resignation, the defendant was an employee and was bound by the terms of the 2001 employment agreement.

[4] On 15 August 2009, the defendant began doing work as a patent attorney for a significant client of the plaintiff called Comvita. The plaintiff promptly filed proceedings in the Employment Relations Authority seeking an interim injunction restraining the defendant from doing work for Comvita and another client and from approaching other clients or soliciting work from them. The defendant then sought to have the matter removed to the Court on the grounds that it involved an important question of law, namely whether an employment agreement entered into when a person was an employee could continue to apply when that person became a partner of the firm. The Authority granted the application and removed the whole matter into the Court (CA 167/09, 5 October 2009). The matter has since proceeded in the Court on the pleadings filed in the Authority. Urgency has been granted. The plaintiff was offered a hearing in the week beginning 12 October 2009 but elected to have the matter heard today to provide time in which to file further affidavits.

[5] The plaintiff relies on provisions contained in the employment agreement between the parties dated 26 February 2001. In particular, the plaintiff relies on clause 27 of that agreement which provides:

27 RESTRAINT OF TRADE

- a) *Following termination of employment, the employee for twelve months from the last day of employment shall not practice as a Patent Attorney for any of the Employer's existing clients.*

- b) *In addition to clause a) they shall not be permitted to practice as a Patent Attorney within 20 kms of each of the employer's offices.*
- c) *The employer may agree to waive these restrictions following a written request from the employee.*

[6] Mr Harrison informed me at the outset of the hearing today that the plaintiff has waived the geographical restraint imposed by paragraph b) of this clause. The plaintiff therefore now relies solely on paragraph a).

[7] As originally filed, the terms of the interim injunction sought by the plaintiff included restraint on working for clients in any capacity and on soliciting work from clients. Mr Harrison acknowledged that such a broad injunction could not be sustained as it was outside the scope of the contractual provision. Several aspects of the order sought were therefore abandoned. At the same time, Mr Harrison sought to amend the remaining part of the order sought. Responsibly, Ms Shakespeare did not oppose this. The order now sought is that, until further order of the Court, the defendant not practise as a patent attorney during the period ending 20 July 2010 for any client of the plaintiff as at 20 July 2009.

[8] The principles applicable to applications for interim injunction are settled and well known. The leading decision remains that of the Court of Appeal in *Klissers Farmhouse Bakeries Limited v Harvest Bakeries Limited* [1985] 2 NZLR 129 but the approach to be taken was conveniently summarised by Fisher J in a decision to which Mr Harrison referred me, *Peters v Collinge* [1993] 2 NZLR 554 at 556-557:

On such applications the Courts do not attempt finally to determine the parties' rights. Instead the Courts customarily traverse a series of questions in turn. The first is whether the plaintiff has established a serious question to be tried. If so, the second is where the balance of convenience lies with particular reference to the adequacy of damages to either party if ultimately successful at trial. The third is whether the result is affected by a series of discretionary considerations including the relative strengths of the parties' cases, any undue delay by the plaintiff, tentative preferences for status quo and the conduct of the parties. At the end of the exercise the Court must stand back from those details and ask where the overall justice of the case lies: ...

Serious question

[9] The first consideration must be whether the plaintiff has established that there is a serious issue to be tried. In this case, the plaintiff simply relies on the employment agreement between the parties and it is the defendant who seeks to persuade me that it is untenable to do so.

[10] The case for the defendant is that, when he was made a “salaried partner” on 1 April 2008, he became a member of the partnership and that brought his status as an employee to an end. This relies on the proposition that, as a matter of law, a person cannot be an employee of a firm and a partner of that firm at the same time.

[11] The authorities relied on by Ms Shakespeare for this proposition were of considerable antiquity and decided on the basis of distinctly different facts but, for the purposes of this application, I accept that it is strongly arguable.

[12] That leaves the question whether the defendant became a partner of the firm. The essential definition of partnership is contained in s4 of the Partnership Act 1908 which provides:

4 Definition of partnership - (1) Partnership is the relation which subsists between persons carrying on a business in common with a view to profit.

[13] That definition, and other aspects of the statute, reflect identical provisions in English legislation which was based on the common law as it stood in the late nineteenth century. Those statutory provisions and the underlying common law have been the subject of considerable judicial attention since the legislation was enacted.

[14] In this case, the defendant was held out as a “salaried partner”. This term was the subject of what has become an oft cited dictum by Megarry J in *Stekel v Ellice* [1973] 1 All ER 465 where, at pages 472 and 473, he said:

The term ‘salaried partner’ is not a term of art, and to some extent it may be said to be a contradiction in terms. However, it is a convenient expression which is widely used to denote a person who is held out to the world as being a partner, with his name appearing as partner on the notepaper of the firm, and so

on. At the same time, he receives a salary as remuneration, rather than a share of the profits, though he may, in addition to his salary, receive some bonus or other sum of money dependent on the profits. Quoad the outside world it often will matter little whether a man is a full partner or a salaried partner; for a salaried partner is held out as being a partner, and the partners will be liable for his acts accordingly. But within the partnership it may be important to know whether a salaried partner is truly to be classified as a mere employee or as a partner.

...

I have found it impossible to deduce any real rule from the authorities before me, and I think that, while paying due regard to those authorities, I must look at the matter on principle. It seems to me impossible to say that as a matter of law a salaried partner is or is not necessarily a partner in the true sense. He may or may not be a partner, depending on the facts. What must be done, I think, is to look at the substance of the relationship between the parties; and there is ample authority for saying that the question whether or not there is a partnership depends on what the true relationship is and not on any mere label attached to that relationship. A relationship that is plainly not a partnership is no more made into a partnership by calling it one than a relationship which is plainly a partnership is prevented from being one by a clause negating partnership: see, for example, *Lindley 13th Edn* (1971), p66.

If, then, there is a plain contract of master and servant, and the only qualification of that relationship is that the servant is being held out as being a partner, the name 'salaried partner' seems perfectly apt for him; and yet he will be no partner in relation to the members of the firm. At the other extreme, there may be a full partnership deed under which all the partners save one take a share of the profits, with that one being paid a fixed salary not dependent on profits. Again, 'salaried partner' seems to me an apt description of that one: yet I do not see why he should not be a true partner, at all events if he is entitled to share in the profits on a winding-up, It may be that most salaried partners are persons whose only title to partnership is that they are held out as being partners; but even if 'salaried partners' who are true partners, though at a salary, are in a minority, that does not mean that they are non-existent.

If I am right in this, then it seems to me that one must in every case look at the terms of the relationship to ascertain whether or not it creates a true partnership.

[15] This approach coincides with that required by s6 of the Employment Relations Act 2000:

6 Meaning of employee

- (1) *In this Act, unless the context otherwise requires, **employee**—*
- (a) *means any person of any age employed by an employer to do any work for hire or reward under a contract of service; and*
 - (b) *includes—*
 - (i) *a homeworker; or*
 - (ii) *a person intending to work; but*
 - (c) *excludes a volunteer who—*
 - (i) *does not expect to be rewarded for work to be performed as a volunteer; and*
 - (ii) *receives no reward for work performed as a volunteer.*
- (2) *In deciding for the purposes of subsection (1)(a) whether a person is employed by another person under a contract of service, the court or the Authority (as the case may be) must determine the real nature of the relationship between them.*
- (3) *For the purposes of subsection (2), the court or the Authority—*
- (a) *must consider all relevant matters, including any matters that indicate the intention of the persons; and*
 - (b) *is not to treat as a determining matter any statement by the persons that describes the nature of their relationship.*

[16] Essentially, what Megarry J said in *Stekel v Ellice* was that no one factor is an essential requirement of a partnership or excludes a partnership and that a partnership may exist in a wide range of circumstances. He concludes, however, that while there may be “salaried partners” who are true partners they will be in the minority.

[17] In *M Young Legal Associates Ltd v Zahid (a firm) and others* [2006] 1 WLR 2562, the English Court of Appeal was asked to overrule the decision in *Stekel v Ellice* on the grounds that, as a matter of law, a person who did not share in the profits of the firm could not be a partner. The Court approved *Stekel v Ellice* and, in doing so, Wilson LJ said at paragraphs 33 and 34:

33 It is idle to deny that, indirectly, an employee has an interest in the profitability of the firm for the continuation of his job may well depend on it. Nevertheless the absence of a direct link between the level of payments and the profits of the firm is in most cases a strongly negative pointer towards the crucial conclusion as to whether the recipient is among those who are carrying on the business. But the conclusion must be informed by reference to all the features of the agreement. Thus, for example, provision or otherwise for a contribution on his part to the working capital of the firm will be relevant.

...

34 ... As I have indicated, the provisions for payments to Mr Lees of a fixed sum and for him not to be required to contribute capital to the firm each point to the absence of partnership.

[18] This decision is consistent with common practice that most partnerships will have four key characteristics:

- i) they are created by express agreement
- ii) each partner has a share in the joint ownership of the partnership assets
- iii) each partner shares in the profits of the firm
- iv) each partner is liable for the debts and losses of the firm.

[19] While it is possible to have a partnership without one or two of these factors present, it will be most unusual indeed for a partnership to exist in the absence of three or all four of these factors.

[20] In this case, the evidence is that the first three factors were absent from the relationship between the defendant and the established partners of the firm. Although there was a written partnership agreement between the established partners, the defendant did not become a party to it. Indeed, in this case he relies on not being a party to that agreement in order to avoid the restraint of trade imposed by it on retiring partners. It is common ground that the established partners each paid for a share of the partnership assets. The defendant did not. The defendant was paid a fixed salary independent of the profit of the firm.

[21] As to the fourth factor, the fact that the defendant was held out to the clients of the firm and to the public as a partner made it possible that he would be liable to outsiders as a partner. Mr Wells says in his affidavit, however, that the partners of the firm gave the defendant an indemnity against such claims on him. The defendant says he was never told of such an indemnity and that it was never the subject of any agreement with him. At an interim stage, this issue remains uncertain and there is evidence supporting the positions of both parties.

[22] I turn then to the evidence of other aspects of the relationship. Supporting the plaintiff's position that the defendant was an employee throughout, significant factors included:

- i) PAYE and FBT were paid on all aspects of the defendant's remuneration package
- ii) after 1 April 2008, the defendant continued to apply for annual leave and sick leave as he had done previously
- iii) in the correspondence between the parties immediately after the defendant gave his resignation, the defendant appeared to accept he was bound by the terms of the employment agreement, including the restraints and the requirement for 4 weeks' notice.

[23] Supporting the defendant's position that he was a partner, significant factors included:

- i) he was held out as a partner by the firm
- ii) he attended partners' meetings
- iii) he was provided with copies of accounts and budgets which were highly confidential
- iv) he was apparently told by an established partner that provision would be made in future for salaried partners, either in the existing partnership agreement or in a separate document.

[24] The defendant also relied on numerous other aspects of the relationship but I find that they were either contradicted by evidence from the plaintiff's witnesses or were equally consistent with employment as with partnership.

[25] Overall, I find that there is a strongly arguable case that the defendant was never a partner of the plaintiff firm and that he therefore remained an employee throughout.

[26] In the event that I reached this conclusion, Ms Shakespeare sought to persuade me that it did not necessarily follow that the restraints contained in the employment agreement remained enforceable after the defendant was made a "salaried partner". She submitted that "*the relationship significantly changed*" and that, as a result, the terms of employment must also have changed significantly. Whatever the new terms of employment might be, Ms Shakespeare submitted that a restraint of trade could not be implied into them.

[27] I do not accept that submission. Restraints of trade are a matter of contract. Just as agreement is required to form a contract, so agreement is required to set a contract aside or vary it. The only exception to that rule is frustration which certainly did not occur in this case. There is no evidence in the affidavits of any agreement to vary or set aside the employment agreement between the parties. I am also not persuaded by the evidence that it was set aside by conduct. To the contrary, it appears that the parties carried on their day to day relationship in much the same way after 1 April 2008 as they had prior to that date.

[28] Ms Shakespeare's next argument was that the restraint of trade was unenforceable because it did not protect a legitimate proprietary interest. This ingenious argument was based on the provisions of the Lawyers and Conveyancers Act (Lawyers: Conduct and Client Care) Rules 2008, rule 4.4 of which provides that "*A lawyer has no proprietary interest in a client...*". Ms Shakespeare submitted that, if this is so, a lawyer can have no legitimate proprietary interest in the goodwill of clients capable of protection by a restraint of trade. Accepting that the rules she relied on had no application to patent attorneys, Ms Shakespeare invited me to have regard to them in this case nonetheless because some of the partners of the plaintiff are also partners in a parallel legal firm.

[29] I do not accept this proposition for several reasons. The current rules are based on the previous rules of professional conduct promulgated by the New Zealand Law Society. Those rules, in turn, reflect the rules of practice established by the common law. As Ms Shakespeare acknowledged, to accept her submission would require me to say that all decisions of common law jurisdictions in which restraints of trade by lawyers had been upheld were in error. I am not prepared to accept that so many Judges in so many courts, including appellate courts in this country and in the United Kingdom, could have overlooked such a point. At a more fundamental level, this submission is based on too narrow a view of the interest the plaintiff in this case seeks to protect. I also do not accept that the rules relied on have any application to the parties in this case, who appear solely in their capacity as patent attorneys.

[30] Ms Shakespeare next challenged the scope of the restraint as being unreasonable. She correctly submitted that reasonableness is to be determined as at the time the agreement was entered into. In this case, that was in February 2001 when the defendant was employed as a trainee. Ms Shakespeare submitted that 12 months' restraint was plainly unreasonable for a trainee. If the restraint applied to the defendant as a trainee, I would agree. On its terms, it did not. The restraint applied only to practice as a patent attorney, something the defendant would not be eligible to do until he had been extensively trained, passed numerous examinations and been registered. Had he left the plaintiff before he was registered, no restraint of trade could have applied to him. The correct question then is whether it was reasonable for the defendant to be restrained from working for the plaintiff's clients for a period of 12 months after he was trained and qualified.

[31] On this issue, Mr Harrison submitted that a parallel could be drawn between the practice of a patent attorney and that of a lawyer. He drew my attention to *Bates v Gates* (1987) 1 NZELC 95,269 in which the High Court had imposed a 12-month restraint and to *Cooney v Welsh* [1993] 1 ERNZ 407 where the Court of Appeal was satisfied that a 2-year restraint was appropriate. Mr Harrison also referred me to *Walley v Gallagher Group Ltd* [1998] 3 ERNZ 1153 where Colgan J reviewed the authorities and concluded that a restraint of 12 months was at the upper end of the range of restraint appropriate for a qualified and experienced professional person, although it must be noted that, in that case, the restraint was total.

[32] On balance, I find that the duration of the restraint in this case is at the upper end of the range of what was reasonable but not beyond that range. Thus, I do not find that it was unreasonable. In reaching that conclusion, I take into account that the restraint is limited to practising as a patent attorney for existing clients of the plaintiff. It does not prevent the defendant providing other services to those clients or from practising as a patent attorney for other clients.

Balance of convenience

[33] Under this heading I must consider the relative effect on the plaintiff of not granting the injunction with the effect on the defendant of doing so.

[34] One part of this process is to consider the adequacy of damages to each party if they are ultimately successful. The assessment of damages in either case would be difficult because it would necessarily involve putting a value on work not done and assessing the value of a lost chance to obtain work. Another aspect of this issue, however, is the ability to pay damages. In this case, there is ample evidence that the plaintiff is able to meet any award of damages which might be made against it. On the other hand, there is no evidence of the defendant's means to pay. This factor must favour the plaintiff.

[35] If an interim injunction is granted, the defendant will be unable to work as a patent attorney for certain parties but will nonetheless be able to carry on practice in competition with the plaintiff. Equally, if he chooses to do so, he will be able to apply his skills in other work. If the interim injunction is not granted, the plaintiff will face the prospect of its clients taking their business to the defendant. In his affidavits, the defendant says that he has already had discussions with several of the plaintiff's clients and would like to work for them. It is likely, therefore, that the plaintiff will be denied the quality of opportunity to retain those clients it would have if the interim injunction were granted. Overall, I find that this aspect of the balance of convenience is equal or slightly favours the plaintiff.

[36] I must also give particular consideration to the effect on third parties. Affidavits have been filed by Mr Hewitt, the CEO of Comvita, saying that, regardless of whether

the interim injunction is granted, that company would not return to the plaintiff. He explains this on the basis of a long-standing conflict of interest which the plaintiff has between Comvita and another client in the same industry. Difficulties between those two companies are now the subject of litigation which Mr Hewitt says makes it necessary to take its business elsewhere. The effect of granting the interim injunction, therefore, would be to cause Comvita to have to engage new patent attorneys for some of its work. I infer that this would involve a measure of inconvenience and cost but I note from the evidence that Comvita has existing relationships with two other major firms of patent attorneys. I also infer from the evidence that, when Comvita engaged the defendant on 15 August 2009, it was aware of the dispute which then clearly existed between the parties about whether the defendant was subject to a restraint of trade. To the extent that it was aware of that dispute, Comvita took the risk of losing the defendant's services when it engaged him.

[37] The other third parties potentially affected by the outcome of this application are support staff employed by the plaintiff in its Christchurch office. There is conflicting evidence on this issue. For the plaintiff, Mr Rogers says that they are now overstaffed and are considering the future of some staff. The defendant denies this and says that, when he left, they were looking for new staff. I cannot resolve that conflict on the papers but what is undoubtedly true is that, if the interim injunction is not granted and some of the plaintiff's clients go to the defendant, that will reduce the work available to support staff and render their future employment less secure.

[38] Overall, I find the balance of convenience favours the plaintiff to a small but significant extent.

Other discretionary factors

[39] In exercising my discretion, there are two other aspects of this case I take into account. The first is that, on the evidence available to me, I find the relative strength of the parties' cases distinctly favours the plaintiff.

[40] I also take into account that, faced with a clear dispute about whether he remained subject to the restraint imposed by his employment agreement with the

plaintiff, the defendant choose to take up work with Comvita as soon as he could rather than resolve that dispute through the institutions available to him. As Travis J said in *DB Breweries Ltd v Marshall* [1994] 1 ERNZ 98 at page 111:

Irrespective of the ultimate outcome of the challenge to the validity of the restraint, it can hardly be said that equity should favour such an approach when there exists a viable, lawful, and measured means of challenging an agreed contractual term that now appears inconvenient or unreasonable.

Overall justice of the matter

[41] Standing back from the detail and looking at the overall justice of the matter, I conclude that it is both just and equitable to grant the interim injunction sought by the plaintiff. There will be an order that, subject to any further order of the Court, the defendant will not, during the period ending on 20 July 2010, practise as a patent attorney for any client who was a client of the plaintiff as at 20 July 2009.

Costs

[42] Costs are reserved with leave for the plaintiff to make an application on notice for an order fixing costs to date.



A A Couch
Judge

Signed at 10.30am on 30 October 2009