

COMMERCIAL LITIGATION

Money Isn't Everything

Undermining an Injunction Application by quantifying damages

By Leo K. Barnes Jr.

The adage "money isn't everything" has particular significance for injunction applications. A January 2011 decision by Eastern District Judge Nicholas Garaufis reminds counsel that no matter how solid a liability and damages analysis appears, and no matter how egregious the wrongdoing by a defendant, courts will not grant an injunction application if damages can be quantified, thereby undermining the irreparable harm element of the injunction application.

In *Liberty Power Corp., LLC v. Katz and Freedom Energy Services, LLC*, 2011 WL 256216 (E.D.N.Y. 2011), Plaintiff LPC moved for a preliminary injunction seeking to preclude defendants from continued use of plaintiff's alleged proprietary information for the purpose of continued solicitation of plaintiff's customers. According to the decision, LPC is a supplier of electricity to businesses, maintained an in-house staff to solicit large businesses, yet relied upon brokers ("sales channels") to solicit small and medium sized businesses. Defendants, former sales channels for the Plaintiff LPC, sought to identify customers interested in obtaining electricity from LPC, which prospective customers would enter into an electricity supply agreement with Plaintiff LPC. The defendants would receive a commission premised upon the electricity usage by the customers it referred to plaintiff, and defendants were responsible for renewing the customer's contracts with LPC.

Judge Garaufis found that there was "considerable evidence that Defendants obtained LPC's trade secrets in breach of an agreement, confidential relation or duty, or as a result of discovery by improper means." More specifically, a former employee of Plaintiff LPC, Keith Hernandez, was the inside sales channel support representative for defendants, and was responsible for maintaining LPC's relationship with defendants. Mr. Hernandez stated that while he was employed by LPC, defendants offered to pay Hernandez if he would provide LPC's proprietary information to defendants; Mr. Hernandez ultimately agreed to the propos-

al and, beginning in the fall of 2008, did, in fact, provide LPC's customer information to defendants. Defendants, in turn, utilized that information to obtain renewals from existing LPC customers whose contracts were initially achieved by other sales channels. Defendants paid Mr. Hernandez a percentage of the commissions which defendants earned from LPC for these renewals. When Mr. Hernandez was terminated by LPC in the summer of 2009, the theft continued.

[Hernandez] allegedly conspired with [Defendants] to continue to obtain LPC's customer-specific information from an LPC sales channel support representative, Yamil Moya ("Moya") []. When Keith Hernandez went to work for [Defendants] in January 2010, Moya gave Keith Hernandez his password to LPC's systems so that Keith Hernandez could access LPC's customer-specific information. Keith Hernandez used this access to continue providing customer-specific information to [Defendants]. ... [Defendants] do[] not dispute that [they] received LPC customer-specific information from Keith Hernandez. ... Katz does not specifically deny in his Affidavit that Katz paid Keith Hernandez a total of \$40,000 for LPC's customer-specific information.

Injunction Analysis in Federal Court

Judge Garaufis cited the Second Circuit's 2009 decision in *Faiveley Transport Malmo AB v. Wabtec Corp.*, 559 F.3d 110, at 116 (2nd Cir. 2009) which reiterates that, in this circuit, a movant "seeking a preliminary injunction must demonstrate: (1) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the movant's favor, and (2) irreparable harm in the absence of the injunction." After the District Court observed that LPC's injunctive relief claim was premised on "the risk that Defendants will further misappropriate



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its trade secrets", Judge Garaufis surmised that:

Accordingly, LPC is not entitled to preliminary relief prohibiting the misappropriation of trade secrets unless it demonstrates that Defendants likely misappropriated a trade secret. *Faiveley*, 559 F.3d at 116-17. "To succeed on a claim for the misappropriation of trade secrets under New York law, a party must demonstrate: (1) that it possessed a trade secret, and (2) that the defendants used that trade secret in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means." *N. Atl. Instruments, Inc. v. Haber*, 188 F.3d 38, 43-44 (2d Cir. 1999).

Likelihood of Success on the Merits

• Trade Secret Analysis
As the New York Court of Appeals observed in *Ashland Management Inc. v. Janien*, 82 N.Y.2d 395, 604 N.Y.S.2d 912 (1993), six factors recognized in the *Restatement* are utilized to determine whether the compilation of information constitutes a protected trade secret.

There is no generally accepted definition of a trade secret but that found in section 757 of *Restatement of Torts*, comment *b* has been cited with approval by this and other courts []. It defines a trade secret as "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." The *Restatement* suggests that in deciding a trade secret claim several factors should be considered:

"(1) the extent to which the information is known outside of [the] business; (2) the extent to which it is known by employees and others involved in [the] business; (3) the extent of measures taken by [the business] to guard the secrecy of the information; (4) the value of the information to [the business] and [its] competitors; (5) the amount of effort or money expended by [the business] in developing the information; (6) the ease or difficulty with which the

information could be properly acquired or duplicated by others" (*Restatement of Torts* § 757, comment *b*).

In *Liberty Power*, the court agreed with plaintiff's contention that LPC's established customer specific information was entitled to trade secret protection. The court's conclusion was premised upon several factors, including the fact that the information: was gathered over a long period of time and "through a specific investment of resources;" was specific to LPC's existing and former customers; was not easily ascertainable; and would permit "competitors to easily undercut" LPC's prices. Further underscoring the need for trade secret protection, the court observed that LPC maintained internal "security protocols" to control access to the information and likewise provided confidential protection of that information when contracting with its sales channels.

• Trade Secret Achieved by Improper Means

The court also agreed with plaintiff's second contention, that the trade secrets were achieved improperly by the defendants.

Despite the conflicting evidence, the court finds that Plaintiff has established that Defendants likely paid at least one LPC employee kickbacks in order to obtain customer-specific data that are likely trade secrets. "If a trade secret is acquired through conduct that is itself a tortious or criminal invasion of the trade secret owner's rights, the acquisition ordinarily will be regarded as improper." *Restatement (Third) of Unfair Competition* § 43 cmt. c (1995); see also *Restatement (First) of Torts* § 759 cmt. c (1939) ("Among the means which are improper are theft, trespass, bribing or otherwise inducing employees or others to reveal the information in breach of duty..."). Plaintiff has established that Defendants would not have been given access to the customer data had they not bribed an LPC employee to obtain it. Therefore, Plaintiff has

(continued on page 26)

Commercial Litigation (Continued from page 20)

established that Defendants discovered its trade secrets through "improper means." *Faiveley*, 559 F.3d at 117.

The court went so far as to observe, in a footnote, that defendants' actions apparently transcended the civil arena and likely constituted criminal conduct, noting that New York Penal Law § 180.03 prohibits commercial bribing in the first degree.

Irreparable Harm

As the title foreshadows, plaintiff's injunction application failed upon the court's analysis of the purported irreparable harm. Plaintiff argued that absent an injunction, Defendants would continue to use LPC's customer information to solicit LPC's customers and deliver them to other electricity suppliers. In fact, the court noted that defendants' opposition papers essentially acknowledged the diversion plan. Nonetheless, irreparable harm analysis must proceed:

In this analysis "the court must actually consider the injury the plaintiff will suffer if he or she loses on the preliminary injunction but ultimately prevails on the merits, paying particular attention to whether the 'remedies available at law, such as monetary damages, are inadequate to compensate for that injury.'" *Salinger v. Colting*, 607 F.3d 68, 80 (2d Cir.2010) (quoting *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391, 126 S.Ct.

1837, 164 L.Ed.2d 641 (2006).

The court concluded that plaintiff failed to carry its burden of establishing that the anticipated harm was actually *irreparable*. After casting doubt on plaintiff's suggestion that a presumption of irreparable harm exists in trade secrets cases, and holding plaintiff to its burden of establishing truly irreparable harm absent the injunction, the court found to the contrary and concluded that Plaintiff's harm was, in fact, quantifiable.

According to plaintiff, defendants stole trade secret information only with respect to a finite - albeit large - number of customers [Plaintiff claimed that Defendants acquired trade secret information concerning 4,630 former and current customers]. The harm Plaintiff has alleged in this case is the possibility that Defendants will use its trade secrets to undercut its contracts with a defined subset of its current and former customers and move them to competing electricity suppliers. Even if the court finds that Plaintiff has shown that there is an actual and imminent risk that Defendants will use Plaintiff's trade secrets to do this, the harm that would result is measureable and compensable through an award of damages after trial. Indeed, Plaintiff has calculated the potential renewal value of the

contracts between it and the customers about whom Defendants obtained Plaintiff's proprietary information. At trial, Plaintiff would be able to offer evidence establishing how many customers it lost due to Defendants' misappropriation of its trade secrets, and could recover damages to compensate it for this harm [emphasis added].

The court rejected the injunction application, despite concluding that: (1) plaintiff's misappropriated customer information was entitled to trade secret protection; and (2) that defendants' effort to gain that data likely constituted criminal misconduct. Despite these egregious circumstances, wherein a defendant bribed his competitor's employee to obtain confidential trade secret information, the court refused to award an injunction. When presenting an injunction application, movant's counsel must carefully maneuver a tightrope between competing concerns - at all times balancing the need to demonstrate the severe consequences which a given defendant's egregious misconduct has imposed upon the movant's business, while simultaneously developing the irreparable injury aspect of the claim. Unfortunately for LPC, the two concerns were irreconcilable.

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