

**IN THE EMPLOYMENT RELATIONS AUTHORITY
CHRISTCHURCH**

**I TE RATONGA AHUMANA TAIMAHI
ŌTAUTAHI ROHE**

[2023] NZERA 133
3199119

BETWEEN INVISALIGN NZ LIMITED
Applicant

AND STUART KATH
First Respondent

AND LF ORTHODONTICS NZ LIMITED
Second Respondent

Member of Authority: David G Beck

Representatives: June Hardaker and Eloise Callister-Baker, counsel for the Applicant
Andrew McInnes and Robert Thompson, advocates for the first Respondent and the second Respondent

Investigation Meeting: 31 January 2023

Submissions Received: 10 February from the Applicant
10 February from the Respondent

Date of Determination: 16 March 2023

DETERMINATION OF THE AUTHORITY

Employment relationship problem

[1] Invisalign NZ Limited (Invisalign) is a subsidiary of Align Technology Inc a global medical device company located in the United States of America. Invisalign operates across New Zealand and Australia as a provider of a trademarked, dental alignment system to address teeth misalignment issues (malocclusion). Broadly, Invisalign operates in the teeth-straightening service industry. Invisalign's product is distinguished from traditional 'wires and bracket' teeth aligners in that, it is a custom fitted and easily removable clear plastic aligner. However, the manufacture and supply of sequential formed aligners is not unique to Invisalign and they compete against other aligner suppliers and metal and bracket treatments.

The product used and choice of treatments is prescribed by doctors (practicing as dentists and orthodontists) who form Invisalign's client base and target market.

[2] Stuart Kath was employed by Invisalign in a National Sales Manager role, based in Christchurch with a nationwide responsibility, from 1 February 2020 until 7 September 2022.

[3] Invisalign is seeking a determination from the Authority that Mr Kath's various post-employment restraint obligations contained in his employment agreement and a separate Align Protection Agreement (APA) are enforceable.

[4] Whilst no specific action is sought against LF Orthodontics, Invisalign signalled a concern that LF Orthodontics "has or will incite, instigate, aid, and/or abet the breach of the Post-Employment Obligations" Mr Kath owes.

What caused the employment relationship problem?

[5] Prior to working for Invisalign in New Zealand, Mr Kath was employed by them in Australia from 2011 in various sales/service delivery related roles. Latterly, from July 2018 he was Sales Director for Australia and New Zealand, based in Queensland. In November 2019 Mr Kath signalled he was resigning and returning to reside in New Zealand in early 2020. Invisalign say they wanted to retain Mr Kath's services and so they created a new role of National Sales Manager, New Zealand based in Christchurch. Hitherto, New Zealand staff had reported to Mr Kath in Australia.

[6] Mr Kath accepted the new role and commenced employment in New Zealand on 1 February 2020, initially without an amended employment agreement. A proposed employment agreement was provided to Mr Kath on 27 February 2020 and was the subject of lengthy negotiations concluding on 9 June 2020. Mr Kath says the sticking point in negotiation was Invisalign's insistence on extended post-employment restraint provisions that were recorded both in the employment agreement and an APA. Mr Kath was legally represented during the negotiations and displayed a detailed understanding of the provisions at issue being the subject of a lesser restraint period in his then existing employment agreement.

[7] However, Mr Kath says that despite Invisalign compromising by reducing a non-compete restraint from 12 to 6 months, he felt unduly pressured into concluding the bargaining that retained a 12-month period for non-solicitation and non-dealing restraints.

[8] Mr Kath says his concurrence was secured by a threat pertaining to his job security when he was contacted by an Invisalign senior executive on 5 June 2020 and she alluded to the potential of his job being made redundant if he did not sign his employment agreement. The Invisalign manager involved in the alleged conversation did not give evidence. An Invisalign witness and at the time Senior HR Manager, involved in the negotiations as a conduit between the manager and Mr Kath, Tracey Everett, could not recall the conversation being related to her, or Mr Kath raising it as an issue of concern. Mr Kath says at the time although having access to legal advice he did not consult his advisor before executing the employment agreement.

The restraints at issue

[9] Mr Kath's employment agreement included the relevant following provisions:

(a) Non-competition (clause 21(b)):

Following the termination of your employment for any reason, you will not for the Non-Compete Period (set out in schedule 1), be directly or indirectly employed, engaged, or otherwise concerned in any capacity with a competitor of the Company or any business providing the same as or similar services or products as our business without our prior written consent.

(b) Non-solicitation and non-dealing (clause 21(c)):

Following the termination of your employment for any reason, you will not for the Non-Solicit Period (set out in schedule 1), without prior written consent:

(i) directly or indirectly induce, solicit or endeavour to induce or solicit, any person who or entity which, within the 12 month period prior to the termination of this Agreement, was a client, customer, or supplier of ours, to cease doing business with us, or to reduce the amount of business which the person or entity would normally do with us;

(ii) directly or indirectly induce, solicit or endeavour to induce or solicit, any person who or entity which at any time within the 12 month period prior to termination of this Agreement, a director, executive, employee, consultant, agent, or representative of ours and who has directly or indirectly reported to you, or had material contact with you, to terminate their relationship with us, whether or not that person would commit a breach of that person's contract or employment agreement with us; and/or

(iii) directly or indirectly deal in trade, or endeavour to deal in trade, with any person who or entity which, within the 12 month period prior to the termination of this Agreement, was a client or customer, or supplier of ours.

[10] The APA that Mr Kath signed on the same day he executed his employment agreement, expanded on the scope and geographical reach (New Zealand) of the non-compete and non-solicitation provisions of his employment agreement. In both the employment agreement and APA, post-employment obligations were detailed relating to confidentiality including an “Obligation to Keep Company Informed” and a non-disparagement provision was included.

[11] When questioned, Invisalign’s Director and Managing Counsel, Charlotte Ralph, indicated the APA was a newly introduced company-wide initiative.

Post-employment communications

[12] Mr Kath resigned his position on 6 September 2022 and on 9 September Mr Kath incorporated LF Orthodontics NZ Limited (LF Orthodontics) a company he is the sole director of. Mr Kath says he made his intention clear at the time of resignation that he intended to use LF Orthodontics as a vehicle to distribute wire and bracket products manufactured by LightForce Orthodontics, a United States based company that also manufactures 3D-printed placement trays for teeth braces. Mr Kath says he intends to commence trading six months from the ending of his employment with Invisalign.

[13] In a letter of 9 September, Invisalign confirmed acceptance of the resignation and that a one month’s notice in lieu payment had been agreed with accrued annual entitlements being paid up to the last day of Mr Kath’s employment - which was 7 September 2022. The letter proceeded to acknowledge that Mr Kath had advised of his plans to act as a distributor for LightForce products in New Zealand. It then placed Mr Kath on notice that if he was to act as a distributor for LightForce that:

- (a) You will breach the Restraints clause set out in your employment agreement; and
- (b) you will breach the Non-Competition clause of your Protection Agreement.

[14] The letter then detailed Mr Kath’s ongoing confidentiality obligations relating to information he was privy to in his National Sales Manager role, including that he held information on “important working relationships with Invisalign clients, customers and suppliers”. In describing what they considered was proprietary information capable of protection, Invisalign’s letter noted that Mr Kath in his senior roles in both Australia and New Zealand had:

....close relationships with doctors and suppliers You have also attended all the leadership team meetings and the weekly sales meetings, and have been privy to commercially sensitive information.

[15] The letter then detailed the specific employment agreement and APA restraint provisions and indicated that Invisalign would be triggering a payments enforcement provisions in the APA that provided for six monthly payments to Mr Kath of \$8,755 per month, with the first payment being due on 20 September 2022. It noted that the non-compete obligations referred to in the letter remained “in force and effect until 8 March 2023”.

[16] Further, the letter detailed a: “Notice of breach of restraints of trade” referencing that Mr Kath’s stated intention to distribute LightForce products was problematic as:

Lightforce provides tooth moving tools, including ceramic brackets, to orthodontists. In Invisalign’s view, Lightforce and Invisalign operate in the same market of teeth-straightening. Therefore, if Lightforce is to operate in New Zealand, it will be Invisalign’s direct competitor.

[17] Invisalign then suggested Mr Kath would be in breach of his legal obligations:

- (a) if you act as a distributor for Lightforce within six months after your termination date; and/or
- (b) if you directly induce, solicit or endeavour to induce or solicit Invisalign’s clients, customers, suppliers, employees and anyone else listed in your Employment Agreement and Protection Agreement withing 12 months after your termination date.

[18] The letter concluded by suggesting Mr Kath sign an attached compliance undertaking with identified post-employment obligations and that he would “immediately cease all actions that are, or maybe, in breach of these obligations”.

Mr Kath’s stance

[19] In response, Mr Kath’s engaged lawyer wrote to Invisalign on 16 September 2022 and whilst not specifically addressing the proposed undertaking, impliedly stated it was unnecessary because (in summary) Mr Kath:

- would abide by confidentiality restrictions and he believed he had returned all written confidential information in his possession (noting if he later became aware of additional material – he would immediately return it);

- had no intention of “going after” Invisalign staff or “suppliers and current clients etc” or soliciting Invisalign’s aligner business or scanner market;
- was not in potential breach of any restraint as he was moving back to selling an unrelated, orthodontic “brackets and wires” product in an area of the market Invisalign did not operate in, and such a product, did not compete with the aligners Invisalign marketed and supplied (citing that the APA listed specific companies that produced aligners “rather than bracket and wire companies”);
- noted that for the restraints to be enforceable, they would have to reasonably protect confidential information and client/supplier relationships;
- suggested Invisalign’s current sales force could maintain direct client relationships unimpeded and not be impacted by his “new venture” as confidential information of Invisalign’s aligner business was of no benefit to him.

[20] The above points were essentially what Mr Kath in submissions, maintained as reasons why the Authority should not declare the restraints enforceable.

Invisalign’s stance

[21] In response, by letter of 5 October 2022, Invisalign indicated a continuing view that Mr Kath would breach restraint obligations owed if he acted as a distributor of LightForce products within the restraint periods. Invisalign wrongly claimed Mr Kath signed the APA and employment agreement when he commenced his new role in New Zealand and said they were unaware of the claimed pressure placed on him to execute the agreements but nevertheless, that:

Mr Kath is not prevented from earning a living unfairly nor is he not earning an income during the six month period of the non-competition restrictions. (they then referenced the six monthly payments the APA provided – equivalent to a \$105,060 annual salary); and

By signing the Protection Agreement, Mr Kath acknowledged that he was bound by the covenants as long as Invisalign has undertaken to make payments to him.

[22] In support of a view that the restraints remained at issue, Invisalign’s letter suggested LightForce was a direct competitor for various generic and specific reasons. These included: both companies provided teeth straightening devices; both promoted an initial approach utilising digital scanning systems; both promoted treatments that had an efficiency advantage over older methods; neither deals directly with patients and they target treatment providers;

the scope of treatments ran from simple to complex and upon treatment conclusion both their systems require a patient to use a retention device. Invisalign also cited LightForce advertising material as contrasting their system with clear aligners and emphasising that both systems started off with a “similar digital workflow” – a LightForce blog post of 5 May 2021 was highlighted as indicating:

The LightForce System is truly digital from start to finish – mirroring the orthodontic digital workflow of clear aligners” and “This is the same type of digital workflow and same steps as with Invisalign clear aligners”.¹

[23] Mr Kath’s response to the above, is that he only narrowly intends to engage in selling LightForce wire brackets as a traditional alignment device and that the choice of what device is utilised is one for practitioners to prescribe in consultation with their patients. Whilst he conceded he will continue to work broadly in the teeth straightening industry he is not going to be involved in distributing an alternative aligner product similar to the Invisalign clear aligner. Rather, by supplying a traditional wires and brackets system, Mr Kath says he is operating at the budget conscious end of the market. In using an analogy of a car dealership, Mr Kath suggested this is akin to him selling a Toyota Corolla as opposed to a Mercedes Benz – they compete in different market segments.

[24] Up to early November 2022, the parties engaged in unsuccessful attempts to resolve the situation and the matter was placed before the Authority after an unsuccessful mediation. Invisalign is solely seeking a declaration on the various restraints’ enforceability.

The Authority Investigation

[25] I received briefs of evidence and during the investigation meeting oral evidence was given, by Invisalign’s Tracey Everett (Senior HR Manager up to May 2021); Charlotte Ralph (ANZ Director and Managing Counsel); Rebecca Dobson (current Senior HR Manager); Stuart Kath and Dr Ronald Sluiter (A Christchurch Orthodontic Practice owner and major user of both Invisalign and other treatment options).

[26] As permitted by s 174E of the Act I make findings of fact and law and outline conclusions to resolve the disputed issues and make a declaration but I do not record all evidence. I likewise, have carefully considered the submissions and information received from the parties and refer to them where appropriate and relevant. I wish to acknowledge the

¹ <https://lf.co/blog/evolve-your-orthodontic-digital-workflow>.

detailed and thorough submissions of representatives that I may not have made more than minor references to, but I record they greatly assisted my decision-making.

The issues

[27] The issues I must determine are:

- (i) Can Invisalign establish legitimate proprietary interests capable of protection and if so, what is the nature and extent of the interest claimed?
- (ii) If the answer to (i) is yes – are the various restraint obligations imposed on Mr Kath capable of enforcement (in that they must be no wider than is reasonably necessary to protect the established proprietary interests) ² ?

The claimed legitimate proprietary interests

[28] Invisalign submitted that its client relationships, the stability of its workforce and protection of confidential information were interests at issue. All are interests the Courts have recognised as being capable of protection. ³

[29] Central to Invisalign's claim was the protection of the relationships it has with its clients – the Doctors that prescribe and provide Invisalign services. Invisalign submit that Mr Kath's restraints on dealing with their clients is capable of enforcement because of the scope and depth of his relationships developed over time when he worked for Invisalign in a senior role. This was said to include that Mr Kath was:

- the most senior sales employee with New Zealand contacts both when he worked from Australia then latterly from New Zealand;
- involved in and spent 80% of his time servicing clients and he maintained a direct and close relationship with many of New Zealand clients and all of Invisalign's largest providers;

² *Air New Zealand v Kerr* [2013] NZEmpC 153, (2013) 11 NZELR 122 at [23].

³ See for example *Credit Consultants Debt Services NZ Ltd v Wilson* [2007] ERNZ 252; *Transpacific Industries Group (NZ) Ltd v Harris* [2013] NZEmpC 97 and *Stephen Green v Transpacific Industries Group (NZ) Ltd* [2011] NZEmpC 6.

- had obtained considerable knowledge about, and influence over Invisalign clients (as highlighted by persuading Dr Sluiter who was described as Invisalign's largest New Zealand client, to give evidence on his behalf including in his capacity as a friend);

[30] Invisalign then highlighted that case law was settled on client relationships being a key to business success and where a senior employee instrumental of building such relationships over time leaves, then a business is entitled to protect those relationships for a reasonable period.

[31] Without traversing the evidence given, I was convinced that Mr Kath had developed over time, key strategic relationships with Invisalign's clients at a high level and he was a trusted contact point and senior 'face of the company' in New Zealand. Mr Kath contended his role was more a strategic, sales one but he conceded he had a fair degree of contact with clients. Mr Kath stressed most of the servicing element of Invisalign's work was conducted by Practice Development Managers who reported to Mr Kath.

[32] In assessing the evidence, including that Mr Kath's New Zealand role was not replaced (Invisalign resorted to the New Zealand operation being managed from Australia) I remain convinced that Mr Kath had formed key client relationships and knowledge of treatment equipment preferences that were capable of protection, in order for Invisalign to work for a period of time to ensure the ongoing stability of their client relationships at a senior level.

[33] The only problem in Invisalign's submissions was that by the nature of the work undertaken by prescribing Doctors who have significant autonomy over which treatment options they recommend, it is arguable that the proprietary interest Invisalign had, is not as valuable as Invisalign portray. This was particularly so where Mr Kath was not moving to supplying products in direct competition with Invisalign (the clear plastic aligner market). Put simply, Invisalign's product has an apparent inherent cosmetic and arguably efficiency advantage over metal teeth braces but Mr Kath's relationship which Doctors cannot influence the treatment choice of the ultimate user. Dr Sluiter's evidence supported this point, by him making it clear that his treatment recommendations were not influenced by equipment sales-people.

[34] The relationship Invisalign has with Doctors was not exclusive as they use a range of products and providers depending on their patients needs and budgets. While it is accepted

Doctors practicing either as orthodontists or dentists are notionally Invisalign's clients, the key is Mr Kath's ability to entice away Invisalign clients from Invisalign's product due to his personal knowledge and influence. While the elements of relationship knowledge and influence are significant given Mr Kath's formerly senior role, the choice and use of product is still the Doctors who may only be influenced by their patients on that choice – but not Invisalign. Invisalign is only a supplier of product and has extensive support mechanisms in place including the training of doctors in installation of their product.

[35] As a close analogy, I looked at *Kiwi Stats Ltd v Nichols* where the Employment Court found that in a situation of a locum-doctor placement agency seeking to enforce restraints against a departing recruiter, the relationship with doctors they kept on their books and employing bodies, was a legitimate interest but it was “far from substantial” as locum doctors seeking work registered with more than one agency and the employer bodies likewise used a range of agencies. On the facts, in *Kiwi Stats* case Judge Couch then went on to assess the risk posed should the defendant (Ms Nichols) work for a directly competing agency and considered such to be “very small”.⁴ Here if Mr Kath supplies braces and wire products to doctors the risk to Invisalign's existing market share is illusory as prescribing decisions are not within the purview of the parties to this cause of action.

[36] I find Invisalign has no proprietary interest in their client relationships that is capable of protection. The result of this analysis is that the restraint on Mr Kath approaching clients of Invisalign at clause 21 (c)(i) of his employment agreement is not capable of enforcement on an ongoing basis. On this basis, I have no need to assess the scope and reasonableness of the Non-solicitation restraint provisions and the APA provisions pertaining to client relationships.

Remaining restraint elements capable of enforcement

[37] What remains to be decided, given that the Non-competition restraint (clause 21(b)) provision expired on 8 March 2023, is what elements of post-employment restraint remain that are capable of enforcement.

[38] The first provision remaining is clause 21(c)(ii) of the employment agreement pertaining to a prohibition on Mr Kath essentially approaching any person or entity associated

⁴ *Kiwi Stats Ltd v Nichols* [2010] NZEmpC 151 at [31].

with Invisalign in a contractual relationship within 12 months prior to his resignation with the purpose of terminating their employment or other relationship with Invisalign.

[39] Mr Kath says he has no intention to seek to employ Invisalign staff given the nature of his new business (the second respondent) that he saw as a small-scale operation. Objectively however, given the seniority and influence Mr Kath had over Invisalign staff that reported to him, a proprietary interest in stability of the enterprise exists and I find that the restraint is not unreasonable in scope or duration. I accordingly find it is enforceable.

[40] The remaining restraint (clause 21 (c)(iii)) is essentially a non-dealing one and prima-facie contrary to the public interest of competition. The court notes in *Nichols* that:

The law favours competition and it will be most unusual that a provision whose purpose is solely to inhibit competition will be enforced.

[41] Nevertheless, given my findings above that Mr Kath will be operating in a different segment of the market to Invisalign and that they do not have an exclusive market share of teeth straightening devices Doctors chose to prescribe, it would be absurd to consider that a non-dealing clause should persist beyond the six months it has already been observed.

[42] Further, the terms of the non-dealing provision (for 12 months) that prevents Mr Kath dealing with clients, customer or suppliers of Invisalign sits uneasily with clause 21(b). The latter provision allows after 6 months, Mr Kath may be “directly or indirectly employed, engaged by or otherwise involved in any capacity with a competitor of the Company or any business providing the same or similar products as our business”.

[43] For completeness I find that the restraints in both Mr Kath’s employment agreement and the APA pertaining to post-employment confidentiality obligations and non-disparagement are enduring and enforceable.

Conclusion

[44] I find that:

- (i) Invisalign NZ Limited does not have the ability to enforce specific non-solicitation and non-competition restraints contained in Stuart Kath’s individual employment agreement and the Align Protection Agreement pertaining to him inducing or

soliciting clients, customers and suppliers of Invisalign NZ Limited (clause 21(c)(i));and

(ii) does not have the ability to enforce the specific non-dealing restraint provision contained in Stuart Kath's employment agreement pertaining to him dealing in trade with Invisalign NZ Limited's client, customers and suppliers (clause 21(c)(ii).

(iii) Invisalign NZ Limited does have the ability to enforce the non-solicitation restraint provision of Mr Kath's employment agreement pertaining to a prohibition on him inducing or soliciting a director, executive, employee, consultant, agent or representative of Invisalign NZ Limited to terminate their employment or breach contractual obligations owed.

Costs

[45] Costs are reserved. The parties are invited to resolve the matter between them. If they are unable to do so, Stuart Kath has 14 days from the date of this determination in which to file and serve a memorandum on costs. Invisalign NZ Limited has a further 14 days in which to file and serve a memorandum in reply.

[46] The parties could expect the Authority to determine costs, if asked to do so, on its usual "daily tariff" basis unless circumstances or factors, require an adjustment upwards or downwards.⁵

David G Beck

Member of the Employment Relations Authority

⁵ For further information about the factors considered in assessing costs see:
www.era.govt.nz/determinations/awarding-costs-remedies/#awarding-and-paying-costs-1