



Trade Secrets and Noncompete Agreements: **WHAT YOU NEED TO KNOW**

Preliminary Injunctive Relief to Protect Trade Secrets and Enforce Non-Competes:

Is It Possible To Put
The Toothpaste Back In The Tube?

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Preliminary Injunctive Relief

- Procedural aspects
- Availability for employee raiding
- Federal and state computer crimes laws
- Trade secrets posted on the Internet
- Injunctive relief in arbitration



The Most Effective Remedy

- Restatement: continuing or threatened use of trade secret justifies injunctive relief
- Where trade secret not yet disclosed or used, injunction may be only remedy
- Prohibitory injunction
- Mandatory injunction: return of embodiments, assignment of patents



Procedural Aspects of Preliminary Injunctions

- Primary purpose: preservation of *status quo* pending trial
- Status quo: “last, actual peaceable uncontested status which preceded the pending controversy”
- Fact that misappropriation already occurring not grounds for denying injunctive relief
- But posting on Internet may affect trade secret status



Notice Requirements for Preliminary Injunctions

- Fed. R. Civ. P. 65(a)(1): “No preliminary injunction shall be issued without notice to the adverse party.”
- Fed. R. Civ. P. 65(b): *ex parte* TRO
 - Affidavit that irreparable harm will occur before notice can be provided
 - Attorney certification re: efforts to provide notice and why notice should not be required
 - Expires in 10 days unless extended “for good cause shown” or by consent



Federal IP Law Provisions for *Ex Parte* Seizure

- Trademarks: Lanham Act authorizes *ex parte* seizure of counterfeit goods (15 U.S.C. § 116(o))
- Copyright Act
 - Temporary injunctive relief (17 U.S.C. § 502)
 - Impoundment (*Id.* § 503)
 - Seizure and foreclosure in federal criminal prosecutions (*Id.* § 509)



Federal IP Law Provisions for *Ex Parte* Seizure

- Trade secrets
 - No federal private right of action
 - Fed. R. Civ. P. 64 preserves state law seizure remedies
 - State replevin statutes
 - USTA and Restatement authorize mandatory injunctions



Expedited Trial in Lieu of Injunctive Relief

- Consent order for expedited trial and preliminary injunction preserving status quo
- Fed. R. Civ. P. 26(d): expedited discovery
- Fed. R. Civ. P. 65(a)(2): consolidation of preliminary injunction hearing with trial on merits



Requirements for Preliminary Injunction

- Bond (Fed. R. Civ. P. 65(c))
- Contents (Fed. R. Civ. P. 65(d))
 - “set forth the reasons for its issuance”
 - “be specific in terms”
 - “describe in reasonable detail, and not by reference to the complaint or other document, the act or acts to be restrained

PRACTICE POINTER: submit proposed findings and conclusions



Persons Bound By Injunction

- Fed. R. Civ. P. 65(d): The order binds only the following who receive actual notice of it by personal service or otherwise:
 - (A) the parties;
 - (B) the parties’ officers, agents, servants, employees, and attorneys; and
 - (C) other persons who are in active concert or participation with anyone described in Rule 65 (d)(2)(A) or (B).
- Serve copies of injunction upon “those persons in active concert or participation with them”



Discretionary Nature of Preliminary Injunction

- Considerable discretion (*Deckert v. Independence Shares Corp.*, 311 U.S. 282, 290 (1940))
- “Intangible” factors: credibility and reasonableness of witnesses, parties, counsel
- Injunctive relief specifically tailored to prevent unauthorized disclosure of trade secrets



Standards for Preliminary Injunctive Relief

- Likelihood of success on merits
- Irreparable harm to moving party without injunctive relief
- Harm to party sought to be enjoined
- Public interest



Forum Shopping for Preliminary Injunctive Relief

- “Balance of hardships” test
 - If “decided imbalance of hardships” in plaintiff’s favor
 - Need only show substantial questions going to merits
- Originated in Second Circuit (Connecticut, New York, Vermont)
- Later followed by Fourth Circuit (Maryland, North Carolina, South Carolina, Virginia, West Virginia)
- Fourth Circuit recently abandoned in light of Supreme Court’s decision in *Winter*



Injunctions to Prevent Employee Raiding

- Theories of Liability
 - Claim for raiding *per se*? (unfair competition?)
 - Breach of contract (non-compete, solicit, hire; confidentiality; company policies)
 - Tortious interference
 - Breach of fiduciary duty/duty of loyalty
 - Trade secret misappropriation
 - CFAA and other computer-related statutes
 - Antitrust
 - Inevitable disclosure



Employee Raiding: Solicitation Issues

- Drafting: what does “solicitation” mean?
- Must there be solicitation within a group of departing employees?
- Can employee bound by non-solicit provision be involved in any stage of the hiring process?



Employee Raiding: Practical Measures

- Hiring company
 - Do you have legitimate reason and have you used proper means?
 - Will any agreements or duties be violated?
 - Plan hiring process in advance
- Target company
 - Necessary agreements in place?
 - Necessary policies in place?
 - Focus on forensics



Irreparable Injury: The Decisive Factor

- Misappropriation of trade secrets creates presumption of irreparable injury
- Some trade secret statutes permit preliminary injunctive relief with no showing of irreparable harm

PRACTICE POINTER: Always present evidence on issue of irreparable injury



Federal and State Complaint Crimes Laws

- CFAA, Federal Electronic Communications Privacy Act
- State statutes prohibiting “use” of computers “without authority”
- Typical remedies
 - Sealing the record
 - Injunctive relief



Trade Secrets in the Internet Age

- Can trade secret status survive posting on a web page?
- Can a take down injunction be obtained?



Relevant Legal Standards

- “not . . . generally known to, and not . . . readily ascertainable by proper means by, other persons who can obtain economic value for its disclosure or use”, UTSA
- “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy”, UTSA
- Absolute secrecy generally not required; for example, unsealed court filings cases



Judicial View of Trade Secrecy on the Internet

■ Evolution

- Early view: irretrievably lost; e.g., *RTC v. Lerma*, 908 F. Supp. 1362 (E.D. Va. 1995)
- Later view: depends on the circumstances; e.g., *DVD Copy Control Ass'n v. Bunner*, 10 Cal. Rptr. 3d 185 (Ct. App. 2004) (“[p]ublication on the Internet does not necessarily destroy the secret if the publication is sufficiently obscure or transient or otherwise limited so that it does not become generally known to the relevant people, i.e., potential competitors”)



Judicial View of Trade Secrecy on the Internet

- The key circumstances
 - How long has the secret been posted and how promptly did the owner act?
 - Who is known to have seen it?
 - How accessible is the web page/site?
 - How popular is the web page/site?
 - Where does it show up in response to search engine queries?
 - How much of the secret was disclosed?
 - Does the poster participate in the misappropriation or know that the matter is secret?



First Amendment Defense to Take Down Injunction

- Primacy of prior restraint doctrine; e. g., *Ford Motor Co. v. Lane*, 67 F. Supp. 2d 745 (E.D. Mich. 1999)
- Primacy of property rights; e.g., *DVD Copy Control Ass'n v. Bunner*, 75 P.3d 1 (Cal. 2003)
- Key factors:
 - Did poster violate his/her own duty of confidentiality?
 - Status of poster (mainstream media or disgruntled ex-employee)
 - Is posted material a matter of public concern?



Other Possible Remedies

- DMCA Take Down Notice
- Terms of Service Take Down Notice
- Injunction based on other legal right (e.g., copyright)
- Money damages for misappropriation (First Amendment considerations still loom)
- Removal from Internet Archive (Wayback Machine)



Preliminary Injunctions in Arbitration

- Authority that federal courts can preserve the status quo pending arbitration notwithstanding an arbitration agreement
- Query whether this is still good law now that most ADR purveyors' rules now specifically contemplate preliminary injunctive relief



Preliminary injunctions in Arbitration

- Practical Problems and Considerations
 - Time required to convene arbitration panel
 - Still must enforce arbitral preliminary injunction in court
 - FAA authorizes federal court confirmation only of “final” arbitration awards: by definition, a preliminary injunction is not final
 - The strange case of *Arrowhead Global Solutions, Inc., v. DataPath, Inc.*



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Future Web Conference Series Date

- **1/21/10:** *Enforcing and Litigating Across Borders, Including ADR*

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