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# Trade Secrets Ruling Rejects Irreparable Injury Presumption

By **John Siegal** And **Francesca Ambrosio**

Some legal doctrines seem so entrenched that lawyers and trial courts stop thinking about them. For at least 25 years, when seeking preliminary injunctions in New York trade secrets cases, lawyers have simply asserted that irreparable injury is presumed when trade secrets are at stake, opposing counsel largely stopped contesting the notion and, reciting this rule, trial judges in the federal and state courts have not bothered to make findings of whether there is proof of actual, imminent irreparable injury in the absence of injunctive relief. Until now.

On March 9, in *Faiveley Transport Malamo AB v. Wabtec Corp.*,[1] a case concerning brake technology used for New York City subway cars, the U.S. Court of Appeals for the Second Circuit brought the practice of granting trade secrets injunctions without proof of irreparable injury to a screeching halt.

Following *Faiveley*, the presumption of irreparable injury does not apply in cases where the trade secrets are simply being used for commercial purposes; instead, the presumption will apply only if, absent an injunction, "a misappropriator of trade secrets will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets."[2] Competitive use of the protected information by itself will not be enough to warrant an injunction, and without more will be remediable only through damages.

This decision will fundamentally change preliminary injunction litigations in trade secrets cases, requiring the moving party to develop and demonstrate actual evidence of imminent, irreparable injury and, often, making it significantly more difficult to obtain injunctions.

As we show below, *Faiveley* is a significant re-routing of the common law that will reshape the practice of trade secrets litigation not only in the federal courts within the Second Circuit but in all likelihood in New York's state courts as well.

Despite the customary concept that irreparable injury is the most important factor in the preliminary injunction analysis, New York litigants have been proceeding for decades as if no showing of irreparable injury was required when trade secrets were involved.[3] Since at least the Second Circuit's 1984 decision in *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, a presumption of irreparable injury has been derived from the notion that "the loss of trade secrets cannot be measured in money damages" because, once lost, a trade secret lost is "lost forever."[4] District courts in the Second Circuit held repeatedly that a presumption of irreparable harm automatically arises once the court has determined that a trade secret has been misappropriated.[5]

And, New York state courts likewise routinely applied the presumption, forgoing any requirement of actual proof of irreparable injury to warrant a trade secrets injunction.[6] The use of this presumption became such a habit that courts and counsel stopped examining the issue.

It turns out, the Second Circuit has now explained, that there never was—or never should have been—a presumption of irreparable injury absent proof of further public dissemination, and not mere use, of trade secret information. The standard citation for this presumption has usually been to the Second Circuit's decision in *FMC Corp.* But that decision offers far less support for any sort of generally-applicable presumption than its frequent invocation suggests.

The *FMC Corp.* court's decision regarding irreparable injury consisted in its entirety of the following two sentences:

> The district court correctly found that the information in question is of great value to FMC, and it is clear that the loss of trade secrets cannot be measured in money damages. A trade secret once lost is, of course, lost forever.[7]

That's it. From those few words of passing comment at the end of a decision in a case that turned on whether or not a trade secret existed and in which irreparable injury appears to have been barely litigated, if at all, a doctrine arose that effectively eliminated the requirement of proving irreparable injury for a quarter century of New York trade secrets litigation. Though pithy and logical, the *FMC Corp.* court's observation hardly reads like the annunciation of a doctrine. Perhaps it was the court's use of the knowing phrase "of course" that elevated a passing thought into doctrinal significance.

At any rate, the sources cited by the *FMC Corp.* court provide scant support for the proposition, repeated in mantra-like fashion by New York courts since, that "loss of trade secrets cannot be measured in money damages" and therefore injunctions are warranted in trade secrets cases even absent proof of irreparable injury. Neither of the two cited sources, however, even mentioned irreparable injury, and they certainly supplied nothing on which a presumption of irreparable injury could be well-grounded.

The case cited by the *FMC Corp.* court, *Franke v. Witschek*,[8] was a 1954 decision in a case that did not even involve an application for a preliminary injunction and did not discuss whether monetary damages are adequate to remedy a misappropriation of trade secrets.

The other cited source, a Comment published in the Harvard Law Review[9] in 1951, did not discuss either the preliminary injunction standard or the requirement of irreparable injury, and simply mentioned injunctions and damages as two possible types of remedies for trade secrets misappropriation. Thus, the *FMC Corp.* court actually cited no preliminary injunction, irreparable injury case law in support of its statement that damages in a trade secrets case cannot be measured.

Despite these meager origins, the presumption

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of irreparable injury had a long and dominant ride as the prevailing legal doctrine. Until *Faiveley*.

*Faiveley* is a clear and definite decision that leaves no doubt that there is no longer any generalized presumption of irreparable injury in Second Circuit trade secrets preliminary injunction cases.

### Stop This Train

The journey the *Faiveley* court took is a familiar one to any frequent traveler of trade secret cases. After establishing that the plaintiff had shown a likelihood of success on the merits, something happened on the way to the irreparable injury presumption. The court held that "[w]here a misappropriator seeks only to use those secrets—without further dissemination or irreparable impairment of value—in pursuit of profit, no such presumption [of irreparable injury] is warranted because an award of damages will often provide a complete remedy for such an injury." You can almost hear the interruption on the familiar commute to a trade secrets injunction. Hurtling down the tunnel, the breaks suddenly screech, the train comes to a dead stop, and the passengers are turning to look at each other in bewilderment. What is happening?

The *Faiveley* court explained that it had all been a misunderstanding, that 25 years of trade secrets doctrine had been a widespread misimpression, and that its "passing observation" in *FMC Corp*. does not "mean that a presumption of irreparable harm automatically arises upon the determination that a trade secret has been misappropriated."[10] Rather, a rebuttable presumption of irreparable harm may only be warranted in cases where there is a danger that the secrets at issue will be disseminated "to a wider audience."

Indeed, the *Faiveley* court went a step further, stating that in fact trade secrets misappropriators often have just as much of a profit interest in protecting the confidentiality of the information at issue as the original owner of the secret. In these situations, the court noted, quoting a 1996 decision by Judge Connor, "the only possible injury that [the] plaintiff may suffer is loss of sales to a competing product…[which] should be fully compensable by money damages."[11]

While the *Faiveley* decision vacated a preliminary injunction issued below, the controlling logic of *Faiveley* was actually foreseen and persuasively propounded by the district court judge in the case, Judge Jed Rakoff.

The court noted two reasons that the presumption should not pertain in *Faiveley*. First, in the absence of an injunction, if the Faiveley company did not obtain the contract due to its competitor Wabtec's obtaining the contract using Faiveley's trade secret information, then the monetary loss associated with the contract at issue would be calculable and compensable as monetary damages. Second, the court noted that Wabtec "appears to be treating [the trade secrets] with the same confidentiality that they give to their own proprietary information…."[12] For both of these reasons, although the injunction he issued was vacated, Judge Rakoff began the logical attack on the presumption of irreparable injury that the Second Circuit completed in its recent and decisive pronunciation in *Faiveley*.

### Will State Courts Follow?

*Faiveley* is a Second Circuit case applying New York law.[13] While the New York state courts are not required to follow a federal court's interpretation of New York state law as binding precedent,[14] the reality is that when a federal appellate court decisively interprets state law, state courts often follow suit. That is likely to be the case here.

The state courts followed the track first travelled by the Second Circuit and its district courts in *FMC Corp*. and its progeny that resulted in the entrenched view that "[i]t is clear irreparable harm is presumed where a trade secret has been misappropriated."[15] These federal cases were followed by New York state cases holding that irreparable injury is presumed when a plaintiff establishes trade secrets misappropriation.[16]

Court after court took the Second Circuit's passing observation in *FMC* as a green light to grant preliminary injunctions, an equitable remedy reserved for use only when a remedy post-trial will not be adequate,[17] without a thorough inquiry—or, indeed, any inquiry at all—into irreparable injury. Once the *FMC* train left the station, court after court did not question whether such an extraordinary remedy was truly necessary. In this regard, the state courts followed the federal courts down the track of applying a presumption of irreparable injury.

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That is the same route that has been followed recently with respect to a retreat from the doctrine of inevitable disclosure in trade secrets cases. The inevitable disclosure doctrine applies when a "former employee's new job function will inevitably lead her to rely on trade secrets belonging to a former employer."[18] Throughout the 1990s, New York's state and federal courts grew increasingly reliant on the inevitable disclosure doctrine in determining whether to grant preliminary injunctions in trade secrets cases.[19] More recently, however, courts have begun to shy away from the inevitable disclosure doctrine, more frequently limiting the use of their injunctive powers to cases in which there is evidence of actual misappropriation. This trend toward doctrinal skepticism began with a federal decision and has been followed by similar insistence by the state courts on actual proof of trade secrets misappropriation.[20]

Given the clarity of the Second Circuit's decision in *Faiveley*, the long-standing but shallow roots of the presumption of irreparable injury, and the tradition of New York's federal and state courts following parallel tracks with regard to the evolution of trade secrets law, in short order we can expect to see New York's state courts refusing to apply the presumption of irreparable injury on motions for preliminary injunctions in misappropriation of trade secret cases where there is no proof or actual threat of the trade secrets being further disseminated into the marketplace and therefore being "lost forever."

While there will no doubt be extensive litigation over the meaning and scope of *Faiveley*—including issues such as what constitutes further dissemination of trade secrets and what quantum of proof of it is needed to show irreparable injury—*Faiveley* will in all likelihood swiftly and certainly rule the day, the decade and beyond in New York trade secrets injunction litigation.

1. *Faiveley Transp. Malmo AB v. Wabtec Corp.*, 2009 WL 636020 (2d Cir. March 9, 2009).
2. *Faiveley*, 2009 WL 636020, at 6.
3. Id. at 7 (noting a lack of evidence in the record supporting irreparable injury).
4. *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 63 (2d Cir. 1984) (per curiam).
5. See, e.g., *Wenner Media LLC v. N. Shell N. Am. Ltd.*, No. 05 Civ. 1286 (CSH), 2005 WL 323727, at 4 (S.D.N.Y. Feb. 8, 2005); *Lumex Inc. v. Highsmith*, 919 F.Supp. 624, 628 (E.D.N.Y. 1996); *Ivy Mar Co. v. C.R. Seasons, Ltd.*, 907 F.Supp. 547, 567 (E.D.N.Y. 1995); *Anacomp Inc. v. Shell Knob Serv. Inc.*, No. 93 Civ. 4003 (PKL), 1994 WL 9681, at 5 (S.D.N.Y. Jan. 10, 1994); *Computer Assocs. Int'l v. Bryan*, 784 F.Supp. 982, 986 (E.D.N.Y. 1992).
6. See, e.g., *L-3 Comm. Corp. v. Kelly*, 10 Misc.3d 1055(A) at 4 (Sup. Ct. Suffolk Co. 2005); *Sylmark Holdings Ltd. v. Silicone Zone Int'l Ltd.*, 5 Misc.3d 285, 299 (Sup. Ct. N.Y. Co. 2004); *Doubleclick Inc. v. Henderson*, No. 116914/97, 1997 WL 731413 at 7 (Sup. Ct. N.Y. Co., Nov. 7, 1997).
7. *FMC Corp.*, 730 F.2d at 63 (citations omitted).
8. *Franke v. Witschek*, 209 F.2d 493, 497-98 (2d Cir. 1953).
9. Protection and Use of Trade Secrets, 64 HARV.L.REV. 982 (1951).
10. Id. (quoting *FMC Corp.*, 730 F.2d at 63).
11. Id. (quoting *Geritrex Corp. v. Dermarite Indus., LLC*, 910 F.Supp. 955, 966 (S.D.N.Y. 1996) (Conner. J.)).
12. *Faiveley Transp. Malmo AB v, Wabtec Corp.*, 572 F.Supp.2d 400 at 409 (S.D.N.Y. 2008).
13. *Faiveley*, 2009 WL 636020, at 4.
14. *Pitt v. City of New York*, 444 N.Y.S.2d 522, 528 (Sup. Ct. N. Y. Co. 1981).
15. *Lumex*, 919 F.Supp. at 628; see also *Wenner Media*, 2005 WL 323727, at 4.
16. *Sylmark Holdings*, 5 Misc.3d at 299; *Doubleclick*, 1997 WL 731413, at 7.
17. *Grand River Enter. Six Nations, Ltd. v. Pryor*, 481 F.3d 60, 66 (2d Cir. 2007).
18. *Doubleclick*, 1997 WL 731413, at 5.
19. Id.; see also *Wenner Media*, 2005 WL 323727, at 4; *Estee Lauder Co. Inc. v. Batra*, 430 F.Supp.2d 158, 174 (S.D.N.Y. 2006).
20. *EarthWeb Inc. v. Schlack*, 71 F.Supp.2d 299, 310 (S.D.N.Y. 1999); *Marietta Corp. v. Fairhurst*, 30 A.D.2d 734, 736 (3d Dept. 2003).

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