

TRADE SECRET LITIGATION: TROs, PRELIMINARY INJUNCTIONS, AND SOME THINGS TO THINK ABOUT FIRST

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Published by the Intellectual property Practice Group

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I. Introduction

Your former employee recently joined a competitor. Email records confirm that he transferred technology or customer files to his home computer before his abrupt resignation. Other evidence suggests actual—or the threat of—trade secret misappropriation. No company wishes the distraction, expense, and uncertainty that typically accompany litigation. But litigation may be the most effective means—possibly the only means—to stop or prevent the competitive exploitation of trade secret information worth millions to your company.

Before launching litigation, carefully consider the alternatives. Sometimes, the smart first move is to engage the target informally. Depending on circumstances, a telephone call, letter, or meeting with your competitor—and/ or your former employee—might start a negotiation that makes litigation unnecessary. Depending on circumstances, however, this type of informal engagement may sacrifice strategic advantages, compromise your litigation strength, provide opportunity for evidence destruction, or establish grounds for a declaratory judgment suit in an unfavorable forum.

Sometimes it is best to commence litigation immediately, with no or minimal notice. Sometimes it is best to conduct a more complete, pre-litigation investigation—possibly through private investigators. Sometimes it is best to seek TRO and preliminary injunctive relief at the outset of litigation. Sometimes it is better to take discovery first. Rare circumstances may recommend engaging the FBI, the police, or the local District or United States Attorney's office. Each situation is different, and will dictate a different set of pre-litigation considerations. But assessing the most strategic response to suspected trade secret theft should always be based on practical knowledge of what can—and cannot—be achieved through litigation.

The following provides a summary overview of the provisional injunctive remedies potentially available for trade secret misappropriation, and briefly highlights some of the practical and strategic issues that confront trade secret litigants at the outset of a case. This overview is not a primer on trade secret law. Instead, it seeks simply to identify issues that corporate counsel should know about, and discuss with your litigation counsel, in formulating strategy when faced with a trade secret crisis.

II. Provisional Remedies For Trade Secret Misappropriation

California and most other states have adopted the Uniform Trade Secrets Act, which was intended to create a more uniform body of trade secret law nationwide. The California

Uniform Trade Secrets Act—codified at Sections 3426 et seq. of the California Civil Code—sets forth statutory remedies for trade secret misappropriation. They include:

- Injunctive relief
- Damages for actual loss
- Unjust enrichment
- Reasonable royalty
- Exemplary damages for willful and malicious misappropriation (capped at twice actual damages)
- Reasonable attorneys' fees for bad faith or willful and malicious misappropriation.

The most common provisional remedies—granted at an early, preliminary stage of the case to prevent irreparable harm before trial—are temporary restraining orders and preliminary injunctions.

A. Temporary Restraining Orders

Under the Uniform Trade Secrets Act, “actual or threatened trade secret misappropriation may be enjoined”—by temporary, preliminary, and permanent injunctions. A temporary restraining order—or TRO—is a limited duration injunction issued to preserve the status quo—to prevent irreparable harm—pending a more complete presentation of the facts and law by both sides at a later preliminary injunction hearing.

TROs are typically sought upon filing the complaint with minimal notice—sometimes with no notice—to the adverse party. To qualify for a TRO, you must convince the Court—through a verified complaint, sworn declarations, and/or other evidence—that (1) you will suffer immediate and irreparable harm before the preliminary injunction hearing if the TRO is not issued, and (2) you are likely to win the case at trial. As a practical matter, you must present a compelling, factually-supported case that the defendant—unless enjoined by court order—will cause immediate and irreparable damage through public disclosure or commercial exploitation of valuable trade secret information.

If applied for at the outset of litigation, the TRO request will be based solely on informal investigation, without benefit of deposition or other discovery. For that reason, pre-filing investigation should be as thorough as circumstances allow. The TRO application should be filed as soon as reasonably practicable. Delay implies lack of immediate and irreparable harm, and is a common defense to requested TRO relief.

In most state and federal courts, you must schedule TRO hearings with the Court in advance, and provide at least 24 hour notice to the targeted parties. Compelling proof that the defendant will destroy key evidence—or publish your trade secrets on the Internet—if notified of the proceedings before the injunction issues may be good cause for a no-notice TRO. But no notice TROs are rarely issued in trade secret cases, and should be sought only in exceptional circumstances.

Under federal and state court rules, TROs expire 10 and 15 days, respectively, after issuance, absent consent or further order of the court for good cause. In both federal and state courts, as well, the court will condition the TRO on the posting of a bond to cover TRO-caused damage to the enjoined parties if the court later determines that the TRO should not have issued.

B. Preliminary Injunctions

A preliminary injunction extends through trial, unless modified or terminated sooner by the court. Because preliminary injunctions may prohibit the use of key technology or business information for the duration of the litigation—and because they reflect the court's views of the merits of the case—they are often the decisive point in trade secret litigation.

Although the precise standards differ from jurisdiction-to-jurisdiction, preliminary injunctions typically require proof of (1) probable success on the merits, (2) irreparable harm without the requested injunction, and (3) a balance of hardships between the trade secret claimant and the alleged misappropriator that favors the injunction. Courts consider other factors in granting or denying preliminary injunctions in trade secret cases, including diligence, other relevant conduct of the parties, and any public interest considerations.

Procedurally, the TRO application and supporting papers often serve as the opening papers for the preliminary injunction motion. In both California state and federal court practice, the court typically issues an “Order To Show Cause Re Preliminary Injunction” concurrent with its grant or denial of the TRO. The “Order To Show Cause” sets forth the terms of the requested preliminary injunction, directs the accused party to “show cause” why the preliminary injunction should not be issued as requested, and establishes a briefing and hearing schedule for the matter. If no TRO is sought—or the TRO request is denied—a preliminary injunction can be sought by standard motion procedure.

A preliminary injunction can enjoin both the direct misappropriators, and those in active concert or participation with them. This often includes both a former employee and the new employer, even if the new employer is not joined as a party to the case. At the preliminary injunction stage, courts typically require specificity in defining the trade secrets-in-suit, and may deny proposed injunctions that do not define the prohibited conduct with sufficient particularity.

Because the grant or denial of a preliminary injunction can hold significant business consequences for both parties, courts may allow pre-hearing deposition and other discovery on an expedited basis. In courts that authorize it, deposition and document discovery often occurs at a feverish pace before the preliminary injunction hearing. Also because of the potentially significant business consequences of an injunction issued without the benefit of a full trial on the merits, most courts require that the trade secret owner post a bond to cover damages caused by an improperly requested preliminary injunction. Depending on the circumstances, this bond requirement can be significant.

C. Actual vs. Threatened Misappropriation

The California Uniform Trade Secrets Act expressly authorizes injunctive relief for both “actual” and “*threatened*” misappropriation. Because clear proof of “actual” theft and misuse often does not exist at the outset of many employee competition cases, proof of “threatened” misappropriation may be key to obtaining a TRO or preliminary injunction. But what constitutes “threatened” misappropriation sufficient to support provisional injunctive relief remains unsettled under California law.

Two relevant factors are clear. First, California’s rule against employee non-compete agreements—its public policy favoring employee mobility—is now stronger than ever. In 2008, the California Supreme Court reaffirmed that section 16600 of the California Business & Professions Code prohibits most employee non-compete agreements, rejecting a line of employer-favorable, federal court cases that recognized a “narrow restraint” exception to the rule against non-competes. This case did not involve an employee covenant designed to protect trade secrets, and the Supreme Court expressly did not address “the so-called trade secret exception to section 16600.” But the Court’s unanimous reaffirmation of the policy favoring employee mobility is routinely cited against proposed injunctions that—directly or indirectly—restrain competitive employment, even if based on alleged trade secret theft.

Second, based on the policy of section 16600, California courts have rejected the so called “inevitable disclosure” doctrine. The “inevitable disclosure” doctrine posits that certain types of competitive employment will “inevitably” result in misuse of the former employer’s trade secrets, and—on that basis alone—can be enjoined. In jurisdictions that accept the “inevitable disclosure” doctrine, preliminary injunctions can be sought that prevent competitive employment—or otherwise restrain anticipated misuse of trade secrets—even without proof of actual or threatened misappropriation. So far in California, however, courts have viewed “inevitable disclosure” injunctions as equivalent to “post-hoc” non-compete agreements, and have rejected the doctrine as inconsistent with section 16600.

The difference between enjoined “threatened misappropriation” and non-actionable “inevitable misappropriation” is not clear. Mere possession of trade secrets (particularly if not in document form) is not enough. But the following factors should be considered, investigated, and argued as proof of a “threatened misappropriation:”

- The nature, extent, and competitive sensitivity of the claimed trade secrets, and the employee’s access to them;
- Evidence that the employee took physical or electronic documents, or other company materials;
- Prior misuse or disclosure of company trade secrets;
- Refusal to return trade secret materials in the employee’s possession;
- Dishonesty or other suspicious conduct before or related to the employee’s departure, or animosity between the employee and the company;

- Statements of intent to use the company's trade secrets or technology, or to solicit its customers, made to other company employees;
- Efforts to induce other employees with knowledge of trade secrets to defect; and
- Past misappropriation or related misconduct.

The message: in seeking a TRO or preliminary injunction based on "threatened misappropriation" in a California court, marshal as much evidence as possible to convince the Court that the threat is real, immediate, and substantial, not mere speculation.

III. Some Practical Considerations

Every trade secret case is different. Most strategic decisions—whether, when, where, and who to sue, whether to seek a TRO, whether to seek expedited discovery, etc.—will depend on the specific facts of the case. But the following are all factors to consider:

A. Forum Selection—Where To Sue

Where you sue may determine the outcome of your TRO and preliminary injunction request, and of your entire case. Consider carefully your forum options. Forum selection raises substantive law and procedural issues:

1. Substantive Law Considerations

State vs. Federal Court: State law governs most substantive trade secret law issues in both state and federal courts. But federal law standards for TRO and preliminary injunctive relief govern in trade secret cases filed in federal courts; state law rules govern in state court. The differences between state and federal standards for TRO and preliminary injunctive relief are typically not material. But they can be important depending on the circumstances of the case.

Even though the substantive law should be the same, moreover, state and federal courts sometimes approach the same body of law differently. Absent a controlling state Supreme Court decision, federal courts typically follow the precedent of other federal courts, even though state law applies. For example, Cal. Bus. & Prof. Code §16600—which invalidates most noncompete agreements in California—frequently becomes an issue in trade secret litigation. Until the California Supreme Court resolved the issue, a series of federal court decisions had enforced restrictive agreements based on a significantly more flexible interpretation of section 16600 than most state courts had given it. Depending on the specifics of the case, this conflict between the federal and state court approaches to section 16600 gave the decision to sue in state or federal court potentially outcome-determinative significance.

California vs. Other Jurisdictions: If your case provides opportunity to select between a California court and that of another state—where the conflict of law rules of the other state might dictate application of its substantive law—consider whether to sue outside California. Most states have adopted the Uniform Trade Secrets Act, but some have not. And some states—including California—have adopted modified versions of the UTSA. California trade secret law differs from some other states in at least two *potentially* material respects.

- By statute, California law requires that a trade secret claimant specify its alleged trade secrets with reasonable particularity. Although directed to trade secret discovery, this requirement sometimes becomes an obstacle to TRO and preliminary injunctive relief—particularly if the trade secret owner seeks discovery in support of a preliminary injunction. If time or other constraints make detailed trade secret specification a problem, consider a jurisdiction without such a requirement.
- Although the California Supreme Court has not decided the issue definitively, most California state and federal courts reject the "inevitable disclosure" doctrine. But this doctrine is the law in some jurisdictions, and it can provide an effective, prophylactic remedy against misappropriation. Depending on circumstances, suing in a jurisdiction that recognizes the "inevitable disclosure" doctrine may be an outcome-decisive move.

The message regarding forum selection and the substantive law: local convenience should not be the sole criterion. Know the relevant case law before selecting where you sue. It could be important.

Federal Law Remedies: Federal law provides potential remedies for trade secret theft, as well, including TRO and preliminary injunction remedies. These include the Computer Fraud And Abuse Act (CFAA), the International Trade Commission (ITC), and the Economic Espionage Act (EEA).

CFAA: the Computer Fraud And Abuse Act provides criminal and civil remedies for specified types of computer fraud, including injunctive and other equitable remedies. Depending on the circumstances, the CFAA provides civil remedies for trade secret misappropriation accomplished by unauthorized computer access. Because the CFAA is a federal statute, combining a viable CFAA claim with state law trade secret claims can establish federal court jurisdiction when the case might otherwise be limited to prosecution in a state court. Currently, the requirements for a viable CFAA case against defecting employees vary materially by jurisdiction. They are the subject of ongoing judicial review in the Ninth Circuit, which includes California. So know the relevant CFAA case law for the jurisdictions potentially available for your case in determining whether—and, if so, where—to sue for CFAA violations, in addition to trade secret theft.

ITC: the International Trade Commission provides expedited procedures to prevent the importation into the United States of products that infringe U.S. intellectual property. Although most commonly used to combat patent infringement, the ITC has jurisdiction over trade secret misappropriation, as well. ITC litigation is specialized—it occurs before federal Administrative Law Judges under rules unique to the ITC, not in state or federal court. If you face a competitive threat from imported products that improperly use your trade secrets, consult litigation counsel with ITC expertise to evaluate the potential advantages an ITC remedy may have over trade secret litigation in state or federal court.

EEA: the Economic Espionage Act of 1996 authorizes the Department of Justice and FBI to investigate and prosecute trade secret theft. The EEA provides no private remedies. But the DOJ—often with private company support—may seek trade secret injunctions in civil proceedings, in addition to prosecuting violators criminally. Seeking DOJ intervention has advantages and disadvantages, and—particularly where the misappropriation involves foreign perpetrators—enlisting the federal government’s assistance under the EEA should be considered.

2. Procedural Considerations.

State Court Venue: If your case can be brought in more than one county, choose carefully. Know the judges that may be assigned your TRO request, and compare the local rules and local TRO practices. Santa Clara County has more experience with technology-based trade secret injunction requests than most other local state courts. Law & Motion judges from complex business litigation practices may be more apt to grant trade secret TROs and preliminary injunctions than former prosecutor judges because of experience with them in their pre-judicial law practice. Many local state court judges conduct their *ex parte* calendars exclusively through their law clerks. In these courts, you make your case informally to the law clerk on most TRO applications. The law clerk may ask questions, take notes, discuss the case with the judge in chambers, then bring you an order that grants, denies, or modifies (in handwriting) your proposed TRO. In these courts, you should not expect a face-to-face hearing before the judge.

Federal Court: Since most trade secret claims are state law claims, federal court jurisdiction exists only if (1) there is diverse citizenship between the plaintiff and all defendants, or (2) the trade secret claim accompanies a patent, copyright, CFAA, or other federal law claim. If federal jurisdiction exists based on diversity jurisdiction, it is usually best either to file in federal court or to add parties that defeat diversity. Otherwise, a state court TRO application may be met with a removal petition that embroils the case in a jurisdictional dispute that derails or delays the court’s consideration of your requested TRO or preliminary injunction. When filing in federal court, consider applicable court assignment rules, the track record of the court on TRO and preliminary injunctions in similar cases, and the Local Rules and practices on temporary and preliminary injunction motions. Because *ex parte* and other short-notice motions occur less frequently in California federal court than in local state courts, there may be better opportunity for a face-to-face hearing with judge on a TRO application in federal court—either in chambers or in open court—than in the state court.

Preliminary Injunction Hearing: Most California state and federal courts typically decide preliminary injunction motions on the papers and oral argument, without live testimony or cross examination. In other jurisdictions—such as Texas—courts will hold mini-trials on preliminary injunction motions that can involve intensive, in-depth discovery followed by multiple days of evidentiary hearings.

B. Defendant Selection—Who To Sue

In employee defection cases, the target defendants are typically the former employee(s) and the new company. But strategic or tactical reasons may exist for suing only the former employee, or only the new employer. Consider carefully other potential targets, as well: foreign parent companies, local subsidiaries, vendors that cooperated with or agreed to support the new venture, or customers that moved their business to the new company, with knowledge of the misappropriation. In rare cases, it may be appropriate to sue individual executives or financial backers of the defendant company.

But if the goal is a TRO and/or preliminary injunction, the fewer adversaries the better. Not all defendant selection decisions must be made at the outset. More defendants often means more lawyer teams, more procedural motions, more jurisdictional fights, and more litigation distraction that can divert the court's focus from the merits of your TRO or preliminary injunction request. Usually it is best to seek TRO and preliminary injunctive relief against only the essential parties. If granted, the TRO and preliminary injunction orders should state that they bind not only the named defendants, but "all parties in active concert or participation with them." These orders can then be served on the additional parties, who will then risk liability for any violations of the orders.

Although all potential defendants need not be named at the outset, the California Uniform Trade Secrets Act has a three-year statute of limitations, and recent California case law confirms that—regardless of your TRO and preliminary injunction strategy at the outset—parties that you want to sue must be joined or sued separately within the statutory limitations period, in accordance with other applicable law.

IV. Conclusion

Every trade secret case is different. Most strategic decisions—whether, when, where, and who to sue, whether to seek a TRO, whether to seek expedited discovery, etc.—will depend on the specific facts of the case. This summary overview briefly highlights a few of the many practical and strategic issues that corporate counsel should know about—and discuss with your litigation counsel—when formulating strategy at the outset of a trade secret case.

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