

CITATION: Mason v. Chem-Trend Limited Partnership, 2011 ONCA 344  
DATE: 20110503  
DOCKET: C52707 (M39782)

COURT OF APPEAL FOR ONTARIO

Doherty, Moldaver and Feldman JJ.A.

BETWEEN

Tom Mason

Appellant (Applicant)

and

Chem-Trend Limited Partnership

Respondent (Respondent)

Chris G. Paliare and Richard Stephenson, for the appellant

Karen Fields and Susan Crawford, for the respondent

Heard: April 13, 2011

On appeal from the judgment of Justice Emile Kruzick of the Superior Court of Justice dated August 26, 2010.

**Feldman J.A.:**

[1] The appellant was terminated, allegedly for cause, after 17 years of employment with the respondent. Wrongful dismissal litigation between the parties is ongoing. In order to try to quickly determine whether and to what extent he was free to compete with the respondent, the appellant brought a separate application asking the court to declare the restrictive covenant in his employment contract unenforceable. He was unsuccessful and appeals to this court.

## FACTS

[2] The respondent is a Michigan corporation in the business of formulating, manufacturing and selling release agents and related processing chemicals for use in the general rubber, tire, polyurethane, composites, thermoplastics and die casting industries for customers that operate around the world. The appellant was hired in 1992 and operated as a technical salesperson for the respondent for 17 years before his employment was terminated in July, 2009.

[3] When the appellant was hired, he was required to sign the Chem-Trend Confidential Information Guide and Agreement (“CIGA”), which contains the restrictive covenant clause that is the subject of this appeal and provides:

3. I agree that if my employment is terminated for any reason by me or by the Company, I will not, for a period of one year following the termination, directly or indirectly, for my own account or as an employee or agent of any business entity, *engage in any business or activity in competition with the Company by providing services or products to, or soliciting business from, any business entity which was a customer of the Company during the period in which I was an employee of the Company*, or take any action that will cause the termination of the business relationship between the Company and any customer, or solicit for employment any person employed by the Company. [Emphasis added.]

[4] From July, 1992 to November, 1993, the appellant’s territory of responsibility was the province of Ontario. He then moved to the United States where he was responsible for the states of Wisconsin, Iowa, North Dakota, South Dakota, Illinois, Nebraska, Colorado

and Minnesota. In 2001 he returned to Canada with responsibility for the whole of Canada as well as certain mid-Atlantic U.S. states.

[5] As technical sales representative, the appellant acquired knowledge about the company, its products and its customers, including the Chem-Trend products that each customer used and the prices it paid. As many of the clients were multi-national corporations, that knowledge extended beyond the appellant's geographical territory. He also attended annual sales and product meetings that were attended by the sales forces for specific product or industry groups. The topics discussed included sales, sales targets, market opportunities and potential areas for business development. One area of the Chem-Trend business that the appellant was not involved in was die casting.

[6] The application judge accepted the appellant's evidence that the respondent's operations were "extremely guarded and protected", and that consequently, he had only cursory knowledge of both the general workings of the laboratory, the compound lists and the formulas. He also accepted that the appellant had no access to the respondent's large current or older customer lists.

[7] Although by the time the appeal was argued, the one-year temporal limit in the non-competition clause had expired, the court understood that the issue of the enforceability of the clause was not moot, as the parties are involved in relevant ongoing litigation both here and in Michigan.

## **REASONS OF THE APPLICATION JUDGE**

[8] The application judge addressed three issues in his analysis of whether the restrictive covenant was unenforceable: (1) was the restrictive covenant ambiguous? (2) was it unreasonable? (3) was there any other matter that would affect the appellant's claim for declaratory relief?

[9] On the first issue, the application judge found that the covenant is unambiguous in its wording and that the appellant understood what he was agreeing to when he signed the offer letter and the CIGA in 1992 when he was hired.

[10] Following the Supreme Court of Canada decision in *J.G. Collins Insurance Agencies Ltd. v. Elsley Estate*, [1978] 2 S.C.R. 916, the application judge looked at the covenant in context, and considered the three factors to determine its reasonableness: geographic scope, the activity that is restricted, and the time period of the restriction. He accepted that because of the world-wide operations of the respondent and of many of its customers, it was reasonable that the covenant be broad and geographically world-wide. He further accepted that it was reasonable to restrict any activity of the appellant in competition with the respondent because of the appellant's access to significant information about the respondent's business and his technical knowledge of the industry. Finally, he found the one-year temporal restriction to be relatively short compared to other cases. He concluded that the more onerous geographic and activity restrictions in

this covenant were balanced out by the shorter temporal limitation to make the clause as a whole a reasonable one.

[11] Although not necessary to do so, the application judge discussed the respondent's argument that the appellant should fail because his conduct since being terminated disqualified him on the basis of the clean hands doctrine. The impugned conduct involved the appellant approaching customers of the respondent and dealing with competitive products before bringing the application to determine the validity of the restrictive covenant. The application judge concluded that: "In the end, I find Mr. Mason did bring this application realizing the difficulty the CIGA presented for him."

## **ISSUES**

[12] Is the restrictive covenant in the employment contract between the appellant and the respondent enforceable or unenforceable at law?

## **ANALYSIS**

[13] *Shafron v. KRG Insurance Brokers*, [2009] 1 S.C.R. 157, is the most recent decision of the Supreme Court where the propriety and enforceability of restrictive covenants is discussed. The issue before the court was whether an unenforceable restrictive covenant could be read down or modified by a court in order to make it enforceable. In the course of answering that question, the court reviewed the law on restrictive covenants in sale and employment contracts. Rothstein J. reiterated that although covenants in restraint of trade are contrary to the public policy in favour of

trade, certain of such covenants will be upheld if they are found to be reasonable in the circumstances. Where the covenant is found in an employment contract it will be subjected to stricter scrutiny than where it is part of the consideration for the sale of a business.

[14] The court referred to the three-pronged test for reasonableness set out by Dickson J. in *Elsley*, but held that before addressing that issue, the first question is whether there is ambiguity in the interpretation of the meaning of the restrictive covenant clause. Rothstein J. explained that: “[a]n ambiguous restrictive covenant will be *prima facie* unenforceable because the party seeking enforcement will be unable to demonstrate reasonableness in the face of an ambiguity.” (para. 27). And further: “...if the covenant is ambiguous, in the sense that what is prohibited is not clear as to activity, time, or geography, it is not possible to demonstrate that it is reasonable. Thus, an ambiguous restrictive covenant is, by definition, *prima facie* unreasonable and unenforceable.” (para 43).

[15] In *Shafron*, the geographical restriction in the covenant was described as “Metropolitan City of Vancouver”. The court found that there was no legal or judicial definition of this location as described, and it was unclear what it meant or what the parties meant by it. This constituted an ambiguity which could not be read down or rectified. The covenant was thus *prima facie* unreasonable, because it was not possible to determine the reasonableness of the covenant unless the ambiguity could be resolved. As

a result, the restrictive covenant was held to be both ambiguous and unreasonable and was therefore struck down.

[16] This court also recently discussed the governing principles that are applicable when considering whether a restrictive covenant in a contract of employment is unreasonable and therefore unenforceable in *H. L. Staebler Company Ltd. v. Allan* (2008), 92 O.R. (3d) 107 (C.A.). They can be summarized as follows:

- To be enforceable, the covenant must be “reasonable between the parties and with reference to the public interest.” (*Elsley* at p. 923)
- The balance is between the public interest in maintaining open competition and discouraging restraints on trade on the one hand, and on the other hand, the right of an employer to the protection of its trade secrets, confidential information and trade connections.
- “The validity, or otherwise, of a restrictive covenant can be determined only upon an overall assessment of the clause, the agreement within which it is found and all of the surrounding circumstances.” (*Elsley* at p. 924)
- In that context, the three factors to be considered are, 1) did the employer have a proprietary interest entitled to protection? 2) are the temporal or spatial limits too broad? and 3) is the covenant overly broad in the activity it proscribes because it prohibits competition generally and not just solicitation of the employer’s customers?

[17] It is convenient to reproduce again the restrictive covenant clause that is at issue in this case:

I agree that if my employment is terminated for any reason by me or by the Company, I will not, for a period of one year following the termination, directly or indirectly, for my own account or as an employee or agent of any business entity, *engage in any business or activity in competition with the Company by providing services or products to, or soliciting business from, any business entity which was a customer of the company during the period in which I was an employee of the Company*, or take any action that will cause the termination of the business relationship between the Company and any customer, or solicit for employment any person employed by the Company. [Emphasis added.]

#### **Ambiguity of the Restrictive Covenant**

[18] In determining whether the restrictive covenant is enforceable, the application judge, following *Shafron*, looked first at the meaning of the clause and whether it is ambiguous. He concluded that the plain words were clear, that the appellant understood them and therefore there was no ambiguity. I agree.

[19] Although the appellant sought to characterize the practical unworkability of the covenant as ambiguity in implementation, I prefer to consider it as part of the reasonableness inquiry.

#### **Reasonableness of the Restrictive Covenant**

[20] The application judge recognized that the respondent has trade secrets, confidential information and trade contacts that are entitled to protection. These included not only product information, but information about customers' needs and pricing arrangements with the company that give it a competitive advantage. Because of the

world-wide nature of the business entities in issue, he found the lack of any spatial limit in the restrictive covenant to be appropriate. He also observed that the temporal limit on competition of one year is relatively short compared to some other covenants that have been upheld.

[21] When dealing with what activity the appellant was restricted from, the application judge noted that the respondent did not dispute that the activity restriction was very broad and included “anything that would be in competition with its business”. He accepted the respondent’s reasoning that because the appellant had been a technical sales representative, his knowledge of significant product and customer information could be used against the respondent and be harmful to its business if he were allowed to compete with them. Therefore, he could not be allowed to have any dealings with the respondent’s customers, whether he solicited them or they came to him.

[22] With respect to the application judge, he erred in concluding that a complete prohibition on competing with the respondent was not an overly broad restriction on the activity of the appellant.

[23] First, when the agreement is examined as a whole, there are other clauses that protect the respondent. In particular, there is a separate covenant that protects trade secrets and confidential information of the respondent:

2. I will not at any time, either during or after my employment with the Company, use or disclose to others any trade secrets or confidential information of the Company, except as required in performing my

duties for the Company or with the Company's written consent.

[24] This clause contains significant protection for the company and must be intended to work in conjunction with the restrictive covenant after the appellant is no longer an employee of the company.

[25] Second, the prohibition on dealing with businesses who may be former customers of the company, whose customer information could be very stale indeed in the case of a 17-year employee, is not consistent with a one year restriction on competition, which then allows the employee to compete freely. If the rationale behind the one year prohibition is that after one year the appellant's information on the company and its clients may no longer be current, then the prohibition on dealing with former customers is even less justifiable.

[26] Third, the appellant was part of the technical sales force for a large company, who operated in a limited sales territory. The appellant is prohibited not just from soliciting former customers, but from any dealing with them in competition with the respondent. He was not the president or chief financial officer, where there may be more justification for a broader prohibition on competition after such a highly placed employee leaves the company. See, for example, *Elsley* at pp. 925-28, in which the court held that the restrictive covenant in question was not overly broad where the employee was the general manager of the company and had significant personal knowledge of and influence over the company's customers.

[27] Fourth, in practice, it is not possible for the appellant to know with which potential customers he is prohibited from doing business. The scope of the category of customers that the appellant is prohibited from dealing with during the one year operation of the restriction is “any business entity which was a customer of the Company during the period in which [he] was an employee of the Company.”

[28] The appellant was an employee for 17 years. The company has world-wide operations with customers, many of which also operate in many countries. The restriction is not limited to the appellant’s own customers over that period, but includes all customers of the company during that period. As the application judge found, the appellant neither knows nor has he any access to a list of all of the company’s customers, a list which is very large. Therefore, the appellant has no way to know whether any particular potential contact he may wish to make, either is or was during the last 17 years, a customer of the company.

[29] In oral argument, counsel suggested that in practice, the appellant could contact the company and vet with it any potential customer he was contemplating contacting, and the company could advise if that contact is on the prohibited list, and further whether the company would be willing to allow him to contact the customer in any event. On further discussion, it was acknowledged that this suggestion would be unworkable for the appellant, nor is it realistic where the parties are in ongoing litigation. In any event, there is no legal basis for it in the agreement itself.

[30] Effectively, because the appellant cannot know which potential customers are off-limits to him, he is prohibited for one year from dealing with any business that may have been a customer of the company. The restriction is therefore not only ambiguous in its practical implementation, but effectively prohibits the appellant from competing with the respondent for one year.

[31] After conducting the balancing process between the rights of the respondent to protect its trade secrets and customer information, and the public interest in free and open competition, in the context of the agreement as a whole and the role of the appellant in the company as a salesman, I conclude that the complete prohibition on competition for one year is overly broad as well as unworkable in practice and makes the restrictive covenant unreasonable and unenforceable.

### **Clean Hands**

[32] The parties both addressed the “clean hands” issue in their factums, but not in oral argument. After the application was brought, the appellant moved for an order striking out portions of affidavits filed by the respondent. The respondent resisted the order sought on several grounds and alleged that the appellant had not come to court with “clean hands”. In an endorsement dated December 17, 2009, Gray J. found that the conduct alleged by the respondent did not disclose “any lack of clean hands on the part of the [appellant]”. He held that “[t]he fact that the applicant is engaging in activities that are arguably contrary to the restrictive covenant is of no moment. If the restrictive

covenant is invalid, the applicant is free to engage in those activities. If it is valid, the respondent has remedies” (para. 8).

[33] The application judge did not appear to make a finding of “unclean hands” on the part of the appellant. In any event, the application in this matter was not one for equitable relief but for a declaration regarding the enforceability of the restrictive covenant.

## **RESULT**

[34] I would allow the appeal and grant a declaration that the restrictive covenant is unreasonable and therefore unenforceable by the respondent. I would grant costs of the appeal to the appellant fixed at \$25,000 inclusive of disbursements and HST.

[35] The respondent brought a motion seeking leave to appeal the costs endorsement of the application judge, dated February 8, 2011, and seeking higher costs of the application. In light of the success of the appellant on the appeal, the motion is dismissed. If the parties cannot agree on the amount and disposition of the costs of the application, they may make brief (2 pages each) written submissions to the court within two weeks of release of these reasons.

Signed: “K. Feldman J.A.”

“I agree Doherty J.A.”

“I agree M.J. Moldaver J.A.”

RELEASED: “HD” MAY 3, 2011