

Advocate's View: Predicting success in protecting trade secrets –an analysis of four factors

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Steven E. Cole

Once of the benefits of being a business litigator is hindsight. We are presented with a problem, quite often in need of urgent attention, caused by someone else's decision-making or draftsmanship. Unlike other types of litigation, success is often measured within days or weeks by the initial determinations of a court on an application for provisional relief.

So what can we tell the client about the chances of success? What are the most important factors in predicting whether or not some immediate protection is likely to be forthcoming? In my opinion, the determinative factors are as follows:

Factor 1: An enforceable agreement. This is critical. In New York, agreements that are more restrictive than is necessary are regularly invalidated. Even if there is a possibility of partial enforcement, courts are likely to rule that a party seeking to enforce a facially overbroad agreement is unlikely to succeed on the merits of its

claim. This finding is fatal to a motion for a preliminary injunction.

How can a client ensure that an agreement will be enforced? Oftentimes less is more in restrictive covenants. Require only employees with access to trade secrets or other confidential information to execute agreements and then draft conservatively. Do all of the employees made to sign confidentiality agreements have access to confidential information or trade secrets? Are the restrictions on competition necessary to protect the trade secrets or are they imposed as a disincentive to compete fairly? What would an impartial observer (i.e., a judge) conclude?

If goodwill is sought to be protected in addition to trade secrets, does the agreement comply with longstanding New York Court of Appeals precedent on the limits of restrictions that may be placed upon post-employment solicitation of clients. Attempts to enforce overbroad restrictive covenants against former employees who pose no threat can end badly, such as in the case of *Leska v. Grant Int'l Co.*, where a New York Commercial Division judge entered an injunction against the *employer*, directing it not to further interfere with the plaintiff's job search. To assess and

improve predictability of enforcement, it may be a good idea to have agreements reviewed by a litigator with significant enforcement experience.

Factor 2: Active protection of confidential information and trade secrets through routine and consistent practices. As the New York Court of Appeals said in *Ashland Management, Inc. v. Janien*, “a trade secret must first of all be secret.” Information that is in the public domain will not qualify for trade secret protection no matter how important it is to the client’s business. Furthermore, the information must actually belong to the client, and not to a third party. 

The client must also act reasonably to protect its trade secrets through policies and restrictions on access. What safeguards and policies are in place to protect trade secrets? Are employees permitted to download files? Are there restrictions on disclosing information to third parties? Does the client actually enforce the security policies that exist?

The fact that an employee downloaded critical files during employment may be part of a scheme to misappropriate trade secrets. This is a nice piece of evidence to have if you are seeking an injunction. But did the employer routinely allow that activity to take place? If so, the client’s case for an injunction may be undermined by this practice.

Factor 3: Identification of the trade secrets for which protection is sought. The protection of trade secrets requires that an order be entered that is specific enough to advise the defendants as to what actions are prohibited. On the one hand, disclosure of the trade secrets themselves in publicly-available court filings will be fatal to the client’s claim. On the other extreme, a court must understand what is being protected to grant relief.

In a recent case from the Southern District of New York, the plaintiff sought to obtain an injunction to protect “product refinements” to a medical device. The Court in *Medicrea USA, Inc. v. K2M Spine, Inc.* could not “identify what these refinements are or determine whether they merit protection, let alone craft an injunction specific enough to put Defendants on notice [as to] what information may or may not be disclosed[.]” Plaintiff’s application was denied.

Factor 4: Evidence of misappropriation. Finally, having an agreement, trade secrets to protect, and an employee who leaves to work for a competitor is usually not enough to obtain injunctive relief. Rather, information must be gathered, sometimes forensically, and converted into evidence in admissible form that the court may consider in deciding the motion. The written submissions may be inconclusive, and an evidentiary hearing is often required. This hearing is an early opportunity to obtain and present evidence that will shape the landscape of the remainder of the litigation and likely have an important impact on the merits of the case.

Trade secrets must be protected in the early stages of any litigation. A thorough analysis of the four factors discussed above can help predict the success of actions taken at the commencement of a legal proceeding to protect trade secrets.

Steven E. Cole is the managing partner of Leclair Korona Cole llp. His practice is concentrated in commercial litigation.

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