CA on appeal from Chancery Division (Mr Justice Evans-Lombe) before Chadwick L.J. Robert Walker L.J. 20th March 2000

JUDGMENT : LORD JUSTICE ROBERT WALKER:

1. This is an application for permission to appeal, with the appeal to follow if permission is granted, from an order of Evans-Lombe J made on 4th October 1999. There is also an application by the would-be appellant for permission to rely on further evidence. The order of Evans-Lombe J was a ruling on admissibility of evidence on an application for summary judgment made on 19th September last by the claimant, W H Smith Limited, which had issued its claim form on 10th May 1999. The claimant is a well known retailer who needs no further introduction. The defendant is Mr Peter Colman, a London restaurateur who is also interested in information technology and, in particular, in domain names.

2. By the particulars of claim the claimant seeks a variety of relief, all connected with the facts pleaded in paragraph 15 of the particulars of claim, that, at some date before October 1997, but after the registration of the claimant's W H Smith trademark, the defendant, without the claimant's authority, lodged an application with Network Solutions Incorporated of Virginia, USA ("NSI") for registration of W H Smith .com as a domain name. By paragraph 11 of the defence this fact is admitted, subject to some qualifications which are not relevant for present purposes.

3. The relief claimed by the claimant includes injunctive relief against use of the domain name, against trademark infringement and against passing off, a mandatory order requiring the defendant to take all steps within its power to transfer or facilitate the transfer of the domain name to the claimant, and an inquiry as to damages. This claim for relief, and the claimant's application for summary judgment, reflect the important judgments at first instance and in this court in **British Telecommunications v One in a Million** and associated actions (see the judgment of Jonathan Sumption QC sitting as a Deputy Judge of the Chancery Division, [1998] FSR 265, and the judgment of this court [1998] 4 All ER 476, [1999] FSR 1). The general effect of those decisions is that the opportunistic registration and subsequent offer for sale of domain names, reflecting the goodwill of other traders' businesses and trademarks, is an unlawful activity liable to attract strict and summary sanctions. The defendant contends, on grounds that have yet to be adjudicated upon, that this case is entirely different from **One in a Million**. It is unnecessary to go further into that issue, which will be investigated when the application for summary judgment is heard. I note that there is a very helpful brief summary of the factual background, including the part played by NSI, in the judgment of Mr. Sumption at page 267, quoted in the judgment of Aldous LJ at pages 480 to 481. Aldous LJ also quoted and approved at page 496 a passage from Mr Sumption's judgment at page 269, analysing and identifying what are in principle the only four uses to which registered domain names can be put by a dealer in internet domain names. The defendant for his part denies that he is a dealer in domain names. It is interesting to note that the first instance decision in **One in a Million** was made on 28th November 1997.

4. The claim for relief, requiring the defendant to take "*all steps within his power*" reflects the defendant's assertion that he did, after receiving in November 1997 what he regarded as threats made by one of the claimant's employees, a Mr. Dytham, transfer the domain name to an individual named William Harold Smith, who, we are told, is resident in the United States, although having an address in the Bahamas. The defendant claims that this transfer was completed on 31st December 1997. It was apparently effected by or through a Bahamian company called Fernhead Property Holdings ("Fernhead"). After that, there was a pause of well over a year before the issue of the claimant's claim form on 10th May 1999. On 17th September the claimant issued its application for summary judgment, supported by an affidavit sworn on the previous day by Mr Ian Houghton, who is a solicitor and the claimant's company secretary. That was a substantial affidavit extending to 15 pages. It covered all aspects of the claim, including many matters which it is not necessary to go into for the limited purposes of this appeal. It stated in paragraph 10 that, on 23rd December 1997, that is a month after the first instance decision in **One in a Million**, Mr Dytham offered to purchase the claimant's domain name for £1,000. Mr. Houghton's affidavit set out the deponent's belief "*that there is no genuine William Harold Smith and that Mr Colman still retains control of the domain name*." Finally, and most relevantly for present purposes, in paragraph 19 and then in detail in paragraphs 46 to 51, the affidavit referred to,

quoted from and exhibited a letter dated 28th August 1999, which the defendant had written to Mr. Jeremy Hardie, the chairman of the claimant's Board of Directors. This was therefore a letter written by a lay client to a lay chairman of the Board, bypassing the solicitors already instructed on both sides and apparently unknown to either firm. The letter was marked "*without prejudice*". Mr. Houghton's affidavit exhibited it on the basis "that the court agrees that the letter is not without prejudice". Mr. Houghton's affidavit also exhibited as exhibit IH18 correspondence between the parties' solicitors, passing between 8th September and 13th September last, as to the status of the letter of 28th August. Some of these letters were themselves marked "*without prejudice*". However, Mr. Houghton's affidavit did not disclose that there had also been some earlier "without prejudice" correspondence between the solicitors, Herbert Smith for the claimant, and Saul Marine & Co for the defendant, consisting of letters expressly so designated from Saul Marine on 30th July and 11th August 1999, and from Herbert Smith on 3rd August 1999. The letter from Herbert Smith said, among other things*: "Nevertheless, our client, if possible, wishes to resolve this dispute without having to take further steps in this litigation."*

5. Herbert Smith were proposing stringent terms for a settlement, but a settlement on some terms was undoubtedly the general purpose of that letter.

6. The defendant applied on 29th September last to exclude the "without prejudice" letter of 28th August from Mr. Houghton's affidavit. The application was heard extremely promptly on 4th August. It with dismissed. The very prompt hearing of the application had the effect that the defendant had not yet put in his affidavit evidence in response to the application for summary judgment. The defendant seems to have taken his stand simply on the fact that the defendant's letter to Mr Hardie was marked "*without prejudice*". The defendant now seeks permission to adduce the whole of the evidence (in the form of two affidavits of the defendant and one affidavit of his solicitor, Mr. Marine) subsequently sworn in opposition to the application for summary judgment. Most of that evidence is irrelevant to the limited issue of the admissibility of the disputed letter, but the fact that there was "*without prejudice"* correspondence between solicitors at the end of July and in early August last year is to my mind material as part of the context in which the limited issue has to be decided. It tends to undermine to some extent the view that there was nothing on which the claimant's solicitors could sensibly negotiate with the defendant and his solicitors, or, so far as this may be part of the claimant's case, that the defendant was obviously an adventurer engaged in illegal extortion with whom no one, and certainly not a company as substantial as the claimant, would consider having any negotiations.

7. The judge dismissed the application in a short judgment, the heart of which is near the end, where the judge said: *"I am not satisfied that this letter constitutes such an offer to commence negotiations for a settlement. I am not satisfied, because it appears to be putting forward an offer to negotiate by an unidentifiable entity, namely Fernhead. True it is that the litigation claims damages from Mr Colman, and that it is the claimant's case that there is no such real entity as Fernhead. If the representations in the letter are correct, the material relief sought, namely the transfer to the claimant of the domain name in issue does not appear to be within the control of Mr Colman. It is in truth within his control. I am not prepared to treat this letter as a genuine offer to negotiate a settlement of this litigation."*

8. That passage is taken from an approved transcript of the judgment, but it was suggested in the course of argument that possibly the last two sentences which I have read were a single sentence beginning with the word "if". That conjecture is not one to which this court can attach much weight; nor indeed were we asked to do so. Even if that textual emendation were made, it by no means solves all the difficulties in that passage of the judgment. The passage has been criticised by Mrs Heal for the defendant, the applicant in this court, as very difficult to fathom.

9. Mr Onslow for the claimant, the respondent in this court, has supported the judge's reasoning, which he described as taking a two pronged approach to the matter. Mr Onslow in effect presents the defendant with a dilemma. If Fernhead, the Bahamian company, was truly an independent entity, then the defendant had no power to negotiate on its behalf or to bind it in negotiations. If, on the other hand, it was not under his control, then it is said that the letter was obviously not genuine. Mr. Onslow also seeks to support the judge's decision, although without having put in a respondent's notice, by contending that the letter discloses unambiguous impropriety and is therefore deprived of

protection as a "*without prejudice*" communication. Indeed, Mr Onslow has put that in the forefront of his skeleton argument.

10. I am conscious that I have not yet summarised or described the substance of the defendant's personal letter to Mr. Hardie. I shall shortly make good that omission, but I should first refer briefly to the legal principles applicable to the scope of the "without prejudice" objection to admissibility and the ambit of the unambiguous impropriety exception. These principles were clearly set out by Hoffmann J. in **Forster v Friedland** (10th November 1992, 1992, Court of Appeal transcript 1052). In that case, which concerned a dispute about a contract for sale of a substantial shareholding in a quoted company, the claimant sought to put in evidence tape recordings of discussions which he had had with the defendant. The defendant contended that they were inadmissible as without prejudice communications, but against that it was said that there was no real dispute as to whether a binding contract had been entered into. It was also said that the defendant was threatening to advance a defence which he knew to be false and a sham. The judgment of Hoffmann L.J. covers both the general scope of the protection and the exception. On the first point Hoffmann L.J. said: *"It seems to me, with all respect to the judge, that there is no basis in authority or in principle for limiting the rule to negotiations aimed at resolving the legal issues between the parties. There must be many without prejudice negotiations which do not address the issues at all. They are attempts to find an agreed solution which will make it unnecessary for the issues to be debated either in negotiation or in court. All that is necessary, as Lord Griffiths said in* ***Rush & Tomkins Ltd v The Greater London Council*** *[1989] AC 1280, ... is that negotiations must be 'genuinely aimed at settlement', that is, the avoidance of litigation. Provided that this criterion is met, the nature of the proposals put forward or the character of the arguments used to support them, are irrelevant. One party may ask another for more time, or a reduction in what he has to pay. In support of such a proposal he may urge the weakness of the plaintiff's case or his own lack of money, or their friendly business relations in the past. The communication will be protected if there is an intention to speak without prejudice followed by a genuine proposal or genuine negotiations aimed at avoiding litigation."*

11. On the second point Hoffmann LJ said: *"I accept that a party, whether plaintiff or defendant, cannot use the without prejudice rule as a cloak for blackmail. Mr Wingate-Saul cited two cases which illustrate this proposition. The first was the* ***British Colombia case of Greenwood v Fitt*** *[1961] 29 DLR 1 at page 260, in which the blackmailer was the defendant. He told the plaintiffs in the course of without prejudice negotiations that unless they withdrew their claim for fraudulent misrepresentation he would give perjured evidence and bribe other witnesses to perjure themselves, and, if the plaintiffs nevertheless succeeded, he would leave Canada rather than pay damages. The Judge of Appeal said the without prejudice rule ' was never intended to give protection to this sort of thing'.*

In **Hawick Jersey International Limited v Caplan**, which is reported in The Times Newspaper of 11th March 1988, and of which there is also a Lexis transcript, the blackmailer was the plaintiff. He admitted during the negotiations that his claim for money lent was bogus and intended to put pressure on the defendant to negotiate over another matter. When the defendant said *'You are not going to force my hand by blackmailing me'*, the plaintiff replied, with disarming candour: *'But I have got to. What would you do if you had been me?'*

These are clear cases of improper threats, but the value of the without prejudice rule would be seriously impaired if its protection could be removed from anything less than unambiguous impropriety. The rule is designed to encourage parties to express themselves freely and without inhibition. I think it is quite wrong for the tape recorded words of a layman, who has used colourful or even exaggerated language, to be picked over in order to support an argument that he intends to raise defences which he does not really believe to be true."

12. With these principles in mind, I turn to the disputed letter of 28th August 1999. It is a long letter of six closely typed pages, numbered 1, 2, 3, 4, 5 and 7. It is common ground that there was never any page 6. For my part, I find the defendant's letter unimpressive, to say the least. I can readily imagine that it may have caused some dismay to the defendant's legal advisers when they learned of it. The letter is by turns disingenuous, rambling, repetitious and unrealistic. It probably did little to assist the

defendant's case, either on the facts or the law. It is basically a plea to Mr. Hardie to stop what the defendant regarded as an oppressive action and to settle amicably.

13. However, having made those criticisms of it, I am wholly unpersuaded that it contains the sort of unambiguous impropriety which Hoffmann LJ rightly required if the protection of the "*without prejudice*" rule is to be set aside. There is a strong public interest underlying the ruling (see generally the recent decision of this court in Unilever v Proctor & Gamble, 28th October 1999), and it is not to be set on one side simply because a party making a "*without prejudice*" communication appears to be putting forward an implausible or inconsistent case or to be facing an uphill struggle if the litigation continues. Those are questions to be decided at trial or, if the claimant's case is strong enough, on an application for summary judgment. Either the claimant's case for summary judgment is strong enough or it is not, and it should not be bolstered up by denying to the defendant the benefit of the doubt in relation to a "*without prejudice*" communication.

14. I would not therefore accede to Mr. Onslow's support for the judge's decision, not relied on by the judge himself, on the ground of unambiguous impropriety. Nor do I think that the judge's decision can be supported on the grounds given by the judge himself. The fact that there had already been "without prejudice" communication between the solicitors at the end of July and early in August 1999 was not known to the judge. I do not blame the defendant's legal advisers for not trying to put that correspondence in evidence before the judge. I would never censure any legal advisers for being extremely reluctant to exhibit "*without prejudice*" correspondence unless they are absolutely sure that it is proper to do so, especially, I may say, in an application which is itself seeking strictly to enforce the sanctity of "*without prejudice*" communications. For that reason I would admit that "*without prejudice*" correspondence exhibited to an affidavit of Mr. Marine in evidence on this application, while declining to receive the rest of the further evidence as being irrelevant.

15. With the benefit of that correspondence, and in the light of what Hoffmann LJ said in **Forster v Friedland**, I cannot agree with the judge's conclusion that the defendant's letter was not a genuine offer to negotiate a settlement. Whatever doubts there may have been, and may still be, about the merits of the defendant's case, his letter seems to me to indicate that he was negotiating for a settlement in order to avoid litigation, in which he himself was facing a claim for damages and costs. That is so whatever suspicions there may be about the independence of Fernhead and whatever inconsistency the defendant may from time to time have shown in his attitude to the matter. In the absence of evidence of unambiguous impropriety, the defendant must be given the benefit of the doubt in negotiations which, to my mind, plainly were directed towards a possible compromise of a dispute to which the defendant is a party. If the claimant believes that it has an overwhelming case against him, it will continue to seek summary judgment without any reference to the defendant's letter of 28th August 1999. For those reasons I would grant permission to appeal and would allow the appeal. I would also give permission to the defendant to adduce Mr. Marine's affidavit sworn on 13th October 1999.

LORD JUSTICE CHADWICK:

16. I agree.

Order: Application to rely on further evidence contained in the affidavit of 13th October 1999 allowed; permission to appeal the order of 4th October 1999 granted; the appeal against the order of Evans-Lombe J made on 4th October 1999, whereby he dismissed the defendant's application of 30th September 1999, allowed; affidavit of Mr. Ian Houghton, sworn on 16th September 1999, be withdrawn, but with liberty to replace that affidavit with a resworn affidavit, in which there is no reference to the "without prejudice" letter of 28th August 1999; application and appeal allowed with costs, subject to detailed assessment; £2,000 to be repaid within 14 days. (Order not part of the judgment of the court)

Mrs M Heal (instructed by Messrs Saul Marine & Co., London, NW7) appeared on behalf of the Appellant/Defendant.
Mr. R. Onslow (instructed by Messrs Herbert Smith, London, EC2) appeared on behalf of the Respondent/Claimant.