Remedies
Covenants Not to Compete

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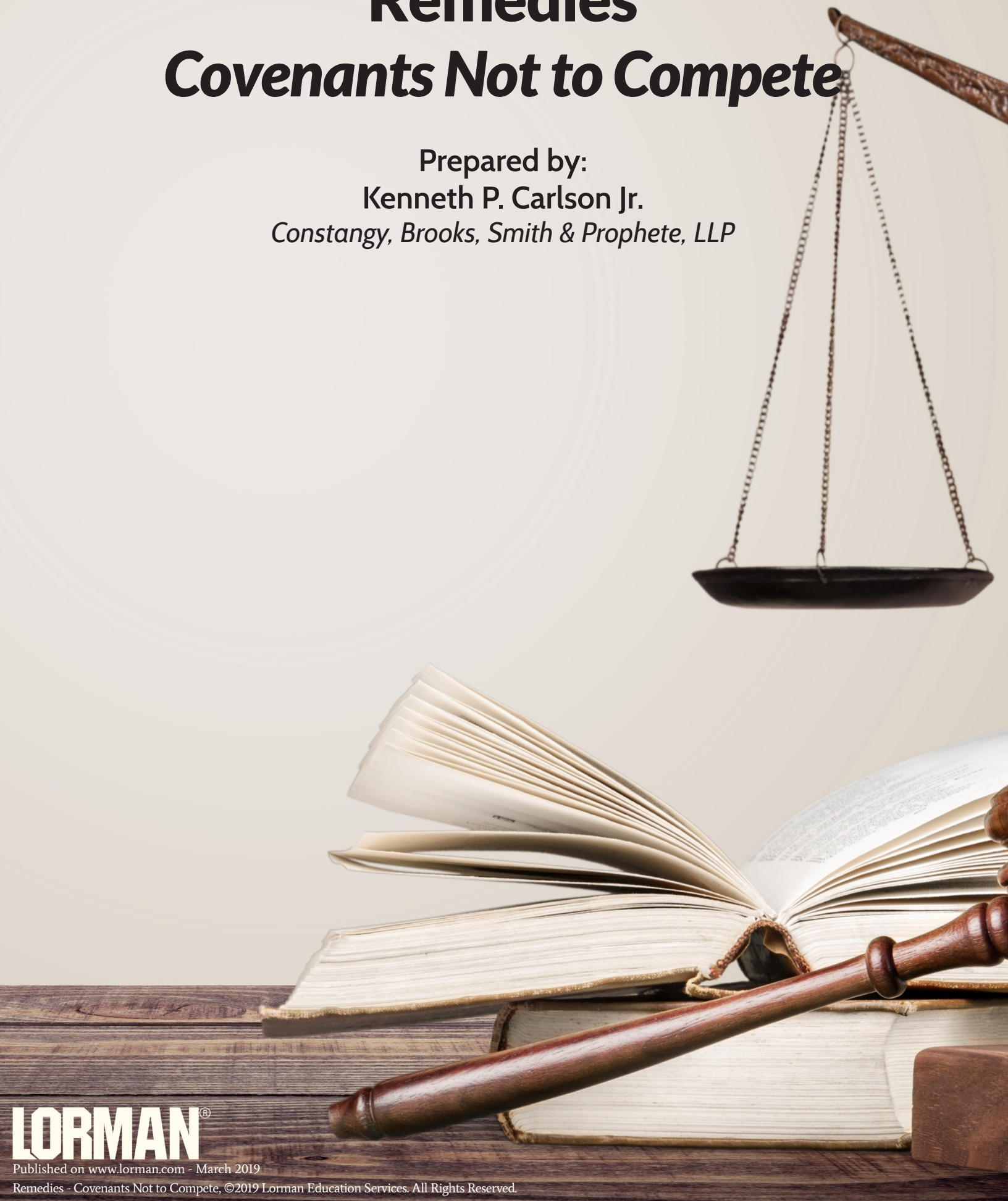

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Remedies.

Noncompete agreements and trade secret rights are meant to be enforced — quickly, if necessary, especially when a breach or threatened breach occurs and unfair competition is imminent. Therefore, the ability to enjoin breaching activity in this type of litigation can even be more important than actual monetary damages or other forms of relief. In fact, during threatened breach situations, or in situations where a violation has occurred but has not yet had a direct impact on a company's business, actual damages might not even be present at the time a lawsuit is filed.

A. Temporary Restraining Orders, Preliminary and Permanent Injunctions.

The best means to accomplish quick, preemptive action in trade secret and noncompete litigation is through the use of injunctions that prevent *actual or threatened* misappropriation. Not only are these equitable remedies expressly provided for in the UTSA and its progeny of state trade secret statutes, but most noncompetition agreements also enable injunctive relief as an immediate remedy *without limiting* any monetary recoveries.[21]

Injunctions can also be used as part of an overall litigation strategy, especially in terms of potential settlements. In particular, when granted injunctions generally prevent a former employee or competitor from the new employment and/or from engaging in certain competitive activities; when denied, they arguably forecast the litigation's likely outcome. Either ruling can lead to the parties being more open to an early and more reasonable settlement – a fact that is repeatedly evidenced by how noncompete and trade secret cases are often resolved shortly before, during or soon after a preliminary injunction hearing.

The most common types of injunctive relief when enforcing covenants not to compete and trade secret rights are temporary restraining orders and preliminary injunctions, both of which are normally governed by state law. If a party wins at trial, then permanent injunctions might also be awarded.

In many jurisdictions, a temporary restraining order – commonly called a "TRO" – may be obtained *ex parte* (without the other side being present) unless you know that your opponent is represented by legal counsel, and it's often sought at the time a noncompete or trade secret lawsuit is filed. However, applicable court rules may also require a party seeking a TRO to first contact

[21] Employees opposing injunctive relief may argue that injunctions are equitable remedies that can only be obtained when an adequate remedy at law (*i.e.*, damages) is unavailable. Since employers seeking injunctions in noncompete cases also usually seek monetary damages, employees may argue that such damages are sufficient and therefore an injunction is improper. However, most courts do not follow such a restrictive reading. Rather, as discussed in this section, the standard is usually that of "irreparable harm" *or* a need to adequately protect the employer's rights "during the course of litigation." *See, e.g.*, A.E.P. Indus., Inc. v. McClure, 308 N.C. 393, 406-08, 302 S.E.2d 754, 762-63 (1983) (focusing on the latter analysis in upholding preliminary injunction).

the opposing party, regardless of whether they have known legal counsel, in order to inquire about any representation or to at least notify them about the TRO motion and give them an opportunity to be present when meeting with the judge.

As inferred from its name, a TRO is temporary and can only last for a limited period of days (such as 10 days in North Carolina), or for such longer period as the court may order (if allowed by law or a restrained party might agree). If issued, a monetary bond must normally be posted at a level set in the judge's discretion, and a preliminary injunction hearing must usually be scheduled within the TRO's effective period.[22]

> *Litigation Tip*: Immediate service of process is critical when enforcing a TRO. Make sure the sheriff's department or other process server recognizes this fact, and stay in contact with the department or server to determine when service is made, providing any additional contact information as needed about the person being served.

Regardless of whether a TRO is issued, a party can at any time during the course of litigation move for a preliminary injunction after proper notice. A hearing must be held and, if granted, the preliminary injunction order must also set a bond and contain findings of fact and conclusions of law related to the bond amount. To obtain a preliminary injunction – as well as a TRO since the legal requirements are essentially the same[23] – a party in most jurisdictions must meet certain requirements which usually involve showing probable success on the merits, and some type of irreparable harm or other need for immediacy, such as preserving the rights of the parties during that phase of the litigation.

For example, in North Carolina the preliminary injunction standard is as follows: (1) the party must show a "likelihood" of success on the merits of its lawsuit; and (2) the party must show that it is likely to suffer "irreparable harm" without the injunction *or* it is apparent that an injunction is necessary to protect the party's rights during the course of litigation.[24] Redlee/SCS, Inc. v. Pieper, 153 N.C. App. 421, 423, 571 S.E.2d 8, 11 (2002). In New York, "the movant must demonstrate (1) a likelihood of ultimate success on the merits, (2) irreparable injury absent the

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[22] While quite useful and common to noncompete litigation, valid reasons also exist for *not* seeking a TRO in a given situation. These reasons may include at least one or more of the following: (1) potential loss at preliminary injunction hearing; (2) resulting forfeiture of bond and the payment of any other interim damages to whoever was restrained; (3) cost of the bond itself; and (4) a strategic decision that discovery is first needed to collect enough information to support a preliminary injunction, which can always be brought later during the lawsuit.

[23] *See, e.g.*, Morgan Stanley, infra, in which the court provides the legal elements of a preliminary injunction and then observes that "The same standard applies to a request for a temporary restraining order." Morgan Stanley DW, Inc. v. Frisby, 163 F.Supp.2d 1371, 1374 (N.D.Ga. 2001) *citing* Ingram v. Ault, 50 F.3d 898, 900 (11th Cir. 1995).

[24] Note the either-or nature of the second requirement under North Carolina law. Even if irreparable injury is questionable, the court can rely on the broader language of "protect[ing] plaintiff's rights" during the lawsuit to justify an injunction — and a similar argument by either side that they have been "deprived of a substantial right" (*i.e.*, the ability to work in a particular job, or to adequately protect one's business interests) is often used by the losing party to appeal from an otherwise interlocutory preliminary injunction order. A.E.P. Indus., 308 N.C. at 405, 302 S.E.2d at 759-62 (citations omitted).

granting of the preliminary injunction, and (3) a balancing of equities in favor of the movant's position . . . 'A party seeking the drastic remedy of a preliminary injunction must establish a clear right to that relief under the law and the undisputed facts'." Radiology Associates of Poughkeepsie, PLLC v. Drocea, 87 A.D.3d 1121, 1123, 930 N.Y.S.2d 594, 597 2011 N.Y. Slip Op. 06830 (N.Y.A.D. 2 Dept. Sep 27, 2011). For noncompete cases in Ohio, a party must show the likelihood of irreparable harm and reasonableness of the restrictive covenant, given that an "injunction is an extraordinary remedy in equity that is available only where there is no adequate remedy at law . . . [and] may be granted by a court if it is necessary to prevent a future wrong that the law cannot". Brentlinger Enterprises v. Curran, 141 Ohio App.3d 640, 646, 752 N.E.2d 994, 999 (2001).

Georgia is an example of where the legal standard for a preliminary injunction is somewhat different. In addition to demonstrating likelihood of success on the merits and irreparable harm, a party seeking injunctive relief must also show that "the threatened injury to the movant outweighs whatever damage the proposed injunction may cause the opposing party" and that "the injunction, if issued, would not be adverse to the public interest." Morgan Stanley DW, Inc. v. Frisby, 163 F.Supp.2d 1371, 1374 (N.D.Ga. 2001). And in Illinois, the preliminary injunction standard has a four-part inquiry plus a balancing of the "hardships":

> A preliminary injunction is not meant to resolve the merits of the case, but to preserve the status quo until the merits can be decided . . . The party seeking the preliminary injunction must establish four factors before the injunction will be granted: "(1) a clearly ascertained right in need of protection, (2) an irreparable injury in the absence of an injunction, (3) no adequate remedy at law, and (4) a likelihood of success on the merits." . . . The court must also determine if the balance of hardships to the parties supports the grant of a preliminary injunction.

Podiatry Center, Ltd. v. Ochwat, 2013 IL App (1st) 120458, 990 N.E.2d 347, 356, 371 Ill.Dec. 447, 456, (2013) (citations omitted).

The similarity of preliminary injunctions and temporary restraining orders is also exhibited in Illinois: "A party is entitled to a temporary restraining order where they show a clear ascertainable right that needs protection, will suffer irreparable harm without relief, has no other adequate remedy at law, and is likely to succeed on the merits . . . Finally, the court must balance the equities in granting the injunction against the consequences of not granting the injunction. All the elements must be proven for the plaintiff to succeed. Zabaneh Franchises, LLC v. Walker, 2012 IL App (4th) 110, 215, 972 N.E.2d 344, 347, 361 Ill.Dec. 859, 862 (Ill.App. 4 Dist. Jul 17, 2012) (citation omitted).

These legal requirements will depend upon the facts presented at the preliminary injunction hearing through witnesses, affidavits, depositions, any exhibits and arguments of counsel. Once issued, a preliminary injunction will normally continue until the case is resolved — whether by settlement, motion for summary judgment (or other pretrial motion to dismiss), or trial on the merits. As mentioned above, parties often resolve trade secret and noncompete cases between the

time a TRO is issued and the preliminary injunction hearing is held, or during or soon after the hearing itself regardless of whether a TRO was granted. The terms of the resolution often depend on whether and to what extent the party opposing the motion is enjoined, not to mention the particular motivation that everyone might have in quickly ending the lawsuit.

> *Litigation Tip*: Know your judge. Although live testimony is usually preferred, some judges simply want affidavits or deposition testimony to support or oppose a motion for preliminary injunction.

B. Damages.

In addition to injunctive relief, monetary remedies for noncompete agreement and trade secret litigation may at least include any of the following, provided their legal standards are met:

- actual or compensatory damages (including lost profits)
- consequential damages
- punitive damages
- restitution and constructive trusts
- royalties

See, e.g., Uniform Trade Secrets Act, §§ 3-4.

As for attorneys' fees and costs, they are usually only recoverable by statute or written agreement (such as an attorneys' fee provision in a covenant not to compete). The good news regarding state trade secret statutes is that attorneys' fees and costs will normally be awarded to the prevailing party if misappropriation is "willful and malicious," or if a claim is made in "bad faith." *See, e.g.*, Uniform Trade Secrets Act, § 4; The North Carolina Trade Secrets Protection Act, N.C. Gen. Stat. § 66-154 (stating conditions for awarding injunctive relief, damages and attorneys' fees, with compensatory damages being measured by "the economic loss or the unjust enrichment caused by misappropriation of a trade secret, whichever is greater"); Fla. Stat. Ann. § 542.335(1)(k) (allowing court to award attorneys' fees and costs to the prevailing party in any action involving a restrictive covenant, when the agreement itself does not provide for such an award).

Examples of other cases involving various forms of damages in covenant not to compete and trade secret cases include: World Wide Prosthetic Supply v. Mikulsky, 251 Wis.2d 45, 640 N.W.2d 764 (2002) (excellent discussion of "lost profits" as damages under Wisconsin Uniform Trade Secrets Act); Learning Curve Toys, Inc. v. Playwood Toys, Inc., 342 F.3d 714 (7th Cir. 2003) (reinstating jury verdict of 8 percent royalty in favor of Playwood Toys, plaintiff below, and remanding for trial on exemplary (punitive) damages and consideration of plaintiff's request for attorneys' fees); Perdue Farms, Inc. v. Hook, 777 So.2d 1047 (Fla. Ct. App. 2001) (affirming $27 million jury verdict for actual damages and unjust enrichment, reversing exemplary or punitive damages award, and limiting prejudgment interest).