



**Neutral Citation Number: [2021] EWHC 467 (Ch)**

Case No: HP-2017-000043

**IN THE HIGH COURT OF JUSTICE**  
**BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES**  
**PATENTS COURT**  
**SHORTER TRIALS SCHEME**

7 Rolls Building  
Fetter Lane  
London EC4A 1L

Date: 2 March 2021

**Before:**

**MR JUSTICE ZACAROLI**

**Between:**

**(1) PERMAVENT LIMITED**  
**(2) GREENHILL INDUSTRIAL HOLDINGS**  
**LIMITED**

**Claimants**

**- and -**

**STEPHEN JOHN MAKIN**

**Defendant**

**Mr Michael Lazarus** (instructed by **Wiggin LLP**) for the **Claimants**  
**Mr Jonathan Lester** (instructed by **The Commercial Law Practice Limited**) for the  
**Defendant**

Hearing dates: 17 and 18 February 2021

**APPROVED JUDGMENT**

COVID-19: This judgment was handed down remotely by circulation to the parties' representatives by email. It will also be released for publication on BAILII and other websites. The date and time for hand-down is deemed to be 10.30 pm on 2 March 2021.

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**MR JUSTICE ZACAROLI**

**MR JUSTICE ZACAROLI:**

1. The sole issue in this claim is whether terms in a settlement agreement entered into between the parties on 8 September 2017 (the “Settlement Agreement”) are unenforceable penalty clauses. Depending on the answer to that question, the defendant’s counterclaim, in which he seeks an account in respect of the amounts due to him under the Settlement Agreement, may fall to be considered.

Background

2. For over a decade prior to 5 June 2017, the defendant (“Mr Makin”) and Mr Timofei Yeremeyev (“Mr Yeremeyev”) had together operated a business supplying products to the construction industry with a predominant focus on roofing products, through a group of companies principal among which were the first claimant (“Permavent”) and the second claimant (“Greenhill”).
3. The shares in Greenhill were owned, as to one-third each, by Mr Makin, Mr Yeremeyev’s wife (“Mrs Yeremeyeva”) and an associate of Mr Yeremeyev, Mr Siarhei Mikhalap (“Mr Mikhalap”). Greenhill owned all of the issued shares in Permavent, as well as all of the issued shares in two other group companies, Granby Roofing & Building Supplies Limited and Leto Composites Limited. The shares of another group company, Greenhill Commercial Limited (“GCL”) were owned by the same three individuals in equal shares. The shares in the final group company, Makin Connections Limited (“MCL”), now dissolved, were owned in equal shares by Mr Makin and Mrs Yeremeyeva.
4. From its incorporation until 5 June 2017 Mr Makin had been Managing Director of Permavent. Mr Yeremeyev had been a director of Permavent since 2007. Mr Makin had primary responsibility for technical matters and marketing. Mr Yeremeyev had primary responsibility for financial matters.
5. Over the years, Mr Makin had invented and developed various roofing products under the name “Easy Roof System”, for which he applied for and in some cases obtained patents. These were registered in his name. In 2014 he had granted a licence to Permavent to manufacture, use, sell and otherwise supply Easy Roof System products. The licence agreement related to any patent applications or patents then existing or from time to time made or granted. It provided for a royalty of 2% of the net sales price in respect of the products, but only after five years.
6. In fact, no royalty was ever paid. In an email dated 27 November 2012 from Mr Makin to Permavent’s accountants, he said:

“The patents applications that I filed were done whilst I was a director of Permavent and [it] was my understanding that ... because of this and because Permavent has paid for these applications then they automatically belonged to Permavent. As you explained this is not the case then I would like to correct

that error in filing. Ownership of these patents should be placed into the name Permavent Ltd should they be granted.”

7. It is the claimants’ case that the patents in respect of the Easy Roof System products always belonged beneficially to Permavent. At least by 2016, Mr Makin disputed that and claimed that they belonged legally and beneficially to him.
8. The relationship between Mr Yeremeyev and Mr Makin deteriorated significantly during 2016 and 2017. Mr Yeremeyev’s evidence is that Mr Makin was guilty of increasingly erratic and aggressive behaviour towards suppliers, customers and staff. Mr Makin said that he was fully justified in becoming angry because Mr Yeremeyev was guilty of serious financial impropriety in relation to the companies. I will return to this later.
9. By September 2016, the decision had been taken that they would part ways. It was first proposed that Mr Makin would purchase the shares of Mrs Yeremeyeva and Mr Mikhalap in Greenhill (and the other companies in which the individuals held shares directly). Mr Makin did not have the funds to do so, however. Mr Yeremeyev was not in a position to purchase Mr Makin’s shares. Instead, therefore, Mr Yeremeyev proposed that a friend of his, Ms Lisa Wood (“Ms Wood”), purchase Mr Makin’s shares.
10. It was in this context that Mr Makin claimed that the patents to the Easy Roof System products were owned by him. He insisted that if he were to leave the companies then he would take the patents with him and set up on his own; although he would be prepared to sell his shares for £650,000, retain the patents and licence them to Permavent. In his response, Mr Yeremeyev said that he believed the patents belonged to the business, but considered that a purchase of Mr Makin’s shares together with a continuing royalty payment was the most sensible option, although it would have to match the requirements of the investor (Ms Wood).
11. Negotiations for the purchase by Ms Wood of Mr Makin’s shares continued over many months. Ms Wood’s evidence (which was not challenged on this point) was that she appreciated from early on in the negotiations that the continued protection of the Easy Roof System products and the accompanying patents was critical to the long-term success of the business. The formal transfer of the patents to the companies was therefore a critical element of any transaction.
12. Further, in those negotiations Ms Wood made it clear that she would require protections for the patents to be built in to any agreement. In a letter to Mr Makin’s solicitors dated 22 December 2016, her solicitors referred to the offer to make a royalty payment to Mr Makin, stating that it was not an acknowledgment that Mr Makin owned any rights in the patents, “but was an attempt to give your client an ongoing interest in the company to avoid any future conflict”. In particular, they said:

“My clients had concerns that your client may challenge the patents in the future, and giving him an interest in those patents was seen to be a way of giving him an interest in the success of the patents.”

13. Ms Wood’s (also unchallenged) evidence was that relations with Mr Makin became very difficult from the end of 2016. He started to insult and attack her directly. The “volatile” conduct of Mr Makin was acknowledged by his own solicitor, as recorded in an email from Ms Wood’s solicitors on 9 January 2017.
14. These negotiations ultimately failed. By May 2017 matters had deteriorated to the point where Mr Makin was threatening legal action to remove Mr Yeremeyev as director, “cease [sic] all assets and take immediate control of all bank accounts”, based on what Mr Makin claimed were serious offences involving financial dealings with the companies. Mr Makin disputed that Mrs Yeremeyeva actually owned any shares and that Mr Yeremeyev, under the terms of his UK citizenship application, had been acting illegally in being a shadow director of one of the companies, Granby Roofing & Business Supplies Limited.
15. Ms Wood was appointed a director of Greenhill on 24 May 2017, over Mr Makin’s objection. Mr Yeremeyev called an EGM in order to remove Mr Makin as director. In the face of that, Mr Makin resigned as director of Permavent and two other companies in the group on 5 June 2017.
16. On the same date, Mr Makin wrote to Permavent purporting to terminate the patent licence of 31 July 2009, stating: “you should stop all further manufacture and production of the patented products with immediate effect.” Mr Makin also contacted suppliers of certain Easy Roof System products withdrawing his permission for them to produce patented products. For example, in emails dated 3 and 4 July 2017 to one such supplier, PAL Group, Mr Makin sent paperwork which he claimed set out all the patents registered in his name and held as his property, stated that he did not give permission to any person to manufacture or sell the products, and strongly advised anyone who proceeded with the manufacture of the products to seek legal advice as to the consequences of such an action.
17. Permavent responded by issuing a claim form dated 10 July 2017, seeking a declaration that various patents and patent applications (the “IP Rights”) belonged to Permavent, an order that the IP Rights were transferred to it and an injunction restraining Mr Makin from transferring or licensing the IP Rights. Permavent sought Mr Makin’s agreement to the relief before serving the proceedings but, in the absence of agreement, an interim injunction in the form set out in the claim form was granted by Mr Daniel Alexander QC on 24 July 2017.

18. The parties then sought to settle the proceedings, leading to the Settlement Agreement being entered into on 8 September 2017. This was referred to in a Tomlin Order of Rose J dated 16 October 2017. The parties had permission to apply for the purpose of enforcing the Settlement Agreement without the need to issue fresh proceedings.

The Settlement Agreement

19. The recitals to the Settlement Agreement recorded Mr Makin's current shareholding in Greenhill, GCL and MCL and his resignation from various of the companies. Recital H stated that the parties had agreed to settle all of the "Disputes", defined as (1) numerous complaints of Mr Makin against the companies, the other directors and his co-shareholders (including but not limited to a list of 39 complaints in schedule 3 to the Settlement Agreement); (2) complaints which the companies and the other directors considered they had against Mr Makin, and (3) the claims in the proceedings commenced on 10 July 2017.
20. By clause 2.2, immediately upon execution of the Settlement Agreement, the parties agreed to execute the agreements set out in Annex 1 to 4, namely: (1) a share buyback agreement (the "Buyback Agreement"), under which Greenhill agreed to purchase Mr Makin's shares in it for £620,000; (2) an agreement under which Mr Yeremeyev agreed to purchase Mr Makin's shares in MCL for £1; (3) an agreement under which Mr Yeremeyev agreed to purchase Mr Makin's shares in GCL for £1; and (4) a deed of assignment of intellectual property rights (the "Deed of Assignment"), under which Mr Makin assigned to Greenhill all of the IP Rights for £1.
21. By clause 2.3, Permavent and Greenhill agreed on a joint and several basis to pay Mr Makin an amount equal to 5% of (a) Gross Turnover and (b) Licence Fees (defined by reference to the gross turnover and licence fees received by any of the companies in respect of sales of Easy Roof System Products) ("the Easy Roof System Payment", or "ERSP"), subject to reduction and/or retrospective adjustment under clause 2.11 "...until the expiry of or, if earlier, the date of surrender, invalidation or revocation of the last of the [IP Rights]."
22. The ERSP was payable quarterly in arrears (clause 2.6). Clauses 2.7 to 2.9 deal with the companies' obligation to provide statements of payments due to Mr Makin, to maintain books of account of all sales of Easy Roof System Products and to permit access to those books by an independent accountant, and for payment of sums due on such an inspection.
23. By clause 2.10 of the Settlement Agreement, Mr Makin promised that he would not:
- "2.10.1. claim entitlement or other right, title, licence or other interest to or in any of the Assigned IP Rights;
  - "2.10.2. challenge GIHL's sole legal or beneficial ownership title to any of the Assigned IP following completion of the IP Assignment Agreement; or

“2.10.3. challenge the validity of or seek to revoke or invalidate any of the Assigned IP Rights”

24. Clause 2.11 provides as follows:

“The Easy Roof System Payment has been calculated upon an assumption that none of the circumstances in clauses 2.10.1, 2.10.2 and/or 2.10.3 arises. If after the date of this Settlement Agreement there is:

2.11.1. any claim made of entitlement to or other right, title, licence or other interest to in any of the Assigned IP Rights;

2.11.2. any challenge made to GIHL's sole legal or beneficial ownership title to any of the Assigned Patent Rights following completion of the IP Assignment Agreement; or

2.11.3. any challenge made to the validity of or seek to revoke or invalidate any of the Assigned Patent Rights

by Stephen Makin, any Related Party of Stephen Makin (or any other person, firm or company in which he or a Related Party has an interest), or any third party to whom Stephen Makin or any Related Party of Stephen Makin has provided assistance or encouragement, then without prejudice to any rights or remedies available to any Party for a breach of clause 2.10:

2.11.4. the amount of the Easy Roof System Payment shall immediately be reduced to zero per cent. (0%) of Gross Turnover and Licence Fee and no further Easy Roof System Payment shall become due or payable;

2.11.5. the Easy Roof System Payment shall be adjusted retrospectively as if no Easy Roof System Payment had ever been due and as such:

(a) any amount of Easy Roof System Payment previously due but not yet paid to Stephen Makin in accordance with this Settlement Agreement shall no longer be due and payable to him; and

(b) Stephen Makin shall within 7 (seven) days pay a sum to Permavent in the same amount as the total amounts of Easy Roof System Payments paid to him as at that date; and

2.11.6. Stephen Makin shall become immediately liable to pay the sum of £616,667 to GIHL.”

25. Clause 2.14 provides for a further payment to be due to Mr Makin if, within 24 months of the date of the Settlement Agreement, title to the issued shares of the Companies or to the IP Rights changed (other than by reason of an intra-group reorganisation) for a consideration of more than £2 million. By clause 2.15, for the avoidance of doubt, any sale or transfer under clause 2.14 would not affect the obligation (on Permavent and Greenhill) to make the ERSP in accordance with the terms of the Settlement Agreement.
26. By clause 2.22, Mr Makin confirmed and warranted that he had received independent legal advice as to the terms and effect of the Settlement Agreement.

#### Breach of the Settlement Agreement

27. On 20 December 2018, Atkinson Wheller, Patent, Trademark & Design Attorneys, filed with the UK Intellectual Property Office (“UKIPO”) a Patents Form 21 seeking registration on behalf of Mr Makin of an equitable interest in five of the patents and patent applications comprising the IP Rights. The Form 21 claimed that Mr Makin had an equitable interest in the patents, derived from an agreement with Greenhill dated 8 September 2017 (i.e. the Settlement Agreement).
28. Upon becoming aware of the registration of this interest, in May 2019, the claimants ceased making the ERSP (the last payment being that relating to the period up to the end of March 2019). After correspondence between the parties, the claimants commenced proceedings under the liberty to apply in the Tomlin Order. They sought and obtained an interim injunction from Mann J (on 9 August 2019) which was continued until trial by Snowden J (on 15 August 2019), restraining Mr Makin from challenging the validity of, seeking to revoke or invalidate or claiming any interest in the IP Rights.
29. In points of claim dated 29 August 2019, the claimants claimed that Mr Makin had breached clauses 2.10.1 and 2.10.2 of the Settlement Agreement. They also claimed an injunction requiring Mr Makin to withdraw his notice of equitable interest, an injunction restraining him from challenging the IP Rights, a declaration that no further ERSP need be made pursuant to the Settlement Agreement, and repayment of all ERSP paid and of £616,667.00 under, respectively, clauses 2.11.5 and 2.11.6 of the Settlement Agreement.

#### Summary Judgment

30. By an order dated 11 May 2020, HHJ Hacon granted the claimants summary judgment on the issue of breach, as follows:

“The court declares that by recording an ‘equitable interest’ in the Patents on the Register of Patents at the UKIPO the Defendant has acted in breach of clause 2.10.1 of the Confidential Settlement Agreement between the Claimants and others and the Defendant executed on 8 September 2017.”

31. HHJ Hacon also granted a mandatory injunction requiring Mr Makin to cancel his registration of an equitable interest in the IP Rights, and granted a permanent injunction against Mr Makin making a further claim to an equitable or any other interest in the IP Rights at any time in the future.
32. Following the grant of summary judgment on the issue of breach, the only remaining issue so far as the claimants' claim is concerned is whether Clause 2.11 constitutes an unenforceable penalty.

### The Law

33. The law on penalties is now to be found in the Supreme Court decision in *Cavendish Square Holding BV v Talal El Makdessi* [2015] UKSC 67, [2016] AC 1172 ("*Cavendish*"). Lords Neuberger and Sumption (with whom Lord Carnwath agreed) said (at [13]) that the penalty rule regulates the remedies available for breach of a party's primary obligations. They concluded that the question whether a secondary obligation imposed upon breach of a primary obligation is unenforceable as a penalty turns, not as previously thought on whether it is a genuine pre-estimate of loss, but on whether it is penal. That, in turn, depends on whether "...the means by which the contracting party's conduct is to be influenced are "unconscionable" or (which will usually amount to the same thing) "extravagant" by reference to some norm": per Lords Neuberger and Sumption in *Cavendish*, at [31].
34. Lords Neuberger and Sumption continued (at [32]):

"The true test is whether the impugned provision is a secondary obligation which imposes a detriment on the contract-breaker out of all proportion to any legitimate interest of the innocent party in the enforcement of the primary obligation. The innocent party can have no proper interest in simply punishing the defaulter. His interest is in performance or in some appropriate alternative to performance. In the case of a straightforward damages clause, that interest will rarely extend beyond compensation for the breach, and we therefore expect that Lord Dunedin's four tests [in *Dunlop Pneumatic Tyre Company v New Garage and Motor Company Limited* [1915] AC 79, at p.87] would usually be perfectly adequate to determine its validity. But compensation is not necessarily the only legitimate interest that the innocent party may have in the performance of the defaulter's primary obligations."
35. At [33], the point was made that the penalty rule is an interference with freedom of contract which undermines the certainty which parties are entitled to expect of their law, citing Lord Wolf in *Philips Hong Kong Ltd v Attorney General of Hong Kong* (1993) 61 BLR 41, 59:

"...the court has to be careful not to set too stringent a standard and bear in mind that what the parties have agreed should normally be upheld..."



36. In a concurring judgment, Lord Hodge expressed the test as follows (at [255]):

“I therefore conclude that the correct test for a penalty is whether the sum or remedy stipulated as a consequence of a breach of contract is exorbitant or unconscionable when regard is had to the innocent party’s interest in the performance of the contract. Where the test is to be applied to a clause fixing the level of damages to be paid on breach, an extravagant disproportion between the stipulated sum and the highest level of damages that could possibly arise from the breach would amount to a penalty and thus be unenforceable. In other circumstances the contractual provision that applies on breach is measured against the interest of the innocent party which is protected by the contract and the court asks whether the remedy is exorbitant or unconscionable.”

37. Lord Mance, who also delivered a concurring judgment, said (at [152]):

“What is necessary in each case is to consider, first, whether any (and if so what) legitimate business interest is served and protected by the clause, and, second, whether, assuming such an interest to exist, the provision made for the interest is nevertheless in the circumstances extravagant, exorbitant or unconscionable. In judging what is extravagant, exorbitant or unconscionable, I consider (despite contrary expressions of view) that the extent to which the parties were negotiating at arm’s length on the basis of legal advice and had every opportunity to appreciate what they were agreeing must at least be a relevant factor.”

38. The relevance of the fact that the contract was the subject of negotiation and of the fact that the contract-breaker had legal advice at the time of entering into the contract was also noted by Lords Neuberger and Sumption, at [35]:

“In a negotiated contract between properly advised parties of comparable bargaining power, the strong initial presumption must be that the parties themselves are the best judges of what is legitimate in a provision dealing with the consequences of breach.”

39. Although expressed in slightly differing ways, the essential test derived from *Cavendish* involves two questions:

- (1) What legitimate business interest of the claimants is served and protected by clauses 2.11.4 to 2.11.6?
- (2) Is the detriment imposed on Mr Makin as a consequence of his breach unconscionable, exorbitant, extravagant or out of all proportion to that interest?

40. It is common ground in this case that each of clauses 2.11.4 to 2.11.6 imposes a secondary obligation on Mr Makin triggered by a breach of the primary obligations in clause 2.10.1 to 2.10.3. The claimants do not seek to argue that insofar as clause 2.11.4 prevents any further ERSP becoming payable to Mr Makin it constitutes a price adjustment clause and for that reason is not caught by the rule against penalties. Mr Lazarus, who appeared for the claimants, acknowledged that it is arguable that a majority of the Supreme Court considered that such a clause was caught by the rule (see Lewison on the Interpretation of Contracts, 7<sup>th</sup> ed., para 17.05, footnote 15) and that he was content to proceed in this case on that basis.
41. It is also common ground that clauses 2.11.4 to 2.11.6 impose a detriment on Mr Makin and that they do so to protect a legitimate business interest of the claimants. Mr Lester, who appeared for Mr Makin, accepted that clauses 2.11.4 to 2.11.6 were not of a kind that sought to fix the damages payable on breach and that the broader interests of the claimants were brought into play, as succinctly stated by the Supreme Court of New Zealand in *127 Hobson Street Ltd v Honey Bee Preschool Limited* [2020] NZSC 53, at [91(d)]:
- “A party’s legitimate interests may extend beyond the loss caused by the breach as measured by a conventional assessment of contractual damages. They may extend to the impact of non-performance on the broader commercial interests the parties seek to achieve or protect through the contract. Those interests may extend beyond the four corners of the contract, for example if they relate to a system of business of which the contract forms a part.”
42. The question, therefore, is whether the detriment imposed by clauses 2.11.4 to 2.11.6 (the “Detriment”) is unconscionable in the sense of being extravagant or out of all proportion to the claimants’ legitimate business interest (the “Protected Interest”).
43. This question is determined by construction of the contract as at the date it was entered into, not by reference to the circumstances in which it fell to be enforced: *Cavendish*, at [9].
44. The burden lies on the party who is sued upon a clause to demonstrate that it is a penalty: *Robophone Facilities Ltd v Blank* [1966] 1 WLR 1428, per Diplock LJ at p.1447F.

#### Proportionality of the Detriment to the Protected Interest

45. In his skeleton argument, Mr Lester characterised the Protected Interest as being to secure Mr Makin’s compliance with the restrictions in clause 2.10.1 to 2.10.3. He summarised these as restricting Mr Makin from interfering with or disputing title to the IP Rights. He accepted that there was nothing impermissible, per se, in a contractual term designed to deter breach, as opposed merely to compensate for the losses flowing directly from a breach.

46. He submitted, however, that the kind of harm that might arise from Mr Makin's interference with the IP Rights was both limited and temporary in nature. If Mr Makin made a claim at the UKIPO on the claimants' property, that was something that could be adjudicated upon and disposed of, with any damage being thereby repaired. Given the nature of the likely harm, the Detriment (which involved Mr Makin receiving nothing under the Settlement Agreement in return for having given up any claim to the IP Rights and his shares in the group) was manifestly excessive and out of proportion to the Protected Interest.
47. Integral to this submission was the proposition, developed in oral argument, that clauses 2.10.1 to 2.10.3 contained separate promises. Since it was possible to breach one, and not the others, it was necessary to look only at the promise that was breached when considering the proportionality of the Detriment. That meant, in this case, looking only at clause 2.10.1, since it was only that clause which was specified as having been breached in the summary judgment order of HHJ Hacon.
48. I reject this submission. As Mr Lester himself submitted, clauses 2.10.1 to 2.10.3 are to be seen as, together, restricting Mr Makin from interfering in any way with the IP Rights. They do so, at least as concerns 2.10.1 and 2.10.2, in a way which overlaps with each other, since a claim by Mr Makin "to entitlement ... to the Assigned IP Rights" (within 2.10.1) is clearly capable of involving a challenge to Greenhill's sole legal or beneficial ownership title (within 2.10.2).
49. Mr Lester sought to avoid that conclusion by contending that 2.10.1 was confined to restricting Mr Makin from claiming something less than legal ownership in the IP Rights, and that 2.10.2 was confined to restricting Mr Makin from claiming legal or beneficial ownership *for himself*. There is nothing in the language which supports that contention. The clauses are drafted very broadly, no doubt with the intention of catching any kind of interference with the IP Rights.
50. The provisions have more in common, as Mr Lazarus submitted, with the contractual restrictions in *Cavendish*. Clause 11 of the contract in the *Cavendish v El Makdessi* appeal contained a series of restrictive covenants, divided into four sub-paragraphs, including not to carry on or be engaged in certain activities, not to solicit or accept orders, not to divert orders, enquiries or business and not to employ or solicit any senior employee. Breach of any of those provisions attracted the same consequences, including the loss of the entitlement to very substantial deferred consideration on the sale of the shares. Those consequences did not, however, constitute a penalty: see Lords Neuberger and Sumption, at [75], and Lord Mance, at [185]. The point was shortly stated by Lord Hodge at [275]:

“Fourthly, I am not persuaded by Mr Bloch's argument that clause 5.1 was exorbitant because it could be triggered by a minor breach of clause 11.2, such as an unsuccessful solicitation of a senior employee. That appears to me to be unrealistic. Clause 5.1 was not addressing the loss which

Cavendish might suffer from breach of the restrictive covenant, whether an isolated and minor breach or repeated and fundamental breaches. It was addressing the disloyalty of a seller who was prepared in any way to attack the company's goodwill. No question therefore arises of a presumption of a penalty where the same sum is payable on the occurrence of several events which may cause serious or trifling damages..."

51. Mr Lester submitted that *Cavendish* was in this respect distinguishable, because although it concerned a series of restrictions, all of the restrictions in fact went to the same thing, namely the protection of goodwill. It is true that clauses 2.10.1 to 2.10.3 are designed to protect the IP Rights and not goodwill, but that is a distinction without a difference. As I explain in more detail below, the IP Rights are fundamental to the claimants' business and an attack on them has the potential to damage the claimants' business in a similar way to an attack on the goodwill of the company in *Cavendish*.
52. Even if clauses 2.10.1 to 2.10.3 are separate restrictions, I do not think that Mr Lester's submission gets him anywhere. His purpose in characterising them as separate restrictions was to support an argument that the Detriment was disproportionate to the interest protected by clause 2.10.1, even if it might be proportionate to the interest protected by clause 2.10.3 (which precludes challenging the *validity* of the IP Rights). That assumes that the likely harm caused by Mr Makin challenging the validity of the IP Rights is materially greater than the likely harm caused by him claiming an interest in the IP Rights. That, however, is not so. The harm caused to a business which is heavily dependent on IP Rights in order to manufacture, purchase or sell products, if someone else claims to be entitled to those IP Rights, is likely to be very extensive. Such an adverse claim has the potential to prevent any trading in the products (as Mr Makin sought to do in this case by trying to persuade suppliers against dealing with the claimants). The resulting damage would likely be as, if not more, extensive than if Mr Makin had challenged the validity of the IP Rights.
53. I also reject Mr Lester's related submission that "what we are only concerned with here is the proportionality between the interests that the claimants had in [Mr Makin] not registering the equitable interest at the UKIPO and the consequences for the defendant under the Settlement Agreement for having done so, it already having been established that there was a breach". That would be to focus, wrongly, only on the breach that in fact occurred and the harm that resulted directly from it, rather than on the relationship between the detriment imposed and the interests of the claimants which it sought to protect, as at the date of the Settlement Agreement. As Mr Lester himself submitted: the circumstances in which a clause falls to be enforced are not relevant to the penalty analysis.

#### *The nature of the Protected Interest*

54. As I have already noted, it is common ground that the legitimate interest of the claimants which the Detriment was intended to protect goes beyond mere compensation for the losses flowing directly from the breach of clauses 2.10.1

to 2.10.3. The nature of that interest is apparent from the terms of the contracts forming part of the Settlement Agreement and from the largely unchallenged evidence of Mr Yeremeyev and Ms Wood.

55. In Recital (D) to the Buyback Agreement, Mr Makin acknowledged that the consideration of £620,000 for his shares in Greenhill had been calculated “by reference to the asset basis of the value of the Company taking into account, in particular, the value of the intellectual property rights owned by the Company as at the date of this agreement as well as those intellectual property rights that the Seller has agreed to assign to the Company.”

56. Clause 3.4 of the Buyback Agreement stated:

“The Seller hereby acknowledges and agrees that if the Seller or any person or legal entity under his control or influence or in which he has a shared interest Challenges any of the intellectual property rights owned by the Company, or any pending intellectual property applications made by the Company, at any time after the date of this Agreement, such Challenge shall damage the interests and value of the Company. In the event of any such Challenge, without prejudice to any other claim that the Company may have against the Seller, the Seller shall immediately repay to the Company the sum of £616,667. "Challenge(s)" shall mean makes a complaint or negative representation or claim of any kind with any authority or person, whether verbally or in writing, in relation to the ownership or originality or validity or any other aspect of any of the Company's intellectual property rights.”

57. Mr Yeremeyev’s evidence was that the Easy Roof System products and thus the IP Rights were of “vital importance” to Permavent. In 2017, the products subject to the IP Rights accounted for over 40% of Permavent’s gross profit, on turnover of over £2 million. This had increased to 60% by 2019. Ms Wood described the patented Easy Roof System products as giving Permavent its “reason for being. Beyond that, the business really was just a trading company, but by having the Easy Roof [System] products it had its own identity and a unique selling point.”

58. Given the importance of the IP Rights to the claimants’ business, there was potential for very significant harm if Mr Makin were to challenge the IP Rights through any of the ways identified in the Settlement Agreement. A dispute over title to the IP Rights could damage Permavent’s ability to source, manufacture or sell products. This could lead to lost sales while the dispute lasted and to longer term loss of sales as customers turned elsewhere for supplies. It could lead to longer term damage in the relationship with suppliers. While a dispute was pending, the companies’ ability to raise finance or investment could be damaged. More broadly, in the event that a sale of the business was contemplated, its value could be diminished if the validity of, or the companies’ claim to, essential IP Rights was threatened by a disgruntled former shareholder, director and employee. Diversion of

management time and effort could cause further indirect losses, while other aspects of the business and development opportunities were neglected.

59. Mr Yeremeyev's and Ms Wood's evidence, which I accept, was to the effect that they were well aware at the time of these potential consequences for the business if the IP Rights were challenged by Mr Makin, and it was this which drove their desire to include the relevant provisions in the Settlement Agreement, as it had induced Ms Wood to seek to include similar protection in the proposed share sale agreement.
60. The contemporaneous evidence bears this out. It demonstrates that Mr Yeremeyev and Ms Wood were conscious, both during the negotiations for the sale of Mr Makin's shares to Ms Wood during 2016-2017 and during the subsequent negotiations for the Settlement Agreement, of the damage that Mr Makin could cause if he challenged the IP Rights. It was concern over this which prompted Ms Wood to seek to insert clauses in the proposed share sale agreement in order to incentivise Mr Makin to support the claimants and to deter him from challenging the IP Rights.
61. For example, in an email dated 17 May 2017 to Mr James Young (who had been brought in as an independent third party to try to facilitate negotiations), Ms Wood referred to the fact that without the patents, Mr Makin's shares were not worth anything close to the proposed £650,000 purchase price, and that:

“... Having agreed to sell his shares for £650k, in order to protect the business from any hostile attack on the patents Timo and I offered Steve a royalty payment with the thinking that it would keep him motivated to support the pending Plain Easy patent application and not to be tempted to challenge the existing patents out of malice.”

62. She then referred to a proposal made in late March 2017 (which replaced the proposed royalty agreement) involving a deed of assignment and deferred consideration, and said:

“Timo and I attended an initial meeting with Stephen and yourself to discuss this new principle and at that meeting I made it very clear that if we were to proceed it would be on the basis that there would be protection built into both the agreements against a hostile challenge from Steve. Steve agreed as he stated he had no intention of attacking the patents...

...For these reasons it is not unreasonable that the company would expect to cease payment and recover any previous payments under the terms of the deed of assignment if Steve challenges the patents ... It is also not unreasonable that I would expect a level of compensation under the SPA as Steve has offered no other meaningful warranties.”

63. In evidence Ms Wood described what she was looking for in negotiating the sale and purchase agreement with Mr Makin as a “double lock”: “To a certain extent there is the incentive, we will call it the carrot that would make us hope that Mr Makin would, by all common sense, not try to bite the hand that was feeding him. However, during the course of the negotiations for me to purchase Mr Makin’s shares, I ... experienced at very first-hand what potential litigation with Mr Makin could be like ... So, therefore, it was not just about incentivising Mr Makin, it was actually about putting protection in for the business if Mr Makin should choose to challenge the patents in whatever way.” While it was hoped that Mr Makin would be deterred from mounting a challenge, “there were consequences for us as a business should he take the actions actually that he subsequently took.”
64. Mr Makin’s action after resigning as a director, in warning suppliers against continuing to supply Permavent because he had terminated Permavent’s licence in respect of the IP Rights, was itself an indication of the serious damage to the companies’ business that could be caused by challenges to the IP Rights.
65. The claimants made much of the aggressive nature of Mr Makin’s conduct in the period leading up to the Settlement Agreement. Mr Lester contended that this was irrelevant to the question of proportionality. At best, it demonstrated the likelihood that Mr Makin would mount a challenge to the IP Rights. The likelihood that a party would breach contractual restrictions was not, he submitted, relevant to the proportionality of the consequences imposed on that party for such a breach.
66. I agree with that, so far as it goes, but the nature of Mr Makin’s conduct is also relevant to the consequences that the claimants were likely to suffer in the event that Mr Makin did breach the restrictions. That *is* something that is relevant to proportionality. The damage felt by the claimants in a challenge to the IP Rights was likely to increase in proportion to the aggression and hostility of the challenger. As Mr Lazarus put it, harmful consequences flowing from foreseeable action by Mr Makin himself should be brought into the balance to weigh against the Detriment as much as harmful consequences flowing from foreseeable action by third parties (e.g. suppliers withholding supplies).
67. As to this, Mr Makin had given fair warning. Ms Wood referred to this in her email of 17 May 2017 referred to above:
- “Steve has demonstrated an escalating level of aggressive and unreasonable behaviour and shows a total lack of respect for due process and the law. I won’t embarrass him by showing his solicitor a recent email that he sent directly to our solicitor, but it demonstrates how impossible it would be to pursue him for damages via future litigation.”

68. In fact, the email to the claimants' solicitors, dated 16 May 2017, was in trenchant and abusive terms, and contained the following threat:

“I suggest you tell Yeremeyev to ensure the deal goes through quickly because neither of you appear intelligent enough to ever know what I might or might not be doing.”

69. In a further email to Ms Wood, Mr Yeremeyev and their lawyers on 22 May 2017, Mr Makin said:

“I make this promise to everyone and I bloody mean it, get this deal done by Friday or I officially remove myself from the sale and you will be shocked at what I am going to do, but this is a warning, I have had enough of this shit.”

70. On 12 June 2017, Mr Makin emailed Mr Yeremeyev and Ms Wood saying:

“Please be advised Lisa that when Yeremeyev goes then my battle with [sic] be with you and the financial and social fallout will be severe for you so you should tread carefully.”

71. On being informed of the draft claim against him, on 10 July 2017, Mr Makin sent an abusive email to the claimants' solicitors (including reference to an impending complaint to the Law Society about their behaviour), commenting:

“Oh! and while your [sic] at it tell your oily clients, what's their name again? wood and yeremeyeva, that this has only just started for them.”

72. Finally, on 4 August 2017, Mr Makin emailed Mr Yeremeyev, Ms Wood and their solicitors, insisting that unless the transaction to sell his shares completed before 7 August 2017 he would file a “series of legal actions” giving a small example of which:

“I will apply to the court to have your case struck on grounds of no real chance of success. I will apply to the court for a civil restraint order against Redd and the claimant based on grounds of vexatious actions designed to bring detriment to me and my family.

In a separate court I will also be lodging a claim for unfair dismissal and unfair prejudice. In a separate court I will be applying to set aside and return the share transfer of my companies to Alesja Yeremeyeva on the grounds of incorrect filing and non-payment of funds.”

73. Mr Yeremeyev gave evidence of Mr Makin's approach to litigation in which he had seen Mr Makin involved prior to the dispute arising between them. He said that it was Mr Makin's tactic to raise as many arguments as possible and generally to make life as difficult as possible for the opposition with the hope that they would eventually settle with him. Ms Wood referred to a



conversation she overheard in 2015, when she first met Mr Makin, in which Mr Makin referred to his usual tactic being to appear in cases unrepresented and make life as difficult and costly as possible for the other side to the point they would decide to give in.

74. Mr Makin denied that he ever had such an approach, or that he ever said he had. I find, on the balance of probabilities, that Mr Makin had adopted such an approach, and spoken about it, broadly in the terms indicated by Mr Yeremeyev and Ms Wood. It is consistent with his conduct and the threats as to his conduct both in the period leading up to the Settlement Agreement, as described above, and also with his conduct following his breach of the Settlement Agreement. In relation to the latter, for example, in an email of 2 August 2019 from Mr Makin to the claimants' solicitors, he said that if he did not receive the payments under the Settlement Agreement he would:

“...have the power to invalidate patents and Yeremeyev will have nothing except a large bill for the patent box they have benefitted from. He can bring whatever case he wants against me but please be warned it is not possible to liquidate my property and my funds are depleted so even in the unlikely event you were successful in your fanciful adventure the only outcome will be that he will loose [sic] the patents and I will have no choice but to go bankrupt and then he really will have nothing wont he ... The clock. Is ticking for you bully boy, I mean it and he knows I do not care for money and I am not afraid to stand up to mercenaries like you in court, I do not need legal representation to overturn your fictitious tat. Your clients is aware from a previous case that a litigant in person has protection under the law.”

75. More generally, Mr Makin said that his conduct, and the language he used in the various emails to which I have referred, was done in the heat of the moment, when he was under enormous stress. In the period 2016-2017 he felt he was being forced out of the group of companies he had built and forced to give up his interest in the IP Rights which he alone had invented and developed. This was what led to behaviour which he acknowledged was “crass”. Having observed Mr Makin in the witness box I have little doubt that he is prone to volatile behaviour and that he feels, and felt at the time, that he is the victim of wrongs committed against him by Mr Yeremeyev and Ms Wood.
76. It is not possible to reach a conclusion as to whether Mr Makin's belief was justified without a far greater investigation into the running of the companies over the years prior to 2017. It is unnecessary to do so because any claims which might have arisen prior to the Settlement Agreement were settled by that agreement. It is, however, the very fact that Mr Makin believed he had been wronged, coupled with his volatile character and evidence of his aggressive behaviour when he felt he was wronged, that gave rise to the reasonable inference, as at the date of the Settlement Agreement, not only that he was likely to challenge the IP Rights but that if he did so, it would be in a way which made life as difficult as possible for the claimants.

*Proportionality of the Detriment to the Protected Interest*

77. The Detriment imposed by the Settlement Agreement is undoubtedly extremely harsh on Mr Makin. He would lose any entitlement to any further Easy Roof System Payments and would be required to pay back everything he had received under the Settlement Agreement, both by way of prior ERSP and the purchase price he had received for his shares (less only an amount equal to their par value). In monetary terms, this could run to many hundreds of thousands of pounds (the amount required to be repaid under clause 2.11.6 alone being more than £600,000).
78. The question, however, is not whether the Detriment is harsh or even extremely harsh, but whether it is extravagant, exorbitant or unconscionable, as being out of all proportion to the Protected Interest. It was common ground that this question could be applied separately to each of clauses 2.11.4 to 2.11.6. In other words it is possible that one or other sub-clause could be enforceable while another constitutes an unenforceable penalty.
79. In my judgment no aspect of the Detriment (that is no part of clauses 2.11.4 to 2.11.6) is wholly out of proportion to the Protected Interest. It is impossible – and unnecessary – to put a precise figure on the likely potential damage to the claimants arising from interference with the IP Rights in any of the ways prohibited by clauses 2.10.1 to 2.10.3. Recognising that the issue in this case is interference with the IP Rights, and not breach of restrictive covenants, nevertheless the analysis of Lords Neuberger and Sumption in *Cavendish* at [75] is apposite:
- “As Burton J graphically observed in para 43 of his judgment, once *Cavendish* could no longer trust the Sellers to observe the restrictive covenants, “the wolf was in the fold”. Loyalty is indivisible. Its absence in a business like this introduces a very significant business risk whose impact cannot be measured simply by reference to the known and provable consequences of particular breaches. It is clear that this business was worth considerably less to *Cavendish* if that risk existed than if it did not.”
80. I have enumerated the ways in which the claimants’ business could suffer damage as an indirect result of challenge to the IP Rights, above at [58]. I have also explained that Mr Makin’s conduct prior to entry into the Settlement Agreement gave rise to the reasonable expectation that in the event of a challenge to the IP Rights, his behaviour would be such as to maximise the time, costs and diversion of management effort consequent upon that challenge and in enforcing the claimants’ rights under the Settlement Agreement.
81. Mr Lester referred me to paragraph 91(g) of the judgment in the 127 Hobson Street case:

“It is not necessary in all cases for the court to assess the damages that would have been awarded at common law for breach, but there may be cases where such calculation is the measure of the performance interest. That is likely to be the case where the impugned clause purports to provide a pre-estimate of damage, or where the impugned clause appears in a contract where the only legitimate interest in performance is properly analysed as the monetary value of the losses which flow directly from that breach, and which are readily calculated.”

82. Although he accepted that this is not a case of the kind referenced in that paragraph of the judgment of the New Zealand Supreme Court, Mr Lester suggested that each aspect of the harm against which clauses 2.11.4 to 2.11.6 were designed to protect was in the end economic in nature. Accordingly, he submitted that the court may find it useful, in assessing proportionality, to compare the losses which could be caused by breach of clauses 2.10.1 to 2.10.3 with the loss suffered by Mr Makin upon enforcement of clauses 2.11.4 to 2.11.6.
83. While recognising that the core question is broader than merely comparing the quantum of the Detriment with the quantum of the losses anticipated from breach of clause 2.11.4 to 2.11.6, I nevertheless consider that the potential damage to the claimants’ business overall could reasonably have been anticipated to run to many hundreds of thousands of pounds, commensurate, that is, with the quantum of the Detriment. As Mr Lazarus pointed out, given the importance of the IP Rights, a challenge to them would cause loss across the whole of the claimants’ business (whose turnover was then in excess of £2 million per year), and not merely to the value of the one-third of the shares that Mr Makin transferred to the claimants under the Settlement Agreement.
84. I take into account the fact that Mr Makin entered into the Settlement Agreement with the benefit of legal advice. I also take into account that the concept of disallowing Mr Makin further payments under the agreement, and repayment of sums already received, had been foreshadowed in the earlier proposed share sale agreement. At a point in time when Mr Makin had solicitors acting for him in relation to the proposed share sale, in May 2017, his solicitors had identified a term which required Mr Makin to forego deferred consideration and repay all moneys as “unacceptable as the penalty to Steve was far greater than the level of consideration that is being paid for the patents”. There can be no doubt, therefore, that Mr Makin and his solicitors were alive to the full consequences of the similar term which was later included in the Settlement Agreement.
85. Although Mr Makin referred in his evidence to the Settlement Agreement having been presented to him “by lawyers while I was under duress”, his earlier pleaded defence of duress was abandoned by him in the face of the application for summary judgment.

86. Mr Lazarus prayed in aid the evidence as to what actually happened following Mr Makin's breach of the Settlement Agreement, including both Mr Makin's conduct (which reflected the aggressive approach he had shown leading up to the Settlement Agreement) and the harm that had in fact been caused, including failing to attract new investment, new borrowing that the claimants could not obtain as a result of the extant dispute with Mr Makin over the IP Rights, plans for development being put on hold, diversion of management time and enormous legal costs.
87. I accept, as Mr Lazarus submitted, that subsequent events can be of relevance to the extent that if a type of harm is caused by a breach of the contract, then this might support the conclusion that such harm could reasonably have been anticipated at the time of the contract. This is a logical extension from the conclusion of the Privy Council in *Philips Hong Kong Ltd v A.G. of Hong Kong* [1993] Const. L.J. 202, at 210, that the fact that the issue whether a sum claimed by a liquidated damages clause is excessive by reference to the anticipated loss is to be determined as at the date of the contract does not mean that what happens subsequently is irrelevant: "On the contrary, it can provide valuable evidence as to what could reasonably be expected to be the loss at the time the contract was made."
88. Little is to be gained in this case, however, by reference to what subsequently happened. The scope of the claimants' interests which the Detriment was intended to protect and the scope of the potential harm from breach of the restrictions on interfering with the IP Rights are sufficiently demonstrated by the evidence contemporaneous with and prior to the date of the Settlement Agreement. Beyond that, as I have already noted, the proportionality between the Detriment and the Protected Interest is to be assessed as at the date of the Settlement Agreement, not by reference to the harm that was caused by the actual breach. That is of particular importance in this case, where the actual breach committed by Mr Makin was at the lower end of the scale of possible breaches – in contrast to the breaches which Mr Makin later threatened, and which led to the grant of the permanent injunction by HHJ Hacon, preventing such threatened breaches occurring.
89. Although, as I have noted, it is possible to view a discrete part of clause 2.11.4 to 2.11.6 as penal notwithstanding that other parts are not, Mr Lester made only brief submissions directed at the individual parts.
90. As to clause 2.11.6, he submitted that there was a particular difficulty in trying to justify the repayment of the consideration for the shares by reference to the diminution in value of what was being purchased. That was because Mr Makin's shares in Greenhill were not purchased by the other individual shareholders but were purchased by Greenhill itself and then cancelled. It could not be said, therefore, that the value of the shares would be diminished by any later action by Mr Makin. That submission ignores the fact, however, as was expressly acknowledged by Mr Makin in clause 3.4 of the Buyback Agreement (see above), that any challenge to the IP Rights would damage the "interests and value of the Company [i.e. Greenhill]".

91. I also reject Mr Lester's submission that Permavent could not have a legitimate interest in being compensated for damage to the patents, because it is Greenhill that owns the patents. This ignores the fact that a challenge to the IP Rights would directly affect a substantial portion of the business of the group, given the importance of the Easy Roof System products to the group's business.
92. More broadly, the clauses were designed to protect not merely against damage to the value of the IP Rights (to which the payments under clause 2.11.4 and 2.11.5 relate) or damage to the value of the shares purchased (to which the payment under clause 2.11.6 relates). They were instead designed to protect against damage to the business of the claimants much more widely, for the reasons I have already given. For that reason, I do not think a distinction is to be drawn between the separate sub-clauses in 2.11. Cumulatively, they are designed to protect the claimants' legitimate interest by deterring breaches of clauses 2.10.1 to 2.10.3, where such breaches could have highly damaging consequences for the claimants' business. Moreover, cumulatively, the detriment imposed by them on Mr Makin, though undoubtedly harsh and damaging to him, is not so out of proportion with the potential consequences for the claimants to make them unenforceable as penalties.

### Conclusion

93. For the above reasons, which largely reflect the submissions of Mr Lazarus for the claimants, I reject the contention that clauses 2.11.4 to 2.11.6 are unenforceable as penalties.
94. In light of that conclusion it is unnecessary to consider the counterclaim: since the ERSP are reduced to zero by clause 2.11.4 and, by clause 2.11.5, this has retrospective effect, there can be no question of ordering an account in respect of sums that might otherwise have been due.
95. The claimants are accordingly entitled to a declaration that Mr Makin is not entitled to receive further ERSP and to judgment for the sums due under clause 2.11.5 (in the amount of £62,870) and under clause 2.11.6 (in the sum of £616,667). The counterclaim is dismissed.