

THE FALSE PROMISE OF INJUNCTION CLAUSES

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by Frederick A. Brodie and Nathan R. Smith.



Frederick A. Brodie
Litigation
+1.212.858.1628
fab@pillsburylaw.com



Nathan R. Smith
Litigation
+1.619.544.3210
nathan.smith@pillsburylaw.com

Frederick A. Brodie is a litigation partner in the New York office of Pillsbury Winthrop Shaw Pittman LLP, and Nathan Smith is a litigation associate in the firm's San Diego office.

One-minute Read

Although injunction clauses can be an important tool in contracts governing IP rights, they are often misunderstood. Despite such a clause's promise of injunctive relief in the case of a breach of the agreement, US courts are not compelled to grant automatic injunctions based solely on contract language. Thus, while an injunction clause can provide some evidence of irreparable harm, estop the other party from challenging the application for an injunction, and weigh in favour of relief when the balance of hardships is considered, parties to agreements containing such clauses should be aware that injunctive relief remains in the judge's discretion.

Contracts containing injunction clauses, in which the parties agree that a court must grant them an injunction upon request, can often give parties a false sense of security regarding remedies for injunctive relief. In such clauses, the contracting parties stipulate that a breach of the agreement would meet the factual requirements for an award of injunctive relief. After having laid a factual groundwork, the parties declare that an innocent party will be legally entitled to an injunction in the event of a breach.

But do contracting parties really have the authority to compel a court to grant one of them an injunction upon request? Courts have frequently answered that question “no”. Thus, while an injunction clause is of some use, it cannot guarantee injunctive relief.

No ticket to injunctive relief

Courts examining injunction clauses have made clear that these provisions cannot guarantee an automatic injunction.

To begin with, the contracting parties have no right to decide whether to grant injunctive relief. Rather, that decision lies within the court's discretion.

Courts have also recognised that the recitals in an injunction clause may be inaccurate. At the time the contract is signed, the parties lack foreknowledge of the nature or consequences of a particular breach. Even if the anticipated consequences occur, the parties might simply be wrong in characterising the harm as “irreparable”. For example, in *First Health Group Corp v Nat'l Prescription Adm'rs, Inc* (MD Pa 2001), when a medical benefits manager sought to enforce non-competition, non-solicitation and confidentiality agreements against its former employee, the presence of

an injunction clause did not avoid the required analysis of whether the company would suffer irreparable harm without a preliminary injunction. The court denied injunctive relief because the threatened harm was both speculative and compensable by monetary damages.

Additionally, courts have rejected the notion that a contract clause, by itself, provides sufficient evidence to support preliminary injunctive relief. For instance, in *Dominion Video Satellite, Inc v Echostar Satellite Corp* (10th Cir 2004), a federal appellate court reversed a preliminary injunction enforcing the plaintiffs exclusive right to transmit Christian-themed programming through the defendant's satellite. The district court had premised an injunction on the fact that the contract granted exclusive rights. The US Court of Appeals for the Tenth Circuit wrote: "Were we to affirm the district court's finding on irreparable harm, we would in essence be ruling that whenever a party enters into a contract containing some form of exclusivity provision, injunctive relief is automatic upon breach of the clause even when the breaching party has refuted every assertion of specific irreparable harm put forth by the opposing party. We are not willing to go that far."

The net result: contract language cannot create a right to injunctive relief when an injunction would otherwise be inappropriate.

Injunction clauses still may be useful

Although an injunction clause cannot guarantee injunctive relief,

that does not mean such clauses are worthless. In several ways, an injunction clause may assist a party seeking an injunction.

Variations on this type of injunction clause are appearing with increasing frequency in IP contracts:

It is agreed that the rights and benefits of each of the parties pursuant to this Agreement are unique and that no adequate remedy exists at law if any of the parties shall fail to perform, or breaches, any of its obligations hereunder, that it would be difficult to determine the amount of damages resulting therefrom, and that such breach would cause irreparable injury to the non-breaching parties. Therefore, the non-breaching party shall be entitled to injunctive relief to prevent or restrain any breach of this Agreement.

First, while an injunction clause cannot alone support the entry of an injunction, the clause does not constitute evidence of the parties' intent. When an applicant has submitted other evidence to support an injunction application, courts have given weight to the parties' contractual statements regarding harm and remedies. For example, in *North Atlantic Instruments, Inc v Haber* (2d Cir 1999), where the Second Circuit affirmed a preliminary injunction that protected a list of client contacts as a trade secret, the defendant had acknowledged in his employment agreement that a breach of his confidentiality obligation would cause the employer "irreparable injury".

Further, an injunction clause may effectively tie the hands of the opposing party. Having agreed in the contract that an injunction is appropriate, the opposing party could be estopped from claiming that an injunction would be improper or unwarranted. Still, this use of an injunction clause will likely have limits. Considering a closely analogous situation, the court in *Roto Die Co v Lesser* (WD Va 1995), refused to enforce a clause that purportedly estopped a former employee from challenging his non-compete agreement. Citing the law's disfavour of restraints on trade, the court observed that employers "may not circumvent this public policy merely by including boilerplate language in their employment agreements".

An injunction clause may also provide evidence that the balance of hardships favours an injunction. The injunction clause's presence in the contract shows that the parties were aware of the consequences of a breach, and that they expected a breach would probably be enjoined. Thus, an injunction clause may enable the party seeking an injunction to argue that the relief will not cause the opposing party undue hardship: the parties' contract shows they expected and intended that an injunction would be granted.

The bottom line

Despite what business executives may believe when they sign on the dotted line, an injunction clause does not entitle an aggrieved party to a court order. The decision to grant injunctive relief remains in the judge's discretion. Nevertheless, an

injunction clause can provide some evidence of irreparable harm, estop the other party from challenging the application for an injunction, and weigh in favour of relief when the balance of hardships is considered.

To maximise the effectiveness of an injunction clause, parties seeking extraordinary interim relief should:

- **Focus the clause's scope.** In some agreements, the injunction clause applies to all terms of the agreement. In other I contracts, the injunction clause applies only to certain specified terms, such as confidentiality, exclusivity, non-competition, non-disparagement or non-solicitation. An injunction clause lacks credibility if it purports to grant an injunction when any term of the contract is breached. The clause should apply only to those provisions that, if breached, could give rise to irreparable harm.
- **Don't overstate the parties' rights.** Judges may bristle if a party argues that it has contracted for the court to grant injunctive relief. In addition to reflecting more accurately the clause's legal effect, less presumptuous phrasing might garner a more favourable judicial reception. For instance, rather than stating that an aggrieved party "shall be entitled to" injunctive relief, an injunction clause could set forth the parties' understanding and acknowledgement that "a grant of injunctive relief would be appropriate".
- **Present independent evidence.** Even with an injunction clause,

the moving party still must prove its entitlement to injunctive relief with evidence aside from the contract provision. Evidence of irreparable harm could include, for example, a company officer's affidavit describing the loss or disruption of the plaintiff's customer relationships, or sworn statements from consumers attesting to confusion in the marketplace.

- **Request specific findings.** In addition to citing the injunction clause, the party seeking an injunction should propose specific findings of fact that establish the elements necessary to support injunctive relief. Counsel will benefit from recalling the directive in Federal Rule of Civil Procedure 65(d)(1) that every injunction must "state the reasons why it issued".

An injunction clause can't hurt the applicant's cause and might help it. However, litigants miscalculate if they expect the injunction clause alone to guarantee relief. Relying solely on an injunction clause to justify a court order will yield only disappointment.

Why seek an injunction?

An injunction is a judicial stop sign. When issued prior to final judgment, an injunction can maintain the status quo and prevent harm that would otherwise occur while litigation is pending. Emergency injunctive relief often carries the benefits of speed and surprise, and can be critically useful in restoring and safeguarding the exclusive rights to use intellectual property.

Injunctions issued by U.S. courts fall within three procedural types:

1. A temporary restraining order (TRO) is usually sought at the beginning of a case, and holds existing arrangements in place on an emergency basis. TROs may be obtained quickly and, in many cases, without prior notice to the adverse party. A TRO has a short lifespan—generally no more than 10 days.
 2. A preliminary injunction, typically granted after an adversarial hearing, preserves the status quo until the litigation is concluded. For example, a preliminary injunction might prevent a defendant from using the plaintiff's trademark or from using information that the plaintiff claims is a trade secret, pending final resolution of a litigation. While the standard may vary in different jurisdictions, a preliminary injunction is traditionally granted when the court finds (i) the movant will suffer irreparable harm if the relief is denied; (ii) the movant is likely to prevail on the merits; and (iii) the balance of hardships weighs in favour of granting preliminary relief.
 3. A permanent injunction may be included in the judgment granted at the conclusion of litigation. It continues in effect indefinitely, until modified or dissolved by the court.
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