



Trade Secret Quarterly

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Does Injunctive Relief Preclude a Right to Monetary Damages?

The primary goal in an action involving misappropriation of a trade secret is to stop the use and disclosure of that critical information. But even if a company blocks the use of its trade secret information by obtaining injunctive relief, it might not immediately be able to assess potential monetary damages. What next?

A recent federal court decision answers that question by ruling that the entry of a preliminary injunction does not stop the accrual of damages.

In *ResMan LLC v. Karya Property Management LLC*, the plaintiff licensed its property management software to a property management company that then provided access to another defendant for the purposes of aiding in developing competing software.

The jury reached a verdict against the defendants for breach of contract, tortious interference and trade secret misappropriation. In response to the plaintiff's motion for entry of final judgment and permanent injunction, the defendants argued, among other things, that the plaintiff could not obtain monetary damages because the court's preliminary injunction had severed any causal link to the plaintiff's harm.

But the court rejected this argument, finding that the preliminary injunction did not eliminate the head start given to the defendants from the misappropriation because it simply prevented them from commercially using the tainted software internally or externally.

The defendants also argued that the plaintiff was obtaining double recovery because all of its harm was addressed by the court's preliminary injunction. The court rejected this argument as well, noting that the jury found the defendants' wrongful conduct had caused the plaintiff harm in the form of a head start.

Proving Misappropriation

It's typically difficult to find direct evidence of theft in misappropriation cases because those who make off with secrets usually hide their tracks. Plaintiffs therefore must prove their cases with circumstantial evidence. A pair of recent cases highlights the types of circumstantial evidence that can support a claim for injunctive relief. In *Oakwood Labs. LLC v. Thanoo*, 999 F.3d 892 (3d Cir. 2021), the court held that indirect use of the former employer's trade secrets could be inferred from the timing of the competitive hire, coupled with deception in the employee's departure, the new employer's lack of experience in the relevant technology, unusually low financial investment, and unusually rapid success.

In contrast, a New York court held that merely retaining a former employer's confidential documents, without any proof of use, was not sufficient to state a claim for misappropriation. In *Zurich Am. Life Ins. Co. v. Nagel*, 2021 U.S. Dist. LEXIS 89781 (SDNY), the court held that this remained true even when the employee deliberately kept the documents as leverage for settlement of other claims against the employer.

Reasonable Efforts to Protect the Secrecy of Trade Secret Information

When prosecuting a trade secret claim, a company must not only demonstrate the value of the information at issue, but also that it exercised “reasonable efforts under the circumstances” to protect the information. In effect, courts will not step in to help if the owner has failed to help itself with security measures that match the business risk. In DePuy Synthes Prods. v. Veterinary Orthopedic Implants, Inc., 990 F.3d 1364 (Fed. Cir. 2021), the issue was whether to seal a court filing that contained confidential information about a manufacturer’s identity. There was no NDA or other contract establishing confidentiality; instead, the litigant relied on proof that it had kept the information confidential through its own internal security policies and protocols, but this was held to be insufficient. Similarly, the plaintiff in ASC Engineered Sols., LLC v. Island Industries, Inc., 2021 U.S. Dist. LEXIS 117177 (WD Tenn), sought summary judgment on the question of whether its efforts to protect its trade secrets were reasonable. The employer pointed to its policies and practice to inform employees about confidentiality and its marking of emails and documents with secrecy legends. The court was not persuaded. It held that such information could be considered but was not decisive because the company’s employees had denied seeing the security policies.

These cases highlight the need for companies to audit and evaluate the steps they take to protect their trade secrets. Policies are important, but practices are determinative.

Non-Compete Developments

The District of Columbia’s ban on non-compete agreements has been in the spotlight for the past year. The DC Council enacted the Ban on Non-Compete Agreements Amendment Act (the “Act”) in January 2021. The Act generally prohibits all non-competes in DC, subject to very narrow exceptions, including significant limits on employers’ ability to prohibit *simultaneous* employment. Its terms are some of the most sweeping in the country.

While the Act became law in March 2021, its restrictions were tied to an “applicability date” that left uncertainty

about when it would take effect. That applicability was set for April 1, 2022. It was expected that the Act would be amended prior to that time to address concerns about how the Act applies to employers’ conflict of interest and ethics policies. However, no movement had been made on that issue, so the applicability has now been delayed until October 1, 2022. This delay will hopefully provide sufficient time for the consideration of amendments to the Act before it actually goes into effect.

FOR MORE INFORMATION

For more information, please contact:



Deborah S. Brenneman

513.352.6638

Deborah.Brenneman@ThompsonHine.com

Debbie represents management in all areas of employment law, with a focus on trade secret and non-compete cases. She has a wealth of experience in successfully litigating and resolving these matters in state and federal courts across the country.

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