

Supreme Court
New South Wales

Case Name: Georges Apparel Pty Ltd v Giardina

Medium Neutral Citation: [2017] NSWSC 290

Hearing Date(s): 21/03/2017

Date of Orders: 21 March 2017

Decision Date: 21 March 2017

Jurisdiction: Equity

Before: McDougall J

Decision: Plaintiff entitled to some but not all of the relief sought.
Parties to bring in draft orders.

Catchwords: RESTRAINT OF TRADE – application for interlocutory injunction – balance of convenience – where removal of non-compete clause was negotiated – where first defendant has confidential information – whether delivery up of computer devices by the first defendant would provide sufficient protection – adequacy of damages as a remedy for any breach – whether parties capable of assessing their best interests at the time of contracting – where proposed orders would expose the first defendant to hardship

Cases Cited: Emeco International Pty Ltd v O'Shea (No 2) (2012) 225 IR 423 at [4]
Lindner v Murdock's Garage (1950) 83 CLR 628

Category: Procedural and other rulings

Parties: Georges Apparel Pty Ltd (Plaintiff)
Claudia Giardina (First Defendant)
Name Suppressed (Second Defendant)
Moorebank Uniforms & Embroidery Pty Ltd (Third Defendant)

E&C School Uniforms Pty Ltd (Fourth Defendant)

Representation:

Counsel:

D Mahendra (Plaintiff)

J D Donnelly (First Defendant)

M J Wells (Second and Third Defendant)

Solicitors:

Australian Business Lawyers & Advisors (Plaintiff)

D'Agostino Solicitors (First Defendant)

File Number(s):

2017/82846

JUDGMENT (EX TEMPORE – REVISED 21 MARCH 2017)

- 1 **HIS HONOUR:** The plaintiff manufactures or imports and sells school uniforms. It does so throughout Australia. One of its operating divisions uses the name "Midford". That name refers to what had been a division of F S Gazal Pty Ltd, that the plaintiff purchased from Gazal in July 2015 for a large sum of money.
- 2 The first defendant had been employed by Gazal for about five years before the plaintiff bought and took over the Midford division. She transferred her employment to the plaintiff, occupying the role of a business development manager. It appears to be common ground that the first defendant was extremely capable in that role, and was one of the best performing of the plaintiff's employees.
- 3 The first defendant's contract of employment was in writing. It required her to perform her duties to the best of her ability, to protect and promote the interests of the plaintiff and not to misuse or disclose confidential information of the plaintiff either during or after her employment. The contract also provided for a restraint of trade which in essence prevented her, for a period of six months or alternatively three months, from competing in any way with the plaintiff, canvassing or soliciting the plaintiff's customers, inducing the plaintiff's customers or suppliers to end their relationship with the plaintiff and likewise inducing employees of the plaintiff to terminate their relationship with the plaintiff. (That that is a very bare summary.) The restraints were expressed to apply within the area of New South Wales.

- 1 For reasons that are somewhat contentious, the first defendant decided to leave the employ of the plaintiff. She discussed that with Mr Gary Georges, who is a general manager employed by the plaintiff and, it would appear, the son of its founder, Mr Kevork, "George", Georges. The precise discussions Mr Georges had with the first defendant are to an extent disputed. However, taking Mr Georges' account, it is clear that in mid-December last year the first defendant told him that she and her husband (who was also employed by the plaintiff) wanted to set up their own sales agency business. It is obvious from Mr Georges' account of the conversation that he must have understood that the first defendant intended to sell school uniforms, including school uniforms imported or manufactured by other wholesalers. It is thus apparent that Mr Georges must have appreciated that the first defendant intended to set up her own business in part at least to sell school uniforms in competition with the plaintiff's products.
- 2 In the course of that discussion, Mr Georges said, the first defendant mentioned the non-competition provision in her contract. She said that she wanted to start up the business, but could not do so for six months because of that provision. Mr Georges suggested that this could be negotiated, and that it might be enough if the first defendant did not approach the plaintiff's customers for six months.
- 3 After that, the first defendant gave notice of resignation (in fact, she gave two notices, but their detail is irrelevant). It would seem that a Mr Sinclair of the plaintiff sent her some form of post-employment contract, but that it was unacceptable to the first defendant. There is no evidence of the terms of that document. However, according to Mr Georges, the plaintiff discussed it with him and he said words to the effect of "let's stick to our original plan. No competition with our customers for six months. This means you could sell to any school in Australia as long as you aren't dealing with existing customers of ours and not for six months". According to Mr Georges, the first defendant agreed.
- 4 Matters did not rest there. The plaintiff prepared a revised version of the post-employment obligations contract. That contract provided for very specific

restraints. It prohibited canvassing, soliciting or inducing customers and suppliers not to continue their relationship with the plaintiff and inducing employees not to continue their relationship with the plaintiff. It specifically did not include any non-competition agreement.

5 So far as I can see on a quick look, the obligations set out in the post-employment obligations agreement mirrored cl 16.1(a)(ii)-(iv) of the employment contract, but not cl 16.1(a)(i).

6 For convenience, I set out the precise terms of clause 1 of the post-employment obligations agreement:

1. Within the area of Australia;

i. Canvass or solicit, or attempt to canvass or solicit, the business or custom of any Customer of the Company;

ii. Induce or encourage any customer or supplier of the Company to terminate or to not renew any business relationship, contract or arrangement that Person has with the Company; or

iii. Induce or encourage any employee, officer or agent of or contractor to the Company to terminate or to not renew any business relationship, contract or arrangement that Person has with the Company;

10 The clause that is found in the employment contract but was not repeated reads as follows:

16 Post-Employment Obligations

16.1 You agree that on termination of your employment for any reason, you must not engage in any of the *activities* specified in (a), for the *periods* specified in (b) and that each combination [of each paragraph in (a) and (b)] comprises a separate and distinct restraint agreement between you and the Company. You must not, in any capacity:

(a) (i) Within the area NSW, carry on, be concerned with or otherwise interested in, whether directly or indirectly, as an employee, contractor, a partner in a partnership, franchisee, director, shareholder or otherwise on your own account or for another person or entity in or in connection with a business or a part of a business that competes with the business or part or parts of the business in which you performed work on behalf of the Company;

11 It has since come to the plaintiff's attention, Mr Georges says, that even before the various discussions had happened, the first defendant, whilst still an employee of the plaintiff, had started to set up her own business and to procure custom for it. There is, at the prima facie level at least, evidence that in doing so, the first defendant appropriated, or copied for her own use, confidential information of the plaintiff. That confidential information included what the

plaintiff calls DST files for some schools or other educational institutions. A DST file is, in effect, a computer program that tells a computerised embroidery machine how to embroider the school's logo and other details on articles of school uniform apparel. It is entirely unclear how the first defendant could have thought that she would be entitled to use this information following termination of her employment. It is equally unclear how the first defendant could have thought that it was consistent with her contractual and general law obligations of good faith and fidelity to do so.

- 12 Mr Georges sought to say that had the plaintiff known that the first defendant had acted in the manner outlined, it would not have agreed to the more limited form of post-employment restriction set out in the post-employment obligations agreement. His evidence on that is given in an entirely summary way, and one might think (although of course the question has not been tested) that it is informed both by hindsight and by perceptions of self-interest. Nonetheless, I do accept, at a prima facie level, that there is a serious question to be tried as to the way in which the post-employment obligations agreement was negotiated.
- 13 The plaintiff's case is that the post-employment obligations agreement is void or voidable, because it was procured "in bad faith", or against good faith, or by misrepresentation, or by misleading or deceptive conduct. Whilst I am prepared to accept that there is a prima facie case that the first defendant has engaged in misleading or deceptive conduct (and it is not necessary to look at the other characterisations alleged), it is more than a little difficult to see what is the causal link between that conduct and the result of which the plaintiff now complains: namely, entry into the post-employment obligations agreement.
- 14 At the time Mr Georges and the first defendant had their various conversations, he knew that the first defendant wished to leave, for the purpose of setting up her own business. He knew that the first defendant intended to sell school uniforms in competition with the plaintiff's business. He knew that the first defendant had obtained very substantial knowledge, over the course of her employment by the plaintiff and before that by Gazal, of the market within New South Wales at least for school uniforms. He knew (or must have understood)

that the plaintiff had absorbed into her mind a great deal of the information that the plaintiff now says is confidential. Yet with all that knowledge, Mr Georges did not insist on a restraint on competition in the terms contained in the employment contract. He was content for the plaintiff to settle for the more limited protections afforded by the post-employment obligations agreement.

- 15 I can accept that the relationship between the parties might have become more strained, and the parting might have been less cordial (if it could be described as cordial at all), had those matters been known. Nonetheless, looking at the matter objectively, it is more than a little difficult to see how the knowledge that Mr Georges had was not sufficient to enable him to appreciate the amount of protection that the plaintiff needed, and to bargain for it appropriately.
- 16 Those questions are of very real significance, because the first defendant does not oppose the grant of interlocutory relief in terms equivalent to the post-employment obligations agreement. The first real issue is whether she should be restrained, in addition, from competing.
- 17 The other main area of contention between the parties, for today's purposes at least, relates to confidential information. The first defendant is prepared to submit to orders not to disclose or use trade secrets or confidential information, not to use disclose or divulge any of the plaintiff's business information that she has, and not to remove, pass on or copy any such information.
- 18 Mr Mahendra of counsel, who appeared for the plaintiff, submitted that a restraint against competition was justified because it was the only realistic way of protecting the plaintiff from abuse of its confidential information. That proposition is one that clearly enough is open on the authorities: see *Lindner v Murdock's Garage*¹ The point is not so much whether the question is arguable. It is whether, in assessing the balancing exercise that is required in cases of this nature (a reference to what Edelman J said in *Emeco International Pty Ltd v O'Shea (No 2)*², sufficient protection can be afforded to the plaintiff by enforcing the restraints that are not contentious, and by making some order in relation to delivery up of computer devices so that the plaintiff can assess the

¹ (1950) 83 CLR 628.

² (2012) 225 IR 423 at [4].

extent to which (if at all) the first defendant continues to hold any confidential information.

- 19 If sufficient protection can be obtained by those means then, it may very well be, there is no need to go further, and to seek to restrain even unwitting misuse of confidential information by enforcing the non-compete agreement. That is to say, there is no need to go further and consider, as the High Court did in *Lindner*, whether granting a restraint on competition in those terms is the only effective way of protecting the plaintiff's undoubted legitimate interest in protecting its own confidential information and in preventing misuse of that confidential information.
- 20 Thus, a consideration of the plaintiff's request for a non-compete order necessarily involves considering whether the order sought for delivery up and examination of computer devices gives the plaintiff, by another means, the effective protection that it requires. That really seems to me to lie at the heart of the balancing exercise. I add of course that I am conscious of the very real limitations on the extent to which the court should substitute, for the informed commercial judgment of the parties, its own view as to the nature of the restraints that should be imposed.
- 21 I do think (and Mr Donnelly of counsel, who appeared for the first defendant, did not submit otherwise) that there is a serious question to be tried as to whether the first defendant has taken and retained confidential information of the plaintiff. I think it is strongly arguable that information such as the DST files is confidential by any description. It may well be that there is a lot of other information which is either confidential strictly so-called, or within the definition of confidential information set out in the employment contract (which may provide a useful guide as to what it was that the parties regarded as worthy of protection).
- 22 The orders that the plaintiff seeks are that all computers, tablets, mobile phones, electronic storage devices and the like be delivered up to an independent expert who is to make images of the information comprised on them, which information is then in effect to be assessed by the parties to see whether it is properly to be described as confidential to the plaintiff, or is

information that the first defendant could properly have had in her possession (and again this is a very inadequate summary of the proposed regime).

- 23 I am satisfied that some such regime is necessary. However, I am conscious that delivery up of the various electronic devices that are the subject of the proposed orders will expose the first defendant to very real hardship, because for the period that they are not available to her, she will not be able to use them for the purposes of her business. That is an important consideration, since the order would be of a final nature in its effect.
- 24 Mr Donnelly submitted, and I accept, that although the first defendant would be protected in theory by the plaintiff's undertaking as to damages (and there is no dispute but that the plaintiff is good for the undertaking), any damages would in fact be very hard to quantify. That must be so, given that the effects of deprivation cannot be measured by being tested against some hypothetical counter-factual situation.
- 25 In those circumstances, it seems to me that the balancing exercise requires that the imaging activities be undertaken very expeditiously, and that once they have been completed, the devices be returned to the first defendant on the basis that she will not delete, amend or overwrite any of the data on them.
- 26 That leads in a more general way to the remaining balance of convenience considerations. Mr Mahendra submitted that to the extent the first defendant will suffer hardship, including by being deprived of her electronic devices, that is a necessary result of her activities in doing (if she did) what the plaintiff says she did. There is force in that contention. However, I have to recognise that the first defendant says that the circumstances of her leaving were not as the plaintiff says, and it may be inferred that in those circumstances she would submit that any objective fault to be imputed to her is much less.
- 27 Both the first defendant and her husband have given evidence of the extremely damaging financial impact that they would suffer were she to be prevented from working. That impact is magnified because the first defendant's husband (who as I have said works for the plaintiff) has been on medically certified sick leave, but the plaintiff has stopped paying him, for reasons that are unexplained in the evidence. Thus, at present, the first defendant and her

husband have no income. Unfortunately, but as is common human experience, their obligations - their outgoings - have not been halted by the halt in their incomes.

- 28 It would be a very serious detriment to the first defendant and to her family – some of whom at least must be entirely innocent in whatever is the blame game involved in this case – if she were to be prevented from working for longer than is absolutely necessary. Even if it could be said that the first defendant brought this upon herself, her children certainly did not. And yet her children would suffer, along with her and her husband.
- 29 Again, and as Mr Donnelly submitted, although in theory the first defendant would be protected by the plaintiff's undertaking as to damages, that undertaking is inherently incapable of responding to the kinds of harm the first defendant would suffer were the orders to be made, and should it turn out at trial that the plaintiff were not entitled to them.
- 30 An explanation of the outcome of the balancing exercise is inherently difficult to put into words except in the most general way. I accept at the outset that the plaintiff has shown a serious question to be tried. I accept there is an inter-relationship between that issue and the issue of balance of convenience. I accept that unless the plaintiff is able to find out what confidential information (if any) the first defendant has in her possession, it will be harmed. I accept that the first defendant will be harmed by being required to surrender up her electronic devices. I accept, finally, that both she and her family, will be harmed - very severely harmed - if she is not able to work.
- 31 In those circumstances, balancing the competing interests as best I can, I have come to the conclusion that the proper measure of protection of the plaintiff's interests, with legitimate protection of the interest of the first defendant and her family, does not require that there be an absolute prohibition on the first defendant's working in competition with the plaintiff. I am satisfied that enforcing the post employment obligations agreement and giving the plaintiff the ability to assess, from analysis of the first defendant's electronic devices, what if any confidential information she has in her possession, will achieve substantially all that is necessary to protect the plaintiff whilst minimising the

unavoidable harm to the first defendant. There are other non-contentious orders to which I have not referred expressly, but which seem to me to support that analysis of where the balancing exercise should be taken to point.

32 Mr Donnelly referred also to the public interest in having the first defendant continue to make her skills available in trade and commerce, and to the harm that would be suffered by those with whom she would deal in the event she were to set up her own business. Whilst there is some force in those submissions, I do not think they should be given particular weight in circumstances where, so far as I can tell, the first defendant's skills and services are neither unique nor uniquely valuable. Nonetheless, to the extent the public interest considerations, as opposed to private law rights, have anything to say in this case, they do tend to support the outcome of the balancing exercise to which I have referred.

33 Before I commenced to give these reasons, I discussed with counsel, by reference to draft orders prepared by Mr Mahendra, the form of orders I would make. All I need to say at this stage is that those are the orders I will make, and if they can be sent to my Associate I will have them entered as soon as may be done.
