Duarte v Black & Decker Corporation and another

[2007] EWHC 2720 (QB)

QUEEN'S BENCH DIVISION

FIELD J

29–31 OCTOBER, 1, 2, 5–8, 12, 23 NOVEMBER 2007

Conflict of laws – Contract – Proper law of contract – Contract of employment – Restrictive covenant – Restrictive covenants contained in agreement purportedly governed by Maryland law – Whether covenants amounting to protection afforded to employee by mandatory rules of law – Whether covenants governed by English or Maryland law – Contracts (Applicable Law) Act 1990, Sch 1, arts 6, 16.

The claimant had been employed in England by the second defendant, a subsidiary of the first defendant. He resigned that employment in order to take up employment with one of the defendants' competitors in England. The defendants claimed that the claimant was bound by one of two post-termination restrictive covenants contained in a letter agreement known as the 'long-term incentive plan' (LTIP), which was a cash-based incentive scheme in which a number of high potential employees were asked annually to participate. The relevant covenant provided, inter alia, that an employee agreed not to work for a number of named competitors (which included the parent of the company with which the claimant wished to take up employment) for two years following termination of his employment with the defendants. The other covenant was an anti-poaching covenant. The letter expressly provided that it was governed by Maryland law. The claimant applied for a declaration that he was not bound by the covenants, and the defendants counterclaimed for an injunction enforcing the covenants. Under s 2(1)[1] of the Contracts (Applicable Law) Act 1990 the question of which law governed the restrictive covenants was determined by the provisions of the Convention on the Law applicable to Contractual Obligations (the Rome Convention) (as set out in Sch 1 to the 1990 Act). Pursuant to art 3(1)[2] of the Convention, the parties having chosen Maryland law to be the governing law, the validity and enforceability of the covenants was prima facie to be decided in accordance with that chosen law. However, art 6(1)[3] provided that notwithstanding the provisions of art 3, in a contract of employment a choice of law made by the parties would not have the result of depriving the employee of the protection afforded to him by mandatory rules of law which were applicable under art 6(2). Article 16 of the Convention provided that the application of a rule of law of any country specified by the Convention could be refused only if such application was manifestly incompatible with the public policy of the forum. The claimant contended, first, that the LTIP agreement was governed by English law

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1 Section 2, so far as material, provides: '(1) Subject to subsections (2) and (3) below, the Conventions shall have the force of law in the United Kingdom.'

2 Article 3, so far as material, provides: 'A contract shall be governed by the law chosen by the parties. The choice must be express or demonstrated with reasonable certainty by the terms of the contract or the circumstances of the case. By their choice the parties can select the law applicable to the whole or a part only of the contract.'

3 Article 6, so far as material, is set out at [47], below

by virtue of art 6(1). Alternatively, that if Maryland law applied and the covenants were valid under that law, if the covenants were invalid under English law, then English law trumped Maryland law by virtue of art 16 because the law of England relating to restrictive covenants was based on public policy. a

Held – (1) The LTIP agreement was obviously intended to operate as part of an overall package of the claimant's employment terms. It could not have been the intention of the framers of the Convention to allow art 6 to be circumvented by hiving off certain aspects of an employment relationship into an agreement which, standing alone, would not amount to an individual employment contract because neither party promised to work for the other. It followed that the LTIP agreement was a contract of employment for the purposes of art 6(1). However, the mandatory rules referred to in art 6(1) were specific provisions, such as those found in employment related statutes, the overriding purpose of which was to protect employees. The law governing the enforceability and validity of restrictive covenants was of an altogether different character. It was part of the general law of restraint of trade, which in turn was part of the general law of contract. The English law of restrictive covenants in employment contracts did not consist of mandatory rules affording protection to employees within art 6(1). It followed that that provision provided no justification for applying English law in preference to Maryland law in deciding whether the covenants were valid (see [52], [53], [55], below). b c d

(2) The background material to the Rome Convention made it clear that where the result of the application of the specified law would be manifestly incompatible with the public policy of the forum then the former had to give way to the latter. In the circumstances of the instant case, the public policy of England would be directly engaged if the covenants were enforced by an English court applying Maryland law when they would be unenforceable under English law. In other words, the result of the application of the specified law would be manifestly incompatible with the public policy of the forum. However, on the evidence, the covenants would not be enforced under Maryland law. It followed that the claimant was entitled to the relief sought (see [61], [63], [79], [98], [103], [152], below). e f

Notes g

For the application of the Rome Convention generally, see 8(3) *Halsbury's Laws* (4th edn reissue) para 350.

For the Contracts (Applicable Law) Act 1990, s 2, Sch 1, arts 3, 6, 16, see 11(1) *Halsbury's Statutes* (4th edn) (2006 reissue) 381, 386, 388, 391.

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Cases referred to in judgment

Apple Corp Ltd v Apple Computer Inc [1992] FSR 431.

Attwood v Lamont [1920] 3 KB 571, [1920] All ER Rep 55, CA.

Becker v Bailey (1973) 268 Md 93, 299 A 2d 835 MD Ct of Apps.

Beckett Investment Management Group Ltd v Hall [2007] EWCA Civ 613, [2007] IRLR 793, [2007] ICR 1539. j

Corporate Healthcare Financing Inc v BCI Holdings Co Case No CCB-05-3391, 2006 WL 1997126, US DC (D Md).

Dairy Crest Ltd v Pigott [1989] ICR 92, CA.

Deutsche Post Global Mail Ltd v Conrad (2003) 292 F Supp 2d 748, US DC (D Md); *on appeal* 116 Fed Appx 435, US Ct of Apps (4th Cir).

a *Fowler v Printers II Inc* (1991) 89 Md App 448, 598 A 2d 794, Md Ct of Apps (Spec).

Gill v Computer Equipment Corp (1972) 266 Md 170, 292 A 2d 54, MD Ct of Apps.

Hebb v Stump, Harvey & Cook Inc (1975) 25 Md App 478, 334 A 2d 563, Md Ct of Apps (Spec).

Hekimian Labs Inc v Domain Systems Inc (1987) 664 F Supp 493 USDC (SD Fl).

Holding TFS v Cantor Fitzgerald (UK) Ltd (23 October 1992, unreported), QBD.

b *Holloway v Faw, Casson & Co* (1989) 78 Md App 205, 552 A 2d 1311, Md Ct of Special Apps; *on appeal* (1990) 319 Md 324, 572 A 2d 510, Md Ct of Apps.

Intelus Corp v Barton (1998) 7 F Supp 2d 635, USDC (D Md).

Kuwait Airways Corp v Iraqi Airways Co (No 3) [2002] UKHL 19, [2002] 1 All ER (Comm) 843, sub nom *Kuwait Airways Corp v Iraqi Airways Co (Nos 4 and 5)* [2002] 2 AC 883, [2002] 2 WLR 1353.

c *Littlewoods Organisation Ltd v Harris* [1978] 1 All ER 1026, [1977] 1 WLR 1472, CA.

Loucks v Standard Oil Co of New York (1918) 120 NE 198, NY Ct of Apps.

McGovern v Deutsche Post Global Mail Ltd Case No JFM-04-0060, 2004 US Dist LEXIS 15215 USDC (D Md).

MacIntosh v Brunswick Corp (1965) 241 Md 24, 215 A 2d 222, MD Ct of Apps.

d *Mason v Provident Clothing and Supply Co Ltd* [1913] AC 724, [1911–13] All ER Rep 400, HL.

Millward v Gerstung International Sport Education Inc (1973) 268 Md 483, 302 A 2d 14, MD Ct of Apps.

Morris (Herbert) Ltd v Saxelby [1916] 1 AC 688, [1916–17] All ER Rep 305, HL.

e *National Instrument LLC v Braithwaite* Case No 24-C-06-004840, 2006 WL 2405831, Md Cir Ct.

Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co Ltd [1894] AC 535, [1891–4] All ER Rep 1, HL.

Office Angels Ltd v Rainer-Thomas [1991] IRLR 214, CA.

PADCO Advisors Inc v Omdahl (2002) 179 F Supp 2d 600, US DC (D Md).

f *Plowman (G W) & Son Ltd v Ash* [1964] 2 All ER 10, [1964] 1 WLR 568, CA.

Rousillon v Rousillon (1880) 14 Ch D 351.

Ruhl v FA Bartlett Tree Expert Co (1967) 225 A 2d 288, 245 Md 118, MD Ct of Apps.

Sadler v Imperial Life Assurance Co of Canada Ltd [1988] IRLR 388.

Samengo-Turner v J & H Marsh & McLennan (Services) Ltd [2007] EWCA Civ 723, [2007] 2 All ER (Comm) 813.

g *Silver v Goldberger* (1963) 188 A 2d 155, 231 Md 1, MD Ct of Apps.

Spafax Ltd v Harrison [1980] IRLR 442, CA.

Stenhouse Australia Ltd v Phillips [1974] 1 All ER 117, [1974] AC 391, [1974] 2 WLR 134, PC.

h *Tawney v Mutual System of Maryland Inc* (1946) 186 Md 508, 47 A 2d 372, MD Ct of Apps.

TFS Derivatives Ltd v Morgan [2004] EWHC 3181 (QB), [2005] IRLR 246.

Tuttle v Riggs-Warfield-Roloson Inc (1968) 251 Md 45, 246 A 2d 588, MD Ct of Apps.

United Rentals Inc v Davison Case No 03-C-02-007061, 2002 WL 31994250, Cir Ct Md.

j *Vancouver Malt and Sake Brewing Co Ltd v Vancouver Breweries Ltd* [1934] AC 181, [1934] All ER Rep 38, PC.

Wells v Liddy (1999) 186 F 3d 505, US Ct of Apps (4th Cir).

Claim

The claimant, Alexandre Duarte, commenced proceedings against the defendants, Black & Decker Corp (B&D) and Black & Decker Europe (B&DE)

seeking a declaration that post-termination restrictive covenants contained in his contract of employment with B&DE were void and unenforceable. B&D and B&DE contended that the covenants were lawful and, by way of counterclaim, sought an injunction enforcing them. They also advanced a separate claim for an injunction based on an allegation based on wrongful use of confidential information by Mr Duarte. The facts are set out in the judgment.

Selwyn Bloch QC and *Julian Wilson* (instructed by *Addleshaw Goddard LLP*) for the claimant.

Nigel Tozzi QC and *Mark Vinall* (instructed by *CMS Cameron McKenna LLP*) for the defendants.

Judgment was reserved.

23 November 2007. The following judgment was delivered.

FIELD J.

INTRODUCTION

[**1**] The first defendant is head of a large corporate group. I shall refer to it and its group as 'B & D'. The second defendant (B & DE) is a subsidiary of B & D.

[**2**] On 4 July 2007 the claimant, Mr Duarte, resigned from his employment with B & DE to take up a position with a competitor of B & D, Ryobi Technologies (UK) Ltd (Ryobi). Ryobi is a subsidiary of Techtronic Industries Co Ltd (TTI) which is also a competitor of B & D. The position offered to Mr Duarte by Ryobi is President—TTI Europe. Mr Duarte gave three months' notice as required by his contract of employment. The notice expired on 4 October 2007 but Mr Duarte has not yet started in his new job. This is because the defendants contend that he is bound by one of two post-termination restrictive covenants by which he agreed not to work for any of a number of specified competitors, including Ryobi and TTI, for two years following the termination of his employment. To clear the path to his taking up employment with Ryobi Mr Duarte seeks a declaration that the restrictive covenants are void and unenforceable. In their amended defence and counterclaim B & D and B & DE assert that the covenants are lawful and seek an injunction to enforce them. They also advance a quite separate claim for an injunction restraining Mr Duarte from competing with the defendants for such period as may be just and equitable based on an allegation that in the few days before his resignation he wrongfully copied B & D's confidential information for use in his new position with Ryobi. I shall refer to this claim as the 'dishonest copying claim'.

THE RESTRICTIVE COVENANTS

[**3**] The covenants were given in a letter agreement (the LTIP agreement) executed on about 18 January 2007.

[**4**] 'LTIP' stands for Long-Term Incentive Plan. This is a cash-based incentive scheme in which a number of B & D high potential employees principally, but not exclusively, at vice-president level, are invited each year to participate. Under the scheme participants receive additional remuneration depending on B & D's performance over a two-year period. LTIP's objective is accordingly to reward and retain high potential employees who can be expected to contribute significantly to the achievement of B & D's aims and financial objectives.

a [**5**] B & D also operates a separate incentive scheme for selected corporate officers known as 'PEP', which is short for Performance Equity Plan.

[**6**] Mr Duarte joined LTIP in 2004 and was invited to continue in the scheme in January 2007 on condition that he entered into the LTIP agreement. Not being a B & D corporate officer, he was ineligible to participate in PEP.

[**7**] The relevant parts of the LTIP agreement read:

b

> '[Y]ou have been selected to participate in the Long-Term Incentive Plan (the Plan) for the 2007–2008 performance period . . . In that capacity, The Black & Decker Corporation and its subsidiaries (collectively referred to as Black & Decker in this agreement) entrusts you with its confidential information and trade secrets and relies on you to help create goodwill.
> c Accordingly, in consideration of your current and future participation of the Plan . . . you and other key team members must commit in writing to the following obligations to protect Black & Decker's interests.
>
> By signing below, you confirm your obligation not to compete with Black & Decker while employed by it, and also further agree not to accept
> d employment by, or otherwise assist, any of the companies included on attached Schedule A for two years following your termination from Black & Decker by your own choice or for cause.
>
> During that same two-year period, you also agree not to hire any of Black & Decker's employees or to induce any to leave . . .
>
> <u>SCHEDULE A</u>
>
> e Competitor companies include the following, along with any of their parents, subsidiaries, affiliates and successors:
>
> Robert Bosch GmbH
> Chervon Power Tools Inc
> Global Machinery Company
> f Greapo Electric Power Tools (Suzhou) Company
> Hilti Corporation
> Hitachi Limited
> Makita Corporation
> Newell Rubbermaid Inc
> g Positech Corporation
> Techtronic Industries Co Limited'

[**8**] The LTIP agreement provided that it was to be governed by the laws of the State of Maryland.

[**9**] I shall refer to the first post-termination covenant as 'the non-compete
h covenant' and to the second as 'the anti-poaching covenant'.

THE ORGANISATIONAL STRUCTURE OF THE B & D GLOBAL GROUP

[**10**] B & D is incorporated in Maryland, USA. The business of the B & D group is the manufacture, marketing and sale of: (a) power tools and related
j accessories; (b) hardware and home improvement products; and (c) technology-based fastening and assembly systems. The business is operated and managed on a globally integrated basis, although Power Tools and Accessories (PTA), Hardware and Home Improvement Products (HHI), and Fastening and Assembly Systems (FAS) are run as separate 'business segments'.

[**11**] The worldwide PTA segment (WWPTA) is run from B & D's head office in Towson, Maryland, USA. This segment employs approximately 19,000

employees worldwide and in 2006 accounted for $US 4·7 bn in sales revenue this being 76 per cent of B & D's total turnover.

[12] The WWPTA business segment is divided into five regional business units, including (as one region), Europe, the Middle East and Africa. This region is known as 'EMEA'. It employs approximately 3,100 employees and has manufacturing operations in the Czech Republic, Italy, the United Kingdom and Germany. It is headed by Mr Les Ireland who is president of EMEA and a corporate officer of B & D. In 2006, sales revenues for the EMEA PTA segment amounted to $US 1·1 bn, which was approximately 22 per cent of the B & D's worldwide power tools and accessories revenues.

[13] At a global level and within the United States geographic region, the PTA business segment is divided into two groups: the Consumer Products Group (CPG) and the Industrial Products Group (IPG). The former is responsible for consumer power tools, accessories, lawn and garden tools and electric cleaning, automotive, lighting and household products, which are manufactured, marketed and sold under the 'Black & Decker' brand. The latter is responsible for high-performance industrial power tools, accessories, industrial equipment, laser products and air compressors, which are manufactured, marketed and sold under the 'DeWALT', 'Porter-Cable' and 'Delta' brands. Outside the United States, at a regional level the expressions 'Professional SBU' and 'Consumer SBU' are used rather than IPG and CPG, 'SBU' standing for 'Strategic Business Unit'.

[14] In 2006, the turnover of EMEA Professional SBU and EMEA Consumer SBU was respectively $US 0·6 bn and $US 0·5 bn.

[15] Somewhat confusingly, within WWPTA there are product-related strategic business units, also known as 'SBUs'. The product-related SBUs within CPG are: Consumer Power Tools; Automotive; Outdoor; Home Products; and Consumer Accessories. The product-related SBUs within IPG are: Construction; Woodworking; Accessories; Equipment; and (in the United States only) Security.

[16] EMEA has a management advisory council (EMEA MAC) which operates from B & DE's headquarters in Slough. Its members are: President—EMEA (Mr Ireland); Vice President IPG—EMEA (the position held by Mr Duarte when he resigned); Vice President CPG—EMEA; Vice President Finance—EMEA; Vice President Human Resources (Mr Martin Whitthread); and Vice President Supply Chain—EMEA. The EMEA MAC has overall managerial responsibility within EMEA in respect of both Professional SBU and Consumer SBU for devising future strategy, deciding product and geographical market investment, identifying new product lines, budget planning, sales and marketing, identifying potential business acquisitions, negotiating key customer contracts and licensing agreements, carrying out organisation reviews of talent and succession and deciding employee compensation.

[17] EMEA also has a European leadership team (the ELT) made up of the six members of the EMEA MAC, the seven general managers and two commercial directors who have responsibility for EMEA's eight geographical markets, the EMEA sourcing director, and two EMEA directors of information technology. The ELT communicates the strategies, policies and processes devised by the EMEA MAC to the key team leaders working within the eight markets; it also oversees the implementation and operation of those strategies, policies and processes. In addition, it is a co-ordinating body, responsible for allocating, and managing the allocation of, resources and expertise across EMEA.

MR DUARTE'S EMPLOYMENT WITHIN B & D

[**18**] Mr Duarte joined Black & Decker Portugal in March 1995 as an intern in its marketing department whilst completing his degree in business and marketing. He became a permanent employee of Black & Decker Portugal in March 1996 with responsibility for helping launch the 'DeWALT' brand in Portugal and building a 'DeWALT' end-user specialist team there. In January 1998 he became a member of the IPG European Marketing Organisation based in Idstein, Germany as assistant product manager for Cordless, DeWALT. At the beginning of 1999 he was promoted to Product Manager, DeWALT and in October 1999 he was promoted again to European Trade Marketing Manager, DeWALT responsible for developing and implementing B & D's pan-European marketing plan for the 'DeWALT' brand.

[**19**] In early 2001 Mr Duarte became director of marketing for Cordless and New Business at the relatively young age of 29. Two years later he was promoted to Director, Professional Powertools with responsibility for all product management for the 'DeWALT' brand. From this point he was based in B & DE's offices in Slough. In mid-2004, in addition to his product management role, he was given responsibility for overseeing quality within EMEA and for managing pan-European key accounts for the 'DeWALT' brand.

[**20**] In January 2006, he was appointed director of business development for EMEA and became a member of the EMEA MAC and the ELT. He now had responsibility for both the 'Black & Decker' and 'DeWALT' brands and was also responsible for identifying business opportunities for both the Consumer and Professional SBUs within EMEA, implementing the global strategies, policies and processes of the WWPTA business segment in EMEA and targeting potential business acquisitions within both the consumer power tools and accessories and the industrial power tools and accessories markets within EMEA.

[**21**] On 1 July 2006 Mr Duarte was appointed Vice President Professional SBU—EMEA. This was the position he held when he resigned on 4 July 2007. As VP Professional SBU—EMEA he continued to be a member of the ELT and the EMEA MAC. His new contract of employment contained no restrictive covenants but did contain a clause requiring him to return confidential documents and other data on termination of his employment and prohibiting the disclosure of such information during and after his employment. He now reported directly to the president of EMEA and also to Mr John Schiech, Group Vice President (Corporate) of B & D and President, Industrial Products Group, Power Tools and Accessories business segment. Second to Mr Ireland, Mr Duarte was responsible for Professional SBU—EMEA and headed up a large team with eight directors reporting directly to him who were responsible respectively for marketing, product development, product quality, pan-European key account sales, private label sales and after-sales service.

[**22**] The six months that Mr Duarte was director of business development for EMEA was the only time during his 12-year career at B & D that he was not working exclusively in the Professional SBU.

EVENTS LEADING UP TO THE LTIP AGREEMENT

[**23**] Towards the end of 2006, B & D became increasingly concerned over the departure of a number of senior level employees in the PTA business segment to join TTI. This led to a proposal that for the first time certain employees in the PTA business segment should enter into 'non-compete' restrictive covenants under which they would agree not to be employed by a number of listed

corporate groups for two years following termination of their employment. As VP Human Resources—EMEA, Mr Martin Whitthread was asked for his views on this proposal. He had a number of concerns. In particular he thought that to prohibit employment with the totality of a corporate group where only a minor element thereof was in competition with B & D might be seen as being in restraint of trade. He also thought that to bar an employee from working with a company that only competes with one of B & D's business segments might be deemed to be too restrictive.

[**24**] In the event, after taking legal advice, B & D decided to proceed with the covenants contained in the LTIP agreement. Mr Whitthread testified that the reasons this course was taken were explained to him and he was convinced by them. What those reasons were was not revealed, presumably on grounds of legal privilege.

[**25**] B & D had to decide which employees should be subject to the new covenants and how those candidates might be induced to enter into the necessary agreement. In the event, it was resolved to make agreement to the new covenants a condition of being allowed to participate in the LTIP and/or PEP. In January 2007, a total of 156 employees in the PTA business segment were invited to participate in LTIP in respect of the 2007–2008 performance period and all bar one signed an agreement in the same terms as that executed by Mr Duarte. Of these 156, 123 were chosen from 256 vice-presidents, directors or managers employed in the PTA business segment. The remaining 33 came from the corporate division which included finance, M&A and IT. The chosen 123 consisted of: (a) 63 vice-presidents (six from EMEA) selected from a total of 75; (b) 56 directors (six from EMEA); and (c) four managers (none from EMEA). The 109 eligible candidates in the PTA business segment who were not selected for LTIP were not required to sign restrictive covenants. Two of the managers selected were members of the ELT; other managers who were members of the ELT were not selected.

[**26**] No employees in the HHI and FAS business segments were asked to sign an LTIP agreement containing restrictive covenants.

[**27**] The essential purpose of LTIP is to encourage high performing employees to stay with B & D. The basic selection criterion is accordingly high performance or the potential for high performance. So far as Mr Ireland was concerned, in January 2007 he was applying the same LTIP selection criteria as he had applied in previous years.

[**28**] Relying on the foregoing, Mr Bloch QC for Mr Duarte invited me to find that the restrictive covenants in the LTIP agreement were not taken by the defendants to protect their confidential information but were taken to retain highly regarded employees. Citing *Stenhouse Australia Ltd v Phillips* [1974] 1 All ER 117 at 122, [1974] AC 391 at 400 and *Vancouver Malt and Sake Brewing Co Ltd v Vancouver Breweries Ltd* [1934] AC 181 at 188–189, [1934] All ER Rep 38 at 40–41 he submitted that the onus is on the covenantee to show that a covenant in restraint of trade was taken to protect a legitimate interest and the defendants had failed to prove that the covenants were taken to protect their confidential information. It followed for this reason alone that the covenants were bad under both Maryland law and English law.

[**29**] I reject Mr Bloch's invitation. I am satisfied that a significant reason for the introduction of the covenants was the protection of the defendants' confidential information. The defendants were concerned not only about losing the services of high performance employees to competitors but also about the

risk of their confidential information going over to competitors in the heads (and possibly the pockets) of departing employees. Prior to January 2007, the only post-termination covenants given by B & D employees related to the preservation of confidential information. No employee had been obliged to enter into a non-compete covenant. B & D accordingly had to devise an incentive and I accept Mr Whitthread's evidence that there was a deliberate judgement made that there was a coincidence between the employees selected to participate in LTIP and those who had access to the most confidential information. The final decision as to who should be selected for LTIP in January 2007 was made at a higher level than Mr Ireland. Mr Schiech occupied that higher level and I accept his evidence that when selecting the LTIP participants a judgement was made not only as to the level and potential level of their performance but also as to the confidential information to which they had and would come to have access. I also accept Mr Schiech's testimony that—

> 'the LTIP became a logical device to link to the no-compete . . . The restrictive covenant was put in place to keep confidential information from leaving the company. When we looked at the people who had the broadest access to confidential information, it was the senior leaders of our company who had the most impact on our business. When we looked at the list of people we saw in that category and compared it to the LTIP list, it should come as no surprise that they were very similar.'

[**30**] Thus, in my judgement, the fact Mr Duarte's access to confidential information was comparable to that of quite a large number of employees who were not invited to sign a non-compete covenant does not render the LTIP covenants unenforceable. Nor in my opinion does it make any difference that in addition to protecting its confidential information, B & D's aim may also have been to retain high performing employees who had access to important confidential information.

THE SCHEDULE A COMPANIES

[**31**] It was common ground that: (a) the total number of companies listed in Schedule A, once all subsidiaries and affiliates are included, is approximately 500; and (b) those parts of the listed groups which compete with B & D's WWPTA business segment, constitute about 90 per cent of the global power tool market.

[**32**] The following Schedule A companies are primarily concerned with the market for consumer as distinct from industrial power tools: Chervon Power Tools Inc; Global Machinery Company; Greapo Electric Tools (Suzhou) Company; Positech Corporation (Positech).

[**33**] The following Schedule A companies are primarily concerned with the market for industrial power tools: Makita Corporation; Robert Bosch GmbH (Bosch); Hitachi Ltd (Hitachi); Techtronic Industries Co Ltd (TTI); Newell Rubbermaid Inc (Newell) (mainly in respect of accessories).

[**34**] The following corporate groups listed in Schedule A carry on the following businesses (non-competing businesses) that do not compete with B & D:

> '<u>Newell</u>
>
> Cleaning, organisation and décor:- indoor and outdoor organisation, home storage, food storage, cleaning, refuse, material handling, drapery hardware, and blinds and shades.

Office products:- ballpoint/roller ball pens, highlighters, correction fluids, art supplies, labelling products and card scanning devices. a

Home and family products:- cookware and kitchenware, hair care and accessory products, infant and juvenile products (high chairs, car seats and strollers).

TTI

Dental care, solar lighting, infant care, household electronics and electrical products, and manufacture of plastic and metallic parts. b

Hitachi

Nuclear, thermal and hydro-electrical power plants and control equipment.

Information and telecom systems and data processing; c

Electronics:- computers, audio-visual equipment and software.

Materials:- synthetic resin materials and products.

Consumer products:- air conditioners, household appliances and audio-visual products.

General trading and transportation.

Bosch d

Car parts and accessories; automotive technology; repair shop diagnostics; anti-lock breaking and fuel-injection systems.

Optical and precision instruments, chain conveyor systems, linear motion technologies (e g roller rail systems).

Handling systems for food, healthcare and pharmaceutical products. e

Positech

Positioning technology, including material handling equipment, lifting products and machinery.'

THE CONFIDENTIAL INFORMATION TO WHICH MR DUARTE WAS PRIVY FOLLOWING THE LTIP AGREEMENT IN JANUARY 2007 f

[35] In my judgement some, but not much of the confidential information Mr Duarte learned about the business of Consumer SBU—EMEA during the six months he held the position of director of business development remains in his memory and this is of a non-detailed and high level nature.

[36] In his role as VP Professional SBU—EMEA Mr Duarte was responsible for the formulation annually of a three-year strategic plan and a three-year financial plan for Professional SBU—EMEA. His Consumer SBU counterpart in EMEA was responsible for the formulation of matching plans for the consumer side of the business. The production of these plans is part of a bottom-up process by which the Consumer and Professional SBUs in the different regions produce strategic and financial plans which, after review and approval, are passed up the corporate hierarchy to group level in Towson, Maryland, where they are consolidated into global plans for WWPTA IPG and WWPTA CPG and summaries thereof are prepared for B & D's board of directors. g h

[37] Mr Duarte was accordingly responsible for the production of the 2008–2010 EMEA Professional SBU strategic and financial plans which had been approved and sent to Towson by the time he resigned on 4 July 2007. Indeed, by this date, the WWPTA IPG strategic and financial plans had been approved but Mr Duarte did not see these documents before he left his employment. If he had not resigned he would have received a summary of the WWPTA 2008–2010 strategic plan. j

[**38**] The 2008–2010 EMEA Professional SBU strategic and financial plans were produced using detailed information assembled by Mr Duarte's team. Mr Duarte was not privy to all of this information but he saw the contents of the finalised plans and was familiar with a certain amount of the underlying data. He also had access to 'E rooms' where certain categories of employees could use a restricted password to look at electronic data relating to sales, marketing and product development.

[**39**] The confidential contents of the EMEA Professional SBU strategic and financial plans to which Mr Duarte was privy included: (i) financial statements showing the projected profitability and margins of Professional SBU—EMEA across different product groups in the eight different EMEA markets for 2007–2010; (ii) the strategies planned to be pursued by Professional SBU—EMEA over the next three years in respect of costs, supply chains, acquisition targets, market research, penetration into new markets, tackling competitors, investment requirements, and the introduction of new products; (iii) details of Professional SBU—EMEA key customer accounts; and (iv) details of Professional SBU—EMEA high performing employees.

[**40**] The introduction of new products is an important part of B & D's global strategy. The company which is first to market with a new product gains a clear advantage over its competitors. It takes B & D about three years to bring a new IPG product to market from the point when the concept is first identified. In each of B & D's five regions there are teams of product managers who identify new products for inclusion in B & D's five-year product road plan. Once a new product project is got underway it is tracked and managed by a 'milestone' process which involves extensive market research and testing. Members of Mr Duarte's team carried out this research and testing and reviewed about five or six CTQ (critical to quality) aspects of particular products from the end-users' perspective such as durability, speed, power and ergonomics. Accordingly, Mr Duarte knew the Professional SBU—EMEA product plan for 2008–2010 which identified not only the new products proposed to be introduced in the EMEA region over this period but also information relating to supply, place and cost of manufacture and launch dates.

[**41**] Mr Duarte's knowledge of the high performing employees in Professional SBU—EMEA and the potential candidates for key management roles came in part from his role in EMEA's appraisal and development process and organisation review, both of which were carried out in the first quarter of the financial year.

[**42**] Mr Duarte also had contact with and was involved in the negotiation of key pan-European accounts and was responsible for the development of new key Professional SBU customers.

[**43**] As B & D must have foreseen, the confidential information to which Mr Duarte was privy related very largely, but not exclusively, to matters affecting Professional SBU—EMEA. As a member of EMEA MAC Mr Duarte was provided with the EMEA Consumer SBU strategic and financial plans for 2008–2010 and there have occasionally been EMEA MAC meetings for which he was provided with confidential Consumer SBU documents because items affecting the management of the Consumer SBU were on the agenda. Mr Duarte also had a good idea of who were the high performing EMEA Consumer SBU employees and would have been aware of Consumer SBU acquisitions if they were very relevant to Europe. In addition he attended a small number of product-focused meetings in Towson where he was concerned to pitch for the

resources needed to develop products for the EMEA Professional SBU. As a result he knew what IPG products B & D were developing. In addition, he attended a few meetings where some global CPG strategy was presented in summary form. However, I am satisfied that Mr Duarte did not take a particularly close interest in this non-EMEA Professional SBU information because the focus of his attention as VP Professional SBU—EMEA was very much on matters affecting that particular business segment in EMEA.

[**44**] When he was not fulfilling his role on EMEA MAC and the ELT, if Mr Duarte had asked for confidential information relating to Consumer SBU—EMEA he would have been provided with it but I find that he did not do so to any or any material extent and nor was it in B & D's contemplation that he would do so.

[**45**] It is hard to determine the shelf life of the confidential information to which Mr Duarte was privy. The three-year strategic and financial plans and the five-year product road plan changed to some extent every year as a result of the rolling annual review which was completed at the end of the first six months of the year, although these changes were more likely to affect the second and third year of the two former plans and the second, third, fourth and fifth years of the product road plan. Further, a good deal of the information relating to the first and second years, particularly financial information and proposed acquisitions would likely have ceased to be confidential before the expiration of two years and in quite a number of cases before the expiration of one year.

THE CONFLICTS OF LAWS QUESTIONS

[**46**] Under s 2(1) of the Contracts (Applicable Law) Act 1990, the question of which law governs the restrictive covenants is determined by the provisions of the Rome Convention on the Law Applicable to Contractual Obligations 1980 (as set out in Sch 1 to the 1990 Act). Pursuant to art 3(1) of the Convention, the parties having chosen Maryland law to be the governing law, the validity and enforceability of the covenants is prima facie to be decided in accordance with that chosen law.

[**47**] Article 6(1) and art 16 of the Convention provide:

> '**Article 6**
>
> 1. Notwithstanding the provisions of Article 3, in a contract of employment a choice of law made by the parties shall not have the result of depriving the employee of the protection afforded to him by the mandatory rules of the law which would be applicable under paragraph 2 in the absence of choice . . .
>
> **Article 16**
>
> The application of a rule of the law of any country specified by this Convention may be refused only if such application is manifestly incompatible with the public policy ("ordre public") of the forum.'

[**48**] There is no dispute that if the LTIP agreement is 'a contract of employment', the law which would be applicable to the covenants under art 6(2) is English law.

[**49**] Mr Bloch made two broad submissions. First he argued that the LTIP agreement is governed by English law by reason of art 6(1) (the art 6(1) argument). Second, he contended that if, contrary to his first argument, Maryland law applies and the covenants are valid under that law, if the covenants are unenforceable under English law, then English law trumps Maryland law by

reason of art 16 because the law of England relating to restrictive covenants is based on public policy (the art 16 argument).

The art 6(1) argument

[**50**] Although the LTIP agreement was entered into separately from Mr Duarte's employment contract concluded when he became VP Professional SBU—EMEA, in my view the LTIP agreement is nonetheless a contract of employment for the purposes of art 6, even though under it Mr Duarte promises only to abide by the covenants and does not promise to carry out any work.

[**51**] In *Samengo-Turner v J & H Marsh & McLennan (Services) Ltd* [2007] EWCA Civ 723, [2007] 2 All ER (Comm) 813 the Court of Appeal held that an action to enforce the terms of a bonus agreement setting out the conditions under which employees were to participate in a special long-term incentive grant was a matter relating to individual contracts of employment within art 18 of Council Regulation (EC) 44/2001 (on jurisdiction and the enforcement of judgments in civil and commercial matters) (OJ 2001 L12 p 1) even though the obligation to work was contained in a separate employment contract. In the Court of Appeal's view, the terms of the bonus agreement (which included non-solicitation covenants) related to and were part of the contract of employment, so that one could not ascertain the terms upon which the employee was engaged without looking at both the original employment contract and the bonus agreement.

[**52**] In my opinion this reasoning applies in the instant case. The LTIP agreement was obviously intended to operate as part of an overall package of Mr Duarte's employment terms. I also think that it cannot have been the intention of the framers of the Convention to allow art 6 to be circumvented by hiving-off certain aspects of an employment relationship into a side agreement which, standing alone, would not amount to an individual employment contract because neither party promises to work for the other.

[**53**] I hold therefore that the LTIP agreement is a contract of employment for the purposes of art 6(1).

[**54**] Does English law in respect of restrictive covenants in employment contracts consist of mandatory rules which afford protection to an employee? Section 3(3)(a) of the 1990 Act provides that the report on the Convention by Professor Giuliano and Professor Lagarde (OJ 1980 C282 p 1) may be considered in ascertaining the meaning of any provision in the Convention. The section in the Giuliano-Lagarde report on art 6 states (inter alia):

> 'The mandatory rules from which the parties may not derogate consist not only of the provisions relating to the contract of employment itself, but also provisions such as those concerning industrial safety and hygiene which are regarded in certain Member States as being provisions of public law.'

[**55**] In my opinion, the mandatory rules referred to art 6(1) are specific provisions such as those in the Employment Rights Act 1996 and the Factories Acts whose overriding purpose is to protect employees. The law governing the enforceability and validity of restrictive covenants in employment contracts is of an altogether different character. It is part of the general law of restraint of trade which in turn is part of the general law of contract. It is true that covenants in employment contracts are harder to justify than covenants contained in commercial agreements, but the same test of what is reasonably necessary to protect the covenantee's legitimate interest applies to both types of agreement. The English law of restrictive covenants in employment contracts does not

therefore consist of mandatory rules affording protection to employees within art 6(1). Accordingly that part of the Convention provides no justification for applying English law in preference to Maryland law in deciding whether the covenants are enforceable.

The art 16 argument

[**56**] Mr Tozzi QC for the defendants argued that the law of Maryland on restrictive covenants in employment contracts was substantially similar to the law of England, so that if the covenants were valid under the former but invalid under the latter, that was due simply to a matter of emphasis and did not mean that the application of Maryland law was 'manifestly' incompatible with the public policy of English law, the law of the forum. He referred to Judge Cardozo's celebrated dictum in *Loucks v Standard Oil Co of New York* (1918) 120 NE 198 at 201–202 cited (in part) by Lord Nicholls of Birkenhead in *Kuwait Airways Corp v Iraqi Airways Co (No 3)* [2002] UKHL 19 at [17], [2002] 1 All ER (Comm) 843 at [17], [2002] 2 AC 883:

> 'We are not so provincial as to say that every solution of a problem is wrong because we deal with it otherwise than at home . . . The courts are not free to refuse to enforce a foreign right at the pleasure of the judges to suit their individual notion of expediency or fairness. They do not close their doors unless help would violate some fundamental principle of justice, some prevalent conception of good morals, some deep-rooted tradition of the common weal.'

[**57**] Mr Tozzi also referred to the observations of Ferris J in *Apple Corp Ltd v Apple Computer Inc* [1992] FSR 431 at 441–444 and 456.

[**58**] Mr Bloch cited *Rousillon v Rousillon* (1880) 14 Ch D 351 and the decision of Judge Zucker QC sitting as a deputy judge of the High Court in *Holding TFS v Cantor Fitzgerald (UK) Ltd*[1] holding that a restrictive covenant valid under the proper law of the contract (Swiss law), but invalid under English law, would not be enforced in England on grounds of public policy. But whilst these decisions are helpful in a general way, they cannot be determinative of the question since neither was decided by reference to art 16[2].

[**59**] As is stated in para 16-075 (pp 980–981) of *Chitty on Contracts* (29th edn, 2004) vol 1, the doctrine of restraint of trade is probably one of the oldest applications of the doctrine of public policy.

[**60**] The policy in question was elucidated in the following terms by Lord Macnaghten in his famous speech in *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co Ltd* [1894] AC 535 at 565, [1891–4] All ER Rep 1 at 18:

> 'The public have an interest in every person's carrying on his trade freely: so has the individual. 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.'

[**61**] The Giuliano-Lagarde report on art 16 states that it is where the *result* of the application of the specified law would be 'manifestly' incompatible with the public policy of the forum that the former must give way to the latter. When

1 23 October 1992, unreported.

2 Section 2(1) of the 1990 Act came into force on 1 April 1991. It is unclear why the *Holding TFS* case was decided under the common law rather than under art 16.

a Mr Duarte entered into the covenants, he was working in England under a contract of employment which, pursuant to art 6(2)(a) of the Convention, was governed by English law. The job he wishes to take up with Ryobi is a job in England whose terms are also governed by English law. The public policy of this country as expressed by Lord Macnaghten is therefore directly engaged if the covenants are enforced by an English court applying Maryland law when they
b would be unenforceable under English law. In other words, the result of the application of the specified law would be 'manifestly' incompatible with the public policy of the forum.

[**62**] The situation in the *Apple Corp* case was quite different. There, the question was whether the breach of the law on restraint of trade in foreign jurisdictions was a reason for not enforcing in England an agreement whose
c proper law was English law.

[**63**] Accordingly, I hold that Mr Bloch's art 16 argument succeeds: if the covenants are valid and enforceable under Maryland law but invalid and unenforceable under English law, Mr Duarte will be entitled to the declaration he seeks and the injunctive relief sought by the defendants to enforce the covenants
d will be refused.

ARE THE COVENANTS ENFORCEABLE UNDER MARYLAND LAW?

[**64**] Evidence on the law of Maryland relating to restrictive covenants in employment contracts was given by two members of the Maryland Bar, Ms Harriet E Cooperman, a partner in Saul Ewing LLP and Mr Gil Abramson, a
e partner in Hogan & Hartson. Ms Cooperman has appeared in a significant number of cases concerning restrictive covenants in the Maryland courts. Mr Abramson has not argued a restrictive covenant case in court but he has advised on restrictive covenants numerous times in the course of his practice in the field of labour and employment law.

f [**65**] Both experts agreed that the first question to be addressed when considering the validity of a restrictive covenant under Maryland law was whether the covenant on its face was manifestly too broad to be enforceable. It was their joint view that the covenants in the LTIP agreement did not fail this threshold test.

[**66**] Ms Cooperman and Mr Abramson also agreed that a covenant that was
g not ex facie too broad would be enforced in Maryland if the following four requirements were met: (1) the employer has a legally protectable interest; (2) the restrictive covenant is no wider in scope and duration than is reasonably necessary to protect the employer's legitimate interest; (3) the covenant does not impose an undue hardship on the employee; and (4) the covenant does not
h disregard what the Maryland courts have referred to as public interest or public policy[3].

[**67**] The experts further agreed that: (i) Maryland law recognises three broad categories of protectable interest—unique services provided by the covenantor[4], confidential information or trade secrets[5] and goodwill in the form of customer
j

3 The relevant authorities include: *Silver v Goldberger* (1963) 188 A 2d 155, 231 Md 1, *MacIntosh v Brunswick Corp* (1965) 241 Md 24, 215 A 2d 222, *Ruhl v FA Bartlett Tree Expert Co* (1967) 225 A 2d 288 at 291, 245 Md 118, *Becker v Bailey* (1973) 268 Md 93, 299 A 2d 835, *Hekimian Labs Inc v Domain Systems Inc* (1987) 664 F Supp 493, *Holloway v Faw, Casson & Co* (1990) 319 Md 324, 572 A 2d 510 and *PADCO Advisors Inc v Omdahl* (2002) 179 F Supp 2d 600.

4 See e g *Millward v Gerstung International Sport Education Inc* (1973) 268 Md 483, 302 A 2d 14—soccer coach with unique qualifications and reputation.

connection[6]; and (ii) in determining the enforceability of a restrictive covenant the Maryland courts conduct a highly fact-specific inquiry so that enforceability necessarily depends on the particular facts and circumstances of each case.

[**68**] Requirements (3) and (4) give rise to no difficulty in this case. Ryobi have agreed that if the restrictive covenants are upheld in these proceedings, they will keep the job they have offered to Mr Duarte open and indemnify him against any loss of income for the two-year period of the covenant. Mr Abramson was firmly of the opinion that this means that if the non-compete covenant were enforced any detriment to Mr Duarte would not constitute undue hardship. Ms Cooperman came very close to agreeing with Mr Abramson but declined to concede the point. In my judgement, Mr Abramson is plainly correct on this issue in light of the Maryland decisions in *Ruhl v FA Bartlett Tree Expert Co* (1967) 225 A 2d 288 at 291, 245 Md 118 and *Holloway v Faw, Casson & Co* (1990) 319 Md 324, 572 A 2d 510. In *Ruhl*'s case the court upheld a non-competition covenant prohibiting the employee from working in the tree care business in a six-county area for a two-year period despite the fact he had been in the business since he was 14 years and the tree care business was the only means of livelihood he had ever pursued. In *Holloway*'s case the court found that the 'major inconvenience' to the former employee of being prevented by the covenant from servicing clients of his former employer did not impose a burden so extreme as to be unreasonable because he was able easily to find employment that would not breach the covenant.

[**69**] As to requirement (4), this will only not be met where the effect of the covenant is to stifle competition, see e g *Tawney v Mutual System of Maryland Inc* (1946) 186 Md 508, 47 A 2d 372 and *PADCO Advisors Inc v Omdahl* (2002) 179 F Supp 2d 600. There is no suggestion that enforcement of the LTIP covenants would stifle competition between B & D and its competitors.

[**70**] I take the non-compete covenant first. The effect of this covenant is that for a period of two years Mr Duarte is barred from working for any of the 500 or so Schedule A companies not just in Europe, the Middle East and Africa but anywhere in the world and regardless of the sector he is employed in—professional power tools, or consumer power tools, or products completely different from power tools such as those dealt in by B & D's HHI and FAS business segments, or those traded in the non-competing businesses identified at [34], above.

[**71**] Accordingly, the question for decision is whether, given the confidential information to which Mr Duarte was privy and the global nature of B & D's business and the businesses of the companies named in Schedule A, the non-compete covenant would be regarded under Maryland law as being no wider than reasonably necessary to protect that information.

[**72**] The cases cited in the experts' reports include six where two-year non-compete covenants were upheld[7]. As I have held above, not all the confidential information to which Mr Duarte had access had a shelf life as long as two years, but some of it did, including in particular his knowledge of the planned

5 See e g *Ruhl*'s case, *Hekimian Labs Inc v Domain Systems Inc* and *PADCO Advisors Inc v Omdahl*.

6 See e g *Ruhl*'s case (1967) 225 A 2d 288, 245 Md 118, *United Rentals Inc v Davison* Case No 03-C-02-007061, 2002 WL 31994250 and *Intelus Corp v Barton* (1998) 7 F Supp 2d 635.

7 *Ruhl*'s case (1967) 225 A 2d 288 at 291, *Tuttle v Riggs-Warfield-Roloson Inc* (1968) 251 Md 45, 246 A 2d 588, *Gill v Computer Equipment Corp* (1972) 266 Md 170, 292 A 2d 54, *Millward v Gerstung International Sport Education Inc* (1973) 268 Md 483, 302 A 2d 14, *PADCO Advisors Inc v Omdahl* (2002) 179 F Supp 2d 600 and *National Instrument LLC v Braithwaite* Case No 24-C-06-004840, 2006 WL 2405831.

IPG products over the forthcoming three years. Depending on the scope of the balance of the covenant, a two-year duration could therefore be justifiable under Maryland law.

[73] As to the remaining width of the covenant, the following authorities are particularly pertinent. In *Hekimian Labs Inc v Domain Systems Inc* (1987) 664 F Supp 493, the employee had been directly involved in the design of the employer's remote testing equipment which was used in the employer's business of testing telecommunications lines for a small group of customers. The employee was also privy to the employer's product development schedule and new product initiatives. In the face of a covenant, inter alia, not to work for any of the employer's competitors for one year after leaving his employment, the employee joined a competitor, D Inc, immediately on leaving his employment. Applying Maryland law, the United States District Court for the Southern District of Florida held that the covenant was reasonably necessary for the protection of the employer and granted a preliminary injunction restraining the employee, inter alia, from working for D Inc in any capacity. The competition within the business of remote access testing was such that 'the whole world is its stage'. There were only about 20 competitors in this business and they operated on a worldwide basis. The court said that to limit protection to a specified geographical area would render the agreement meaningless.

[74] In *Intelus Corp v Barton* (1998) 7 F Supp 2d 635 the employer (Intelus) was engaged in the business of developing, selling and supporting software products for healthcare organisations. One of its primary software packages allowed patient, clinical and financial information to be processed electronically. The employee (Barton) was an account manager and as such had direct contacts with the employer's existing clients and was primarily responsible for a number of regions covering approximately 12 states. He was also a product specialist who demonstrated products to customers and in addition he had played a role in the development of one of the employer's software systems. Amongst the covenants Barton gave was an agreement that for six months following termination of his employment, he would not directly or indirectly . . . engage in any business, or accept compensation in any form for services, where such business or services competed directly for the customers and accounts of Intelus. Notwithstanding this covenant, Barton took employment with a competitor. The United States District Court for the District of Maryland granted a preliminary injunction enforcing the covenant. Judge Williams found that the employer competed for clients on a national, if not a global basis and observed that competition unlimited by geography can be expected where the nature of the business concerns computer software and the ability to process information. He went on (at 641–642):

> 'Because of the broad nature of the market in which Intelus operates, a restrictive covenant limited to a narrow geographic area would render the restriction meaningless. See [*Hekimian Labs Inc v Domain Systems Inc* (1987) 664 F Supp 493 at 498] . . . This covenant is narrowly tailored and restricts Barton from working for those few companies that directly compete with Intelus, which is not an undue hardship.'

Upon consideration of the nature of the industry and the national and perhaps global nature of the competition, the court concludes that the restriction is reasonably related and limited to Intelus's need to protect its goodwill and client base.

[**75**] In *Deutsche Post Global Mail Ltd v Conrad* (2003) 292 F Supp 2d 748 the
employer (DPGM) was an international mail company engaged in the business of a
providing shipping services to customers who send substantial quantities of mail
and other items to destinations outside the United States. It had 30 per cent of
the US international mail market. The defendant employees were managers who
solicited and serviced DPGM's customers in Virginia, Maryland and Washington
DC, in which area 75 per cent of all international customers were customers of b
DPGM. By the covenant in question, the defendants agreed that for a period of
two years following termination of their employment they would not—

> 'indirectly or directly: (ii) Engage in any activity which may affect
> adversely the interests of the Company or any Related Corporation and the
> businesses conducted by either of them, including without limitation, c
> directly or indirectly soliciting or diverting customers and/or employees of
> the Company or any Related Corporation . . .'

DPGM sought an injunction to enforce the covenant when the defendants left
their employment and set up their own competing enterprise, PLI. The judge
was prepared to sever offending wording that was capable of being severed but d
refused to enforce the covenant so modified, holding that a covenant not to solicit
all of DPGM's clients was unreasonably wide where the defendants had
developed comparatively few customer relationships in the limited area of
Maryland, Virginia and Washington DC and had returned the master customer
list. The judge also found that the covenant was too broad geographically. He e
distinguished *Intelus Corp v Barton* and *Hekimian Labs Inc v Domain Systems Inc* on
the basis that there the covenantees did not dominate the market in which they
competed whereas in the instant case DPGM had 30 per cent of the market with
the next closest competitor having 19 per cent. This was relevant because
restrictive covenants should not be permitted to stifle healthy competition in a
market dominated by a single firm. Enforcement of the covenant would impose f
serious hardship on the defendants and was not necessary for the protection of
DPGM's interests.

[**76**] On appeal to the US Court of Appeals[8], Fourth Circuit, the court held that
the covenant was too wide because in no way was it targeted at preventing the
defendants from trading on the goodwill they created while serving DPGM's g
customers. Rather, the covenant seemed designed to prevent any kind of
competition by the defendants, which was not a legally protected interest under
Maryland law.

[**77**] In *National Instrument LLC v Braithwaite* Case No 24-C-06-004840, 2006
WL 2405831 the employer (National Instrument) was a manufacturer of custom
and standard liquid filling systems which it sold to customers in the h
pharmaceutical, biotech, diagnostic and chemical specialty industries, among
others. The liquid filling system industry was specialised and relatively small and
National Instrument competed with only about 17 other manufacturers situated
throughout the United States. The employee (Braithwaite) was a member of
National Instrument's executive board and had gained an intimate knowledge of, j
inter alia, National Instrument's proprietary manufacturing systems and future
improvements, product development business strategies and strategic plans.

8 116 Fed Appx 435. This decision was 'unpublished' and therefore its citation in Maryland is disfavoured where it is not a binding precedent. However, it is a useful guide to the approach of Maryland law to restrictive covenants.

Under the covenant in issue, Braithwaite agreed that for a period of two years after he ceased to work for National Instrument he would not directly or indirectly in North America or Mexico enter into the employment of a company that engaged in the manufacture, design or marketing for sale or lease of products that competed with those of National Instrument. The Circuit Court of Maryland granted a permanent injunction restraining Braithwaite from commencing employment with a competitor of National Instrument. The judge held that the covenant was not overly broad or unreasonable. In reaching this conclusion she said that in determing whether the scope of any limitation is reasonable the court focuses its inquiry on the relevant market of the employer and the market for National Instrument's product was national and global in scope. Braithwaite was only prohibited from National Instrument's specific market niche, not from applying his more generalised skills in a similar industry or related industry. He had had two offers for jobs from non-competing companies closer to his home and at an increased salary but had turned them down.

[**78**] Relying on *National Instrument LLC v Braithwaite*, *Hekimian Labs Inc v Domain Systems Inc* and *Intelus Corp v Barton* (1998) 7 F Supp 2d 635, B & D contends that a restriction on Mr Duarte barring his employment by any company in the corporate groups listed in Schedule A is reasonably necessary because of the global nature of the competition B & D faces. B & D also points out that Mr Duarte is not barred from working for all of B & D's competitors, but only for the corporate groups within Schedule A, which leaves him free to work for any one of the companies which make up the 10 per cent of the competition not covered by Schedule A. B & D further contends that it was reasonably necessary to bar Mr Duarte from employment anywhere in the Schedule A corporate groups, even if he were to work for a consumer tools business or for a business that did not compete with WWPTA, because B & D could not know the details of the internal structures of a competing group and cannot police the activities of an ex-employee once he becomes employed by that group.

[**79**] In my judgement, although Maryland law appears to be somewhat less severe with restrictive covenants in employment contracts than is English law, the non-compete covenant would not be held to be enforceable against Mr Duarte under Maryland law. Given that Mr Duarte spent 11½ years out of 12 years working in Professional SBU—EMEA, and as VP Professional SBU was chiefly concerned with that part of B & D's business, B & D's core protectable interest in respect of Mr Duarte is its confidential information relating to Professional SBU—EMEA. And valid protection of that interest was achievable by a covenant barring Mr Duarte from working for or being engaged in or having a specified interest in any industrial power tool business within Europe, the Middle East and Africa for two years after the termination of his employment, since on the evidence it is clear that there exist throughout the world distinct markets for industrial power tools on the one hand and for domestic power tools on the other. It is conceivable that a covenant barring Mr Duarte from working or being engaged in or having an interest in any industrial tool business anywhere in the world for two years after the termination of his employment would be upheld under Maryland law, but only just, given the somewhat shallow nature of the global IPG confidential information to which he was privy. But the LTIP non-compete covenant goes much farther than this, barring Mr Duarte from working for any of the 500 or so companies covered by Schedule A anywhere in the world and regardless of whether the company sells industrial or consumer

power tools or is even competing with B & D. As such it would in my view be held to be unjustifiable given: (a) Mr Duarte's lack of connection both with B & D's consumer power tool business and with its industrial power tool business outside EMEA; and (b) his somewhat tenuous knowledge of global IPG and CPG confidential information compared with his knowledge of confidential information relating to Professional SBU—EMEA. a

[**80**] The covenants upheld in *National Instrument LLC v Braithwaite*, *Hekimian Labs Inc v Domain Systems Inc* and *Intelus Corp v Barton* were not nearly as sweeping as the LTIP non-compete covenant. In all three of those cases the business carried on by the employer was narrowly specific and there was no suggestion that the business carried on by competing companies was not of similar character. b

[**81**] I found Ms Cooperman to be an impressive witness. In my judgement, she had a deeper understanding of the principles underlying the law of Maryland on restrictive covenants and a better grasp of the authorities than did Mr Abramson. Having set out the relevant principles, Ms Cooperman says in her report: c

> '127. The non-competition provision effectively prohibits Mr. Duarte from working for any of [Schedule A 500+ companies]. Thus, by prohibiting Mr. Duarte from working in any business areas in which Black & Decker is not currently (and has never been) engaged, the non-competition provision is much wider in scope than is reasonably necessary to protect Black & Decker's legitimate business interests. d
>
> 128. Similarly, by prohibiting Mr. Duarte from working in a business area in which Black & Decker may be engaged, but in which Mr. Duarte never was involved in during his employment with Black & Decker, the provision also goes well beyond any restriction that is reasonably necessary to protect the legitimate business interests of Black & Decker.' e

[**82**] I agree, and so in my judgement would a US court applying Maryland law. f

[**83**] I turn to consider whether the non-compete covenant can be legitimately narrowed in scope to the point that it is not overly broad.

[**84**] US courts applying Maryland law employ a 'blue pencil' doctrine known as the strict divisibility approach when deciding whether wording in a contract which renders it illegal or otherwise unenforceable can be severed from the bargain. This doctrine is very similar if not identical to the English doctrine of severance. Offending wording can only be removed if it is possible to run a blue pencil through it without affecting the meaning of the part remaining. In *Holloway*'s case (1990) 319 Md 324, 572 A 2d 510, a case I refer to in more detail below, the Maryland Court of Appeals said that the relevant principle was that articulated in section 518 of the Restatement of Contracts (1932), which reads: g h

> 'When a promise in reasonable restraint of trade in a bargain has added to it a promise in unreasonable restraint, the former promise is enforceable unless the entire agreement is part of a plan to obtain a monopoly; but if full performance of a promise indivisible in terms, would involve unreasonable restraining, the promise is illegal and is not enforceable even for so much of the performance as would be a reasonable restraint.' j

[**85**] B & D, with the support of Mr Abramson, contends that if the inclusion of any one of the companies in Schedule A renders the non-compete covenant

unenforceable, then that company can be severed from the list. Indeed, as I understood Mr Abramson's evidence in cross-examination, he was of the opinion that the whole of Schedule A could be severed save for Techtronic Industries Co Ltd because a blue line could be put through the other corporate names leaving a residue that would be enforceable. Ms Cooperman disagreed. In her view, bearing in mind that one is concerned not just with the words 'any of the companies included on attached Schedule A' but also 'Competitor companies include the following, along with any of their parents, subsidiaries, affiliates, and successors', the non-compete covenant is one indivisible covenant and not as many covenants as there are companies included within Schedule A. The cross-examination of Mr Abramson on the topic of severance showed that he had a somewhat shaky grasp of the doctrine. Thus he expressed the view that if a covenant prohibited a particular activity 'in the US, namely . . .' and then listed each of the 50 states, in circumstances where it was only reasonable to bar the activity in state A, the covenant could be rendered enforceable by blue pencilling everything except state A. I prefer and accept the evidence of Ms Cooperman and hold that for the reasons she gave, particular companies cannot be severed from Schedule A and certainly not to the point that only Techtronic Industries Co Ltd is left.

[**86**] A number of states in the United States have abandoned the strict divisibility approach and adopted the so-called 'flexible approach'. The flexible approach was championed by both Professor Williston and Professor Corbin and was adopted in preference to the strict divisibility approach in the Restatement (Second) of Contracts (1981), section 184 of which reads (in pertinent part): '(2) A court may treat only part of a term as unenforceable . . . if the party who seeks to enforce the term obtained it in good faith and in accordance with reasonable standards of fair dealing.'

[**87**] Prior to *Holloway*'s case (1989) 78 Md App 205, 552 A 2d 1311, no court applying Maryland law used the flexible approach to reduce the width of an overly broad restrictive covenant. In *Holloway*'s case, however, a majority panel of the Maryland Court of Special Appeals held that it was time to adopt the flexible approach. The covenant in this case was contained in cl XI of a partnership agreement and provided, inter alia, that a withdrawing partner 'will not engage in the general practice of public accountancy, or any of its allied branches . . . either directly or indirectly, at any place within a forty five mile radius of any of our offices for a period of five years '. The covenant further provided that a withdrawing partner was bound to pay to the firm 100 per cent of the prior year's fee for any clients of the firm who engaged his services during the five-year period and sums due to the withdrawing partner by way of continuing income participation would be forfeited and offset against such payments.

[**88**] Holloway left the firm and serviced 165 of the firm's former clients thereby generating $160,193. The firm forfeited income participation payments due to him and set these off against the sums due under cl XI. Holloway contended that cl XI was in restraint of trade and unenforceable.

[**89**] The court split two to one. The majority, Garrity and Bishop JJ, held that the five-year time restriction was too long and that the class of clients within the covenant was too broad, extending as it did to clients with which the withdrawing partner had had no contact. They then proceeded to apply the flexible approach under which the first question is whether the covenant represents a deliberate attempt by the employer to place unreasonable and

oppressive restraints on the employee. If so, the covenant is irredeemably bad. If not, the court should modify the covenant 'so as to align the reasonable expectations of the parties to the expectations of the law, so long as it is fair to do so'. Here there had been no attempt to impose an unreasonable restraint and the Circuit Court's rewriting of the covenant reducing the five-year period to one of three years would be upheld.

[**90**] Gilbert CJ dissented from the majority's 'sesquipedalian opinion, in which they purport to rewrite part of the Maryland Law of Contracts'. The learned Chief Judge said that he was unable to accept the proposition that courts should rewrite agreements in order to save the parties from themselves. In his view, Maryland should not join the 'modern trend' parade towards the flexible approach but should wait to see where the parade is going. The highest court in Maryland, the Court of Appeals, had had the opportunity in past cases such as *MacIntosh v Brunswick Corp*[9] to adopt the flexible approach but had not done so. '[I]ts belief in the sanctity of contract was obviously much stronger than that of the majority of this panel.' It was for the Court of Appeals to set the judicial policy of Maryland: *MacIntosh v Brunswick Corp* should continue to be followed unless and until the Court of Appeals holds otherwise.

[**91**] *Holloway*'s case went up to the Maryland Court of Appeals the following year where it was heard by a seven-judge court (see (1990) 319 Md 324, 572 A 2d 510). The court abstained from pronouncing on the question whether the flexible approach should replace the strict divisibility approach. Instead, the court unanimously found that, pursuant to the principle in *Tawney v Mutual System of Maryland Inc* (1946) 186 Md 508, 47 A 2d 372, which in turn was based on section 518, Restatement of Contracts (1932), the forfeiture provision in cl XI was severable from the obligation to pay fee equivalents and accordingly, a withdrawing partner could compete against the firm save in respect of the firm's clients. And if the withdrawing partner serviced such clients he was obliged to pay the fee equivalent sum specified in the covenant since the covenant was severable on a client by client basis. It followed that Holloway had no defence to the firm's claim and thus '[t]he provocative questions concerning judicial power raised by the majority of the panel and spot lighted by Chief Judge Gilbert's dissent can be resolved another day in some other case'.

[**92**] In the event, in the 18 years since *Holloway*'s case, no court applying Maryland law has applied the flexible approach to reduce the breadth of an overbroad covenant but instead has applied the strict divisibility approach. In *Fowler v Printers II Inc* (1991) 89 Md App 448, 598 A 2d 794 the question was whether a one-year non-solicitation covenant was valid. The Maryland Court of Appeals (which included Bishop J) noted that both sides had mistakenly relied on *Holloway*'s case in respect of an argument that the covenant was severable on a client by client basis and went on to say that if the covenant before the court were determined to be unnecessarily broad, it could be eliminated simply by excising, by 'blue pencil', the offending portion:

> 'Such "blue pencil" excision of offending contractual language without supplementation or rearrangement of any language is entirely in accord with Maryland law. See, [*MacIntosh v Brunswick Corp* (1965) 241 Md 24 at 27–31, 215 A 2d 222, *Tawney v Mutual System of Maryland Inc* (1946) 186 Md 508 at

9 Op cit (fn 3).

> 521, 47 A 2d 372 and *Hebb v Stump, Harvey & Cook Inc* (1975) 25 Md App 478 at 491, 334 A 2d 563].'

[**93**] In *United Rentals Inc v Davison* Case No 03-C-02-007061, 2002 WL 31994250, Finifter J sitting in the Maryland Circuit Court noted that the Court of Appeals decided *Holloway*'s case on different grounds than the Court of Special Appeals and essentially overturned the reasoning employed by the latter court whose 'proclamations of law should therefore be viewed with a sceptical eye'. The learned judge severed the offending part of the covenant, observing: 'Considering the development of case law in both the Maryland appellate courts, it seems likely that Maryland incorporates a "blue pencilling" technique that utilizes a strict divisibility approach.'

[**94**] Two years later in *Deutsche Post Global Mail Ltd v Conrad* 292 F Supp 2d 748, Judge Motz in the United States District Court (District of Maryland) observed that Maryland law permitted courts to 'blue pencil' and severed part of the offending language from the restrictive covenant before the court. On appeal (116 Fed Appx 435), the US Court of Appeals (4th Circuit), citing *Tawney v Mutual System of Maryland Inc* and *Holloway*'s case in the Maryland Court of Appeals, said that a court may blue pencil to reduce an overbroad covenant, the underlying principle being that articulated in section 518 of Restatement (First) of Contracts.

[**95**] In *McGovern v Deutsche Post Global Mail Ltd* Case No JFM-04-0060, 2004 WL 1764088 Judge Motz said:

> 'While the Court of Special Appeals . . . employed a flexible approach to blue pencilling that would allow slight modification of the terms of the contract . . . the Court of Appeals specifically refused to address whether this approach was part of Maryland law. [*Holloway v Faw, Casson & Co* (1990) 319 Md 324 at 326–327, 572 A 2d 510 at 511]. Furthermore, in a later case, the Court of Special Appeals confirmed that the strict divisibility approach is "entirely in accord with Maryland law." [*Fowler v Printers II Inc* (1991) 89 Md App 448 at 465–466, 598 A 2d 794 at 802]. DPGM appears convinced that if forced to address the issue, the Court of Appeals would adopt the Holloway flexible approach, as several other states and some legal scholars have done. However, it has no proof to support this assertion. While it is true that a federal court can consider treatises, opinions of lower courts, and well-reasoned dicta if a state's law is unclear or underdeveloped, [*Wells v Liddy* (1999) 186 F 3d 505], here, the law is both developed and clear. Maryland courts have consistently approved the strict divisibility approach, and when the Court of Appeals had the opportunity to endorse the flexibility approach, it expressly refused to do so.'

[**96**] Finally, in *Corporate Healthcare Financing Inc v BCI Holdings Co* Case No CCB-05-3391, 2006 WL 1997126, Judge Blake in the United States District Court, District of Maryland, when considering whether there were sufficient merits to grant a preliminary injunction to enforce a restrictive covenant, opined that it was 'an open' question whether Maryland law would enforce the contract only partially, either by the blue pencilling doctrine or if the flexible approach is valid under Maryland law.

[**97**] Mr Tozzi, supported by Mr Abramson, submitted that the following constitute good grounds for thinking that the flexible approach will be adopted as part of Maryland law: (i) it has been approved by the American Law Institute in the Restatement (Second) of Contracts; (ii) it is supported by the highly respected

Williston and Corbin treatises on the law of contract; and (iii) it has been adopted by a growing number of states.

[**98**] The question is whether the defendants, the onus of proof being on them, have proved on the balance of probabilities that the flexible approach would be applied to the LTIP covenants by a US court applying Maryland law. In light of the cases reviewed above decided since *Holloway*'s case in the Maryland Court of Special Appeals, I have no hesitation in answering that question No.

[**99**] I turn now to deal with the anti-poaching covenant.

[**100**] In the joint statement signed by Ms Cooperman and Mr Abramson, it is stated that they are agreed that: 'In determining the enforceability of a non-solicitation of employees restriction, Maryland law recognizes that an employer has a protectable interest in maintaining the stability of its workforce.' This statement implies that both experts were of the view that the anti-poaching covenant was a covenant in restraint of trade that would not be enforceable unless it was no more than reasonably necessary to protect this protectable interest of the employer.

[**101**] In his oral evidence, Mr Abramson maintained that covenants in the nature of the anti-poaching covenant are not restraints of trade and are enforced as a matter of course by courts applying Maryland law. This proposition was not put to Ms Cooperman who stood by the opinion expressed in her report that the anti-poaching covenant was in restraint of trade and was too wide to be enforced because it applied to all 25,000 employees employed within the B & D group, whilst Mr Duarte would only have known and been in contact with a much smaller number of B & D employees.

[**102**] Mr Abramson having signed up to the statement in the joint report set out above, and his later inconsistent view not having been put to Ms Cooperman, I do not think B & D should be allowed to contend that the anti-poaching covenant is outside the doctrine of restraint of trade. Is the covenant enforceable under Maryland law? In my judgement it plainly is not for the reasons given by Ms Cooperman whose evidence I accept.

[**103**] It is obvious that this covenant cannot be cut down to an acceptable width by applying the strict divisibility approach. The covenant is, however, severable as a whole from the LTIP agreement, but its removal does nothing to render the non-compete covenant enforceable.

ARE THE RESTRICTIVE COVENANTS ENFORCEABLE UNDER ENGLISH LAW?

[**104**] It is strictly unnecessary to decide this issue, since English law only becomes potentially applicable if the covenants are enforceable under Maryland law, but I think I should deal with it, nonetheless.

[**105**] The legal principles governing the enforceability of restrictive covenants were set out as follows in the oft-quoted judgement of Sir Christopher Slade in *Office Angels Ltd v Rainer-Thomas* [1991] IRLR 214 at 217:

> '(1) If the Court is to uphold the validity of any covenant in restraint of trade, the covenantee must show that the covenant is both reasonable in the interests of the contracting parties and reasonable in the interests of the public . . .
>
> (2) A distinction is, however, to be drawn between (a) a covenant against competition entered into by a vendor with the purchaser of the goodwill of a business, which will be upheld as necessary to protect the subject-matter of the sale, provided that it is confined to the area within which competition on the part of the vendor would be likely to injure the purchaser in the

enjoyment of the goodwill he has bought, and (b) a covenant between master and servant designed to prevent competition by the servant with the master after the termination of his contract of service . . .

(3) In the case of contracts between master and servant, covenants against competition are never as such upheld by the court. As Lord Parker put it in [*Herbert Morris Ltd v Saxelby* [1916] 1 AC 688 at 709, [1916–17] All ER Rep 305 at 317]:

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

(4) The subject-matter in respect of which an employer may legitimately claim protection from an employee by a covenant in restraint of trade was further identified by Lord Wilberforce in [*Stenhouse Australia Ltd v Phillips* [1974] AC 391 at 400, cf [1974] 1 All ER 117 at 122] as follows:

> "The employers' claim for protection must be based upon the identification of some advantage or asset inherent in the business which can properly be regarded as, in a general sense, his property, and which it would be unjust to allow the employee to appropriate for his own purposes, even though he, the employee, may have contributed to its creation" . . .

(5) If, however, the Court is to uphold restrictions which a covenant imposes upon the freedom of action of the servant after he has left the service of the master, the master must satisfy the Court that the restrictions are no greater than are reasonably necessary for the protection of the master in his business: (see [*Mason v Provident Clothing and Supply Co Ltd* [1913] AC 724 at 742, [1911–13] All ER Rep 400 at 409] per Lord Moulton). As Lord Parker stressed in [*Herbert Morris Ltd v Saxelby* [1916] 1 AC 688 at 707, [1916–17] All ER Rep 305 at 316], for any covenant in restraint of trade to be treated as reasonable in the interests of the parties "it must afford *no more than* adequate protection to the benefit of the party in whose favour it is imposed" [Lord Parker's emphasis].'

[**106**] To these principles it is only necessary to add that—

'[r]easonable necessity is to be assessed from the perspective of reasonable persons in the position of the parties as at the date of the contract, having regard to the contractual provisions as a whole and to the factual matrix to which the contract would then realistically have been expected to apply.' (See per Cox J in *TFS Derivatives Ltd v Morgan* [2004] EWHC 3181 (QB) at [38], [2005] IRLR 246 at [38].)

The non-compete covenant

[**107**] Just as is the case under Maryland law, B & D's confidential information is an interest that can be protected by a restrictive covenant. The question to be answered therefore is whether as a matter of English law the non-compete covenant is no more than is reasonably necessary to protect B & D with respect to the confidential information to which Mr Duarte was likely to be privy as VP Professional SBU—EMEA.

[**108**] In my judgement, for the same reasons that I have held that it is unenforceable in Maryland law, the non-compete covenant is unenforceable as a matter of English law.

[**109**] Counsel have been able to find only three cases in which a two-year covenant was upheld—*G W Plowman & Son Ltd v Ash* [1964] 2 All ER 10, [1964] 1 WLR 568, *Spafax Ltd v Harrison* [1980] IRLR 442 and *Dairy Crest Ltd v Pigott* [1989] ICR 92—and it is to be noted that the prohibited activity in all three of these cases was narrower than a ban on competition. Thus *G W Plowman & Son Ltd v Ash* concerned a customer non-solicitation covenant; and *Spafax Ltd v Harrison* and *Dairy Crest Ltd v Pigott* non-solicitation/non-dealing covenants. To say the least, if a two years non-compete covenant is going to be upheld in English law, the scope of the balance of the covenant has got to be narrowly drawn, which is not the case here.

[**110**] B & D relied on *Littlewoods Organisation Ltd v Harris* [1978] 1 All ER 1026, [1977] 1 WLR 1472 where Lord Denning MR said that because of the difficulties both of distinguishing between what information is confidential and what is not and of proving disclosure, a covenant against working for a competitor will be reasonable if limited to a short period. Lord Denning MR went on to uphold in that case a one-year bar on working for or being engaged, concerned or interested in the trading or business of Great Universal Stores Ltd or any subsidiary thereof. The inclusion of any subsidiary was reasonable because the competitor was in reality one group and those in control could lend the covenantor's services and transmit his knowledge as they pleased, within the group.

[**111**] It is important, however, to appreciate that Great Universal Stores Ltd had 200 subsidiaries worldwide and carried on a range of businesses and Lord Denning MR and Megaw LJ got round this difficulty by reading down the covenant to apply only to Great Universal Stores Ltd's United Kingdom mail order business. So construed, the covenant was much narrower than the LTIP non-compete covenant, and I have no doubt that the *Littlewoods Organisation* case does not compel the conclusion that the LTIP covenant is enforceable.

[**112**] I am also of the view that the non-compete covenant cannot be rendered enforceable under the doctrine of severance. The operation of the severance doctrine in the context of employment contracts was recently considered by the Court of Appeal in *Beckett Investment Management Group Ltd v Hall* [2007] EWCA Civ 613, [2007] IRLR 793, [2007] ICR 1539. Here the Court of Appeal (Sir Anthony Clarke MR and Maurice Kay and Carnwath LJJ) held that there was no special rule for employment contracts. The starting point was *Attwood v Lamont* [1920] 3 KB 571 at 593, [1920] All ER Rep 55 at 67–68 where Younger LJ said:

> 'The doctrine of severance has not, I think, gone further than to make it permissible in a case where the covenant is not really a single covenant but is in effect a combination of several distinct covenants. In that case and where the severance can be carried out without the addition or alteration of a word, it is permissible. But in that case only.'

[**113**] The Court of Appeal also approved the following threefold test formulated by Mr Peter Crawford QC sitting as a deputy judge of the High Court in *Sadler v Imperial Life Assurance Co of Canada Ltd* [1988] IRLR 388 at 391–392 (para 19):

> 'a contract which contains an unenforceable provision nevertheless remains effective after the removal or severance of that provision if the following conditions are satisfied:
>
> 1. The unenforceable provision is capable of being removed without the necessity of adding to or modifying the wording of what remains.
> 2. The remaining terms continue to be supported by adequate consideration.
> 3. The removal of the unenforceable provision does not so change the character of the contract that it becomes "not the sort of contract that the parties entered into at all".'

[**114**] In my judgement, the non-compete covenant is not in effect a combination of several distinct covenants but is really a single covenant. To remove any or some of the corporate groups listed in Schedule A would be to change the character of the contract so it becomes not the sort of contract that the parties entered into at all. Accordingly, it is not permissible to sever out any of the Schedule A corporate groups, particularly to the extent of just leaving Techtronic Industries Co Ltd.

The anti-poaching covenant

[**115**] It is common ground that the stability of the workforce is a recognised legitimate interest in English law that can be protected by a covenant that is no wider than reasonably necessary. The anti-poaching covenant, however, is far too wide, because it prohibits Mr Duarte from hiring any of B & D's 25,000 employees, regardless of their seniority or juniority and regardless of the business segment and geographical location in which they work.

[**116**] Further, as I said when dealing with this covenant under Maryland law, it cannot be saved by severance, although it could be severed in its entirety from the LTIP agreement.

THE DISHONEST COPYING CLAIM

[**117**] As recorded above, Mr Duarte resigned on 4 July 2007, a Wednesday. At about 8.30 am that morning he was sent home on gardening leave. He left behind his company laptop computer and an external hard disc drive that B & D had provided him with some months previously (the company EHD). He told Mr Whitthread that he had cleared his desk the previous evening and had not removed any property belonging to B & D. He also said that he had been in his office at B & DE's headquarters in Slough the previous weekend to remove from his company laptop personal information in the nature of photographs, personal contact details and documents relating to his tax position. Five days later at a meeting at an hotel with Mr Whitthread, Mr Duarte said that he had spent a considerable period of time at B & DE's offices over the previous weekend and stated again that he had not removed any B & D property.

[**118**] On 12 July 2007, the defendants instructed Kroll Ontrack (Kroll), a specialist computer forensic company, to conduct a forensic examination of Mr Duarte's company laptop and the company EHD. Following a report from Kroll on 17 September 2007, CMS Cameron McKenna (CMS), the defendants'

solicitors, wrote by faxed letter dated 19 September 2007 to Mr Duarte's solicitors, Addleshaw Goddard (Addleshaws), stating, inter alia, that Kroll's forensic analysis revealed that during the weekend before Mr Duarte resigned (30 June / 1 July) he had: (a) accessed various highly confidential documents on his company laptop including the DeWalt Stategic Plan 2008–2010 and documents relating to TTI; (b) copied a large number of files to an external hard disk drive including the 2005–2010 Professional Power Tools Stategic Plan PowerPoint; and (c) connected five USB memory sticks to the laptop over the period Sunday, 1 July and Monday, 2 July 2007. CMS required confirmation that: (a) Mr Duarte's personal computer, any external disc drive used to copy information and the five memory sticks would be made available for examination by Kroll; and (b) Mr Duarte would swear an affidavit within two days giving a full account of his activities involving his computer and an external hard disk drive between 30 June and 3 July, and enumerating what B & D information he had removed and to whom it had been passed or communicated.

[**119**] When this letter was received, Mr Duarte was on holiday in Portugal with his family. On 24 September 2007 he swore an affidavit in Portugal which was served on CMS, an unsworn version having been served on 21 September 2007. In this affidavit he deposed that on the weekend in question he had gone to his office in Slough where: (a) in the expectation that he would accept a final job offer from Ryobi the following week, he cleared his office of personal belongings; (b) against the possibility that he did not accept an offer from Ryobi he prepared for some upcoming B & D meetings; (c) he backed up information from the company computer to the company EHD in accordance with his normal practice; and (d) he attempted to copy some of his personal files 8 GB in size onto several memory sticks. He further deposed that he had acquired a personal external hard disc drive (the personal EHD) from a nearby branch of PC World onto which he had copied his 'entire personal folder'. He had then realised that—

> 'this folder also contained business information, particularly information relating to my team like ADP's (annual appraisals), organisation announcements, organisation charts, salary and bonus spread sheets . . . I then proceeded deleting these files both on my C drive as well as my new external drive. I then realised that I needed to leave this information available for the Second Defendant and copied those files from the B&D external drive back onto my C drive . . . Given that I now had an external drive that more than comfortably could hold the 8GB of personal information I deleted some of the files I had copied onto the memory sticks. I still have these memory sticks, I believe, with the exception of one which I destroyed as it was not working. As I was unsure of the content I physically destroyed it before putting it in the trash.' (See paras 17–18.)

[**120**] Mr Duarte returned to London from Portugal on 27 September 2007. He brought with him his personal laptop that he had purchased on 6 July 2007. He went straight to his apartment where he was due to meet a representative from Addleshaws who was to supervise the delivery that afternoon to Kroll of his personal computer, the personal EHD and a number of memory sticks for forensic examination. Once he was back at his house and before the Addleshaws representative arrived, Mr Duarte located three memory sticks two of which he inserted in his computer to check which two were to go to Kroll for examination.

[**121**] In the period down to the start of the trial on 29 October 2007, Miss Aminata Taal of Kroll produced two reports covering her examination of Mr Duarte's company laptop, the personal and company EHDs, Mr Duarte's personal laptop and three memory sticks. There were also in evidence two expert reports from Mr Duncan Gardiner of Data Genetics International Ltd (DGI) who was instructed on behalf of Mr Duarte. It is clear from the agreed findings of both sides' computer experts and from certain pieces of uncontested evidence such as till receipts and the security log showing the times when Mr Duarte was in his office on 30 June and 1 July 2007 that the events recounted in [122]–[133] below occurred on the dates and times stated.

The uncontested facts

[**122**] On Thursday, 28 June 2007 Mr Duarte received a document summarising the terms of employment and an indemnity that Ryobi was prepared to offer him. The indemnity was in respect of costs incurred in defending any claim brought by B & D and was conditional, inter alia, on Mr Duarte not having breached to any material extent any legal obligation to B & D other than the restrictive covenants in the LTIP agreement.

[**123**] On Saturday, 30 June 2007 Mr Duarte was in his office at B & DE's headquarters in Slough from 9.34 am to 12.57 pm and from 2.11 pm to 7.20 pm apart from a short period beginning at 4.15 pm when he visited PC World. During the morning session Mr Duarte accessed (ie looked at) a number of B & D documents on his company laptop, including: the DeWalt Stategic Plan 2008–2010; the 2007 Organisation Review; the DeWalt MAC April 2007 PowerPoint; documents relating to TTI, including the TTI Competitive Assessment PowerPoint; and the 2005–2010 Professional Power Tools Strategic Plan PowerPoint. At 12.50 pm Mr Duarte started to copy data from the company laptop to the company EHD.

[**124**] At 4.15 pm Mr Duarte went to a nearby branch of PC World where he exchanged an external disc drive he had bought there the previous day for another such device. He had connected the drive purchased on the Friday to the company laptop at 12.23 pm, 4.07 pm and 4.12 pm and discovered that it was defective. PC World connected the replacement external disc drive to a computer to test it before supplying it to Mr Duarte.

[**125**] After leaving the office at 7.20 pm, Mr Duarte went home taking the company laptop and the replacement external disc drive (the personal EHD). At 8.58 pm he copied the Data 2007 file from the company laptop to the personal EHD. This was done by clicking on the file and copying and pasting it to the personal EHD—a step that took a couple of seconds. The transfer of copied material—5,131 files in 574 folders (20·4 GB of data)—to the personal EHD took 29 minutes. Of these 5,131 files, 2,677 files in 418 folders (17 GB of data) consisted of confidential information belonging to B & D, including numerous PowerPoint presentations and the following folders: '07 DeWalt' (which contained a sub-folder 'Strat Plan' which in turn contained a sub-folder containing documents relating to the 2008–2010 strategic plan); 'Markets'; 'Costs'; 'Business Development'; and '2008–10 Strat Plan' for EMEA.

[**126**] The remaining 2,577 files in 161 folders (3·4 GB of data) contained Mr Duarte's personal information including 877 photographs, documents relating to his tax affairs, and car documents.

[**127**] The following day, Mr Duarte was in his office from 10.07 am to 12.40 pm during which he accessed various files containing B & D information.

He returned to the office at 4.30 pm and left at 8.05 pm. At 12.49 pm he purchased a PNY memory stick at PC World (the PNY stick). At 2.49 pm he deleted from the personal EHD most of the files containing B & D information that had been copied to it the previous evening. These deletions were done at folder level. At 3.19 pm Mr Duarte copied onto the PNY stick from the company laptop the folder entitled 'Personal' by selecting the folder on the laptop's disk drive and copying and pasting it to the PNY stick. At 3.47 pm Mr Duarte copied two further folders from the laptop to the PNY stick—the OST file and the Exchange 1.PST file. The OST file was a file Mr Duarte did not know and could not have known how to open.

[**128**] Later, all the information copied to it at 3.19 pm and 3.47 pm was deleted from the PNY stick.

[**129**] At 3.18 pm, Mr Duarte connected to the company laptop a USB Flash memory stick and at 3.58 pm he connected first a Crucial Gizmo Flash USB memory stick and secondly a Disgo memory stick. At 5.04 pm, he connected another memory stick to the company laptop, this time a CBM2080 Flash USB stick.

[**130**] On 2 July 2007 he connected a fifth memory stick to the company computer—a SanDisk U3 Cruzer U3.

[**131**] Three of the above referred to memory sticks were made available for examination by Kroll—the PNY stick, the Cruzer memory stick and the Disgo memory stick.

[**132**] As already recorded, on Wednesday, 4 July 2007 Mr Duarte resigned and immediately went on garden leave, leaving his company computer and company EHD behind in his office.

[**133**] On 6 July 2007 Mr Duarte purchased a personal laptop. He had never previously had his own computer. He did not have internet access at his home until the end of July 2007.

The inference B & D contends should be drawn

[**134**] There is no direct evidence, forensic or otherwise that during the 16 hours between 9.27 pm on Saturday, 30 June 2007 and 2.49 pm the next day that the B & D information copied on the Saturday evening onto the personal EHD was transferred to another computer. It is B & D's case that the court should nonetheless infer that Mr Duarte dishonestly copied the B & D information to another computer during this 16-hour period for the purpose of using it in his new position with Ryobi.

Mr Duarte's evidence at the trial

[**135**] In his third witness statement and in the witness box, Mr Duarte stated that with the assistance of the Kroll and DGI findings he had been able to reconstruct what had occurred. He vehemently denied transferring the B & D information copied onto the personal EHD to another computer. He was adamant that his intent throughout had been to extract from the company computer only his personal information and this is what had occurred, albeit in a somewhat roundabout way.

[**136**] Mr Duarte testified that as the weekend of 30 June / 1 July approached he thought that this might well be his last chance to remove personal information from the company computer since if he accepted Ryobi's offer the following week and resigned, he would be asked there and then to hand over his computer. He had received Ryobi's letter dated 28 June 2007 and had well in mind that the

indemnity Ryobi were to give him in respect of any claim by B & D was conditional on his not being in material breach of any obligation he owed to B & D.

[**137**] He said that he accessed the B & D documents identified by Kroll as having been accessed over the weekend because it was not certain that he would agree terms with Ryobi, in which event he would have to attend an ELT meeting on 4 July and a DeWalt leadership meeting on 5 and 6 July at which he was scheduled to deliver three presentations. In particular, he needed to access various presentations on the DeWalt Strategic Plan 2008–2010 as the DeWalt leadership meeting was to be based almost entirely around this topic. He accessed the DeWalt sales force spreadsheet while he was searching for a file produced by his finance manager to determine the number of individuals working on the different marketing and commercial functions of the DeWalt business. He also accessed the DeWalt 2007 Organisation Review to identify a small number of employees who had progressed quickly to high positions to whom he planned to refer at the DeWalt leadership meeting. He opened the TTI file he had received via e-mail because, with the prospect of working for Ryobi, he was curious to see the presentation.

[**138**] Mr Duarte stated that he had transferred the files on the company laptop to the company EHD on 30 June as a back-up exercise because he planned to extract his personal information from the B & D information and was anxious not to delete or lose inadvertently any information in the process.

[**139**] During the weekend, in anticipation of resigning the following week, he cleared his desk and cabinet of his belongings, organised his ticket receipts and boarding passes for tax purposes, organised a folder with copies of his previous medical expense claim forms, prepared his 2006–07 tax return and printed off all his personal e-mails and attachments, having failed to extract these documents electronically. All these things were done at the office.

[**140**] He accepted that he now knew as a result of DGI's investigation that he copied the 2007 Data Folder to the personal EHD on the evening of Saturday, 30 June at his home. His purpose was to create a copy of the personal information contained within the sub-folders within the 2007 Data Folder. He believed he only copied the entire contents of this folder because it would have been too tiresome a task to open and identify the contents of every sub-folder that night. On 30 June 2007 he had left the office at 7.20 pm and it was his usual routine to give his son a bath at around 7.30 pm, have dinner with his family and put his son to bed at around 9.00 pm. He routinely took the company laptop home with him.

[**141**] He accepted that his statement in his affidavit that he had copied only personal files across to the personal EHD could not be correct. He did not recall copying the 2007 Data parent folder but believed that given the late time of night and the amount of work he had done that day that he may have decided simply to copy all the information in that folder rather than sorting through those sub-folders and files to extract personal information only. The reason he could not recall copying the parent file when he swore his affidavit was that he had not accessed any of the B & D information before it was copied to the personal EHD and he only accessed it on the personal EHD to delete it. By way of contrast, he did access each of the folders within the 'Personal' parent folder deleting business files one by one as he ascertained whether they were business or personal.

[**142**] Mr Duarte had no recollection of deleting the information copied to the personal EHD at home rather than at the office but accepted that this is what

happened. He expected the explanation was that the personal EHD was bulky and included an AC power adaptor and therefore he did not take it with him to the office on the Sunday.

[**143**] Dealing with the connection of memory sticks to the company laptop over the weekend, Mr Duarte said that he purchased the PNY stick because he was not confident the replacement personal EHD would be reliable, the first one having been returned because it was defective. He also pointed out that the capacity of that stick was 4 GB, which contrasted with the quantity of business information transferred to the personal EHD—17 GB. His purpose in copying files to this stick was to create a second copy of his personal information contained within the 2007 Data Folder. He copied his 'Personal' folder plus two other files (the Outlook.OST file and the Exchange 1.PST file) which he believed contained only his personal information. By this time he would have finished his review of all the folders copied to the personal EHD and therefore would have known which folders within '2007 Data' contained his personal information. After copying the 'Personal' folder Mr Duarte deleted any business information it contained.

[**144**] Mr Duarte testified that after he had bought his own laptop on 6 July 2007, he deleted the remaining personal files from the PNY stick because he now had personal data on his new laptop and the personal EHD.

[**145**] As for the other four memory sticks connected to the company computer, Mr Duarte regularly used memory sticks in the course of his work and wanted to check that they did not hold any company information. When he connected the Crucial Gizmo memory stick it did not work and he therefore destroyed it because he did not want anyone having unauthorised access to any information it might contain. The other memory stick not examined by Kroll—the DeWalt branded CBM2080 stick—had been left in his office in a box and it was unfortunate that the defendants had not found it.

The 'no trace' allegation'

[**146**] In para 18h(v) of their re-amended defence and counterclaim, the defendants plead:

> 'the confidential information was not deleted from the personal EHD until some 16 hours after it had been copied; in that period it was open to the Claimant to copy the First and Second Defendants' confidential documents and information from the personal EHD to another computer without leaving a trace.'

This allegation prompted each side's computer experts to consider the likelihood of a trace being left on the personal EHD if it was used to transfer information to another computer. At the trial, the defendants' expert witness was another Kroll employee, Ms Kathryn Owen, who had taken over from Ms Taal who had fallen ill. Ms Owen and Mr Gardiner of DGI were agreed that the personal EHD showed traces of having been connected to a computer on the following occasions: (i) connection to a PC World computer whose operating system is unknown when the personal EHD was purchased; (ii) the three occasions it was connected to the company laptop whose operating system was Microsoft Windows XP; (iii) connection to Mr Duarte's personal laptop whose operating system was Microsoft Vista; and (iv) connection to a computer by Ms Taal when it was not 'write protected' as it should have been. In respect of (ii), the traces were GUID traces, that is to say they were within the Global Unique Identifier folder and Ms Owen accepted that Mr Duarte could not be expected to know that such traces could be avoided by manually disabling the system restore function. In respect of (iii) the trace was a dollar RM metadata trace.

[**147**] Ms Owen was of the opinion that insufficient testing had been done on different devices using different operating systems to be able to say what the chances were that the personal EHD would leave a trace if it were connected to a computer. Under the heading *Points of Difference* in the document produced by the experts after their meeting, Mr Gardiner stated that based on the facts that all known connections of the personal EHD to a computer had left a trace and that Kroll had set out not to leave a trace, it was a remote possibility that Mr Duarte could have connected the personal EHD to an unknown computer and copied data to it without leaving a trace. What Mr Gardiner did not say in this statement or in his evidence-in-chief was that after his second report and before meeting Ms Owen, he had done further tests which showed that no trace was left if the personal EHD was connected to an Apple Mac computer. These further tests only emerged in cross-examination. To say the least of it, it was unfortunate that Mr Gardiner did not refer to them when dealing with the points of difference or in his evidence-in-chief.

[**148**] Junior counsel for Mr Duarte, Mr Wilson, submitted that since Microsoft operating systems were used on about 80 per cent of all computers, I should conclude that if Mr Duarte had connected the personal EHD to another device during the relevant 16-hour period, the chances were that this would have produced a trace, and thus the absence of such a trace supports Mr Duarte's denial of the dishonest copying allegation.

[**149**] I decline to accept Mr Wilson's submission. In my judgement there has been insufficient testing for this submission to be accepted, and accordingly I think that the absence of a trace leaves the question whether B & D's information was copied during the 16-hour period completely open.

B & D's submissions

[**150**] In support of the submission that I should infer that Mr Duarte had copied the data on the personal EHD to another computer, Mr Tozzi invited me to find that Mr Duarte had given a false account of what he had done over the weekend of 30 June/1 July 2007. Amongst the many points he sought to make, Mr Tozzi submitted that Mr Duarte's account was a reconstruction carefully crafted to make things fit in with the findings in the computer experts' reports. Mr Tozzi also drew attention to the difference in some parts of Mr Duarte's evidence with what he had said in his affidavit, particularly in para 17 and further submitted that it would have been easy for Mr Duarte to have limited his copying to those folders in which he said he had personal information. In addition, Mr Tozzi placed reliance on: (a) the fact that two of the memory sticks that had been connected to the company computer had not been produced for examination; and (b) the connection of two memory sticks to the personal computer soon after Mr Duarte had returned from Portugal when he knew a representative from Addleshaws was expected to supervise delivery of the personal computer and memory sticks to Kroll for examination. In Mr Tozzi's submission, Mr Duarte had taken the risk of being in breach of Ryobi's indemnity conditions because he realised that he was not up to the job he planned to accept with Ryobi and needed to reinforce his position by making use of the confidential information copied onto the personal EHD.

The findings of the court

[**151**] Notwithstanding these submissions, I decline to draw the inference Mr Tozzi invited me to draw. Having seen Mr Duarte in the witness box under detailed cross-examination I find that his evidence was truthful. He was at times somewhat nervous when dealing with the defendants' dishonest copying claim but this in my view was understandable given the serious nature of the charge against him. As to the inaccuracies in his affidavit, it had had to be produced three months after the event when he was on holiday in Portugal under great pressure of time and without access to all the documents. I accordingly do not attach the sinister significance to Mr Duarte's departure from some parts of his affidavit that Mr Tozzi submitted I should. I also reject Mr Tozzi's highly speculative suggestion that Mr Duarte was prepared to risk losing the very valuable Ryobi indemnity in order to compensate for being appointed to a position that was too senior for him. In addition, I do not accept that Mr Duarte's account of how he went about extracting his personal information from the data on the company laptop is incredible. There is more than one way to skin a cat. The way adopted by Mr Duarte may not have been the neatest but it was not so contrary to common sense or inconsistent with his knowledge of how information was stored on the computer as to pose unanswerable questions as to his credibility. Accordingly, I acquit Mr Duarte of the dishonest copying charge the defendants made against him.

OVERALL CONCLUSIONS

[**152**] Mr Duarte's claim succeeds and the defendants' claim for an injunction enforcing the LTIP restrictive covenants is dismissed. Mr Duarte is entitled to a declaration that those restrictive covenants are unenforceable against him.

[**153**] The defendants claim for an injunction based on the allegation that Mr Duarte dishonestly copied their confidential information with the intention of using it in a new position with Ryobi Technologies (UK) Ltd is dismissed.

Order accordingly.

Aaron Turpin Barrister.