Trade Secret Law Evolution Podcast
Greenberg Traurig, LLP
Episode 77

Speaker 1 (00:00):

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Jordan Grotzinger (00:14):

This one case that I'm going to address I thought did a nice job of breaking down the elements of irreparable harm and likelihood of success on the merits.

(00:31):

Welcome to episode 77 everyone. Today we're going to talk about a ruling from the Northern District of New York that came down exactly one week ago today. Today is May 27th, Tuesday, day after Memorial Day, which is the day we're recording. Usually we publish about a day later and this opinion came down on May 20th. Just to let you in a little bit on our process of choosing cases to address, our team gets alerts of every trade secret ruling in the country as it comes down and as the long-time listeners know, I like to pick out cases that are somewhat ... That have a new wrinkle or are particularly instructive. Most of the cases we see are principles that we've seen 1,000 times before and discussed a lot, and I try not to be redundant. There wasn't that much out there in the past few weeks. There was one circuit case, for example, and I like circuit cases because there they're appellate and they're often binding, but it was like half a page with no analysis, not worth talking about.

(01:39):

So this one case that I'm going to address, I thought did a nice job of breaking down the elements of irreparable harm and likelihood of success on the merits which are requirements for getting a preliminary injunction to enjoin trade secrets, something that we do address a lot on this podcast, but I like the way the court addressed these two elements because I think it's instructive on what to do and what not to do.

(02:04):

So this was a ruling on the Plaintiff's motion for a temporary restraining order and a preliminary injunction. The Plaintiff "Is in the production and installation of millwork together with warehousing, production and installation of furniture, fixtures and equipment," among other things. This is the classic scenario of an ex-employee going to a competitor. And I recently heard, I can't remember where that this, and I think it's right, this is the most common trade secret case scenario where you have an employee who works for company A and he or she goes to company B, which is a competitor of company A and brings some stuff with him or her and company A accuses that employee and sometimes company B of misappropriating trade secrets.

(02:54):

At the same time, I also heard, and I believe this too, that the second most common scenario for trade secret cases is the due diligence potential acquisition scenario. So for example, company A will start negotiations with company B about maybe buying company B or doing some kind of merger or some deal with it. And as part of those negotiations, they'll enter into an NDA, company A does the diligence and decides not interested and company B's not happy, and they will accuse company A of essentially being a Trojan horse that approached company B not really for the acquisition or the deal, but to steal

company B's stuff. That in my experience also is the second most common scenario for trade secret cases. But here we are in the first scenario, which is the departing employee having allegedly taken some stuff from company B.

(03:57):

So here the Plaintiff had hired the Individual Defendant and there's a corporate defendant too as the director of business development. He reported to the CEO. The Plaintiff bids for projects, and that requires according to the motion, "Analysis of the product as well as cost structure for working in highly concentrated metropolitan centers. The cost structure on bidding information is proprietary, sensitive and includes matters that are of great competitive value to" the Plaintiff. The Individual Defendant here resigned and according to the Plaintiff's motion, he "Utilized his email domain to intentionally divert prospective business to his new employer and named co-party co-defendant herein, which I call Corporate Defendant." The motion says the Individual Defendant diverted a particular Plaintiff customer and "Communicated to current customers that he had concerns about the financial solvency of the company and the company's ability to meet its debt obligations" and made these statements with "The intent to financially harm" the Plaintiff.

(05:10):

The Plaintiff also alleges on information and belief that the Individual Defendant provided the Plaintiff's bid information to the Corporate Defendant without authorization or knowledge. The Individual Defendant on the other hand swears that the Plaintiff never provided him with a formula, software or estimating system to prepare bids and that no one ever informed him that his bidding process was a trade secret or confidential. And as the listeners know, that's important because one of the elements of a trade secret is that the owner undertake reasonable efforts to maintain its secrecy.

(05:46):

Also, the Individual Defendant says "No one treated his bidding process with any form of secrecy or discretion." He says he "Never brought any trade secrets or proprietary information from the Plaintiff group to" the Corporate Defendant.

(06:04):

After he resigned from the Plaintiff, he became director of development for the Corporate Defendant. With respect to certain bids at issue, the Corporate Defendant's CEO swore that the Individual Defendant "Had no role in preparing these bids and provided no insight or resources in connection to the bids." Rather, the Corporate Defendant "Used its standard forms, formulas, experience, and knowledge to price each of the bids submitted," and the customer at issue "Has not accepted any of the Corporate Defendant's bids or awarded it any work to date." The CEO also swears that the Corporate Defendant has "Never received, let alone used any confidential or proprietary information belonging to" the Plaintiff.

(06:56):

The court notes that in the second Circuit, the standard for issuance of a temporary restraining order is the same as the standard for a preliminary injunction. That is the Plaintiff must demonstrate, "One, a likelihood of irreparable injury in the absence of an injunction.

(07:13):

Two, a likelihood of success on the merits or sufficiently serious questions going to the merits to make them fair ground for litigation.

(07:22):

Three, that the balance of hardships tips in the movant's favor or if relying on the presence of sufficiently serious questions, that the balance of hardships tips decidedly in the Plaintiff's favor.

(07:35):

And four, that the public interest would not be disserved by the issuance of an injunction."

(07:41):

"A preliminary injunction the court said is an extraordinary remedy never awarded as of right and should not be granted unless the movant by a clear showing carries the burden of persuasion." Here the Plaintiff seeks an injunction prohibiting the defendants from using "Any information transmitted by the Individual Defendant to the Corporate Defendant with regard to client lists, contracts, bidding documents, and other proprietary information" of Plaintiff "To segregate and safeguard all such documents for filing" with the court, to discourage any income "Attributable to the breach of fiduciary duty and misappropriation of trade secrets and against future defamatory statements."

(08:32):

Now to the irreparable harm requirement, the Plaintiff argues that it faces irreparable harm in the form of "Untold economic and goodwill damages" because the Individual Defendant, "One, misappropriated proprietary documents. Two, intentionally diverted new work and bid requests to Corporate Defendant. And three, slandered the Plaintiff to existing clients." The defendants respond that the Plaintiff's damages, if any, "Are remote and speculative and can be compensated by money damages." The court said "A showing of irreparable harm is the single most important prerequisite for the issuance of a preliminary injunction. An irreparable harm is injury that is neither remote nor speculative, but actual and imminent, and that cannot be remedied by an award of monetary damages."

(09:30):

The court ruled that, "Here, any harms alleged are not imminent but rather speculative at best. The Plaintiff alleges that the Individual Defendant diverted prospective business from the Plaintiff to the Corporate Defendant and argues that the reputational harm potentially coupled with lost bid opportunities constitutes irreparable harm."

(09:53):

However, "There is no evidence of any diversion of prospective business to the Corporate Defendant." And as to that one customer on which the Plaintiff focused, the record reflected that the Defendant only submitted three bids to that customer and none was accepted. Thus, "That Plaintiff could potentially lose bid opportunities as a result of Defendant's actions is speculative and there is no evidence that the Plaintiff has lost any business opportunities. Non-specific references to potential harms and speculative claims are not the sort of actual and imminent injury to justify a preliminary injunction."

(10:34):

The court also said, "In the trade secret and loss of business context, courts have found that irreparable harm can result where the business relationship would otherwise have produced an indeterminate amount of business and years to come. Where there is no allegation concerning an ongoing/indeterminate loss however, courts regularly find that money damages are sufficient and decline to award injunctive relief."

(11:04):

And while the Plaintiff's CEO asserts that, "On information and belief, the Individual Defendant provided the Plaintiff's bid information to the Corporate Defendant without authorization or knowledge," the Individual Defendant affirmed that while he was at the Plaintiff, he was never told that the bidding process was "A trade secret, confidential or proprietary information not to be disclosed." And no one at

the Plaintiff treated his bidding process with any form of secrecy or discretion. Accordingly, the court said the Plaintiff has "Failed to demonstrate that irreparable harm will likely result in the absence of injunctive relief."

(11:48):

Turning to the element of likelihood of success, the court explained "To establish the likelihood of success in the merits, a plaintiff must show that he is more likely than not to prevail on his claims or in other words, that the probability of prevailing is better than 50%. However, a party may also prevail by showing a serious question going to the merits to make them a fair ground for trial with the balance of hardships tipping decidedly in the Plaintiff's favor." This the court said "Allows a district court to grant injunctive relief where it cannot determine with certainty that the moving party is more likely than not to prevail on the merits of the underlying claims, but where the costs outweigh the benefits of not granting the injunction."

(12:37):

To evaluate likelihood of success, the court then turned to its analysis of the Plaintiff's trade secret claim. The Plaintiff alleges that the Individual Defendant "Disclosed confidential business information and trade secrets" to Corporate Defendant and diverted "Corporate information and bidding documents as well as other sensitive corporate proprietary information and trade secrets and breached his duty not to use or disclose the Plaintiff's proprietary secrets." The Corporate Defendant argues that the bid information doesn't constitute a trade secret and that even if it did, the company hasn't used any bid information that the individual defendant may have possessed or shared with the Corporate Defendant.

(13:23):

Now, this case was in New York as I mentioned, and under New York common law the court explained, "A plaintiff claiming misappropriation of a trade secret must prove that one, it possessed a trade secret. And two, the trade secret was used by defendant in breach of an agreement, confidence or duty, or as a result of discovery by improper means." And a trade secret is "Any formula, pattern, device, or compilation of information which is used in one's business and which gives one an opportunity to obtain an advantage over competitors who do not know to use it."

(14:03):

Now, this is a little different than the Uniform Trade Secrets Act or Federal Defend Trade Secrets Act definition, which as you know, is that a trade secret is all of those things that the New York Court said, but that is also secret, valuable because it's secret otherwise known as independent economic value, and as I mentioned earlier, subject to the owner's reasonable measures to maintain secrecy.

(14:29):

In New York, courts have considered, "One, the extent to which the information is known outside of the business.

(14:36):

Two, the extent to which it is known by employees and others involved in the business.

(14:41):

Three, the extent of measures taken by the business to guard the secrecy of the information.

(14:47):

Four, the value of the information to the business and its competitors.

(14:52):

Five, the amount of effort or money [inaudible 00:14:56] by the business in developing the information.

(14:58):

Six, the ease or difficulty with which the information could be properly acquired or duplicated by others."

(15:06):

In substance, this is actually closely parallel to the uniform and federal definitions. The complaint in this case identifies bid calculations as the trade secret and the court said while "Data relating to pricing can constitute a trade secret under some circumstances, information relating to a company's underlying mechanics such as the prices of materials and costs of manufacturing are not trade secrets because any seller's publicly available prices signal to competitors some information about the underlying mechanics of the seller's pricing structure."

(15:43):

The court ruled that "On this record, Plaintiff has failed to show that it is likely to succeed on its trade secret claim concerning the bid process. The complaint contains the co conclusory allegation that bid calculations have been developed by Plaintiff after years of first-hand experience and constitute trade secrets, and knowledge of them would not be known to people outside the business and is limited to specific individuals who procure the jobs to be bid and calculate the bid amounts." And according to the Plaintiff, these calculations are "Guarded against disclosure to anyone else and are proprietary to the Plaintiff." But according to the Individual Defendant, "There was no formula, software or estimating system at the Plaintiff, and no one there treated his bidding process with any form of secrecy or discretion."

(16:35):

The court citing another case held, "These basic underlying costs which are combined to determine the final bid price are not the type of information that is generally afforded trade secret protection." And "Even assuming arguendo," Latin, you've got to love Latin in the middle of an opinion, "That the information at issue did constitute a trade secret, Plaintiff has failed to show likelihood of success on the second element of this claim, I.E. that defendants used the information." The Corporate Defendant argues that "There is no actual or circumstantial evidence that the Individual Defendant actually sent the Corporate Defendant any confidential information." As discussed above, the Plaintiff CEO merely asserted "On information and belief that the Individual Defendant did so." Therefore, the court found that the Plaintiff "Has not established that it is likely to succeed on its trade secret claim."

(17:35):

Here are the takeaways. One, to show irreparable harm, you need evidence of imminence not speculation. Avoid words like potentially. The potential diversion of business won't cut it. You should have evidence of actual diversion even if circumstantial. Remember, circumstantial evidence is perfectly acceptable in trade secret cases.

(17:56):

Takeaway two. As to likelihood of success, a plaintiff must show that the probability of prevailing is better than 50% or that quote, "A serious question going to the merits to make them a fair ground for trial with a balance of hardships tipping decidedly in the Plaintiff's favor." Conclusory evidence about whether information constitutes a trade secret or if it was misappropriated won't be sufficient.

(18:23):

So I hope that discussion helps everyone who is considering moving for an injunction or defending against one. Thanks for listening. Talk to you next month.