UNDERSTANDING AND LITIGATING TRADE SECRETS UNDER ILLINOIS LAW:
An Outline For Analyzing The Statutory And Common Law Of Trade Secrets In Illinois

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INTRODUCTION

In today’s sophisticated business world, managing and protecting confidential information can be critical to remaining competitive in the marketplace. Although companies have a number of statutory and common-law protections for their proprietary information, those protections have limits. For example, a company can protect against use of information by obtaining a patent, but patents are limited in duration, and the idea must meet certain novelty standards. Similarly, a company may require its key employees to sign restrictive covenants that prevent the employees from working for its competitors and thereby disclosing confidential information, but courts will not enforce such agreements indefinitely. By contrast, trade secret protection – the subject of this outline – is available so long as the information is secret and the subject of reasonable steps to maintain secrecy. Thus, trade secret laws may be able to protect a business’s most valuable information, long after other protections have become unavailable.

The Illinois Trade Secrets Act (“ITSA”), modeled on the Uniform Trade Secrets Act, governs trade secrets in Illinois. Trade secret owners have brought claims under the Act under numerous fact patterns, including: an employee who stole confidential files before leaving the company to start his own business, an employee who memorized data from a customer list and then provided the data to a competitor, or an entity that breached a non-disclosure agreement and used the plaintiff’s ideas to develop its own product.

In the first edition of this outline, we analyze the complex body of Illinois statutory and decisional case law addressing the protection of confidential and trade secret information. We also provide practical suggestions for counseling clients and defending or prosecuting trade secret misappropriation claims. In Section I, we address what information can be protected as a trade secret and the reasonable steps a plaintiff must take to protect the secrecy of its information if it hopes to obtain trade secret protection. In Section II, we discuss the various acts that constitute misappropriation of a trade secret. Section III concerns the use of trade secrets giving rise to liability, including the concepts of threatened use and inevitable disclosure of trade secrets. Section IV considers the remedies available under the ITSA. Section V addresses practice and procedure issues, focusing on those unique to trade secrets claims. Section VI identifies causes of action that plaintiffs often bring in addition to ITSA claims and discusses the relationship between the ITSA and those other claims, including the extent to which the ITSA preempts other claims. Finally, Section VII highlights issues involved in obtaining insurance coverage in relation to trade secrets.

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A. Definition of a Trade Secret.

Illinois courts have long recognized that “[a]n exact definition of trade secret, applicable to all situations, is not possible.” ILG Indus., Inc. v. Scott, 49 Ill. 2d 88, 93, 273 N.E.2d 393, 396 (1971). Practitioners of trade secret law in Illinois should look not only to the statutory definition of a trade secret under the Illinois Trade Secrets Act, 765 ILCS 1065/2(d) (West 2009) (the “ITSA”), but also to the extensive body of trade secrets common law developed by Illinois courts prior to the adoption of the ITSA. Set forth below is a general overview of both the statutory and common law definitions of a trade secret under Illinois law.

1. Statutory definition.

The ITSA defines a “trade secret” as:

Information, including but not limited to, technical or non-technical data, a formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, or list of actual or potential customers or suppliers, that:

1. is sufficiently secret to derive economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use; and

2. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality.

765 ILCS 1065/2(d) (West 2009). Thus, under the ITSA, information is a trade secret if three requirements are met: (a) the information is sufficiently secret, (b) the owner of the information derives value from the information’s secrecy, and (c) the owner has taken reasonable steps to maintain the information’s secrecy. See Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 790, 772 N.E.2d 768, 780 (1st Dist. 2002).

a) The information must be sufficiently secret.

First, the information must be sufficiently secret. 765 ILCS 1065/2(d). “Whether information sought to be protected qualifies as a trade secret focuses fundamentally on the secrecy of the information.” Pope v. Alberto-Culver Co., 296 Ill. App. 3d 512, 515, 694 N.E.2d 615, 617 (1st Dist. 1998) (citing Thermodyne Food Serv. Prods., Inc. v. McDonald’s Corp., 940 F. Supp. 1300 (N.D. Ill. 1996)). Therefore, the information must be generally unknown; if the information is known or understood within an industry, even if it is not known to the public at large, it is not sufficiently secret to allow the owner of the
information to derive the requisite economic value from the information. Id. at 515, 694 N.E.2d at 617 (citation omitted).

b) The owner must derive value from the information’s secrecy.

Second, the owner must derive value from the information’s secrecy. 765 ILCS 1065/2(d) (West 2009). In other words, “the real value of the information ‘lies in the fact that it is not generally known to others who could benefit [from] using it.’” Sys. Dev. Servs., Inc. v. Haarmann, 389 Ill. App. 3d 561, 572, 907 N.E.2d 63, 73 (5th Dist. 2009) (quoting Serv. Ctrs. of Chi. v. Minogue, 180 Ill. App. 3d 447, 454, 535 N.E.2d 1132, 1136 (1st Dist. 1999)). Information has value if it gives rise to an actual or potential commercial advantage for the owner of the information. See Mangren Research & Dev. Corp. v. Nat’l Chem. Co., 87 F.3d 937, 942 (7th Cir. 1996) (citation omitted). Once a court determines that the information is secret, even a slight competitive edge will satisfy the economic value requirement for trade secret protection. See ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310, 1333 (N.D. Ill. 1990) (citation omitted).

c) The owner must take reasonable steps to maintain the information’s secrecy.

Third, the information’s owner must take affirmative, reasonable steps to maintain its secrecy. 765 ILCS 1065/2(d) (West 2009). Courts will not protect information that the owner has left exposed to members of the public. See, e.g., Web Comm’ns Group v. Gateway 2000, Inc., 889 F. Supp. 316, 320-21 (N.D. Ill. 1995). Also, information which can be discovered by fair and honest means, such as by independent invention, accidental disclosure or reverse engineering, will not receive trade secret protection. Abreau v. Unica Indus. Sales, Inc., 224 Ill. App. 3d 439, 453, 586 N.E.2d 661, 672 (1st Dist. 1991) (citing ILG Indus., Inc. v. Scott, 49 Ill. 2d 88, 92, 273 N.E.2d 393, 395 (1971)).

d) ITSA’s variances from the Uniform Trade Secrets Act.

The definition of “trade secret” under the ITSA differs somewhat from the definition of “trade secret” in the Uniform Trade Secrets Act (the “UTSA”). The UTSA defines “trade secret” as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique or process that:

1. derives independent economic value, actual or potential, from not being generally known to, and not being easily ascertainable by proper means, by other persons who can obtain economic value from its disclosure or use, and
2. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

UNIF. TRADE SECRETS ACT § 1 (1990).

(1) ITSA is potentially broader than the UTSA.

The ITSA first differs from the UTSA in its listing of types of information that may be trade secrets. Although both the ITSA and UTSA lists appear non-exclusive, the ITSA list specifically identifies a broader spectrum of information that may qualify as a trade secret. For example, the ITSA identifies customer lists, supplier lists, financial data and technical or non-technical data as trade secrets; the UTSA list includes none of these.

(2) ITSA’s omission of “not being easily ascertainable by proper means” language is not substantive.

The ITSA also omits the UTSA language requiring the information to “not be[] easily ascertainable by proper means.” UNIF. TRADE SECRETS ACT § 1 (1990). In its place, the ITSA includes a requirement that the information be “sufficiently secret.” 765 ILCS 1065/2(d) (West 2009). This omission seems to be of no consequence, however. Specifically, courts have rejected the argument that drafters of the ITSA intended to eliminate the defense available under the UTSA that the information could be lawfully developed through other means. Hamer Holding Group, Inc. v. Elmore, 202 Ill. App. 3d 994, 1011, 560 N.E.2d 907, 918 (1st Dist. 1990). Instead, courts have interpreted “sufficiently secret” as hinging on the ease with which the information could be developed through proper means. If the information is readily duplicable, it is not secret. See Nilssen v. Motorola, Inc., 963 F. Supp. 664, 675 (N.D. Ill. 1997).

2. Trade Secrets under the Illinois common law.


a) The Restatement’s factor analysis.

Prior to the adoption of the ITSA, the Illinois common law had developed a substantial body of law on trade secrets. “Generally, a trade secret [was] described as a plan or process, tool, mechanism, compound, or informational data utilized by a person in his[her] business operations and known only to [that individual] and such limited persons to whom it may be necessary to confide.” ILG Indus. v. Scott, 49 Ill. 2d 88, 92, 273 N.E.2d
Pre-ITSA, Illinois courts followed the Restatement’s approach for determining the existence of a trade secret. See generally id. The Restatement identified the following six factors for courts to examine when deciding whether a trade secret existed:

(a) the extent to which the information is known outside the plaintiff’s business;

(b) the extent to which it is known by the employees and others involved in the plaintiff’s business;

(c) the extent of measurements taken by the plaintiff to guard the secrecy of the information;

(d) the value of the information to the plaintiff and to the plaintiff’s competitors;

(e) the amount of effort or money expended by the plaintiff in developing the information; and

(f) the ease or difficulty with which the information could be properly acquired or duplicated by others.

RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

b) Illinois courts retain common law factor analysis.

Illinois courts have retained the Restatement’s six-factor analysis to supplement the ITSA’s definition of a trade secret. See Cacique, Inc. v. V&V Supremo Foods, Inc., No. 03 C 4230, 2004 WL 2222270, at *12 (N.D. Ill. Sept. 30, 2004); Strata Mktg., Inc. v. Murphy, 317 Ill. App. 3d 1054, 1068, 740 N.E.2d 1166, 1176 (1st Dist. 2000); Stampede Tool Warehouse, Inc. v. May, 272 Ill. App. 3d 580, 588, 651 N.E.2d 209, 215-16 (1st Dist. 1995). In an opinion applying the ITSA, the Seventh Circuit re-affirmed the continued relevance of Illinois’ common law factors and indicated that the failure on one factor does not determine trade secret status. In Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 722 (7th Cir. 2003) (citation omitted), the court held:

[W]e do not construe the foregoing factors as a six-part test, in which the absence of evidence on any single factor necessarily precludes a finding of trade secret protection. Instead, we interpret the common law factors as instructive guidelines for ascertaining whether a trade secret exists under the [ITSA]. The language of the [ITSA] itself makes no reference to these factors as independent requirements for trade secret status, and Illinois case law imposes no such requirement that each factor weigh in favor of the plaintiff.
Nevertheless, the most important consideration is “whether and how an employee acts to keep the information secret.” Alpha Sch. Bus Co., Inc. v. Wagner, 391 Ill. App. 3d 722, 740, 910 N.E.2d 1134, 1152 (1st Dist. 2009) (citation omitted).

The common law factors differ little from the inquiry required by the ITSA’s definition of “trade secret,” primarily elaborating on the issues of secrecy and economic value. Nevertheless, these factors provide additional detail regarding the key facts courts will consider in this inquiry.

3. **Existence of a trade secret is a question of fact.**

The inquiry into whether a particular piece of information constitutes a trade secret is a question of fact. See Nilssen v. Motorola, Inc., 963 F. Supp. 664, 675 (N.D. Ill. 1997) (citation omitted). As such, “the existence of a trade secret is not obvious; it requires an ad hoc evaluation of all the surrounding circumstances.” Learning Curve Toys, 342 F.3d at 723.

4. **Use by owner is not required.**

Under Illinois law, it is irrelevant to the trade secret inquiry whether the owner of the information has actually used the information in its business. Learning Curve Toys, 342 F.3d at 721-22. “[T]he proper criterion is not ‘actual use’ but whether the trade secret is ‘of value’” to the owner. Syntex Ophthalmics, Inc. v. Tsuetaki, 701 F.2d 677, 683 (7th Cir. 1983); see also UNIF. TRADE SECRETS ACT § 1 cmt. (1990) (“The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put the trade secret to use.”).

5. **Being the first or only to use is not sufficient.**

Relatedly, “[m]erely being the first or only one to use particular information does not in and of itself transform otherwise general knowledge into a trade secret.” George S. May Int’l Co. v. Int’l Profit Assocs., 256 Ill. App. 3d 779, 789, 628 N.E.2d 647, 654 (1st Dist. 1993). “If it did, the first person to use the information, no matter how ordinary or well known, would be able to appropriate it to his own use under the guise of a trade secret.” Serv. Ctrs. of Chi., Inc. v. Minogue, 180 Ill. App. 3d 447, 455, 535 N.E.2d 1132, 1137 (1st Dist. 1989); see also Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 794, 772 N.E.2d 768, 783 (1st Dist. 2002) (“Merely establishing a response to customer requests or being the first in the industry to integrate these concepts into its contract does not turn what otherwise would be general knowledge into a trade secret.”) (citation omitted); Computer Care v. Serv. Sys. Enters., Inc., 982 F.2d 1063, 1073 (7th Cir. 1992) (holding that the plaintiff was the first in the industry to use particular software feature did not “transform otherwise general knowledge into a trade secret”); Web Commc’ns Group v. Gateway 2000, Inc., 889 F. Supp. 316, 319 (N.D. Ill. 1995) (holding that the plaintiff was the first to use stepped inserts in perfect bound publications did not make that use a trade secret).

6. **Time, effort and money expended may be relevant.**

Even if the information is neither innovative nor creative, a significant expenditure of time, effort and money in the production of information may provide evidence of the
information’s value, which is relevant to the ITSA’s first inquiry. Learning Curve Toys, 342 F.3d at 728. However, such an expenditure is not necessary in all cases, especially where the information produced is highly innovative. Id. On the other hand, courts may “require the expenditure of significant time and money” where “there is nothing original or creative about the alleged trade secret.” Id. at 728-29. See also:


**Strata Mktg., Inc. v. Murphy**, 317 Ill. App. 3d 1054, 1069, 740 N.E.2d 1166, 1177 (1st Dist. 2000). (“Strata’s customer lists, which it alleged take considerable effort, time, and money to compile, could be deemed a trade secret and sufficiently secret to derive economic value.”).

**Stampede Tool Warehouse, Inc. v. May**, 272 Ill. App. 3d 580, 589, 651 N.E.2d 209, 216 (1st Dist. 1995). (“The customer list has been developed through the laborious method of prospecting, which requires a substantial amount of time, effort, and expense by Stampede.”).

**Springfield Rare Coin Galleries, Inc. v. Mileham**, 250 Ill. App. 3d 922, 930, 620 N.E.2d 479, 485 (4th Dist. 1993). (“Under Illinois law, customer lists and other customer information will constitute confidential information only when the information has been developed by the employer over a number of years at great expense and kept under tight security.”).

**Abbott-Interfast Corp. v. Harkabus**, 250 Ill. App. 3d 13, 22, 619 N.E.2d 1337, 1344 (2d Dist. 1993). (“Items such as customer lists, pricing information, and business techniques can be trade secrets if the employer has developed the information over a number of years at great expense and kept [it] under tight security.”) (internal quotation marks omitted).

**Prudential Ins. Co. of Am. v. Van Matre**, 158 Ill. App. 3d 298, 307, 511 N.E.2d 740, 745 (5th Dist. 1987). (“A customer list or other customer information constitutes a trade secret in which an employer holds a protectible interest where the employer developed the information over a number of years, at great expense, and kept the information under lock and key.”).

7. Trade secret determination involves balancing of interests.

The protection afforded trade secrets reflects a balancing of conflicting social and economic concerns. Cacique, Inc. v. V&V Supremo Foods, Inc., No. 03 C 4230, 2004 WL 2222270, at *11 (N.D. Ill. Sept. 30, 2004). Where a company has invested substantial time, money and effort to develop a trade secret, it should be protected from others, including departing employees, who obtain it through improper means. See, e.g., Stampede Tool Warehouse, Inc. v. May, 272 Ill. App. 3d 580, 589, 651 N.E.2d 209, 216 (1st Dist. 1995); Springfield Rare Coin Galleries, Inc. v. Mileham, 250 Ill. App. 3d 922, 930, 620 N.E.2d 479, 485 (4th Dist. 1993). However, in a competitive market, an employee is entitled to utilize the general knowledge and skills acquired through experience in pursuing his or her chosen occupation. RKI, Inc. v. Grimes, 177 F. Supp. 2d 859, 873 (N.D. Ill. 2001).
B. Specific Categories of Trade Secrets.

To establish a trade secret, one must look to the specific facts concerning the information at issue. It is not enough for a plaintiff to point to broad areas of technology and assert that something there must have been secret; the plaintiff must show concrete secrets. AutoMed Techs., Inc. v. Eller, 160 F. Supp. 2d 915 (N.D. Ill. 2001).

Illinois decisions have addressed the trade secret status of various categories of information, covering a wide spectrum of intangible property that businesses may desire to protect. We discuss the principal categories below.

1. Customer lists.

One of the most frequently litigated categories of potential trade secrets is customer lists. For many companies, customer lists represent one of the most valuable pieces of intangible property they possess. Customer lists may reflect past and prospective business opportunities. As such, they are valuable to their owners as tools to identify the prospective pool of customers. While some lists may simply be a mailing label, other customers lists may represent a compilation of many years of association with particular clients. See Richardson Elecs., Ltd. v. Avnet, Inc., No. 98 C 5095, 1999 WL 59976, at *2 (N.D. Ill. Feb. 6, 1999). Also, in addition to names and contact information, customer lists might include information such as past purchases, profitability and buyer preferences. See RKI, Inc. v. Grimes, 177 F. Supp. 2d 859, 874 (N.D. Ill. 2001).

Accordingly, under the appropriate circumstances, a list of actual or potential customers may qualify as a trade secret. Abbott-Interfast Corp. v. Harkabus, 250 Ill. App. 3d 13, 17, 619 N.E.2d 1337, 1341 (2d Dist. 1993). See also Flexicorps, Inc. v. Trend Techs., Inc., No. 01 C 1754, 2002 WL 31018353, at *11 (N.D. Ill. Sept. 10, 2002) (“While a business can have a proprietary interest in lists of customers which it maintains, no business can have a proprietary interest in the customers themselves.”) (citation omitted). A crucial factor courts consider is whether the list is readily compilable from public sources.

a) Public availability and the cost of compilation of the customer list information are frequently determinative.

Under Illinois common law, a customer list or other customer information can constitute a trade secret if the plaintiff has “developed the information over a number of years, at great expense, and kept the information under lock and key.” See Am. Wheel & Eng’g Co. v. Dana Molded Prods., Inc., 132 Ill. App. 3d 205, 210, 476 N.E.2d 1291, 1295 (1st Dist. 1985). Similar information is not a trade secret if the plaintiff has not treated the
information as secret and confidential, if those in the field commonly know the information or could easily duplicate it, or if the plaintiff’s competitors know the identity of the plaintiff’s customers. Lincoln Towers Ins. Agency v. Farrell, 99 Ill. App. 3d 353, 360-61, 425 N.E.2d 1034, 1039-40 (1st Dist. 1981).

Several courts applying the ITSA have held that if the customer list could be easily created by reference to professional directories, trade publications, association memberships, or mailing lists, or by simply looking in the phone book, the list will likely not receive trade secret protection. See, e.g., Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 791-92, 772 N.E.2d 768, 781 (1st Dist. 2002); Carbonic Fire Extinguishers, Inc. v. Heath, 190 Ill. App. 3d 948, 953, 547 N.E.2d 675, 677 (2d Dist. 1989). A significant inquiry in this regard is the time, energy and money the owner invested in compiling the list. See Hamer Holding Group, Inc. v. Elmore, 202 Ill. App. 3d 994, 1011, 560 N.E.2d 907, 918 (1st Dist. 1990). See also:

**Trade Secret Protection Granted:**

**State Court:**

**Stampede Tool Warehouse, Inc. v. May,** 272 Ill. App. 3d 580, 651 N.E.2d 209 (1st Dist. 1995). The court granted trade secret protection to the customer list of an automotive tool distributor because compilation of the list involved a laborious prospecting method, cost the plaintiff approximately $50,000 per month per new customer, and required sixty hours per month of salespersons’ time. Also, the plaintiff produced significant evidence that the list was not readily available from public sources.

**TIE Sys., Inc. v. Telcom Midwest, Inc.,** 203 Ill. App. 3d 142, 560 N.E.2d 1080 (1st Dist. 1990). Plaintiff purchased a customer list and related information from a third party. Two of the third party’s former employees misappropriated the information found within the customer lists. Specifically at issue were “cut-over dates,” the dates on which customers would renew their contracts with the plaintiff or buy services or other materials based on their contracts. Although the information could be obtained from the individual customers, the court determined that the dates constituted a trade secret because the amount of time and energy necessary to compile a comparable list would be a “monumental task.”

**Trade Secret Protection Denied:**

**State Court:**

**Alpha Sch. Bus Co., Inc. v. Wagner,** 391 Ill. App. 3d 722, 740-42, 910 N.E.2d 1134, 1152-54 (1st Dist. 2009). The Appellate Court affirmed the trial court’s dismissal of a trade secrets claim based on a purported customer list – comprising names of school districts, the number and types of vehicles used to transport students, and student attendance data – because all of the data was public or easily obtainable. Similarly, a list of names, addresses, and phone numbers of the plaintiff’s drivers also was not a trade secret because people outside the business knew the information; competitors could easily acquire it just by asking the drivers; and, although the information had some business value, the plaintiffs had failed to allege
“that their drivers possess highly unique skills that cannot be replicated by any other school bus driver.”

Sys. Dev. Servs., Inc. v. Haarmann, 389 Ill. App. 3d 561, 574-78, 907 N.E.2d 63, 75-78 (5th Dist. 2009). The Appellate Court reversed the trial court’s ruling that the plaintiff’s customer list for its computer networking services business was a trade secret, reasoning that the trial court’s finding, after a bench trial, was against the manifest weight of the evidence. The Appellate Court held because virtually all companies rely on computers, “[l]ocating potential customers is merely a matter of identifying businesses in a particular town, county, or area and looking up their contact information. This information is easily obtained from telephone directories, chamber of commerce directories, the Internet, and a variety of other sources.” The Appellate Court explained that the customer list was “merely a listing of names, addresses, and telephone numbers,” encompassing a wide range of businesses, many of which were only potential customers of the plaintiff. Further, because the county in which the plaintiff and defendant operated was “fairly rural” and “a comparatively small market,” depriving the defendant of the ability to establish business relationships with those the defendant already knew in the community would have been “an overly broad application of the Trade Secrets Act.”

Arcor, Inc. v. Haas, 363 Ill. App. 3d 396, 842 N.E.2d 265 (1st Dist. 2005). The plaintiff, a manufacturing company making customized metal tubes, alleged misappropriation of trade secrets consisting of its customer list. Relying on testimony that the plaintiff acquired two or three new customers a year because the sales process was “lengthy” and reflected a developed sales relationship, the court held the customer list was sufficiently secret to derive economic value from its secrecy. The court also held, however, that the trial court abused its discretion in granting a preliminary injunction because the plaintiff failed to demonstrate that it had taken reasonable steps to maintain the secrecy.

Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 278-79, 827 N.E.2d 909, 923-24 (1st Dist. 2005). The plaintiff, a company that manufactured and sold computer network protection equipment, sought trade secret protection for the customer list it had compiled over the course of 35 years of business. Although the court affirmed the trial court’s denial of trade secret protection because the plaintiff had failed to take reasonable steps to maintain the information’s secrecy, the court also held that the information was sufficiently secret to derive economic value from its secrecy. The court reasoned that the list reflected research undertaken by the plaintiff’s employees, who used phone calls and lunch meetings to discover and develop the appropriate contacts within each company, in addition to non-protectible information such as contractors’ names and phone numbers that could be easily found in a publicly available industry directory.

Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 791-92, 772 N.E.2d 768, 781 (1st Dist. 2002). Plaintiff, a mammography equipment repair service, sought injunctive relief and alleged misappropriation of trade secrets, including a customer list, against a competitor formed by former employees. The Appellate Court reversed the trial court, holding that the list could be duplicated with little effort by looking in the phone book, requesting the information from governmental agencies, or consulting the mammography equipment manufacturer.
Office Mates 5, North Shore, Inc. v. Hazen, 234 Ill. App. 3d 557, 575, 599 N.E.2d 1072, 1084 (1st Dist. 1992). The plaintiff, a personnel placement agency, sought trade secrets protection in its client information, which included the following: the client’s name, address, and key contact person; the client’s benefit package; the type of word-processing equipment the client used; its products and services; the number of its employees; the fee the client was willing to pay for placement; and the history of placements. The court held that the client information was not protectible because the information was “readily available to anyone in the business capable of canvassing or finding a directory, whether it be the Yellow Pages or a specialized directory, placing a cold call to that business, and asking specific questions designed to elicit the information above.”

Hamer Holding Group, Inc. v. Elmore, 202 Ill. App. 3d 994, 1011, 560 N.E.2d 907, 918-19 (1st Dist. 1990). The customer list at issue was derived from the office of the Secretary of State at a cost of approximately $60,000 to the plaintiff. Despite this cost and effort, the court held against the plaintiff, concluding that anyone with access to the Secretary’s information could have duplicated the compilation process. The court focused more on the public nature of the information as opposed to the cost and effort the plaintiff expended in compiling the list. Moreover, once the names were collected, the remaining information on the customer list could be obtained from a telephone directory.

McCann Constr. Specialties Co. v. Bosman, 44 Ill. App. 3d 1020, 1023, 358 N.E.2d 1340, 1342 (2d Dist. 1977). In a pre-ITSA case, the court held that a construction company’s list of customers was not a trade secret where “there was no proof that the names on [the] list were not publicly available to anyone by the use of, or reference to, the yellow pages of the telephone directory or trade directories in the areas served by the parties.” Because the company’s list contained “names of well-known contractors, utility companies[,] and various park districts and municipal bodies,” the court found insufficient evidence the list was secret.

Federal Court:

Curtis 1000, Inc. v. Suess, 843 F. Supp. 441 (C.D. Ill. 1994). The distributor of custom stationery, forms and other office products for businesses sought a preliminary injunction against the use of its customer list by a former employee. The court determined that the customer list did not constitute a trade secret because the customer information was readily obtainable through telephone books, trade publications, or association directories or by simply driving down the street.

b) Size and nature of plaintiff’s business may affect protection of customer list.

Two other factors are important when analyzing whether a customer list qualifies as a trade secret – the nature of the business and the size of the potential pool of customers. Generally speaking, the more specialized the owner’s business, the easier it is to identify the potential pool of customers to target. In such cases, courts are often less willing to conclude that a customer list provides its owner an economic advantage and are therefore less likely to grant trade secret protection to customer lists. See, e.g., Carbonic Fire Extinguishers, 190 Ill.
App. 3d at 953, 547 N.E.2d at 677 (holding restaurant hood-cleaning business could locate its clients by looking in yellow pages).

On the other hand, where the potential pool of customers is large and the owner of the customer list offers a common service to individuals with particularized needs, courts are more willing to provide trade secret protection. For instance, the pool of prospective clients for owners of a dry-cleaning and alteration business is nearly limitless. In such a case, the owner may need to invest significant energy in maintaining its customers’ loyalty, and the identity of its customer base is thus a valuable piece of information. See Elmer Miller, Inc. v. Landis, 253 Ill. App. 3d 129, 134, 625 N.E.2d 338, 342 (1st Dist. 1993) (holding custom tailoring shop derived substantial value from list of repeat customers). See also:

Gillis Associated Indus., Inc. v. Cari-All, Inc., 206 Ill. App. 3d 184, 190-92, 564 N.E.2d 881, 885-86 (1st Dist. 1990). Wire shelving product distributor’s list of long-term, repeat customers was not entitled to trade secret protection even though it was sufficiently secret to create economic value. The court found that substantial time, energy and money was required to compile a list of customers for wire shelving. Although reference to several public sources would yield a large list of potential customers including those on the plaintiff’s list, the plaintiff expended resources refining its list through targeted mailings, telephone calls and sales-pitches to the customers. Thus, the plaintiff had met its burden of showing that the customer list contained secret and valuable information. However, the plaintiff did not take reasonable measures to protect the secrecy of the customer list, and, therefore, the trial court’s grant of preliminary injunctive relief was an abuse of discretion.

c) **Nature of the goods the plaintiff sells may affect trade secret protection.**

Customer lists often are the most valuable piece of intangible property for distributors of fungible goods. In this context, customer relationships and goodwill are the distributor’s primary assets as a going concern, and it may be appropriate to protect the distributor’s customer list as a trade secret. See Lawson Prods., Inc. v. Chromate Indus. Corp., 158 F. Supp. 2d 860, 864-65 (N.D. Ill. 2001). In other words, in analyzing whether a customer list merits trade secret protection, a court may attempt to determine how important customer relationships are to a plaintiff’s business. If the relationships are insignificant, trade secret status may be less likely.

d) **Size and content of customer lists.**

The more information a company’s customer list contains, the more likely a court will find that it is a trade secret. For example, if a customer list includes historical sales information, pricing information and profit margin information (as opposed to just name and contact information), courts are more likely to protect this information. See RKI, 177 F. Supp. 2d at 874. In APC Filtration v. Becker, No. 07 CV 1462, 2009 WL 187913, at *8 (N.D. Ill. Jan. 26, 2009), in granting the plaintiff’s motion for partial summary judgment, the court explained that the plaintiff and the defendant, a former employee, had worked for twelve years to develop the customer lists and pricing information. The pricing schemes were created “by obtaining and developing pricing information from salesmen, competitors,
through research, and from attending trade shows,” and “sales data was created based upon years of industry knowledge and experience.” Id. The court reasoned that “[w]hile a competitor could do the same research to identify companies engaged in the . . . market, none of the particularized information – for example, contact persons, product preferences, and deviated pricing – could be duplicated without the considerable time, effort, and expense invested by [the plaintiff].” Id. Accordingly, the court concluded the information constituted protectible trade secrets.

e) The former employee’s prior relationship with customers on the list.

If the employee had a relationship with the customers prior to working for the employer, it will be difficult for the employer to establish that the list of those customers is a trade secret as against the employee. See, e.g.:

Com-Co Ins. Agency, Inc. v. Serv. Ins. Agency, Inc., 321 Ill. App. 3d 816, 748 N.E.2d 298 (1st Dist. 2001). Insurance company sought to enjoin former salesperson from selling policies to its customers for a different insurer. Evidence demonstrated that the salesperson had a personal relationship with each customer prior to his original employment. The court ruled against plaintiff, holding that an employer’s interest in its customers is proprietary and potentially protectible as a trade secret only if, by nature of the business, the customer relationship is near-permanent and but for the employment with plaintiff, the employee would not have had contact with the clients in question.

f) Protection of a purchased customer list.

Disputes involving customer lists also frequently arise when a business and its assets are sold, and the customer list is later used by persons formerly associated with the business. Illinois courts have split on the issue of whether a purchased customer list can later qualify as a trade secret. In Jackson v. Hammer, 274 Ill. App. 3d 59, 66, 653 N.E.2d 809, 815 (4th Dist. 1995), the court held that because the purchaser never had exclusive ownership of the customer list, he could not meet the first requirement of the ITSA. On the other hand, in Elmer Miller, Inc. v. Landis, 253 Ill. App. 3d 129, 134-35, 625 N.E.2d 338, 342-43 (1st Dist. 1993), the purchaser of a custom tailoring shop’s assets was granted trade secret protection for a purchased customer list. The court noted that plaintiff allocated $60,000 of the $70,000 purchase price for the customer list and customer information, which helped distinguish the plaintiff’s information from those in cases where courts denied trade secret protection.

PRACTICE TIP: Purchasers of customer lists should consider demanding that the sellers sign non-competition or non-solicitation agreements as well as documenting the price paid specifically for the customer list. Purchasers also should consider obtaining evidence of the trade secret status of any list comprising trade secrets or other confidential or proprietary business information provided by the seller.
2. Pricing information, pricing formula and profit margin.

Pricing information can include the price a business charges its customers, the formula used to calculate that price, the business’s method of pricing, and price differentials or profit margins.

a) Prices charged are generally denied trade secret protection.

Businesses often attempt to keep confidential the varying amounts they charge for goods and/or services and the formula used for arriving at the price. Illinois courts, however, have held that price information disclosed by a business to any of its customers, unlike a unique formula used to calculate the price information which is not disclosed to customers, does not constitute trade secret information because once the price is quoted, the customer is free to share the information with others. See, e.g., Applied Indus. Materials Corp. v. Brantjes, 891 F. Supp. 432, 437-38 (N.D. Ill. 1994). Absent a confidentiality agreement, it is unlikely that pricing information disclosed to a customer can ever constitute a trade secret. See also:

Trade Secret Protection Denied:

State Court:

A.J. Dralle, Inc. v. Air Techs., Inc., 255 Ill. App. 3d 982, 627 N.E.2d 690 (2d Dist. 1994). The evidence at the hearing established that salespersons were typically aware of what competitors charged for air filter products. As such, the defendant could not be prohibited from using that generally known information, and the trial court abused its discretion in granting a preliminary injunction.

The Label Printers v. Pfug, 206 Ill. App. 3d 483, 564 N.E.2d 1382 (2d Dist. 1991). The only pricing information that the defendant possessed consisted of the prices the plaintiff directed the defendant to quote to customers. That pricing information could be readily ascertained by any competitor because the evidence showed that many customers would willingly tell a salesperson the prices being quoted by a competitor.

Carbonic Fire Extinguishers, Inc. v. Heath, 190 Ill. App. 3d 948, 547 N.E.2d 675 (2d Dist. 1989). The court determined that pricing information is not sufficiently secret to derive economic value from not being generally known to the public. Because the pricing information at issue was available to plaintiff’s various customers, the customers were at liberty to divulge the information to the public. Further, the court concluded that others engaged in the industry likely would have knowledge of the normal price charged for the service. As such, the plaintiff could not demonstrate that its price for a job was unique or not generally known to others in the business.

Federal Court:

Trailer Leasing Co. v. Assocs. Commercial Corp., No. 96 C 2305, 1996 WL 450801 (N.D. Ill. Aug. 8, 1996). On a motion for a preliminary injunction, the court limited the trade secret information at issue and rejected the plaintiff’s claim that information regarding pricing rates for
leasing trailers were trade secrets. The court explained “[b]y all accounts, this is a highly competitive business, and it is unlikely that rate information is ever secret, and if so, that it remains secret for very long. If competitor ‘A’ gives a customer an advantageous rate, it will not be long before the customer shops that rate around and tries to get competitor ‘B’ to go even lower; that is the nature of a competitive market.”

b) Pricing formula unknown to the public may qualify as a trade secret.

In contrast to a pricing scheme, a pricing formula may be more likely to qualify for protection as a trade secret, though Illinois courts have generally ruled against the party asserting trade secret status. In order to prove that a pricing formula constitutes a trade secret within the meaning of the ITSA, a business must establish that the value of the pricing formula lies in the fact that it is not generally known to others who could benefit by using it, or that it could not be acquired through general skills and knowledge. See Serv. Ctrs. of Chi., Inc. v. Minogue, 180 Ill. App. 3d 447, 454-55, 535 N.E.2d 1132, 1136-37 (1st Dist. 1989).

In Service Centers of Chicago, Inc. v. Minogue, the plaintiff sought to protect its unique pricing formula which allowed it to offer a fixed rate for storage and retrieval of hospital records. Id. This formula was based on three components: (1) a twenty-page survey designed to identify the customer’s needs, (2) the use of a linear foot measurement and (3) certain “rules of thumb” the plaintiff had developed over its fifteen years in the industry. Id. at 451, 535 N.E.2d at 1135.

The court rejected the plaintiff’s argument, holding that the plaintiff did not prove that the formula was not generally known to others who could benefit by using it. Id. at 454-55, 535 N.E.2d at 1136-37. Significant was the fact that the survey embodied nothing more “than the obvious questions any salesman in the industry would need to ask in determining a customer’s needs.” Id. at 454, 535 N.E.2d at 1136. As to the use of a linear foot measurement, the court rejected the assertion that because the plaintiff was the only company to utilize “linear feet” in calculating price, its pricing formula was entitled to trade secret protection. Id. “[S]imply being the first or only one to use certain information does not in and of itself transform otherwise general knowledge into a trade secret.” Id. The court held that the plaintiff’s “rules of thumb” were nothing more than another way to describe the “general skills and knowledge” employees obtain and are entitled to take in their later pursuits. Id. at 454-55, 535 N.E.2d at 1136-37. See also:

Trade Secret Protection Denied:

Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 772 N.E.2d 768 (1st Dist. 2002). The plaintiff sought to protect its pricing formula, which was a function of the type of equipment serviced, the age of the equipment, the service history, including the use and maintenance of the equipment, and customer preferences. The court ruled against the plaintiff, holding that because much of this information was available directly from the equipment manufacturer or the equipment owner, the pricing method was not sufficiently secret.
c) Price differentials and net profits.

Like pricing formulas, price differentials or profit margins may satisfy the requirement of secrecy, but Illinois courts so far have declined to hold they are trade secrets. See Applied Indus. Materials Corp. v. Brantjes, 891 F. Supp. 432 (N.D. Ill. 1994). A key consideration as to this type of information is that it must be timely. Information that is too old to have continued economic value in light of changed circumstances or annual fluctuations will not satisfy the ITSA’s requirement of actual or potential economic value. See id. (finding four-year-old profit information lacked current economic value). Moreover, “mere knowledge of the profit desired by the employer” is not a trade secret. Springfield Rare Coin Galleries, Inc. v. Mileham, 250 Ill. App. 3d 922, 934, 620 N.E.2d 479, 487 (4th Dist. 1993). See also:

Trade Secret Protection Denied:

Stenstrom Petroleum Servs. Group, Inc. v. Mesch, 375 Ill. App. 3d 1077, 874 N.E.2d 959 (2d Dist. 2007). The plaintiff sought a preliminary injunction to protect against the defendant’s use of a spreadsheet containing information such as part numbers, quantities, list prices, discounts off list prices, extended pricing, future bids, and profit margin information, which the plaintiff alleged constituted a trade secret. The court affirmed the denial of a preliminary injunction, holding that the plaintiff was unlikely to succeed on the merits of the trade secrets claim. The court held the plaintiff was unlikely to establish the spreadsheet contained trade secrets because it could be reproduced in two or three days, much of the information in the pricing formula could be easily recreated by contacting manufacturers, and the plaintiff’s method for calculating bids and profit margin could not be a trade secret.


As with other types of information, the focus of the trade secrets inquiry will be on the secrecy of the software sought to be protected. Computer Care v. Serv. Sys. Enters. Inc., 982 F.2d 1063 (7th Cir. 1992) (citation omitted). In addition, the software owner must demonstrate with particularity that the defendant misappropriated “concrete secrets” and not “broad areas of technology.” Lynchval Sys. Inc., 1998 WL 151814, at *5 (citations omitted). For instance, the trade secret owner may be required to point to specific lines of computer code and/or specific software features for which it claims protection; it may not be enough simply to allege that the “methods and processes” underlying particular software and listed in a lengthy document constitute trade secrets. See Do It Best Corp. v. Passport Software, Inc., No. 01 C 7674, 2005 WL 743083, at *12-13 (N.D. Ill. Mar. 31, 2005).
a) **Trade secret misappropriation is not an exclusive claim.**

Although a computer software program may constitute a trade secret under the ITSA, software owners often bring claims for violations of a copyright or licensing agreement, as opposed to misappropriation under the ITSA, because those claims may be stronger or easier to prove. Nevertheless, computer software owners also may protect their information under the ITSA if it qualifies as a trade secret. Federal copyright law does not preempt a claim made under the ITSA. Higher Gear Group, Inc. v. Rockenbach Chevrolet Sales, Inc., 223 F. Supp. 2d 953, 957-58 (N.D. Ill. 2002).

b) **The unique nature of the software may be relevant.**

In Computer Care v. Service Systems Enterprises, Inc., 982 F.2d 1063 (7th Cir. 1992), Computer Care (“CC”) developed software for the car repair industry to automatically send maintenance/repair reminders to former customers. CC asserted that the software, among other features, utilized numerous “triggers” to produce these reminders, incorporated dealer-specific service cycles, sent second reminder letters to unresponsive customers and deleted nonresponding individuals from its database. See id. When a competitor began using software with similar features, CC brought a claim for trade secret misappropriation. Id. The court of appeals rejected each of CC’s arguments, and held that none of the software’s features was sufficiently secret or unknown to the general public. Id. at 1072. First, the court held that the use of multiple triggers to produce customer reminders was known throughout the industry. See id. at 1073. Simply because CC was the first business in the industry to utilize multiple triggers did not “transform otherwise general knowledge into a trade secret.” Id. (citation omitted). Second, CC’s use of maintenance cycles established by dealers as opposed to car manufacturers was not a trade secret. The court held that this was only a response to customer requests and that “[t]here is nothing secret about the idea of listening to a customer and accommodating his wishes.” Id. (citing Carbonic Fire Extinguishers, Inc. v. Heath, 190 Ill. App. 3d 948, 953-54, 547 N.E.2d 675, 678 (1st Dist. 1989)). Finally, the court held that sending second reminder letters and deleting nonresponsive customers was nothing more “than simple common sense,” rather than a trade secret. Id. at 1074.

By contrast, in Jano Justice Systems, Inc. v. Burton, No. 08-3209, 2009 WL 1636996, at *2 (C.D. Ill. June 10, 2009), the court granted a preliminary injunction after determining the plaintiff was likely to succeed on the merits of its ITSA claim based on the misappropriation of computer software. The court rejected the defendants’ claim that the programming methods used in the software were “well known throughout the computer industry” and therefore not trade secrets, reasoning that the plaintiff made claims concerning only “the specific database architecture and methodology of functions embedded in the Clericus Magnus program,” not “general computer program techniques.” Id. The court explained that because “most of the [plaintiff’s] revenue is apparently derived from licensing and servicing this software,” it was “fairly certain” that the plaintiff could establish its information was sufficiently secret to derive economic value. Id.
c) Programmers may not use software from a former employer to write source code.

Software source code can be a trade secret. In *Computer Associates Int’l v. Quest Software, Inc.*, 333 F. Supp. 2d 688, 691 (N.D. Ill. 2004), the plaintiff was granted a preliminary injunction enjoining a competitor from using, selling, licensing or distributing a software program allegedly derived from plaintiff’s software source code. The plaintiff, Computer Associates, acquired Platinum Technology, a corporation that created a software program to allow database administrators to automate various time-consuming tasks. *Id.* After Computer Associates acquired Platinum Technology, several employees who had assisted in developing the software left and began working for the defendant, Quest. *Id.* The former employees had copies of the software source code, which they used to develop a similar software program for Quest. *Id.* at 692.

In addressing whether a preliminary injunction should issue, the court concluded that Computer Associates had established a likelihood of success on the merits. *Id.* at 696. Computer Associates had shown that the software source code was likely a trade secret and that reasonable measures had been taken to keep the source code secret. *Id.* Further, the court noted that the plaintiff had a strong likelihood of prevailing on the merits because the former employees performed nearly identical functions for Quest as they did in their former positions, and evidence showed that the former employees referred to the source code while creating the Quest software. *Id.*

4. Product drawings, schematics, specifications, and blueprints.

Illinois courts often grant trade secret protection to drawings of dimensions for machines or products. Drawings, schematics, specifications, and blueprints can be the culmination of countless hours of research and development, and, therefore, the information contained in these drawings can represent significant value to the owner. Accordingly, substantial litigation has resulted from companies seeking to protect such information. Product drawings were at the heart of the seminal case for Illinois trade secret common law, *ILG Industries v. Scott*, 49 Ill. 2d 88, 273 N.E.2d 393 (1971).

Unless examination of the machine or product itself would yield the information contained within the drawings or specifications without expensive and time-consuming analysis, a court typically will grant trade secret status to the drawings. See *Schulenburg v. Signatrol, Inc.*, 33 Ill. 2d 379, 386-87, 212 N.E.2d 865, 869 (1965). Generally, the more technical and specialized the drawing is, the more likely a court will conclude that it is a trade secret.

For instance, the machine at issue in *Hexacomb Corp. v. GTW Enterprises, Inc.*, 875 F. Supp. 457 (N.D. Ill. 1993), was over seventy feet long, twelve feet tall and ten feet across. The continuous-feed machine produced uninterrupted sheets of honeycomb packaging material. The plaintiff spent four years developing the machine at a cost of over $4 million. See *id.* at 460. The machine produced product five times faster than any of its competitors’ machines. The employee who acted as custodian of all drawings and designs left the plaintiff and accepted employment with a competitor. The competitor subsequently
manufactured a machine identical in substance to the plaintiff’s, going so far as to copy the mistakes from the plaintiff’s drawings. See id. at 466. The court held that the defendants misappropriated trade secret information from the plaintiff.

In contrast, in Colony Corp. of America v. Crown Glass Corp., 102 Ill. App. 3d 647, 649, 430 N.E.2d 225, 227 (1st Dist. 1981), the manufacturer of glass candle jars used in restaurant and cocktail lounges could not prove that the blueprints and molds used to make the jars should be protectible trade secrets. The court held that because the candle jars had been placed on the market, it was “incumbent upon plaintiff to show that the prints and molds could not be duplicated [simply] from examination of the glasses.” Id. The court held that because plaintiff’s product was on the market and the claimed secret was readily disclosed by the product itself, there was no trade secret. Id.

a) The ease or difficulty of reverse engineering is a factor.

In ILG Industries v. Scott, 49 Ill. 2d 88, 273 N.E.2d 393 (1971), the plaintiff sought to protect its drawings containing dimensional information and specifications regarding fan blades and retaining rings, which were integral parts of the plaintiff’s industrial fan. These drawings showed “the configuration of the retaining rings, the blades of a particular wheel, and the dimensions and materials for most of the size ranges.” Id. at 90, 273 N.E.2d at 394. The defendant argued that the plaintiff waived trade secret protection by disclosing certain information to various component part manufacturers. The court disagreed, holding that “disclosure of . . . information, or a part thereof, to a customer, or a supplier of a component part, where necessary for a business purpose, does not in all cases destroy the [confidentiality].” Id. at 94, 273 N.E.2d at 396. The court explained that the process of reverse engineering would be relatively time-consuming and expensive, compared to simply using a drawing or specification. See id. at 95, 273 N.E.2d at 397. The court upheld an eighteen-month injunction, roughly the amount of time it estimated it would take to reverse engineer the product. Id. at 96-98, 273 N.E.2d at 397-98.

A similar scenario was present in Televation Telecommunication Systems, Inc. v. Saindon, 169 Ill. App. 3d 8, 522 N.E.2d 1359 (2d Dist. 1988). In the case, the plaintiff had developed schematics of its analog circuitry describing how it interfaced with its digital circuitry. “While most of the component parts [were] readily available in the industry, [the plaintiff’s] approach in arranging, interfacing, and refining the components had rendered the design entirely unique.” Id. at 14, 522 N.E.2d at 1364. Evidence at trial revealed that a competitor could not duplicate the plaintiff’s circuits exactly, as the defendant had done, unless it had access to the schematics or “reverse engineered” plaintiff’s end products by disassembling them and tracing their circuitry, which experts estimated would take up to two years. Id. The evidence also showed that it had taken the plaintiff five years to research and develop its circuitry. As such, the information was deemed to be a trade secret. See also:

Trade Secret Protection Granted:

Schulenburg v. Signatrol, Inc., 33 Ill. 2d 379, 387, 212 N.E.2d 865, 869 (1965). The plaintiff alleged that blueprinted, confidential information was misappropriated by former employees who disclosed it to a competitor. The blueprints contained measurements, tolerances, and specifications for
material quality relating to its product. The court held that while an employee may take general skills and knowledge to subsequent jobs, the employee may not take “confidential particularized plans or processes developed by his employer.”

b) **No defense that the product could be reverse-engineered, if the defendant actually used the drawing or blueprint.**

One court has held that the fact that the product could be reverse engineered is immaterial if the evidence clearly demonstrates that the defendants actually used plaintiff’s drawings to produce a competing product. See **Affiliated Hosp. Prods., Inc. v. Baldwin**, 57 Ill. App. 3d 800, 807, 373 N.E.2d 1000, 1006 (1st Dist. 1978). The court also rejected the defendants’ arguments that because their product was an improvement of the earlier drawing, the drawings were not trade secrets. Id.

c) **Artists’ concepts are generally not protectible.**

Unlike product drawings and blueprints, artists’ concepts are usually less technical and often just represents a general idea as opposed to details for a finished product. As such, artists’ concepts have not been afforded trade secret status to date in Illinois. See **Noah v. Enesco Corp.**, 911 F. Supp. 299, 303-05 (N.D. Ill. 1995) (denying trade secret protection to handmade figurines based on the story of Noah’s Ark).

5. **Process – method of combining various elements.**

Trade secret protection may attach to a process governing the interrelationship of component parts and technologies that comprise and create a final product. Trade secret law may protect a process comprising a combination of characteristics and components, each of which, by itself, is in the public domain, if the unified process design and operation is a unique combination and affords a competitive advantage. See **Thermodyne Food Serv. Prod., Inc. v. McDonald’s Corp.**, 940 F. Supp. 1300, 1305 (N.D. Ill. 1996).

In **Thermodyne**, the plaintiff developed a process by which commercial ovens could more efficiently heat and hold the temperature of food products through conduction. Id. at 1302. While the plaintiff was negotiating with McDonald’s to sell the oven, one of the plaintiff’s high-ranking officials left to work for a competitor, which subsequently began supplying McDonald’s with ovens utilizing substantially the same process. Id. at 1302-03. The defendants moved for summary judgment, arguing that because the plaintiff had sold hundreds of its ovens to customers without requiring a confidentiality agreement, it had abandoned any trade secret protection. Id. at 1307. The court rejected the defendants’ argument, holding that because the technology could not be reverse engineered in a reasonable time, the fact that the plaintiff sold the oven without requiring the purchaser to sign a confidentiality agreement was irrelevant. Id. at 1306-07. The defendants further argued that no trade secret violation occurred because the competitor’s ovens modified and improved the plaintiff’s technology. Id. at 1307-08. The court disagreed, holding that “a violation of the ITSA occurs if the modification or new product was substantially derived from another’s trade secret.” Id. at 1308. See also:
Trade Secret Protection Granted:

State Court:

Televation Telecomm. Sys., Inc. v. Saindon, 169 Ill. App. 3d 8, 522 N.E.2d 1359 (2d Dist. 1988). The plaintiff developed electronic products for in-house phone systems utilizing unique, custom-designed circuitry. These products took five years to develop. The plaintiff brought suit against a competitor alleging misappropriation. Evidence revealed that it would take up to two years to reverse engineer the circuitry and that the custom transformer could not be reverse engineered. Holding for the plaintiff, the court found that merely because a competitor could, through reverse engineering, duplicate the plaintiff’s process did not preclude a finding that the plaintiff’s techniques or schematics were trade secrets, particularly where the evidence demonstrated that the reverse engineering process would be time-consuming.

Federal Court:

Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., 542 F. Supp. 2d 849 (N.D. Ill. 2008). The plaintiff sued for misappropriation of its method for creating a special type of frozen pizza crust. Although the various ingredients and techniques it used to make the crust were all known in the industry, there was no evidence that any other producer used them in the specific combination that the plaintiff did. The court held that this combination of characteristics and components could suffice to show the existence of a trade secret, and therefore summary judgment for the defendant was not appropriate.

Hay Group, Inc. v. Bassick, No. 02 C 8194, 2005 WL 2420415, at *8 (N.D. Ill. Sept. 29, 2005). The plaintiff consulting firm sought trade secret protection for its valuation processes and/or models for valuing long-term incentive vehicles like stock options. The defendants claimed such information could not constitute trade secrets because the conceptual framework of the information was freely available on the Internet and because other assumptions and calculations used were not secrets. The court denied summary judgment to the defendants, holding that an issue of fact remained over whether the information constituted trade secrets. The court reasoned that even assuming some of the information used was publicly available, the plaintiff “could still prove that its organization and implementation of this information is unique, proprietary and secret, sufficient to succeed on a claim under the ITSA.”

Hexacomb Corp. v. GTW Enters., Inc., 875 F. Supp. 457 (N.D. Ill 1993). The plaintiff’s machine was the industry leader, producing finished product five times faster than its closest competitor. A former employee with access to confidential information misappropriated the plaintiff’s information. Although the defendant demonstrated that certain key elements of the machine were also utilized by other companies, the court ruled that plaintiff’s combination of processes, which resulted in a machine far superior to anything on the market, was entitled to trade secret protection.
Trade Secret Protection Denied:

State Court:

Associated Underwriters of Am. Agency, Inc. v. McCarthy, 356 Ill. App. 3d 1010, 826 N.E.2d 1160 (1st Dist. 2005). The plaintiff sought trade secret protection for its National Hotel Program, a database developed for the insurance of hotels and other properties. The database organized subproducers, contacts, leads, expirations, renewals, and other information. The Appellate Court affirmed the trial court’s denial of trade secret protection on summary judgment. The Appellate Court explained that the existence of the subproducers was not secret; evidence showed the information on each insured was known to subproducers, the insureds, and the insurers; and the information on leads, expirations, and renewals belonged to the subproducers and not to the plaintiff.

Andrea Dumon, Inc. v. Pittway Corp., 110 Ill. App. 3d 481, 442 N.E.2d 574 (1st Dist. 1982). The plaintiff asserted trade secret protection for the process and method of manufacture of an aerosol foam depilatory. While the ingredients and processes used were well-known and commonly used throughout the industry, the plaintiff asserted that it possessed a trade secret in the process of rapidly changed temperatures during the aerosol’s production, which eliminated any valve clogging problems. The court held that a process is a trade secret if it is “known only to its owner and those of his employees to whom it is necessary to confide it . . . . A mere mechanical advance in the use of a process is not a new process or discovery.” To be a new process, there must be creative faculties in originating it amounting to a meritorious discovery or invention. In this case, the court determined that the plaintiff’s process was not unique because other businesses employed similar temperature-changing processes.

6. Product models.

Illinois courts generally have been reluctant to recognize product models as qualifying for trade secret protection. There is some overlap between this category and product design. As explained above, if the dispute primarily involves the design or drawing of the product, courts are more likely to afford trade secret protection. On the other hand, if the dispute primarily covers the product model itself, courts are more likely to refuse trade secret protection.

For instance, in National Presto Industries, Inc. v. Hamilton Beach, No. 88 C 10567, 1990 WL 208594 (N.D. Ill. Dec. 10, 1990), the manufacturer of the “Salad Shooter” sought trade secret protection of its new kitchen appliance. Prior to securing a patent on its invention, the plaintiff showed a product model to over 100 customers at a home show and sold the product on a limited basis at factory stores. Id. at *9. After the product model was made public, but before a patent was secured, one of the plaintiff’s former salespersons sold a pilot production Salad Shooter to the plaintiff’s competitors, which quickly reverse engineered, produced, and marketed a substantially similar product under their own labels. Id. The plaintiff asserted “industrial espionage” and brought a claim of trade secret misappropriation against the competitor. Id.
The court held that it could not prohibit the copying of a product once it enters the public domain. Id. at *8-9 (citation omitted). “Putting a product on the market [is] just the sort of disclosure that results in abandonment of a trade secret.” Id. at *8 (citations omitted). The court held that because the product was available on the open market and had not yet been patented, the plaintiff had abandoned any trade secret claim it possessed, despite the less-than-honest method used by the defendant to acquire the product. Id. at *9. Although the court found that the plaintiff took some precautions to maintain the product’s secrecy, such as showing the product in closed booths and not leaving the product unattended, its act of placing the product on the market constituted abandonment of the trade secret. Id.

Another example of courts’ reluctance to afford trade secret status to a product rather than its design or drawings is Web Communications Group v. Gateway 2000, Inc., 889 F. Supp. 316 (N.D. Ill. 1995). The plaintiff, a promotional marketing company, brought suit against its former client, Gateway, for trade secret misappropriation. Id. at 317-18. The plaintiff had developed a “stepped insert” for Gateway’s publication. Id. at 318. Although stepped inserts were common in the industry, they had not been used in “perfect bound” publications previously. Id. Evidence revealed that it took the plaintiff only three or four hours to develop and design the concept. Id. Especially in light of the short development time, the court determined that the product was the “result of publicly available knowledge” and therefore not a trade secret. Id. at 319-20. Although the plaintiff had been the first to utilize stepped inserts in perfect bound publications, the court reiterated that “simply being the first or only one to use certain information does not in and of itself transform otherwise general knowledge into a trade secret.” Id. at 319 (citation omitted). See also:

Trade Secret Protection Granted:

Master Tech Prods., Inc. v. Prism Enters., Inc., No. 00 C 4599, 2002 WL 475192 (N.D. Ill. Mar. 27, 2002). The plaintiff developed and marketed a new radiator cap that would fit most automobile radiators and reservoir openings. Several months after the product was placed on the market, the defendant talked with the plaintiff about marketing the product under the defendant’s label. After substantial negotiations and the exchange of sensitive information, the tentative agreement fell through. Subsequently, the defendant began producing a similar product, the “universal radiator adaptor.” The court denied the defendant’s motion for summary judgment, stating that the sensitive information the plaintiff provided the defendant during negotiations could constitute a trade secret even though the plaintiff had placed the product on the market without a patent. Moreover, while “peddling one’s wares at a trade show usually flies in the face of keeping the product information secret,” the court ruled that it remained a question of fact whether the plaintiff had taken reasonable efforts to maintain secrecy.

Trade Secret Protection Denied:

Magellan Int’l Corp. v. Salzgitter Handel GmbH, 76 F. Supp. 2d 919 (N.D. Ill. 1999). The plaintiff negotiated for the defendant to act as the plaintiff’s middleman in the purchase of steel bars. The plaintiff forwarded its specifications for the purchase, including the amount, proposed pricing and a proposed letter of credit. Before their agreement was finalized, the defendant purchased the steel pursuant to the plaintiff’s specifications.
Soon thereafter, the parties’ negotiations collapsed, and the defendant was forced to sell the steel to other customers, including those of the plaintiff. Although it was unclear whether the plaintiff asserted that its specifications or the steel itself was the trade secret, the court rejected both possibilities. With respect to the manufactured steel, the court held that the steel could not be a trade secret because the plaintiff intended to sell the steel to its customers immediately. Alternatively, the plaintiff’s specifications could not be a trade secret because they were “readily derivable from the product said to embody the secret (the steel itself), [and could] not be a ‘secret’ at all.”

7. Product designs.

Product designs comprise another category of potential trade secrets. Defendants, however, frequently argue that information related to the design of products is not sufficiently secret to impart economic value to its owner and accordingly is not a trade secret. For instance, in Pope v. Alberto-Culver Co., 296 Ill. App. 3d 512, 694 N.E.2d 615 (1st Dist. 1998), the plaintiff asserted that a squeezable, bottle-shaped dispenser for hair-relaxer that used the dispenser’s base to spread the relaxer was a trade secret. Neither party contested that similar hair-product dispensers had been on the market for several years. The only new aspect of the plaintiff’s design was the use of the base of the tube to spread the product. See id. at 517, 694 N.E.2d at 618. The court denied trade secret status because it determined that turning the existing container to use its base to smooth the product on the user’s hair was “easily within the realm” of knowledge in the industry. “A design or process that can be easily ascertained from an examination of the product itself cannot be a trade secret.” Id. (citation omitted). See also:

Trade Secret Protection Denied:

Schumann v. IPCO Hosp. Supply Corp., 93 Ill. App. 3d 1053, 418 N.E.2d 161 (1st Dist. 1981). The plaintiff argued that the design of a dental hinge post that formed a removable denture was a trade secret. The court held that the issue was whether the manufacture and operation of the dental appliance was a trade secret at the time of the alleged disclosure thereof by the plaintiff to the defendants or whether prior to that event, the information had been imparted to others so that it had passed into the public domain. Based upon the evidence, the court determined that prior to the plaintiff’s disclosure to the defendant, the information had long since passed into the public domain. Therefore, the design was not a protectible trade secret.

Trade Secret Protection Granted:

Rotan Barrier, Inc. v. Stanley Works, 79 F.3d 1112, 1117-18 (Fed. Cir. 1996). Based upon thirty years of experience and knowledge in the industry, the plaintiff developed a horizontal milling cutter that created hundreds of pinless hinges at a single time. The plaintiff designed and built the machine himself, and used a dry lubricant, which was unique to the industry. The court determined that using the dry lubricant was not obvious and could not be discovered through examination of the product. The court held, therefore, that the plaintiff possessed a protectible trade secret under the ITSA.
RRK Holding Co. v. Sears, Roebuck & Co., 563 F. Supp. 2d 832 (N.D. Ill. 2008). Plaintiff created a new and innovative product by combining elements from two already publicly known products. The court held that the defendant’s use of this design was misappropriation of a trade secret.

a) Implementation of an original design does not guarantee trade secret protection.

The question of whether a design is sufficiently secret such that its owner obtains an economic advantage from its secrecy can be difficult to prove. Illinois courts have repeatedly held that being the first or only one to use certain information or to implement a certain design does not transform the information or procedure into a trade secret. See cases cited supra Part I.A.5. Instead, courts will consider such factors as the amount of time, effort, and money expended to develop the design and the ease with which others could have duplicated it. Learning Curve Toys, Inc. v. PlayWood Toys Inc., 342 F.3d 714, 728-30 (7th Cir. 2003).

For example, in Learning Curve, the plaintiff claimed that the defendant misappropriated trade secrets involving the design of toy railroad tracks. Id. at 716. Specifically, the plaintiff claimed that during a brief meeting between the two parties, the plaintiff made an innovation to its design by sawing a small groove into the defendant’s sample track. Id. at 717-20. At trial, a jury found that the defendant had misappropriated the plaintiff’s trade secrets. Id. at 716. The trial court granted judgment as a matter of law to the defendant, however. Id. The court ruled that the plaintiff did not have a protectible trade secret because cutting grooves into a toy railroad track is neither unknown nor a secret within the toy making industry, and the appearance of the track product itself would have fully revealed the concept the plaintiff claimed as a secret. Id. at 728-31. On appeal, however, the Seventh Circuit disagreed and reinstated the jury’s verdict in favor of the plaintiff. Id. at 731. In doing so, the court noted that the expenditure of money and time in developing a product are factors to be considered, but “intuitive flashes of creativity” may also give rise to trade secrets. Id. at 728-29. In addition, the court also noted that the potential for reverse engineering is only a defense to a trade secret claim if the product is lawfully acquired and then reverse engineered. Id. at 729-30.

b) Trade secret status not afforded where information regarding design was learned from non-fiduciary third-party.

Companies should take measures to protect against disclosure by third-parties privy to the information, such as suppliers or distributors. For instance, in Composite Marine Propellers, Inc. v. Van Der Woude, 962 F.2d 1263 (7th Cir. 1992), employees of the plaintiff’s supplier left to form a competing business. While working for their former employer, the defendants made several recommendations regarding design changes for the plaintiff’s product, which the plaintiff subsequently adopted. When the defendants formed their business and began manufacture of similar products, the plaintiff brought suit under the ITSA. While the foundation of the trade secrets derived from the defendants’ own innovations, the court held that “[c]harging the defendants with misappropriating their own
innovation is not as strange as it may appear at first.” Id. at 1267. Had the defendants been the plaintiff’s fiduciaries, the plaintiff would have “acquired a property interest in using the information to the exclusion of the innovators.” Id. In this case, however, the defendants were under no duty to the plaintiff, and therefore the information was not a trade secret.

PRACTICE TIP: Obtain confidentiality and nondisclosure agreements from third parties, including their employees, before disclosing sensitive information.

8. Product formula.

Product formulas can be trade secrets. For example, in Mangren Research & Development Corp. v. National Chemical Co., 87 F.3d 937 (7th Cir. 1996), the plaintiff produced a mold release agent for rubber and plastic manufacturers. After eighteen months of intensive research and testing, the plaintiff discovered that using a particular compound would make the release agent both more effective and less expensive. Although the industry had previously researched and rejected the use of the particular compound that the plaintiff utilized to make the mold release agent, the plaintiff was successful with this product formula. Two of the plaintiff’s employees were terminated and accepted positions with a competitor, which subsequently began production of a substantially similar mold release agent. The plaintiff sued for trade secret misappropriation.

The court stated that the fact the plaintiff was the first to use this particular compound successfully in a mold release agent was of particular significance. See id. at 942. Even though “merely being the first or only one to use particular information does not in and of itself transform otherwise general knowledge into a trade secret,” the court held that there was sufficient evidence to conclude that the plaintiff was not using generally available knowledge. Id. at 942-43 (citations omitted). The plaintiff had developed a distinctive formula based on information not generally known or accepted within the industry. Id. at 943. The court further held that the formula provided plaintiff with a substantial economic advantage. Although the mold release agent was relatively inexpensive to make, the plaintiff was able to charge a substantial price to its customers because of its position as the industry leader. Following the defendants’ misappropriation, the plaintiff’s sales dropped dramatically as the defendants began to undersell it. The court held this formula constituted a trade secret. Id.

Courts are more receptive to the assertion that a formula is a trade secret when the formula was developed by the plaintiff (as opposed to a third party) and does not yield a similar product as compared to other goods on the market. For example, in American Wheel & Engineering Co., Inc. v. Dana Molded Products, Inc., 132 Ill. App. 3d 205, 207-08, 476 N.E.2d 1291, 1293-94 (1st Dist. 1985), the plaintiff contracted with a third party to develop a plastic compound for wheel casters which met certain durability, impact load and temperature specifications. The third party developed a generic compound of rubber and polypropylene having “similar minimum physical property characteristics, commonly and widely used in manufacturing caster wheels.” Id. at 208, 476 N.E.2d at 1294. When one of the plaintiff’s competitors began selling a similar caster, the plaintiff brought suit alleging trade secret misappropriation. Id. at 208, 476 N.E.2d at 1293. Holding for the defendant, the
court ruled that the formula had little value for the plaintiff’s competitors.  Id. at 209, 476 N.E.2d at 1294. First, the court held that because other known plastic compound formulas would satisfy the plaintiff’s specifications, the plaintiff did not hold economically valuable information.  Id. Moreover, because the formula was actually developed by the third party, the holder of the trade secret appeared to be the third party, not the plaintiff.  Id. See also:

**Trade Secret Protection Granted:**

**Lucini Italia Co. v. Grappolini,** No. 01 C 6405, 2003 WL 1989605 (N.D. Ill. Apr. 28, 2003). A manufacturer of high-end olive oil expended substantial time and money developing a unique formula for its olive oil. The manufacturer hired a consultant to develop the formula, which was influenced by the type of olive used, the soil content, the weather, the climate, the method of picking the olives, the ripeness of the olives, the pressing method, and the exposure to light. The manufacturer’s consultant later misappropriated the formula and went into competition against the manufacturer. The court upheld the manufacturer’s assertion that the olive oil formula was a trade secret, holding that the formula was developed through great expense and effort and was not ascertainable from any public source.

**Trade Secret Protection Denied:**

**Composite Marine Propellers, Inc. v. Van Der Woude,** 962 F.2d 1263 (7th Cir. 1992). The plaintiff manufacturer of marine propellers sought to enjoin production of a competitor’s product, alleging that a former employee of the plaintiff’s supplier had divulged trade secret information, including the formula for the compound used to make the propellers. Because of the significantly different compositions of the propellers made by the plaintiff and the defendant, the court found no evidence that the defendant was using the plaintiff’s trade secret information.

9. **Expertise versus an employee’s general skills and experience.**

The line between an employee’s general skills and experience versus expertise derived through exposure to the employer’s trade secrets can be murky. Illinois courts consistently have held that an employee “may take with him, at the termination of his employment, general skills and knowledge acquired during his tenure with the former employer.”  *Schulenburg v. Signatrol, Inc.*, 33 Ill. 2d 379, 387, 212 N.E.2d 865, 869 (1965);  *Ancraft Prods. Co. v. Universal Oil Prods. Co.*, 84 Ill. App. 3d 836, 843, 405 N.E.2d 1162, 1168 (1st Dist. 1980) (citation omitted). As the Illinois Supreme Court observed:

Our society is extremely mobile and our free economy is based upon competition. One who has worked in a particular field cannot be compelled to erase from his mind all of the general skills, knowledge and expertise acquired through his experience. These skills are valuable to such employee in the market place for his services. Restraints cannot be lightly placed upon his right to compete in the area of his greatest worth.
ILG Indus. v. Scott, 49 Ill. 2d 88, 93-94, 273 N.E.2d 393, 396 (1971). See also:

Trade Secret Protection Denied:

Sys. Dev. Servs., Inc. v. Haarmann, 389 Ill. App. 3d 561, 574-78, 907 N.E.2d 63, 75-78 (5th Dist. 2009). The Appellate Court vacated the trial court’s finding, after a bench trial, that the plaintiff’s knowledge of the intricacies of its customers’ computer systems and networks was a trade secret. The Appellate Court held the evidence was insufficient to support this finding: the plaintiff “did not present evidence that its technicians installed or utilized anything proprietary in servicing computers and networks,” as the customers – not the plaintiff – owned their computer systems, networks, and related information. Further, the plaintiff did not prove “that its technicians serviced its clients’ computers and networks in a way that was novel or unknown to any other technician in the computer service and network industry performing the same services,” so “the defendants’ knowledge of the specific computer systems and networks that they worked on while employed with [the plaintiff] was akin to general skills and knowledge acquired in the course of employment,” rather than protectible trade secrets.

Smith Oils Corp. v. Viking Chem. Co., 127 Ill. App. 3d 423, 468 N.E.2d 797 (1st Dist. 1985). The court held that the information the plaintiff claimed was a protected trade secret fell into the category of “general skills and knowledge” that an employee is free to take with him when his employment is terminated. The defendants were entitled to use information such as customer lists, customer orders, pricing information, cost information, sample formulas and other special customer information when they left to work for a competitor, but not the exact formulas for the plaintiff’s product.

Parties have frequently litigated the trade secret status of an employee’s professional contacts, either with customers or suppliers. For instance, in Delta Medical Systems v. Mid-America Medical Systems, Inc., 331 Ill. App. 3d 777, 787-88, 72 N.E.2d 768, 778 (1st Dist. 2002), the plaintiff’s former employee took a list of key contact persons of the plaintiff’s customers to his new employment with the defendant. The plaintiff asserted that the identity of these contact persons was a trade secret because learning the names of the proper contacts involved substantial effort and time. Moreover, the plaintiff asserted that the relationship developed between the customer and its salesperson was a protectible interest. Id. at 782-83, 722 N.E.2d at 774. The court disagreed, holding that the contacts were “nothing more than the kind of knowledge any successful [salesperson] necessarily acquires through experience and relationships with the customer.” Id. at 795, 722 N.E.2d at 784. The court reasoned that “it would be unfair to allow an employer without [a restrictive covenant] to obtain trade secret status for the fruits of ordinary experience in the business, thus compelling former employees to reinvent the wheel as the price for entering the competitive market.” Id. (citation omitted). See also:

Trade Secret Protection Denied:

Serv. Ctrs. of Chi., Inc. v. Minogue, 180 Ill. App. 3d 447, 535 N.E.2d 1132 (1st Dist. 1989). The plaintiff asserted that the manner in which it formulated prices for its customers was a trade secret. The plaintiff
described these as “certain rules of thumb.” The defendant, a former employee of the plaintiff, used this formula when he went to work for a competitor. The court rejected the plaintiff’s argument, holding that the defendant’s knowledge of estimating costs fell “within the realm of general skills and knowledge which he was free to take and use in later pursuits.”


The plaintiff sued a former employee for trade secret misappropriation alleging that “skills, knowledge and experience as embodied in its employees and its development of a modus operandi for the production of specialized machinery” constituted a trade secret. Although the court agreed that the employee’s work experience with the plaintiff likely “augmented” his skills and therefore assisted his current employer, the court held that the employee took only general skills and thus was not liable for trade secret misappropriation.

10. **Internal business information and compilations.**

This category of trade secrets is somewhat of a catchall, encompassing various types of business information. This category may include ordering patterns and preferences, sales projections, marketing strategies, supplies, sales, employee history, gross profits, revenues, expenses, financing agreements, inventor lists, special customer relationships or the identity of a distributor.

a) **Compilations of confidential business and financial information may constitute a trade secret.**

Illinois courts have concluded that a trade secret “may include a compilation of confidential business and financial information.” **Master Tech Prods., Inc. v. Prism Enters., Inc.,** No. 00 C 4599, 2002 WL 475192, at *5 (N.D. Ill. Mar. 27, 2002) (quoting **Sw. Whey, Inc. v. Nutrition 101, Inc.,** 117 F. Supp. 2d 770, 775 (C.D. Ill. 2000)). A trade secret can exist “in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process design and operation of which in unique combination affords a competitive advantage and is a protectible trade secret.” **Thermodyne Food Serv. Prod. v. McDonald’s Corp.,** 940 F. Supp. 1300, 1305 (N.D. Ill. 1996) (quoting **SmokeEnders, Inc. v. Smoke No More, Inc.,** 184 U.S.P.Q. 309, 317 (S.D. Fla. 1974)). See also:

*Trade Secret Protection Granted:*

**Federal Court:**

**Lawson Prods., Inc. v. Chromate Indus. Corp.,** 158 F. Supp. 2d 860 (N.D. Ill. 2001). The plaintiff alleged that a competitor lured certain employees away and misappropriated trade secret information. Specifically, the plaintiff claimed that the competitor misappropriated customer lists, price lists, ordering patterns, sales projections and marketing strategies. On a motion to dismiss, the defendant claimed that the information was not protected as a matter of law. The court denied the defendant’s motion, holding that the question was too fact-dependent to permit such a blanket statement.

MJ & Partners Rest. Ltd. v. Zadikoff, 10 F. Supp. 2d 922 (N.D. Ill. 1998). The plaintiff claimed that the defendant misappropriated trade secrets in the form of information regarding suppliers, sales, employee history, gross profits, revenues, expenses, financing agreements, investor lists, marketing plans and special customer relationships. The defendant claimed the alleged trade secrets were only generalized business information that is not protected, and therefore moved to dismiss the plaintiff’s claim. The court denied the motion to dismiss, reasoning that the information fell “within the general category of what potentially could constitute a trade secret under the definition set forth in the ITSA.”

ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310 (N.D. Ill. 1990). The plaintiff asserted that service manuals and technical bulletins, which were compilations of valuable technical information and procedures, were trade secrets. The court agreed, holding that the compilations would constitute trade secrets even if plaintiff had not developed virtually all of the technical information and procedures therein. Specifically, the court held that the effort of compiling the useful information was itself entitled to protection even if the information was generally known. The court noted that although the volume of the information and procedures was vast, this did not detract from its status as a trade secret. It merely confirmed the plaintiff’s substantial and continual effort to create the information and procedures in the first place.

Trade Secret Protection Denied:

State Court:

George S. May Int’l Co. v. Int’l Profit Assocs., 256 Ill. App. 3d 779, 628 N.E.2d 647 (1st Dist. 1993). Several of the plaintiff’s employees left and formed a competing business. The plaintiff alleged that these employees misappropriated trade secrets consisting of surveys, manuals, forms and computer programs that comprised a unique system of analyzing the operations and structure of businesses. The court determined that the information was not sufficiently secret to derive economic value. The surveys, forms and manuals were disseminated to thousands of persons without a confidentiality agreement. Moreover, the techniques the plaintiff used to analyze the companies were “not unique concepts and were certainly in the public domain.”

Federal Court:

Composite Marine Propellers, Inc. v. Van Der Woude, 962 F.2d 1263 (7th Cir. 1992). Key employees of the plaintiff’s principal supplier started their own competing company. The plaintiff had previously secured nondisclosure agreements with its employees and suppliers, but had taken no measures to assure that its suppliers required the same of its employees. The plaintiff alleged that the defendants misappropriated several trade secrets, including marketing plans, business strategies and test data. With respect to the marketing plans and strategies, the court determined that the plaintiff’s decision to make marine propellers and sell them through the
usual channels in the boating industry was not a trade secret. Not only was this information generally available to the public, but the plaintiff also had disclosed its marketing channels to at least fifty persons in the industry. Those persons “sold products in addition to [plaintiff’s], owed it no allegiance, and did not promise confidentiality.” Therefore, the plaintiff possessed no protectible interest in this information. The court held that although test data could be a trade secret because the plaintiff derived economic value from the data compiled on the performance of different designs, the plaintiff had failed to demonstrate that the defendants had access to the data in anything other than summary form or had used the data in any way.

b) Identification of an already established niche market is not a trade secret.

As with the other categories of information discussed above, the information at issue must not be known to the industry or the general public. See Pope v. Alberto Culver Co., 296 Ill. App. 3d 512, 517-18, 694 N.E.2d 615, 618-19 (1st Dist. 1998). In Pope, plaintiff contended that its identification of a “niche market” and its market timing information for its new hair relaxer product constituted trade secrets. The court disagreed, holding that “[t]he availability of a wide variety of relaxer products targeted to African-American consumers indicates that this market had already been identified and was considered by many companies to be quite worthwhile in terms of product development.” Id.

c) No protectible interest in identity of hired employees.

Illinois courts have held that employers have no protectible trade secret interest in the identity of the employees they hire. In Flexicorps, Inc. v. Trend Technologies., Inc., No. 01 C 1754, 2002 WL 31018353, at *11 (N.D. Ill. Sept. 10, 2002), the plaintiff claimed that the defendant violated the ITSA by hiring away the plaintiff’s “carefully screened inventory of temporary employees.” The defendant argued that the plaintiff’s employees could not be trade secrets in and of themselves, and the court agreed. Despite investing considerable effort and expense in their recruitment, the plaintiff could have no property interest in its individual employees. The plaintiff could not demonstrate that the defendant used the plaintiff’s confidential recruitment process or that the employees were privy to other trade secrets, and, therefore, the court granted the defendant’s motion to dismiss. See id.

PRACTICE TIP: An employer may want to require employees to sign non-solicitation agreements to prevent the employees from poaching their former colleagues after they leave employment.

C. Acceptable Steps for Maintaining Information’s Secrecy.

Although the ITSA allows for a wide array of information potentially to qualify as a trade secret, simply labeling information a trade secret will not make it so. The second prong of the ITSA’s definition of a trade secret requires the information’s owner to take affirmative steps to safeguard the information’s secrecy. Jackson v. Hammer, 274 Ill. App. 3d 59, 67-68, 653 N.E.2d 809, 816 (4th Dist. 1995). If the information’s owner fails to undertake reasonable efforts to prevent the trade secret from falling into the hands of competitors, the
law does not provide the owner a remedy; in essence, the owner will be deemed to have abandoned the trade secret. Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991).

The steps taken to ensure the information’s secrecy often is the most important factor in determining whether the information is a trade secret. Lincoln Towers Ins. Agency v. Farrell, 99 Ill. App. 3d 353, 356, 425 N.E.2d 1034, 1037 (1st Dist. 1981).

1. **Steps taken must be reasonable, but need not be perfect.**

   While the ITSA requires reasonable steps to maintain secrecy, “it does not require perfection.” Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 725 (7th Cir. 2003). See also:

   **Trade Secret Protection Granted:**

   Televation Telecomm. Sys., Inc. v. Saindon, 169 Ill. App. 3d 8, 522 N.E.2d 1359 (2d Dist. 1988). Although the plans that were alleged trade secrets were kept in an unlocked cabinet and the plaintiff did not require employees to sign nondisclosure agreements, the court determined that the plaintiff had taken reasonable steps to maintain the secrecy of its trade secrets. First, the plaintiff disclosed the information only on a need-to-know basis. Second, the plaintiff established a known policy that the information was to be kept confidential. Finally, employees were not allowed to take the plans out of the plaintiff’s office.

   2. **Failure to enforce known violations of confidentiality agreements may be deemed a failure to reasonably protect trade secrets.**

      The owner of confidential information must be vigilant in protecting the secrecy of its information. See Compuware Corp. v. Health Care Serv. Corp., 203 F. Supp. 2d 952 (N.D. Ill. 2002). Compuware sued the exclusive licensee and a third party for trade secret misappropriation. It was undisputed that Compuware knew for several months prior to bringing suit that the licensee was allowing a third party to use the licensed software. Compuware took no action until it learned that the third party was using the software for an unapproved purpose. Although Compuware required its employees, customers and prospective customers to sign nondisclosure agreements, the court held Compuware’s inaction was dispositive in its claim under the ITSA. “As a matter of law, doing nothing to enforce a confidentiality agreement is not a reasonable effort . . . to maintain a trade secret.” Id. at 958; see also Nat’l Presto Indus., Inc. v. Hamilton Beach, No. 88 C 10567, 1990 WL 208594, at *9 (N.D. Ill. Dec. 10, 1990) (rejecting the assertion of “implicit confidentiality” to establish reasonable measures to maintain secrecy).

   3. **Whether steps taken were reasonable is a question of fact.**

      Whether the measures taken by a trade secret owner are sufficient to satisfy the ITSA’s “reasonableness” standard is a question of fact. Mangren Research & Dev. Corp. v. Nat’l Chem. Co., 87 F.3d 937, 943 (7th Cir. 1996); Rockwell Graphic Sys., Inc. v. Dev. Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991).
Only in an extreme case can what is a “reasonable” precaution be determined as a matter of law because the answer depends on a balancing of costs and benefits that will vary from case to case. Rockwell Graphic, 925 F.2d at 179. For this reason, a court may hesitate to resolve the issue on summary judgment. In Connell v. KLN Steel Products Ltd., No. 04 C 194, 2009 WL 691292, at *14-15 (N.D. Ill. Mar. 16, 2009), for example, the court denied a defendant’s motion for summary judgment against an ITSA claim, reasoning that it could not “find as a matter of law that [the plaintiff] did not put forth reasonable efforts to protect [its] trade secret.” On the one hand, the plaintiff had disclosed its trade secret prototypes to a third party and was “not particularly cautious” in doing so; among other things, a reporter had been allowed to view and photograph the prototypes. Id. at *14. On the other hand, there was no evidence the plaintiff disclosed its prototypes to any other third party, and the third party had assured the plaintiff that the prototypes would remain confidential. Id. at *15. See also:

Nordstrom Consulting, Inc. v. M & S Tech., Inc., No. 06 C 3234, 2008 WL 623660 (N.D. Ill. Mar. 4, 2008). The defendant, a distributor of vision equipment, entered into an agreement to distribute software developed by the plaintiff. The relationship soured, and the plaintiff took software and data from the defendant’s computers before severing ties. The plaintiff brought a number of actions, including breach of contract and copyright infringement. The defendant countersued, claiming trade secret misappropriation. The plaintiff moved for summary judgment on the grounds that the defendant had failed to provide sufficient evidence of reasonable efforts to keep the material confidential. Although the material had been stored on password-protected computers and access was limited to key individuals, the plaintiff argued that these steps were not reasonable because there were other possible measures, such as confidentiality agreements and labeling the information as confidential, that the defendant had failed to take. The court denied summary judgment, and stated that a party’s efforts must be evaluated in light of the entire factual situation, and there is no checklist of precautions that are required in all situations.

Quality Lighting, Inc. v. Benjamin, 227 Ill. App. 3d 880, 897, 592 N.E.2d 377, 384 (5th Dist. 1992). The plaintiff sued to challenge the defendant’s various uses of information on the grounds that the information was a trade secret. The trial court granted summary judgment for the defendant, and the plaintiff appealed. The Appellate Court reversed, holding that the circumstances and the reasonableness of the plaintiff’s efforts to protect its confidential information were factual issues that precluded the entry of summary judgment. The plaintiff had taken the following steps to protect its confidential information: (1) labeled all blueprints and drawings as confidential; (2) stored confidential technical information in a locked file cabinet and limited access to the engineering staff; (3) disclosed the information only when business reasons justified any such knowledge; and (4) instituted a monitoring program to detect purchases by competitors to prevent reverse engineering. The court held that these acts were sufficient to prevent summary judgment from being entered against the plaintiff.

By contrast, courts have held that the actions taken were inadequate as a matter of law where the trade secret owner failed to take virtually any steps to protect secrecy or where the owner’s sole protective measure was to execute a confidentiality agreement. See Arcor, Inc.
v. Haas, 363 Ill. App. 3d 396, 402-03, 842 N.E.2d 265, 271 (1st Dist. 2005) (holding that the trial court abused its discretion in granting a preliminary injunction to a trade secret owner that relied solely on a confidentiality agreement to protect its information and thus failed to take reasonable steps to maintain secrecy); Web Comm’ns Group v. Gateway 2000, Inc., 899 F. Supp. 316, 320 (N.D. Ill. 1995) (holding that although the question of reasonable steps is normally a jury question, where plaintiff takes virtually no steps to ensure confidentiality, a court may decide the question as a matter of law). See also:

**Tax Track Sys. Corp. v. New Investor World, Inc., 478 F.3d 783 (7th Cir. 2007).** The plaintiff insurance broker sued a competitor alleging breach of a confidentiality agreement, and the district court granted summary judgment in favor of the defendant. On appeal, the Seventh Circuit agreed that summary judgment was appropriate. Although the plaintiff did not plead a trade secrets misappropriation claim, the court noted that the same reasonable efforts analysis also applied to a claim of breach of a confidentiality agreement. At issue in the case was a memorandum that was stored on a password-protected computer but distributed to 600-700 people. Of those people, only 190 signed confidentiality agreements regarding the memorandum. The document itself was not designated “confidential” in any manner. Accordingly, although the court agreed that the finding of reasonableness was a question of fact to be decided by the jury, it also concluded that no jury could have found that the plaintiff made reasonable efforts to keep it confidential, and summary judgment was appropriate.

**CMBB LLC v. Lockwood Mfg., Inc., No. 08 C 1201, 2009 WL 1789263 (N.D. Ill. June 24, 2009).** The court granted summary judgment on an ITSA claim because of the “absence of any showing that [its original owner] took reasonable affirmative steps to prevent dissemination of customer information” alleged to constitute trade secrets. It failed to inform its employees that it considered the information to be trade secrets, failed to ensure that former employees “returned, destroyed, or agreed not to use” the alleged trade secrets, and otherwise “appeared to have relied on luck and a somewhat naive faith in employee-employer good will, rather than taking the necessary affirmative and calculated steps to safeguard what it now characterizes as valuable and secret information.”

4. **Size and resources of information’s owner are relevant in determining reasonable steps to protect secrecy.**

Although the identity of the person or entity asserting ownership in the information is not a factor regarding the first prong of the ITSA’s definition of a trade secret, the expectations for ensuring the information’s secrecy are different for individuals and small companies as compared to large companies. Jackson v. Hammer, 274 Ill. App. 3d 59, 67, 652 N.E.2d 809, 815 (4th Dist. 1995) (“[D]etermination of what steps are reasonably necessary to protect information is different for a large company than for a small one.”); Elmer Miller, Inc. v. Landis, 253 Ill. App. 3d 129, 134, 625 N.E.2d 338, 342 (1st Dist. 1993) (“[R]easonable steps for a two or three person shop may be different from reasonable steps for a larger company.”).
a) Smaller businesses are not expected to take expensive steps to protect secrecy.

Courts hold smaller businesses to a more lenient standard, analyzing the steps taken to protect confidential information in light of the company’s financial resources. See Elmer Miller, Inc., 253 Ill. App. 3d at 134, 625 N.E.2d at 342 (holding that a small tailoring shop that kept its customer list in a closed file drawer, notified its employees that the list was confidential and limited access to the list on a need-to-know basis satisfied the reasonable steps requirement of the ITSA). A small business, however, is still required to take some affirmative measure to protect its confidential information; complete inaction will lead to the loss of trade secret protection. See Jackson, 274 Ill. App. 3d at 67-68, 653 N.E.2d at 816 (holding that the absence of any affirmative steps taken by owner of a small hobby shop to protect the secrecy of its customer list resulted in loss of trade secret protection).

b) Larger businesses are held to a higher standard.

Conversely, larger, more financially-capable companies will be held to a higher standard. See Jackson, 274 Ill. App. 3d at 66-67, 653 N.E.2d at 815-16 (contrasting Elmer Miller with the following case). For instance, in Gillis Associated Industries, Inc. v. Carib-All, Inc., 206 Ill. App. 3d 184, 564 N.E.2d 881 (1st Dist. 1990), the plaintiff, a multi-million dollar corporation, was seeking to protect its customer list. Although Gillis instructed its employees in its employee manual that the list was confidential, kept the list under lock and key, and limited computer access to the list to only three employees, the court determined that Gillis had not taken reasonable steps to protect its secrecy. Id. at 191-92, 564 N.E.2d at 885-86. First, Gillis neither labeled the list as “confidential” nor placed restrictions on its copying. Id. Second, Gillis did not require its employees to sign confidentiality agreements. Id. Finally, all the information in Gillis’ customer list was reproduced in sales reports given to its sales representatives, but no instructions accompanied the reports stating the information was confidential. Id. But see Hexacomb Corp. v. GJW Enters., Inc., 875 F. Supp. 457 (N.D. Ill. 1993) (industry-leading manufacturer took reasonable steps to protect secrecy where it implemented a multi-faceted approach that involved non-disclosure agreements, confidentiality agreements for visitors, employee exit interviews, and other measures).

5. Specific steps to protect secrecy.

Businesses lose substantial amounts of valuable information each year that may qualify as trade secret information simply because they fail to treat it as such. Steps generally recognized as helpful in demonstrating reasonable efforts to safeguard the information can be divided into five categories: (1) employee nondisclosure agreements and training; (2) precautions for dealings with third parties; (3) limits on access, including safeguarding and monitoring hard and electronic copies of the information; (4) confidentiality labels; and (5) other measures.
Trade Secret Protection Granted:

State Court:

*Stampede Tool Warehouse, Inc. v. May*, 272 Ill. App. 3d 580, 651 N.E.2d 209 (1st Dist. 1995). Automotive equipment distributor took reasonable steps to preserve its trade secret when it: (1) limited access to only the corporation’s president and general manager; (2) kept hard copies in locked cabinets; (3) required employees to sign confidentiality agreements; (4) provided refresher instructions that the information was confidential; (5) installed security cameras; and (6) required the information to be checked in and out when needed by salespersons.

Federal Court:

*QSRSoft, Inc. v. Rest. Tech., Inc.*, No. 06 C 2734, 2006 WL 2990432 (N.D. Ill. Oct. 19, 2006). The plaintiff was a large company that provided restaurants such as McDonald’s with reports reflecting the sales data contained in each store’s in-store computer processor. The court held that the plaintiff had a likelihood of success on the merits of its trade secret claim because the computer system by which the plaintiff compiled and manipulated the in-store processor data could be a trade secret. The court also held the plaintiff had taken reasonable steps to maintain secrecy by using licensing agreements and a password-protected web site, by keeping its trade secrets out of public display at conventions, and by not allowing customers and competitors ever to view its computer program’s source code.

*Hexacomb Corp. v. GTW Enters., Inc.*, 875 F. Supp. 457 (N.D. Ill. 1993). The manufacturer of an industry-leading machine sued its competitor for misappropriation of blueprints through a former employee. The court held that the manufacturer took substantial steps to protect its design’s secrecy, including: (1) establishing a confidentiality policy in its employee handbook; (2) requiring nondisclosure agreements; (3) requiring plant visitors to sign a pass and agree to maintain confidential information learned while visiting; (4) conducting exit interviews with departing employees; and (5) not preparing a full set of drawings that divulged the interrelationship of the machine’s components.

PRACTICE TIP: The first step to protecting a trade secret is to identify it. A proper evaluation of a company’s intangible information likely will reveal substantial amounts of confidential information that provide it with a competitive advantage in the marketplace. Then, documenting such efforts to maintain secrecy will benefit the employer in the event of litigation.

a) Employee nondisclosure agreements and training.

One of the primary ways a business’s trade secrets are revealed to competitors is through employee misconduct. Employees either negligently disclose or intentionally misappropriate the information. To combat this problem, employers should institute a comprehensive system to educate employees and defend against employee negligence and intentional wrongdoing. One important and easy step is requiring employees to sign
nondisclosure agreements. See Richardson Elec., Ltd. v. Avnet, Inc., No. 98 C 5095, 1999 WL 59976, at *1-2 (N.D. Ill. Feb. 6, 1999). Courts repeatedly have held that nondisclosure agreements are an important step to maintain the secrecy of confidential information. Mut. Life Ins. Co. of N.Y. v. Veselik, No. 97 C 6291, 1998 WL 30672, at *5-6 (N.D. Ill. Jan. 22, 1998); see Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 279, 827 N.E.2d 909, 923-24 (1st Dist. 2005) (noting that in every case relied on by the plaintiff where the “reasonable steps” requirement was met, the trade secret owner had informed its employees verbally or in writing about confidentiality). A confidentiality agreement alone, however, may not suffice. See Arcor, Inc. v. Haas, 363 Ill. App. 3d 396, 402-03, 842 N.E.2d 265, 271 (1st Dist. 2005) (holding that trial court abused its discretion in granting a preliminary injunction to a trade secret owner who relied solely on a confidentiality agreement to protect its information and thus failed to take reasonable steps to maintain secrecy). At the very least, even if a confidentiality agreement is not used, the trade secret owner must be able to point to some evidence that its employees understood the information was to be kept confidential. Liebert Corp., 357 Ill. App. 3d at 279, 827 N.E.2d at 923-24 (citing Gillis Associated Indus., Inc. v. Cari-All, Inc., 206 Ill. App. 3d 184, 192, 564 N.E.2d 881, 886 (1st Dist. 1990)). See also:

**Trade Secret Protection Granted:**

**State Court:**

**Affiliated Hosp. Prods., Inc v. Baldwin, 57 Ill. App. 3d 800, 373 N.E.2d 1000 (1st Dist. 1978).** All salaried and supervisory employees of the plaintiff were required to sign an “Employee Invention and Confidential Information Agreement,” which prevented disclosure of any confidential matter relating to the business either during the duration of employment or at any time thereafter. Based on this evidence, the court determined that the plaintiff had taken reasonable steps to protect its manufacturing trade secrets.

**Federal Court:**

**Mangren Research & Dev. Corp. v. Nat'l Chem. Co., 87 F.3d 937 (7th Cir. 1996).** The defendant argued that the plaintiff had not taken reasonable steps to protect the formula for a mold release agent because all six of the plaintiff’s employees knew the formula, visitors to the plaintiff’s facility could identify the formula’s ingredients, and the plaintiff was unable to produce nondisclosure agreements signed by the offending former employees. The court, however, held that the plaintiff had taken substantial steps to protect the formula’s secrecy. They included: (1) requiring all employees to sign nondisclosure agreements; (2) instituting a policy of confidentiality of the formula; (3) limiting access to the facility; and (4) using secret coded labels when the ingredients were in public.

**Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605 (N.D. Ill. Apr. 28, 2003).** In a case involving misappropriation of the formula for olive oil, the court concluded that the manufacturer had taken reasonable steps to maintain the formula’s secrecy. The formula was not shared with anyone outside of the manufacturer’s senior management, except for a few select individuals who were assisting the manufacturer and who were subject to non-disclosure agreements.
Relatedly, employers should establish procedures, reflected in the employees’ handbooks, to train new employees about the use and handling of trade secrets, provide annual or semi-annual refresher courses, and hold exit interviews with employees leaving the company to ensure that all trade secret information is returned and to remind them of their nondisclosure agreements. See Stampede Tool Warehouse, Inc. v. May, 272 Ill. App. 3d 580, 587, 651 N.E.2d 209, 215 (1st Dist. 1995) (citing “constant reminders [to employees] about the confidentiality of [customer] lists” as factor in upholding trade secret protection); Hexacomb Corp. v. GTW Enters., Inc., 875 F. Supp. 457, 463-66 (N.D. Ill. 1993) (holding manufacturer took substantial steps to protect its design’s secrecy by establishing a confidentiality policy in its employee handbook and conducting exit interviews with departing employees). These procedures will both help prevent trade secrets from falling into the wrong hands and increase the likelihood of a favorable court ruling should the trade secret ever be misappropriated.

**PRACTICE TIP:** Nondisclosure agreements not only lessen the possibility that employees accidentally will reveal trade secrets by alerting them to the information’s economically advantageous and confidential nature, but they also reduce the potential for intentional misappropriation by clearly setting forth the prohibition on disclosure and its repercussions.

b) **Precautions against third-party misuse.**

A further challenge is presented when trade secret information is disclosed to third parties, such as independent contractors, potential collaborators and outside vendors.

As with employees, outside entities should be instructed regarding the corporate confidentiality policy and be required to sign confidentiality agreements. Trade secret owners also should consider the further step of requiring the third party’s employees to sign nondisclosure agreements. For instance, in ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310 (N.D. Ill. 1990), the court held that the plaintiff, which designed and sold complex computer systems for financial institutions such as banks and savings and loans institutions, was entitled to a preliminary injunction prohibiting a competitor, which had hired several employees possessing trade secret information, from misappropriating trade secrets. First, the court rejected the defendant’s argument that the plaintiff’s “sale” of the software prevented resort to the ITSA. The court held that the plaintiff never sold the software; rather, it entered into licensing agreements that effectively established the permissible actions of the licensee and maintained the confidentiality of the programs. See id. at 1314. Second, although thousands of programmers and engineers developed and
serviced the software, confidentiality was not lost because all of them were required to enter into nondisclosure agreements. See id. at 1334. The court further held that a corporation’s partial disclosures of its computer trade secrets to third parties who were under obligations of confidentiality did not alter the trade secret status of computer programs, compilations, technical information and procedures under Illinois law. See id. (citations omitted). See also:

*Trade Secret Protection Granted:*

**State Court:**

*ILG Indus., Inc. v. Scott,* 49 Ill. 2d 88, 273 N.E.2d 393 (1971). The defendant argued that disclosure of portions of a product drawing to a component manufacturer destroyed confidentiality. The plaintiff produced evidence that not all the critical information was supplied, and that the component manufacturer understood that the information it received was to be treated in confidence. The court held that these steps were reasonable under the circumstances.

*Affiliated Hosp. Prods., Inc. v. Baldwin,* 57 Ill. App. 3d 800, 373 N.E.2d 1000 (1st Dist. 1978). The court determined that “[r]eports concerning [the plaintiff’s] internal affairs and negotiations with outside interests all reflected [the plaintiff’s] concern that certain equipment and techniques be kept in the strictest confidence.”

**Trade Secret Protection Denied:**

**State Court:**

*Am. Wheel & Eng’g Co. v. Dana Molded Prods., Inc.,* 132 Ill. App. 3d 205, 476 N.E.2d 1291 (1st Dist. 1985). The court held that the plaintiff failed to take reasonable steps to protect the secrecy of its formula for the plastic compound used in its caster wheels. Because a third party developed the formula, the plaintiff should have entered into a nondisclosure agreement with that third party. The court held that the plaintiff’s competitors could easily acquire a plastic compound with the plaintiff’s specifications merely by requesting the third party to produce it. The third party was under no obligation to keep the formula it developed solely for the use of the plaintiff.

*Palin Mfg. Co. v. Water Tech., Inc.,* 103 Ill. App. 3d 926, 431 N.E.2d 1310 (1st Dist. 1982). The plaintiff sought to protect drawings of a “sludge separator device.” Because the plaintiff did not treat the drawings as secret or take steps to guard their confidentiality, the Appellate Court held that the drawings were not trade secrets. The plaintiff not only installed the actual prototype unit at a plant in an effort to sell it to the company, but also provided the company with the very drawings claimed to be protected. Moreover, the plaintiff did not indicate that it considered the device to be confidential, and none of the drawings was marked as such. In addition, the plaintiff took no steps to restrict access to the area of the plant where its device was installed.
Federal Court:

_Sw. Whey, Inc. v. Nutrition 101, Inc.,_ 117 F. Supp. 2d 770 (C.D. Ill. 2000). The plaintiff failed to establish the existence of any affirmative steps to protect its claimed trade secret. The court held that three distinct entities, any one of which was free to disclose the plaintiff’s information, were privy to at least key components of the plaintiff’s trade secrets. The court noted that the plaintiff did not require the competitor to whom the information was disclosed to sign a nondisclosure agreement. Moreover, the farmers who utilized the plaintiff’s product and the truckers who shipped the product were free to divulge to the public the information that was disclosed to them.

**PRACTICE TIP:** If the production of a product utilizing trade secret information is outsourced, one way to protect the information is by using different vendors to manufacture different parts. Further, when conducting business internationally, companies should be cautious when disclosing any confidential information. Not all countries respect policies protecting trade secret information.

**PRACTICE TIP:** As further evidence of taking reasonable steps to protect trade secrets, a company that loses an employee to a competitor should consider sending a letter to the new employer, with a copy to the former employee, notifying the new employer of the terms of the employee’s confidentiality agreement, if one exists. The letter should also request that the new employer take reasonable steps to ensure that the employee, in the course of performing his or her new job, does not use the company’s confidential information or otherwise breach the confidentiality agreement. Another advantage of sending such a letter is that if the new employer fails to provide the requested assurance, or fails to respond at all, that fact may be helpful in obtaining preliminary injunctive relief.

c) **Limits on access to confidential information.**

Limiting access to the information to a need-to-know basis reduces the possibility of unauthorized disclosure. See _Elmer Miller, Inc. v. Landis_, 253 Ill. App. 3d 129, 134, 625 N.E.2d 338, 342 (1st Dist. 1993) (limiting access to repeat customer list only to salespersons who contacted repeat customers was a reasonable step for maintaining secrecy). The more people to whom the information is disclosed, the less likely a court is to find that a trade secret exists. See _Television Telecomm. Sys., Inc. v. Saindon_, 169 Ill. App. 3d 8, 17, 522 N.E.2d 1359, 1366 (2d Dist. 1988) (upholding trade secret protection when plaintiff “disclosed the information only to persons to whom it was necessary to disclose it”). Indeed, where a company’s workforce experiences high turnover, the company may lose trade secret protection due to the large number of temporary employees to whom disclosure is made. See _George S. May Int’l Co. v. Int’l Profit Assocs.,_ 256 Ill. App. 3d 779, 783, 628 N.E.2d 647, 650 (1st Dist. 1993) (holding information was not a trade secret where it was disclosed without confidentiality agreement to employees of plaintiff, which experienced turnover of 600 employees annually). See also:
Trade Secret Protection Granted:

State Court:

Multiut Corp. v. Draiman, 359 Ill. App. 3d 527, 834 N.E.2d 43 (1st Dist. 2005). The court held that an energy consulting and energy management services company had taken reasonable steps to maintain the secrecy of its customer lists where it (1) had limited employees’ access to both printed and computer-stored copies of the information; and (2) had required employees to sign confidentiality agreements.

Televation Telecomm. Sys., Inc. v. Saindon, 169 Ill. App. 3d 8, 522 N.E.2d 1359 (2d Dist. 1988). Even though the plaintiff did not require employees to sign nondisclosure agreements and kept the plans in an unlocked cabinet, the court held that the plaintiff had taken reasonable steps to maintain the secrecy of its trade secrets. First, the plaintiff disclosed the information only on a need-to-know basis. Second, the plaintiff established a known policy that the information was to be kept confidential. Finally, employees were not allowed to take the plans out of the plaintiff’s office.

Federal Court:

Master Tech Prods., Inc. v. Prism Enters., Inc. No. 00 C 4599, 2002 WL 475192 (N.D. Ill. Mar. 27, 2002). The defendant entered into talks with the plaintiff to distribute the plaintiff’s product, which was already in the marketplace. During negotiations, the plaintiff divulged substantial information about itself and the product to the defendant’s representatives. After failing to reach an agreement, the defendant began to manufacture and sell similar products several months later at a significantly lower price than the plaintiff’s. Although the plaintiff already had released the product into the market without a patent and had shown the product at a trade show, the court determined that the plaintiff had taken “appropriate steps to keep its information secret.” The court relied upon “evidence that only [the plaintiff] knew the entire process or the whole package of characteristics and components of the [product].”

Rossi Distributors, Inc. v. Lavazza Premium Coffees Corp., No. 01 C 9271, 2002 WL 31207324 (N.D. Ill. Oct. 2, 2002). A coffee distributor sued the manufacturer alleging misappropriation of its customer information. The manufacturer moved to dismiss the distributor’s claims on grounds of preemption and failure to plead sufficient facts. The court denied the manufacturer’s motion, holding that although common law claims of trade secret misappropriation were preempted by the ITSA, a claim still existed. Further, the distributor adequately demonstrated that it possessed secret customer information that was secured in a secret place.

Trade Secret Protection Denied:

State Court:

Bimba Mfg. Co v. Starz Cylinder Co., 119 Ill. App. 2d 251, 256 N.E.2d 357 (1st Dist. 1970). The plaintiff sought protection of the design of a sealed, non-repairable air cylinder that it designed. The court rejected the plaintiff’s request, holding that reasonable steps were not taken to ensure the information’s secrecy. Most damaging was the fact that the plaintiff had
published a bulletin describing the design of the cylinders. Moreover, the plaintiff freely distributed its cylinders to customers in such a manner that they could easily disassemble and reverse engineer the product.

**Federal Court:**

*Exhibit Works, Inc. v. Inspired Exhibits, Inc.*, No. 05 C 5090, 2005 WL 3527254, at *8 (N.D. Ill. Dec. 21, 2005). The trade secret owner was denied a preliminary injunction because it failed to demonstrate both that its corporate information constituted trade secrets and that it took reasonable steps to protect the information’s secrecy. Although the owner argued that it had protected the information with a confidentiality agreement and computer passwords, the court reasoned that these steps were no more than what the company did to protect all of its information. Because “[t]rade secrets are a subset of a company’s overall information,” the court explained that reasonable steps to protect the secrecy of trade secrets could only be steps that are “beyond those taken for all of [the company’s] business information.”

Depending on the type of information protected, the size of the information’s owner, and the financial resources available, various general security measures should be implemented to protect trade secrets, including: (1) identification badges; (2) employee access cards; (3) security cameras; (4) security officers; and (5) off-limit zones. Employee access cards can utilize a unique access code for each employee, thereby creating an electronic log-in/log-out report. Further measures include shredding of documents and collecting excess copies following meetings.

Also, certain procedures should be considered to limit the public’s access to company property. Maintaining a reception area with a receptionist and sign-in books can constitute reasonable protection measures. Companies should consider limiting public tours. Also, companies should require all visitors to wear visitor badges, to be escorted while on the premises and to sign in and out. See *Hexacomb Corp. v. GTW Enters., Inc.*, 875 F. Supp. 457, 461 (N.D. Ill. 1993) (noting that the plaintiff required visitors to wear passes and agree to maintain confidential information learned while visiting); see also:

**Trade Secret Protection Granted:**

*Affiliated Hosp. Prods., Inc. v. Baldwin*, 57 Ill. App. 3d 800, 373 N.E.2d 1000 (1st Dist. 1978). The court held that the plaintiff’s drawings regarding the design and construction of machines used to process hypodermic needles constituted trade secrets. The court laid out the careful measures the plaintiff instituted to protect the confidentiality of the information. Visitors at the plaintiff’s plant were required to sign a “Plant Visitation Agreement” which prohibited disclosure or use in any manner of any information gleaned in the course of the visit.

Securely storing confidential documents in locked filing cabinets or offices is another security measure that helps to establish that the company took reasonable efforts to preserve confidentiality. *Elmer Miller, Inc.*, 253 Ill. App. 3d at 134, 625 N.E.2d at 342. Also, the circulation of the documents should be as limited as possible. *Hexacomb Corp.*, 875 F. Supp. at 462-66 (upholding trade secret protection where employer did not prepare full set of drawings that divulged the interrelationship of the machine’s components). Companies
should consider prohibiting the copying of the documents, and even storing confidential information on paper not capable of being copied. Another security measure is to number all copies and require that the documents be checked in and out from a centralized location. See Televation Telecomm. Sys., Inc., 169 Ill. App. 3d at 15, 522 N.E.2d at 1364 (suggesting that numbering copies can support a finding of reasonable steps, although the plaintiff did not employ that tactic). See also:

**Quality Lighting, Inc. v. Benjamin, 227 Ill. App. 3d 880, 592 N.E.2d 377 (5th Dist. 1992).** A former employee was alleged to be misappropriating technical, internal business information of his former employer. The employee alleged that the employer failed to take reasonable steps to maintain the information’s secrecy. The court determined that the plaintiff’s storing of the technical information in a file cabinet in the engineering department and limiting access only to the engineering staff, among other steps, created a factual issue as to the reasonableness of the steps taken to maintain secrecy. Therefore, summary judgment was inappropriate.

**Televation Telecomm. Sys., Inc. v. Saindon, 169 Ill. App. 3d 8, 522 N.E.2d 1359 (2d Dist. 1988).** The court held that the plaintiff had taken reasonable steps to maintain the secrecy of its trade secrets even though the plaintiff kept the plans in an unlocked cabinet and did not require its employees to sign non-disclosure agreements. First, the plaintiff disclosed the information only on a need-to-know basis. Second, the plaintiff established a known policy that the information was to be kept confidential. Finally, employees were not allowed to take the plans out of the plaintiff’s office.

d) Use of a “confidential” or “trade secret” label.

Courts will consider whether the trade secret owner labeled documents containing confidential information prominently and conspicuously as “CONFIDENTIAL” and/or “TRADE SECRET.” Gillis Associated Indus., Inc. v. Cari-All, Inc., 206 Ill. App. 3d 184, 564 N.E.2d 881 (1st Dist. 1990) (holding owner’s failure to label information as confidential was fatal to trade secret claim); Web Commc’ns Group v. Gateway 2000, Inc., 899 F. Supp. at 316, 320-21 (N.D. Ill. 1995) (holding plaintiff took virtually no steps to protect the confidentiality of the stepped inserts and citing failure to mark information as “trade secret” or “confidential”). See also:

**Quality Lighting, Inc. v. Benjamin, 227 Ill. App. 3d 880, 592 N.E.2d 377 (5th Dist. 1992).** Former employee was alleged to be misappropriating technical, internal business information of its former employer. The employee alleged that the employer failed to take reasonable steps to maintain information’s secrecy. The court determined that the plaintiff’s affixing of legends to all confidential blueprints and drawings stating the information belonged to employer, among other steps, created a factual issue as to the reasonableness of the steps taken to maintain secrecy. Therefore, summary judgment was inappropriate.

**PRACTICE TIP:** While trade secret owners should label trade secrets as such, it should use these labels prudently as over labeling may dilute the effectiveness of this measure.
e) Other measures.

A variety of other measures may be well-advised to protect the secrecy of a company’s trade secrets, depending on the circumstances. For example, a company might institute measures to monitor suspicious orders placed for particularly sensitive technology, which may be a sign of a competitor’s attempt to reverse engineer the product. *Quality Lighting, Inc. v. Benjamin*, 227 Ill. App. 3d 880, 890, 592 N.E.2d 377, 384 (5th Dist. 1992) (reversing and remanding summary judgment on reasonable steps issue where plaintiff, among other things, sensitized sales personnel to watch for purchase orders for a single product to prevent reverse engineering).

**PRACTICE TIP:** The obligation of the trade secret’s owner to take reasonable steps to protect the secrecy of the information extends to any litigation over the trade secret. The information’s owner should not produce documentation or attach documents containing the confidential information to any filing, unless a protective order has been entered and the documents can be filed under seal. Failure to do this generally makes the information public knowledge.

II. MISAPPROPRIATION.

In addition to establishing the existence of a trade secret, a plaintiff asserting a claim under the ITSA must also prove that the defendant misappropriated the trade secret. *Leggett & Platt, Inc. v. Hickory Springs Mfg. Co.*, 285 F.3d 1353, 1360 (Fed. Cir. 2002); *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1268 (7th Cir. 1995).

A. Definition.

The ITSA defines misappropriation as follows:

(1) acquisition of a trade secret of a person by another person who knows or has reason to know that the trade secret was acquired by improper means; or

(2) disclosure or use of a trade secret of a person without the express or implied consent by another person who:

   (A) used improper means to acquire knowledge of the trade secrets; or

   (B) at the time of disclosure or use, knew or had reason to know that knowledge of the trade secret was (i) derived from or through a person who utilized improper means to acquire it; (ii) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (iii) derived from or through a person who owed
a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

765 ILCS 1065/2(b) (West 2009).

B. Acquisition By Improper Means.

1. Statutory definition of “improper means.”

The ITSA defines “improper means” to include “theft, bribery, misrepresentation, breach or inducement of a breach of a confidential relationship or other duty to maintain secrecy or limit use, or espionage through electronic or other means.” 765 ILCS 1065/2(a) (West 2009).

2. Specific means of acquisition (taking, copying, memorizing).


a) Taking.

Physically taking another’s trade secrets is perhaps the most basic form of misappropriation. In Labor Ready, Inc. v. Williams Staffing, LLC, 149 F. Supp. 2d 398, 412 (N.D. Ill. 2001), for example, the court held the plaintiff stated a claim for misappropriation where it alleged that the defendant and the plaintiff’s former employees stole personnel files and records containing the plaintiff’s trade secrets. Compare Elmer Miller, Inc. v. Landis, 253 Ill. App. 3d 129, 131, 135, 625 N.E.2d 338, 340, 343 (1st Dist. 1993) (upholding preliminary injunction where defendants had physically taken portions of at least 30 customer files when they left employment with the plaintiff), with Curtis 1000 v. Suess, 843 F. Supp. 441, 451 (N.D. Ill. 1994) (no misappropriation where the evidence showed the defendant did not take the plaintiff’s trade secrets when leaving employment because the plaintiff had gathered the confidential documents from the defendant at his exit interview).

A plaintiff must present, however, more than mere “speculation and innuendo” to show that the defendant possessed the plaintiff’s trade secrets. Glenayre Elecs. v. Sandahl, 830 F. Supp. 1149, 1153 (C.D. Ill. 1993). Mere argument that the plaintiff’s former employees could not have developed a product without having taken and used the plaintiff’s trade secrets is not enough to show acquisition by improper means. Id.
b) Copying.

Directly copying the plaintiff’s trade secrets for later use or disclosure also constitutes acquisition by improper means. For instance, in *QSRSoft, Inc. v. Restaurant Technology, Inc.*, No. 06 C 2734, 2006 WL 2990432, at *9 (N.D. Ill. Oct. 19, 2006), the defendant’s employees repeatedly accessed the plaintiff’s confidential database system through a password-protected website, viewed and printed screen shots, and downloaded and saved the system’s data archive. The defendant then used the information it had copied as a guide in developing its competing product. *Id.*; see *Burt Dickens & Co. v. Bodi*, 144 Ill. App. 3d 875, 878, 883-85, 494 N.E.2d 817, 818, 822-23 (1st Dist. 1986) (defendant copied plaintiff’s customer lists by hand shortly before submitting his resignation and then promptly used the lists to solicit the plaintiff’s customers in the defendant’s new business).

Evidence of copying may be circumstantial. In *RKI, Inc. v. Grimes*, 177 F. Supp. 2d at 875, the court inferred copying from (1) one defendant’s accessing of the plaintiff’s computers from his home and after business hours two days before he intended to resign, (2) the defendant’s deletion of 60 megabytes of information from his home computer just after the complaint was filed, and (3) the defendant’s defragmentation of his computer four times in ten days around the time the suit began. See also *Liebert Corp. v. Mazur*, 357 Ill. App. 3d 265, 282-83, 827 N.E.2d 909, 926-27 (1st Dist. 2005) (inferring improper copying from the defendant’s admitted download of the plaintiffs’ information, which he claimed he was entitled to do, and his subsequent destruction of all such files after the plaintiffs filed their complaint). But see *Greenlee Diamond v. Licht*, No. 87 C 5530, 1998 WL 61118, at *4 (N.D. Ill. June 7, 1988) (finding, after a bench trial, that evidence of copying was “vague and inconclusive” where the witness who believed he saw the defendant copying the plaintiff’s trade secrets did not know that the information copied contained trade secrets or whether the plaintiff took the copies with him).

c) Memorizing.

Misappropriation can occur whether or not a trade secret was physically taken. See *Schulenburg v. Signatrol, Inc.*, 33 Ill. 2d 379, 387, 212 N.E.2d 865, 869 (1965). Indeed, memorizing a trade secret for later use also can constitute acquisition by improper means. For instance, in *Schulenburg v. Signatrol, Inc.*, the plaintiffs alleged the defendants had misappropriated their trade secrets, comprised of blueprints and plans for a type of sign with flashing lights. *Id.* There was testimony that the defendants copied some blueprints by tracing them and that they memorized other specifications. *Id.* The Illinois Supreme Court held that it made no difference whether the defendants physically copied or whether they memorized the trade secrets because both actions constituted misappropriation. *Id.*; *Stampede Tool Warehouse, Inc.*, 272 Ill. App. 3d at 590, 651 N.E.2d at 217 (affirming finding of misappropriation where the defendants redeveloped portions of the plaintiff’s customer list by remembering some of the customers’ names and locations) (citations omitted).

Although the defendant’s memorization may be intentional or somewhat inadvertent, the information memorized still must be a trade secret, as opposed to general knowledge acquired through employment. In *Tevitation Telecommunication Systems, Inc. v. Saindon*,
169 Ill. App. 3d 8, 13, 522 N.E.2d 1359, 1363 (2d Dist. 1988), the defendant claimed that he “inadvertently memorized” the plaintiff’s information as a result of constant exposure to the information while working for the plaintiff. He then designed his own product by “incorporat[ing] everything he could remember (and thought would be useful) about [the plaintiff’s] designs.” *Id.* The court rejected the defendant’s argument that he memorized only general knowledge obtained through employment because the evidence showed he memorized “particularized plans or processes developed by his employer.” *Id.* at 14, 522 N.E.2d at 1363 (quotation and citation omitted).

By contrast, in *Colson Co. v. Wittel*, 210 Ill. App. 3d 1030, 1040-41, 569 N.E.2d 1082, 1088 (4th Dist. 1991), the court held the plaintiff had no claim for misappropriation where the information the defendant memorized and used was merely information developed personally by the defendant or given to the defendant freely during his employment with the plaintiff. Under these circumstances, the information used was not a trade secret, and the defendant’s memorization did not constitute misappropriation. *Id.*

**PRACTICE TIP:** To prove misappropriation, trade secrets plaintiffs should consider formal and informal third-party discovery, in addition to formal discovery directed at the party opponent. For example, if a former employee is suspected of having misappropriated client lists or other trade secrets in establishing a competing business, consider issuing a subpoena to: (i) the former employee’s banks, lenders and other sources of financing; (ii) the former employee’s real estate brokers and leasing companies; (iii) the lessors of computers and other major office equipment; and (iv) the secretary of state, IRS and other regulatory agencies. As part of starting a competing business, the former employee may have developed business plans, prepared revenue/cost projections, or obtained letters of intent that were then given to these entities. Such materials, along with relevant correspondence, could provide important evidence of misappropriation.

**PRACTICE TIP:** In today’s business environment, if there is any concern that a former employee may have taken trade secrets or other confidential company information, it is essential that the employee’s work computer be searched. Care should be taken to preserve the computer hard drive in the state it was in at the employee’s departure. Thus, it will usually be a good idea to image the hard drive as soon as practicable. Depending on the circumstances, it is often prudent to retain an outside computer forensic expert to image the work computer and conduct the search for incriminating evidence. The forensic expert also can look for evidence of unusual activity, such as the deletion of files or the sending of emails with large attachments.

3. **The terms of any agreement between the parties are relevant to what constitutes “improper means.”**

Where there is a written agreement that prescribes the proper treatment of trade secret information exchanged between the parties, the agreement itself will usually determine whether the defendant’s conduct was proper or improper.
Indeed, the ITSA “does not purport to limit or override an express contractual arrangement governing the confidential exchange of proprietary information. . . .” Instead, because a confidentiality agreement is a valid contract enforceable according to its terms, Illinois law precludes the finding of “any implied duty of nondisclosure” that “would directly contradict the express agreement of the parties.” Nilssen v. Motorola, Inc., 963 F. Supp. 664, 680 (N.D. Ill. 1997) (quoting Andrea Dumon, Inc. v. Pittway Corp., 110 Ill. App. 3d 481, 488, 442 N.E.2d 574, 579 (1st Dist. 1982)). “Thus a contract that defines the degree of confidentiality among the parties also serves to establish—and to define—the duty of confidentiality required to underpin an Illinois Act claim.” Id. (using the parties’ confidentiality agreement to define the defendant’s duty not to disclose the plaintiff’s trade secrets).

Thus, if a controlling confidentiality agreement with the trade secret owner is in place, a party does not violate the ITSA if its conduct in acquiring the trade secret does not violate that agreement. See Morris Silverman Mgmt. Corp. v. W. Union Fin. Servs., Inc., 284 F. Supp. 2d 964, 993 (N.D. Ill. 2003) (granting summary judgment to trade secret defendant where the defendant did not violate the parties’ contract by creating a customer list or disclosing the plaintiff’s forms to third parties).

4. Reverse engineering or independent development.

The ITSA makes clear that “[r]everse engineering or independent development shall not be considered improper means.” 765 ILCS 1065/2(a) (West 2009) (emphasis added). Accordingly, no trade secret liability attaches where the defendant obtains the otherwise protected information: (1) through reverse engineering, (2) through independent development, or (3) from a legitimate third-party or public source. See id.; Rotec Indus. v. Mitsubishi Corp., 179 F. Supp. 2d 885, 893-94 (C.D. Ill. 2002) (no misappropriation where evidence showed defendants acquired information from legitimate third-party source).

“Reverse engineering ‘is the process by which a completed product is systematically broken down into its component parts to discover the properties of the product with the goal of gaining the expertise to reproduce the product.’” Thermodyne Food Serv. Prods. v. McDonald’s Corp., 940 F. Supp. 1300, 1307 n.8 (N.D. Ill. 1996) (quoting Christianson v. Colt Indus. Operating Corp., 870 F.2d 1292, 1295 n.4 (7th Cir. 1989)). For reverse engineering to defeat a trade secret claim, however, the subject product must be publicly or otherwise lawfully available. Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 730 (7th Cir. 2003). A party still misappropriates trade secrets if it discovers them by reverse engineering a product that it received pursuant to a confidential relationship. Id. (reinstating jury verdict finding misappropriation where the defendant “had no legal authority to reverse engineer the prototype that it received in confidence”).

Likewise, a defendant develops a trade secret independently where it can demonstrate it did not use or rely on the plaintiff’s trade secret. See Motorola, Inc. v. DBTEL, Inc., No. 02 C 3336, 2002 WL 1610982, at *17-19 (N.D. Ill. July 22, 2002) (evidence that defendant independently developed a phone that plaintiff claimed incorporated its trade secrets showed that plaintiff was unlikely to succeed on the merits of its ITSA claim). Even where the defendant had access to the trade secret, it still may be able to demonstrate that it
did not use the trade secret and thereby defeat liability. See Rotec Indus., 179 F. Supp. 2d at 895-96 (granting summary judgment to defendant on ITSA claim where defendant provided sufficient evidence that it did not use or rely on the plaintiff’s trade secrets).

Strong or peculiar similarities between the defendant’s product and the plaintiff’s trade secrets, however, may rebut the defendant’s evidence of reverse engineering or independent development. E.g., QSRSoft, Inc. v. Rest. Tech., Inc., No. 06 C 2734, 2006 WL 2990432, at *9-10 (N.D. Ill. Oct. 19, 2006) (discounting defendant’s contention of independent development where the defendant’s database system bore a “strong resemblance” to the plaintiff’s, given that both systems used identical information, their look and feel were similar, and the defendant marketed information that was “strikingly similar” to that contained in the plaintiff’s main web page); Nilssen v. Motorola, Inc., 963 F. Supp. 664, 683 (N.D. Ill. 1997) (factual issues concerning the similarities of the parties’ products helped defeat summary judgment because the court could not say as a matter of law that the defendant had not improperly used the plaintiff’s trade secrets to develop its product).

5. ITSA’s focus is on improper means, not on the availability of lawful means of acquisition.

“[T]he availability of lawful or public means of gaining the trade secret information is not a defense where those means were not utilized.” Hexacomb Corp. v. GTW Enters., Inc., 875 F. Supp. 457, 467 (N.D. Ill. 1993) (finding a likelihood of success on ITSA claim where it was clear the defendants did not use any information other than the trade secrets learned by one defendant while he was employed by the plaintiff).

Consequently, the fact that a trade secret may become publicly available (and thus no longer a trade secret) during the course of the defendant’s conduct does not negate the defendant’s liability for its improper acquisition of the trade secret. Goldberg v. Medtronic, Inc., 686 F.2d 1219, 1227-28 (7th Cir. 1982) (affirming finding of common-law breach of confidence claim, based on improper use of trade secrets, even though the trade secrets became public through patent applications disclosed before the defendant was able to market and sell its product that used the secrets).

Likewise, the fact that it is possible to develop the trade secret independently is no defense if the defendant relied on the plaintiff’s trade secrets during development. Televation Telecomm. Sys., Inc. v. Saindon, 169 Ill. App. 3d 8, 17, 522 N.E.2d 1359, 1365 (2d Dist. 1988) (explaining that it is “no defense . . . that one’s product could have been developed independently of plaintiff’s, if in fact it was developed by using plaintiff’s proprietary designs”) (citation omitted); Affiliated Hosp. Prods., Inc. v. Baldwin, 57 Ill. App. 3d 800, 807, 373 N.E.2d 1000, 1006 (1st Dist. 1978) (holding that misappropriation had occurred, even though defendant former employees could have independently developed the plaintiff’s trade secrets, because the evidence showed they used the plaintiff’s designs to manufacture their product).

Note the interaction between this line of cases and the requirement that information be sufficiently secret to impart value to its owner. See Nilssen v. Motorola, Inc., 963 F. Supp. 664, 675 (N.D. Ill. 1997). Specifically, “the key to ‘secrecy’ is the ease with
which information can be developed through proper means[,] . . . [and] information [that] can be readily duplicated . . . is not secret.”  Id. Therefore, the availability of information may prevent a finding that there is a protectible trade secret in the first place.

C. Circumstances Giving Rise to a Duty to Maintain Secrecy.

Under the ITSA, misappropriation also occurs where the defendant acquired access to the trade secret “under circumstances giving rise to a duty to maintain its secrecy or limit its use.”  765 ILCS 1065/2(b)(2)(B)(II) (West 2009).

1. Employee obtains information pursuant to confidentiality agreement.

A common way to acquire access to trade secrets is through employment with the trade secret owner. Generally, the employer will protect the status of its information as a trade secret by requiring employees to sign confidentiality or non-disclosure agreements. An employee’s breach of such an agreement can constitute misappropriation under the ITSA.

For example, in Caterpillar Inc. v. Sturman Industries, Inc., No. 99-1201, 2002 U.S. Dist. LEXIS 27660 (C.D. Ill. July 12, 2002), the court denied the defendants’ motion for judgment as a matter of law on the plaintiff’s ITSA claim. The court held that a reasonable jury could have concluded that the defendants were liable for trade secret misappropriation where they violated the confidentiality provisions of the Joint Development Agreement they had signed with the plaintiff by disclosing the plaintiff’s trade secrets in their own patent application. Id. at *22-25; see AutoMed Techs., Inc. v. Eller, 160 F. Supp. 2d 915, 919-21 (N.D. Ill. 2001) (allegations that defendants were using the plaintiff’s trade secrets in their new employment, in violation of their non-competition and non-disclosure agreements with the plaintiff, stated a claim under the ITSA); Applied Indus. Materials Corp. v. Brantjes, 891 F. Supp. 432, 433-34, 437 (N.D. Ill. 1996) (employee’s breach of non-disclosure agreement with the plaintiff could have constituted misappropriation if the plaintiff’s information had been a trade secret).

2. Employee who owes a fiduciary duty.

A duty to maintain secrecy or limit disclosure also can arise even where there is no confidentiality or non-disclosure agreement between the plaintiff and the defendant if the two parties are in a relationship where there are fiduciary duties or duties of loyalty. In Burt Dickens & Co. v. Bodin, 144 Ill. App. 3d 875, 882, 494 N.E.2d 817, 821 (1st Dist. 1986), the Illinois Appellate Court explained that “an employee breaches his confidential relationship with his employer where he acts in a manner inconsistent with his employer’s interest during his employment in that he surreptitiously copies or memorizes trade secret information for use after his termination in the solicitation of his employer’s customers.” In that case, the court held that the defendant, a former employee of the plaintiff, had a duty to maintain the confidentiality of the plaintiff’s customer lists and not to take the information with him when he left. Id. at 882-85, 494 N.E.2d at 821-23. The defendant’s violation of that duty constituted misappropriation. Id.
3. Potential acquiring company or business partner obtains information pursuant to a non-disclosure or joint venture agreement.

Another common situation in which a duty to maintain secrecy or limit disclosure arises is where companies or business partners exchange information during the course of business or product development conversations. For example, in *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 716-18, 725-26 (7th Cir. 2003), the defendant became aware of the plaintiff’s noise-producing toy railroad track concept when the plaintiff revealed it in a meeting where representatives of the two companies were discussing various product development ideas. At the beginning of the meeting, the defendant had suggested that both parties keep confidential the information they were about to disclose, and the plaintiff agreed. *Id.* at 717. The court held there was sufficient evidence from which the jury could have concluded that the plaintiff disclosed its trade secret pursuant to an oral confidentiality agreement. *Id.* at 725-26. Violating that agreement, then, gave rise to liability under the ITSA. *See id.*; see also *Precision Screen Machs. v. Elexon, Inc.*, No. 95 C 1730, 1996 WL 495564, at *4 (N.D. Ill. Aug. 28, 1996) (ITSA claim survived motion to dismiss where the plaintiff provided the defendant its trade secrets pursuant to the parties’ confidentiality agreement and for the limited purpose of enabling the defendant to determine whether it wanted to purchase the plaintiff company, and the defendant retained the documents in violation of the agreement).

A written development agreement with confidentiality provisions or disclosure restrictions similarly may give rise to a duty of confidentiality. In *Dick Corp. v. SNC-Lavalin Constructors, Inc.*, No. 04 C 1043, 2004 WL 2967556, at *10 (N.D. Ill. Nov. 24, 2004), the court held that the plaintiff had stated a claim under the ITSA where it alleged the defendants had disclosed, in violation of the use restrictions in the parties’ joint venture agreement, drawings and data that had been developed under the agreement.

An oral or written confidentiality agreement is not necessary, however. Although such an agreement may help a plaintiff demonstrate the reasonable steps taken to maintain secrecy that are required to receive trade secret protection, a duty of confidentiality still can arise without a confidentiality agreement. For instance, in *Verotix Systems, Inc. v. Ann Taylor, Inc.*, No. 02 C 8639, 2003 WL 22682348, at *4 (N.D. Ill. Nov. 13, 2003), the plaintiff was a consultant initially hired by the defendant clothing manufacturer to design a warehouse control system. At the last minute – and after the plaintiff had designed such a system – the defendant denied the plaintiff’s bid. *Id.* The plaintiff sued, alleging the defendant used the plaintiff’s designs and blueprints to implement a warehouse system. *Id.* The court denied a motion to dismiss because the plaintiff had alleged efforts to maintain the confidentiality of the documents, which included confidentiality notices on the blueprints. *Id.* at *3. Implicit in the court’s analysis was that under these circumstances, the defendant had a duty to maintain confidentiality and to limit its use of the plaintiff’s design information. *Id.* By violating that duty, it committed misappropriation.
Even without a formal confidentiality agreement, independent contractors may also be under a duty to keep trade secrets confidential. MPC Containment Sys., Ltd. v. Moreland, No. 05 C 6973, 2008 WL 2875007, at *7 (N.D. Ill. July 23, 2008). The Seventh Circuit suggested that this may be the case in two possible situations:

(1) where the independent contractor developed the work product but norms of the trade establish that the client is the owner; or

(2) where the client develops the information and a reasonable jury could conclude that the contractor knew that some of the data was meant to be a trade secret, such as where there are trade norms of confidentiality.

Id. (citing Hicklin Eng’g, LC v. Bartell, 439 F.3d 346, 349-50 (7th Cir. 2006)). To support its argument that its case met the second condition, the Moreland plaintiff alleged that it had given directions to one of its independent engineers for developing a flexible tank system. Id. The plaintiff then alleged that the engineer was bound to keep the information confidential under the trade norms published in the National Society of Professional Engineers Code of Ethics. Id. Although the court ruled that summary judgment was not appropriate for a variety of reasons, it did acknowledge that such a duty of confidentiality sometimes exists among independent contractors. Id.

D. Third-Party Liability for Misappropriation.

Third parties also may be liable for misappropriation. Under the ITSA, a third party commits misappropriation where the third party knows or has reason to know that the trade secret was acquired by improper means, obtained in violation of a duty of confidence owed to the trade secret owner, or acquired by accident or mistake, provided the party receives notice before a material change of position. See 765 ILCS 1065/2(b)(2)(A-C) (West 2009). The key to establishing third-party liability is to prove the third party’s actual or constructive knowledge of the direct misappropriation.

1. Actual knowledge.

The most straightforward third-party liability for misappropriation arises where the evidence shows the third party knew that another person acquired a trade secret by improper means or by breaching a confidential relationship. E.g., Colony Corp. of Am. v. Crown Glass Corp., 102 Ill. App. 3d 647, 650, 430 N.E.2d 225, 228 (1st Dist. 1981) (holding, pre-ITSA, that “[i]f the third person knows of the breach of the confidential relationship when he acquires use of the trade secret, he is liable to the secret’s owner to the same extent as the one who breached the owner’s confidence”).

A common situation giving rise to third-party liability in this context occurs where a competitor hires a trade secret owner’s former employee and encourages or participates in the former employee’s misappropriation of trade secrets. For example, in RKI, Inc. v. Grimes, 177 F. Supp. 2d 859, 862 (N.D. Ill. 2001), the plaintiff, Roll-Kraft, filed suit against one of its former employees, Grimes, and his new employer, Chicago Roll, which was a
competitor of the plaintiff. Before leaving Roll-Kraft, Grimes downloaded or otherwise copied Roll-Kraft’s confidential customer lists. Id. at 867-68. Grimes informed Chicago Roll that he possessed Roll-Kraft’s customer lists, which prompted Chicago Roll to require Grimes to sign an indemnification agreement to protect Chicago Roll if Roll-Kraft sued. Id. at 868-69. Grimes then used Roll-Kraft’s lists to solicit customers on behalf of Chicago Roll. Id. at 868-70. The court found that because Chicago Roll knew Grimes had taken Roll-Kraft’s customer lists and was using the lists on Chicago Roll’s behalf, it was liable for misappropriation along with Grimes. Id. at 875; see also Mangren Research & Dev. Corp. v. Nat’l Chem. Co., Inc., 87 F.3d 937, 939-41 (7th Cir. 1996) (new employer liable where it knew the employee acquired the plaintiff’s trade secrets in breach of his confidentiality agreement with the plaintiff, his former employer, and still used the trade secrets to develop a competing product).

Similarly, purposefully hiring away a competitor’s employees, fully aware they have knowledge of trade secrets, and then encouraging the employees to use that knowledge in their new employment, also can give rise to third-party liability. See Lawson Prods., Inc. v. Chromate Industrial Corp., 158 F. Supp. 2d 860, 864 (N.D. Ill. 2001) (trade secret owner stated claim under ITSA where it alleged competitor purposefully hired former employees of trade secret owner who possessed knowledge of trade secrets).

**PRACTICE TIP:** As a defensive measure against a potential trade secret action, a company hiring a new employee from a competitor should include in the new employee’s offer letter and/or employment agreement a clause providing that the employee does not possess and will not bring with him or her any confidential or proprietary information belonging to the former employer and shall otherwise maintain the confidentiality of any such information obtained in the course of the former employment. The company should obtain the new employee’s express written agreement with this provision. The new employer might also state in writing that it respects the confidential information of its competitors and has no interest in the employee attempting to use any such information.

**PRACTICE TIP:** As part of a formal ethics program, for example, companies should consider adopting a formal written policy regarding the gathering and use of competitive intelligence, i.e., information about competitors that may come from customers, suppliers, former employees or agents of competitors, or other third parties. Such a policy could include the following: requiring employees to inquire whether information being offered is subject to a confidentiality agreement; prohibiting employees from accepting, disclosing or using information that was or may have been obtained through illegal or improper means or that is subject to a contractual confidentiality provision; and encouraging employees to consult legal counsel if they obtain competitive information that may be proprietary or confidential. Having and following such a policy may help defend against charges of intentional or willful conduct.
2. Constructive knowledge.

A more difficult situation arises where the third party was a less active participant in the direct misappropriation. In such situations, third-party liability can be established by proof that the third party had “reason to know” the information was acquired through improper means or was received in breach of another’s duty of confidentiality to the trade secret owner.

Whether a defendant had such “reason to know” can require a fact-intensive inquiry. C&F Packing Co., Inc. v. IBP, Inc., No. 93 C 1601, 1998 WL 1147139 (N.D. Ill. Mar. 16, 1998), is instructive. In that case, plaintiff C&F had disclosed its proprietary method of extruding pizza toppings to its customer, defendant Pizza Hut, with which it had a confidentiality agreement. Id. at *1. Pizza Hut then gave defendant IBP, a competitor of C&F, access to C&F’s method. Id. IBP moved for summary judgment on C&F’s trade secret claim and argued that it did not have notice that the information it received from Pizza Hut was C&F’s trade secret, particularly because Pizza Hut had said it owned the information it was disclosing. Id. at *3.

The court denied IBP’s motion. Id. at *6-7. The court reasoned that “a defendant may be on constructive notice that the information proffered by a third person is the trade secret of another when, based on the information in the defendant’s possession, a reasonable person would have been put on notice and an inquiry pursued with reasonable diligence would have disclosed that the information provided to the defendant was actually wrongfully obtained from another.” Id. at *6 (citations omitted). The court explained that IBP should have suspected that the information, which related to meat processing, likely came from one of Pizza Hut’s suppliers, rather than Pizza Hut itself, and that IBP was aware that such suppliers generally maintain the confidentiality of their meat processing procedures. Id. at *7. In addition, IBP used C&F’s product to test its own product. Id. Under these circumstances, the court held that factual issues remained as to whether IBP had a duty to inquire about the information it received from Pizza Hut and as to whether IBP would have learned, after a reasonable inquiry, that the information was C&F’s trade secret. Id. The case against IBP proceeded to trial, resulting in a finding of misappropriation under the ITSA, which was affirmed on appeal. See C&F Packing Co., Inc. v. IBP, Inc., 224 F.3d 1296, 1299 (Fed. Cir. 2000). See also: QSRSoft, Inc. v. Rest. Tech., Inc., No. 06 C 2734, 2006 WL 2990432 (N.D. Ill. Oct. 19, 2006). Defendant FAF, which had a confidentiality agreement with the plaintiff, gave defendant RTI the password it needed to access the plaintiff’s proprietary database system through a password-protected website. On the plaintiff’s motion for a preliminary injunction, the court rejected RTI’s claim that it did not know FAF was not authorized to grant it access to the plaintiff’s website. The court reasoned that RTI had requested specific information from FAF, and it knew it could not access the plaintiff’s website containing that information without a password or a confidentiality agreement with the plaintiff. Under these circumstances, RTI could not have believed FAF was authorized to grant RTI – the plaintiff’s competitor – access to the password-protected site.
Cognis Corp. v. Chemcentral Corp., 430 F. Supp. 2d 806 (N.D. Ill. 2006). The plaintiff claimed the defendant, a former distributor for the plaintiff, was now working for a third corporation that was using the plaintiff’s trade secrets. The plaintiff alleged that the defendant knew both that the plaintiff was suing the third-party corporation for trade secret misappropriation and, from its prior dealings with the plaintiff, that the plaintiff had protected its technology as trade secrets. Despite this knowledge, the defendant still believed the third-party corporation when it claimed the plaintiff authorized its use of trade secrets and made no attempt to verify this assertion was true. The court held that on these facts, the plaintiff stated a claim for trade secret misappropriation, even though the defendant did not itself use the trade secrets.

Thermodyne Food Serv. Prods., Inc. v. McDonald’s Corp., 940 F. Supp. 1300 (N.D. Ill. 1996). Plaintiffs engaged in the research and development of ovens that incorporated what they called “Thermodyne technology.” Defendant McDonald’s Corporation contacted the plaintiffs to learn about this technology and eventually took the plaintiffs to defendant Specialty Equipment Companies, Inc., a McDonald’s supplier, for the purpose of discussing a joint venture for the production of ovens. Some months later, Specialty Equipment hired an employee of the plaintiffs. The plaintiffs promptly contacted Specialty Equipment to express concerns that the hiring violated the employee’s restrictive covenant not to compete and that Specialty Equipment hired the employee to steal the plaintiffs’ technology. During this time, the plaintiffs’ officer and director shipped a sample oven incorporating the technology to another McDonald’s supplier. In support of summary judgment, Specialty Equipment argued it had no reason to know that the technology was acquired through improper means. The court held that fact issues remained on this issue. The plaintiffs had come forward with enough evidence to show that Specialty Equipment had reason to know the technology had been misappropriated after the plaintiffs’ call regarding the former employee and because it received the technology from a person who it knew had once been the plaintiffs’ officer and director.

3. Notice through the inevitable disclosure doctrine.

Cases involving third-party liability for trade secret misappropriation often turn on the question of whether the defendant had notice, either actual or constructive, that a trade secret was acquired through improper means or in violation of another’s duty of confidentiality to the trade secret owner. As discussed in Section III, below, the “inevitable disclosure” doctrine has been used to enjoin future misappropriation of trade secrets, based on the notion that the circumstances make misappropriation inevitable. Some courts have noted, with little discussion, that the requisite notice required for third-party liability could be established by way of the inevitable disclosure doctrine. See PRG-Schultz Int’l., Inc. v. Kirix Corp., No. 03 C 1867, 2003 WL 22232771, at *7 (N.D. Ill. Sept. 22, 2003) (explaining that the party’s “liability is premised on the realization that unless an employee possesses ‘an uncanny ability to compartmentalize information, he will necessarily’ be relying on and using his former employer’s trade secrets”) (quoting PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995)); C&F Packing, Inc. v. IBP, Inc., No. 93 C 1601, 1998 WL 1147139, at *7 (N.D. Ill. Mar. 16, 1998) (stating that “a party may be liable for the misappropriation of a trade secret as a consequence of hiring a competitor’s employee and
placing that employee in a position that would result in the inevitable disclosure or use of the trade secret”.

4. Third-party liability through the respondeat superior doctrine.

A third party may be indirectly liable for misappropriation of trade secrets by way of the agency law doctrine of respondeat superior. Although no Illinois decision has addressed the issue, some courts have allowed a plaintiff to use the doctrine to establish a third party’s vicarious liability for the trade secret misappropriation of its agents. For example, in Newport News Industries v. Dynamic Testing, Inc., 130 F. Supp. 2d 745, 751 (E.D. Va. 2001), the plaintiff sued a former employee’s current employer for misappropriation under Virginia’s version of the Uniform Trade Secrets Act, basing liability on the respondeat superior doctrine. The defendant argued that the trade secret statute, through its preemption provision, had displaced the doctrine. Id. The district court rejected that argument, holding that “[r]espondeat superior is not an independent conflicting tort, civil claim or remedy” that the statute preempted but, rather, “a vehicle for imposing on the principal liability for the underlying wrongful acts of the agent.” Id.

However, in Infinity Products, Inc. v. Quandt, 810 N.E.2d 1028 (Ind. 2004), the Indiana Supreme Court reached the opposite conclusion. The court there held that Indiana’s version of the Uniform Trade Secrets Act – which it characterized as having preemption language “similar” to that in ITSA – had displaced the doctrine of respondeat superior. Id. at 1034. The court reasoned that because the doctrine imposed liability regardless of whether the principal was complicit in its agent’s acts, it conflicted with the trade secret statute’s requirement that a plaintiff demonstrate the defendant “knows or has reason to know” the agent acquired the trade secret by improper means. Id.

III. ACTUAL OR THREATENED USE, INCLUDING INEVITABLE DISCLOSURE.

Another necessary element to establish a claim for trade secret misappropriation is the defendant’s use of the misappropriated trade secret. See 765 ILCS 1065/2 (West 2009). As discussed below, to satisfy this element plaintiffs must establish either actual or threatened use of the trade secret. Alternately, a plaintiff may be able to rely on the inevitable disclosure doctrine to satisfy this element, depending on the circumstances.

A. Actual Use Versus Threatened Use.

Claims under ITSA may allege actual use or disclosure of trade secrets, or they may allege threatened use or disclosure. The two types of claims require different methods of proof and may provide different remedies. Both actual and threatened use differ from so-called “inevitable” use, discussed below, but cases may address inevitable use in relation to actual or threatened use. Some courts refer to inevitable use and threatened use almost interchangeably. See, e.g., Strata Mktg., Inc. v. Murphy, 317 Ill. App. 3d. 1054, 1071, 740 N.E.2d 1166, 1179 (1st Dist. 2000) (“MRP’s employment of Murphy further threatens to, and will inevitably result in, the disclosure of Strata’s confidential information.”). In addition, courts sometimes switch from an actual-use analysis to an inevitable-use analysis.

1. Actual use.

Actual use is shown by evidence that access to the plaintiff’s trade secrets actually affected the defendant’s business decisions or activities. The defendant may have used the plaintiff’s concepts in product development, Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714 (7th Cir. 2003); Mangren Research & Dev. Corp. v. Nat’l Chem. Co., 87 F.3d 937 (7th Cir. 1996), or contacted customers from the plaintiff’s customer lists, Multiut Corp. v. Drai man, 359 Ill. App. 3d 527, 834 N.E.2d 43 (1st Dist. 2005); RKI, Inc. v. Grimes, 177 F. Supp. 2d 859 (N.D. Ill. 2001), or used the plaintiff’s confidential information in some other way for the defendant’s own business purposes. Even if the defendant modified or improved the plaintiff’s trade secret, actual use will be found if the plaintiff’s trade secrets formed the basis of the defendant’s improved product or data. Mangren Research & Dev. Corp., 87 F.3d at 944; see Connell v. KLN Steel Prods. Ltd., No. 04 C 194, 2009 WL 691292, at *15 (N.D. Ill. Mar. 16, 2009) (finding issue of fact precluding summary judgment as to whether defendant misappropriated trade secret prototype; the court reasoned that although defendant claimed it used its own design in developing its competing product, it may have obtained a “head start” from the trade secret).

The “use” at issue may be by an entity other than the defendant, if the defendant improperly disclosed the trade secret to the entity putting it to use. In Parus Holdings, Inc. v. Banner & Witcoff, Ltd., 585 F. Supp. 2d 995, 1003-05 (N.D. Ill. 2008), the court refused to dismiss an ITSA claim based on the defendant’s argument that another business, not the defendant itself, used the trade secret. The court reasoned that it was sufficient to allege that the defendant improperly provided the trade secret information to a second defendant, who then used the trade secret to assist a non-defendant in its business. Id.

Lucini Italia Co. v. Grappolini shows one way a court can find actual use. In that case, the court traced the effect of knowledge of the plaintiff’s expensive market research to the development of the defendant’s ultimate product. 2003 WL 1989605. The defendant, Grappolini, had worked as a consultant to Lucini Italia for many years and had access to Lucini’s valuable information about the olive oil market. Id. at *2. Grappolini introduced a competing line of olive oils, usurping Lucini’s relationship with a key supplier, and making use of Lucini’s trade secrets. Id. at *13. The court’s detailed analysis identified strong evidence of actual use: Grappolini copied the bottle design, flavors, and marketing strategies suggested by Lucini’s research. Id. at *10. For example, Grappolini introduced olive oils flavored with basil, rosemary, garlic, and lemon – the flavors recommended by Lucini’s research. Id. at *9. Before the market research was conducted, Grappolini had believed that the most promising flavors were rose, lavender, and mint. Id.

Conversely, a defendant may prevail based on the lack of change, indicating that it has not made use of a plaintiff’s trade secrets. For example, in Kim v. Dawn Food Products, Inc., No. 04 C 8141, 2006 WL 695257, at *6 (N.D. Ill. Mar. 17, 2006), the defendant, a manufacturer of bakery mixes, was granted summary judgment on all but one of the claims against it because it showed that its formulas had been consistent since before it had access to
the plaintiff’s proprietary information. One claim survived summary judgment because it was based on a product for which the defendant could not show the dates of its formula.

When a court finds actual use of trade secrets, it may award damages and enjoin future use, or both. In Lucini Italia Co., the court did both, awarding Lucini damages for the costs of developing its line of flavored olive oils and for lost profits, as well as enjoining Grappolini’s future use of Lucini’s trade secrets. 2003 WL 1989605, at *18-19. The injunction was justified by the language of inevitable disclosure; there was no way Grappolini could keep making olive oil without using the knowledge gained as Lucini’s consultant. Id. Once actual use has been shown, further use may be inevitable.

2. Threatened use.

In a case where the use of trade secrets is only threatened, a different kind of proof is required. The damaging use has not yet occurred, so there can be no evidence of it. In rare cases, the defendant is alleged to have explicitly threatened to use the plaintiff’s trade secrets. When the threat is straightforward, the court is likely to issue an injunction provided that there is an actual trade secret at issue. In Noddings Investment Group, Inc. v. Kelley, No. 93 C 1458, 1994 WL 91932, at *1 (N.D. Ill. Mar. 18, 1994), for example, the defendant had threatened that, if his employer rejected his buy-out proposal, he would take the employer’s investment strategy for use in his own business. The employer rejected the buy-out, and the defendant left his job, taking the investment strategy with him. Id. The court issued a preliminary injunction against his use of the strategy in his new business. Id. at *5.

Although such explicit threats are rare, some decisions suggest that they are necessary to prove threatened use of trade secrets. The court in Teradyne, Inc. v. Clear Communications Corp., 707 F. Supp. 353, 356 (N.D. Ill. 1989), denied injunctive protection of the plaintiff’s trade secrets, stating that “there is no allegation that defendants have in fact threatened to use Teradyne’s secrets or that they will inevitably do so. An allegation that the defendants said they would use secrets or disavowed their confidentiality agreements would serve this purpose.” In the absence of actual use, the court required plaintiffs to show either an express threat of use or circumstances that would make use inevitable. Id. at 356-57; see infra Part III(C) (discussing the difference between threatened and inevitable use).

In contrast, the court in Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 827 N.E.2d 909 (1st Dist. 2005), suggested that threatened use may be shown by evidence of the defendant’s intentions, not only by explicit threats.

B. The Inevitable Disclosure Doctrine Generally.

It is axiomatic that employees ordinarily are expected to refrain from using or disclosing their former employer’s secrets in their subsequent employment. E.g., Stampede Tool Warehouse v. May, 272 Ill. App. 3d 580, 590, 651 N.E.2d 209, 216-17 (1st Dist. 1995) (citations omitted). However, the inevitable disclosure doctrine provides that a former employee may be enjoined from performing certain post-employment activities (even if there is no restrictive covenant or covenant not to compete in place) if it can be shown that the employee, in the performance of his or her new duties, inevitably will disclose or use the
former employer’s trade secrets, regardless of the former employee’s stated intentions not to do so. See Strata Mktg., Inc. v. Murphy, 317 Ill. App. 3d 1054, 740 N.E.2d 1166 (1st Dist. 2000). In essence, the theory is that under certain circumstances, by simply performing duties for a new employer, the employee cannot help but utilize or disclose knowledge of trade secrets gained as a result of that employee’s performance of duties for the former employer. PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995). For example, “when an employee is placed in a position where he is called upon to solve problems similar to or the same as those solved for his past employer, the employee, consciously or unconsciously, will inevitably draw upon the knowledge, including trade secret information, obtained while working for his past employer.” C&F Packing Co. v. IBP, Inc., No. 93 C 1601, 1998 WL 1147139, at *9 (N.D. Ill. Mar. 16, 1998).

“The inevitable disclosure doctrine recognizes that there are circumstances in which trade secrets inevitably will be used or disclosed, even if the defendant swears that he or she will keep the information confidential.” Linda K. Stevens, Trade Secrets and Inevitable Disclosure, 36 TORT & INS. L.J. 917, 929 (2001). To put it another way, in some circumstances, by simply performing his or her job for a new employer, the employee cannot help but utilize or disclose trade secrets gained as a result of that employee’s performance of duties for a former employer. “Courts applying the inevitable disclosure doctrine after the adoption of the UTSA have often cited the Act’s prohibition of ‘threatened use’ as support for the doctrine.” Id. at 930. However, as contrasted with actual or threatened disclosure, the inevitable disclosure doctrine, in its purest application, will allow injunctive relief absent evidence of a former employee’s bad faith or pilfering of trade secrets.

Further, while injunctive relief to prevent threatened misappropriation may take the form of an injunction against disclosure or an injunction against employment, only an injunction against employment will prevent misappropriation that is premised on the inevitable disclosure doctrine. See id. at 927; Jennifer L. Saulino, Locating Inevitable Disclosure’s Place in Trade Secret Analyses, 100 MICH. L. REV. 1184, 1193 (2002). For this reason, one court has stated: “[I]n its purest form, the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory . . . [and] should be applied in only the rarest of cases.” EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

The term “inevitable,” at least in theory, means just that; the threat must be unavoidable or certain to occur. A mere suspicion or a mere possibility of disclosure will not constitute an actionable threat under the inevitable disclosure doctrine. See 1 MELVIN F. JAGER, TRADE SECRET LAW § 7.6, at 7-32 (West 2004); see also Dulisse v. Park Int’l Corp., No. 97 C 8018, 1998 WL 25158, at *4 (N.D. Ill. Jan. 9, 1998). For example, in Woodard v. Harrison, No. 08-2167, 2008 WL 4724370, at *3 (C.D. Ill. Oct. 24, 2008), the court dismissed an ITSA claim without prejudice where the plaintiff alleged only that a defendant “‘intends to use [the trade secrets] to develop business’” but did not allege any actual use or any grounds for finding use inevitable.
C. Relationship Between Threatened Use and Inevitable Disclosure.

If the defendant has shown bad faith in relation to the plaintiff’s trade secrets, the court may infer threatened use or disclosure. Logically, bad faith provides a dividing line between threatened and inevitable use of trade secrets. If conditions make disclosure inevitable, the defendants’ intentions do not matter. If disclosure is not inevitable, the presence of a threat will depend on the defendant’s intentions – whether they are stated explicitly or merely implied from the defendant’s actions. Cases do not divide threatened and inevitable use along this logical line, however. Instead, they mix the language of threat and inevitability and often analyze the defendant’s intentions in both contexts. PepsiCo, Inc. v. Redmond, the seminal Seventh Circuit case on inevitable use, mixed its analysis of inevitability with the district court’s reliance on the defendant’s bad faith or “lack of candor.” 54 F.3d 1262, 1270 (7th Cir. 1995). The court “couple[d] the demonstrated inevitability that Redmond would rely on PCNA trade secrets . . . with the district court’s reluctance to believe that Redmond would refrain from disclosing these secrets.” Id. at 1271. In a case of inevitable use, the defendant’s integrity and intentions should be irrelevant. Yet, courts may still use bad faith as a thumb on the scale when deciding whether use is inevitable.

In Liebert Corp., 357 Ill. App. 3d at 284-86, 827 N.E.2d at 927-29, the court based its finding of threatened trade-secret use on the defendant’s wrongdoing while still using language of inevitability. The defendant, Mazur, downloaded his employer’s price books and quotations to his laptop computer before resigning. When he learned that he was being sued by his former employer, he deleted the stolen computer files, after first trying (unsuccessfully, he claimed) to save them to a CD. There was no evidence that Mazur had ever used the information, or that his position with his new employer made his use of trade secrets an inevitable outcome of competing with his former employer. Rather, the evidence against him was his show of bad faith: he copied confidential files and then tried to delete the evidence. The court found that his behavior constituted “misappropriation by improper means,” obviating the requirement of actual use. Id. at 281-82, 827 N.E.2d at 925-26.

The court in Liebert used the language of both threat and inevitability: “plaintiffs seek a preliminary injunction to prevent further or inevitable disclosure or use of the trade secrets Mazur misappropriated. Plaintiffs contend there is a real threat Mazur copied the price books onto at least one CD and will continue to use the pricing information.” Id. at 284, 827 N.E.2d at 927. Yet the analysis in this case departed from PepsiCo, in which the court held that no good-faith effort could prevent Redmond from using his knowledge of PepsiCo’s strategy in formulating the competitor’s plan. Mazur’s use of trade secrets was not truly inevitable; his behavior predicted it. Whether courts use the language of inevitability or threat, plaintiffs must show some proof of bad faith in cases where (1) the defendant’s situation does not make the disclosure of trade secrets inevitable for anyone in the defendant’s position, and (2) the defendant has not explicitly threatened to use the plaintiff’s trade secrets.

An injunction is the available remedy for threatened use of trade secrets. The defendant may be enjoined from using or disclosing the trade secrets. If the court concludes from the defendant’s behavior that disclosure is inevitable, the defendant may be enjoined from competing with the plaintiff in any way. The Liebert case was remanded to the trial
court for “consideration of what form of preliminary injunction is necessary to reasonably protect plaintiffs from any adverse effects caused by Mazur’s misappropriation.” Id. at 287-88, 827 N.E.2d at 930.

D. Inevitable Disclosure in Illinois.

Illinois courts have adopted the inevitable disclosure doctrine, but they usually apply the doctrine only when the defendant’s actions are accompanied by bad faith.


Although the inevitable disclosure doctrine had existed for decades, the doctrine achieved increased significance following the Seventh Circuit’s decision in PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995), which affirmed a preliminary injunction that enjoined a former employee from working for a competitor for six months. Therefore, any analysis of the inevitable disclosure doctrine must begin with an understanding of the PepsiCo decision.

PepsiCo filed suit and sought a preliminary injunction to prevent a former employee, Redmond, from working for a then-competitor, Quaker. Id. at 1265. At the time, Quaker and PepsiCo were direct competitors in the sports drink and “new age” beverage product categories. Id. at 1263-64. As a high-level employee within PepsiCo, Redmond had gained access to PepsiCo’s confidential information and trade secrets. Id. Redmond had signed a confidentiality agreement with PepsiCo, but not a non-competition agreement. Id. at 1264.

At the preliminary injunction hearing, PepsiCo presented evidence that Redmond had knowledge of PepsiCo’s trade secrets and confidential information, including:

- PepsiCo’s “Strategic Plan,” which contained PepsiCo’s “plans to compete, its financial goals, and its strategies for manufacturing, production, marketing, packaging, and distribution for the coming three years.”
- PepsiCo’s “Annual Operating Plan,” which was a “national plan for a given year and guide[d] [PepsiCo’s] financial goals, marketing plans, promotional event calendars, growth expectations and operational challenges.”
- Various “trade secrets regarding innovations in [PepsiCo’s] selling and delivery systems” that Redmond possessed because a pilot program had been launched in California under Redmond’s supervision.

Id. at 1265-66. In essence, PepsiCo asserted that Redmond’s intimate knowledge and familiarity with many of PepsiCo’s trade secrets combined with his new high-level position at Quaker would place him in a situation in which he would inevitably make decisions with PepsiCo’s plans in mind. Id. at 1267.

The district court found that Redmond’s new position at Quaker posed a clear threat of trade secret misappropriation that could be enjoined under both Illinois statutory and common law. Id. The court also stated that the circumstances surrounding Redmond’s
resignation, including his lack of candor with PepsiCo regarding his acceptance of the job with Quaker, made the threat of misappropriation more palpable.  Id.

On appeal, the Seventh Circuit addressed “whether the district court correctly concluded that PepsiCo had a reasonable likelihood of success on its various claims for trade secret misappropriation and breach of a confidentiality agreement.”  Id. The court began its analysis by citing the ITSA, which allows a court to enjoin “‘actual or threatened misappropriation’ of a trade secret.” The court noted, however, that “there is little law in Illinois or in this circuit establishing what constitutes threatened or inevitable misappropriation.”  Id. at 1267-68. The court then analyzed the only two cases in the circuit that had addressed the issue at the time: Teradyne, Inc. v. Clear Communications, Corp., 707 F. Supp. 353 (N.D. Ill. 1989) and AMP, Inc. v. Fleischhacker, 823 F.2d 1199 (7th Cir. 1987), superseded in part by ITSA, 765 ILCS 1065/8(b)(1) (West 2009).

In Teradyne, the plaintiff-corporation “alleged that a competitor, Clear Communications, had lured employees away from Teradyne and intended to employ them in the same field.”  PepsiCo, 54 F.3d at 1268 (citing Teradyne, 707 F. Supp. at 356). The Teradyne court dismissed the claim on the basis that “Teradyne did not allege ‘that defendants have in fact threatened to use Teradyne’s secrets or that they will inevitably do so.’”  Id. (quoting Teradyne, 707 F. Supp. at 356). In AMP, the plaintiff-corporation alleged that a former employee would compromise trade secrets by working for a competitor.  Id. at 1269 (citing AMP, 823 F.2d at 1207). The Seventh Circuit in AMP affirmed the denial of a preliminary injunction on the basis that “the mere fact that a person assumed a similar position at a competitor does not, without more, make it ‘inevitable that he will use or disclose . . . trade secret information’ so as to ‘demonstrate irreparable injury.’”  Id. (quoting AMP, 823 F.2d at 1207).

The PepsiCo court concluded that under the ITSA, Teradyne, and AMP, “a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets.”  Id. at 1269. Under the facts presented, it was within the district court’s discretion to find that it was inevitable that Redmond would rely upon PepsiCo’s trade secrets as he developed Quaker’s sports drink and new age beverage product categories:

It is not the “general skills and knowledge acquired during his tenure with” PepsiCo that PepsiCo seeks to keep from falling into Quaker’s hands, but rather “the particularized plans or processes developed by [PepsiCo] and disclosed to [Redmond] while the employer-employee relationship existed, which are unknown to others in the industry and which give the employer an advantage over his competitors.”  Id. (quoting AMP, 823 F.2d at 1202) (alterations in original). The use of PepsiCo’s trade secrets would give Quaker a substantial competitive advantage by informing Quaker as to how PepsiCo would price, distribute, and market its sports and new age drinks, and thereby allow Quaker to respond strategically.  Id. at 1270.
The Seventh Circuit’s ruling rested primarily on two factors. First, the court held that “unless Redmond possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about [Quaker’s] Gatorade and Snapple by relying on his knowledge of [PepsiCo’s] trade secrets,” especially in light of the fact that PepsiCo and Quaker were the two dominant companies in the industry. Id. at 1269. Second, the court relied on the district court’s adverse credibility finding, which led the district court to disbelieve Redmond’s testimony that he would honor his non-disclosure agreement and that Quaker would ensure that no PepsiCo secrets were ever used. Id. at 1271. The Seventh Circuit thus ruled that even though “[t]he facts of the case do not ineluctably dictate the district court’s conclusion[,] . . . [t]hat conclusion was not an abuse of discretion.” Id.

The court summarized its conclusion: “In other words, PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game.” Id. at 1270. Concluding that Redmond and Quaker’s use of PepsiCo’s trade secrets and confidential information in this manner constituted an inevitably threatened misappropriation under Illinois statutory law and an inevitable breach of the confidentiality agreements, the court held that enjoining Redmond from working for Quaker for six months was appropriate. Id. at 1272.

**PRACTICE TIP:** A party invoking the inevitable disclosure doctrine will want to prove that the circumstances in the case are unique. For example, in PepsiCo, a high-ranking employee of one of two industry giants going to the other after seeing the key competitive plans of the former employer. Conversely, the party seeking to avoid the doctrine typically will seek to demonstrate that the employee simply is applying general skills by working for another company in the same industry, and that application of the doctrine would give the former employer a noncompetition agreement that it neither paid for nor negotiated.

2. **Skepticism of the doctrine after PepsiCo where there was no evidence of bad faith.**

After PepsiCo, courts applying Illinois law have declined to enter injunctions premised on the inevitable disclosure doctrine absent bad faith or improper acts on the part of the former employee or the new employer:

**SKF USA, Inc. v. Bjerkness,** No. 08 C 4709, 2009 WL 1108494, at *13 (N.D. Ill. Apr. 24, 2009) (refusing to preliminarily enjoin former employees because it was not inevitable they would use their former employer’s confidential information in their new business given “evidence that each Defendant possesses the knowledge to perform reliability services without reliance upon [the former employer’s] materials”).

**Dulisse v. Park Int’l Corp.,** No. 97 C 8018, 1998 WL 25158, at *4 (N.D. Ill. Jan. 9, 1998) (refusing to enjoin former employee with extensive knowledge of counterclaim plaintiff’s business and customer information, product design, and manufacturing techniques and holding that ITSA “should not prevent workers from pursuing their livelihoods” after leaving their current positions).

Five years after PepsiCo, the Illinois Appellate Court adopted the inevitable disclosure doctrine in Strata Marketing, Inc. v. Murphy, 317 Ill. App. 3d 1054, 1067, 740 N.E.2d 1166, 1176 (1st Dist. 2000). It should be noted that many Illinois state court judges remain skeptical of the inevitable disclosure doctrine, and the Illinois Supreme Court has yet to weigh in.

Plaintiff Strata developed software programs to analyze market research data for the radio and television industries, and leased these software programs to its customers. Id. at 1056, 740 N.E.2d at 1168. Strata’s customers generally consisted of advertising agencies and corporate in-house advertising departments, entities that were “difficult to identify.” Id. at 1057, 740 N.E.2d at 1168. Strata established that its business was “very unique” and functioned in a “small niche of the software market.” Id. at 1056, 740 N.E.2d at 1168. Strata employed three full-time sales coordinators to maintain these customer identifications in order to generate leads for the sales representatives. Id. at 1057, 740 N.E.2d at 1168.

The defendant, Gail Murphy, was employed by Strata as a sales representative for its Midwest and North Atlantic regions. Id. at 1056, 740 N.E.2d at 1168. As a condition of her employment, Murphy had signed a non-disclosure and a non-competition agreement, which prohibited Murphy from rendering services directly or indirectly to a competitor of Strata. Id. at 1057, 740 N.E.2d at 1168. In May 1999, Murphy resigned from Strata to begin work for Marketing Resources Plus (“MRP”), a direct competitor of Strata, developing similar software for lease to its customers. Id. at 1058, 740 N.E.2d at 1169. The competition between Strata and MRP was described as “fierce.” Id. at 1057, 740 N.E.2d at 1168.

Strata filed suit to enjoin Murphy from working for MRP, alleging two counts. First, Strata sought injunctive relief based on the breach of Murphy’s non-competition agreement. Second, Strata sought injunctive relief under the ITSA, alleging that Murphy had actually disclosed, threatened to disclose, or inevitably would disclose trade secrets. Id. at 1058-59, 740 N.E. 2d at 1169-70. After Strata filed a motion for a temporary restraining order, defendants Murphy and MRP moved to dismiss the complaint, arguing that the non-competition agreement was overly broad and that Strata had failed to set forth a claim under the ITSA. Id. at 1060, 740 N.E.2d at 1170. The trial court granted the motion to dismiss. Id.
The Illinois Appellate Court reversed, based on inevitable disclosure. The Strata court adopted the rationale of *PepsiCo*, stating: “We believe *PepsiCo* correctly interprets Illinois law and agree that inevitable disclosure is a theory upon which a plaintiff in Illinois can proceed under the [Illinois Trade Secrets] Act.” *Id.* at 1070, 740 N.E.2d at 1178. The court then proceeded to “ascertain whether Strata’s complaint sufficiently alleged inevitable disclosure.” *Id.*

The key allegations of Strata’s complaint, according to the court, were that Murphy’s knowledge of Strata’s pricing structure, customers’ needs, anticipated product launch dates, product problems, and information concerning existing customers’ contracts would inevitably be disclosed, as such information “is exactly the type of information that any salesperson needs and must use to effectively compete for customers against Strata and on behalf of a competitor such as MRP.” *Id.* at 1071, 740 N.E.2d at 1178. The court held that these allegations stated a claim for trade secret misappropriation sufficient to withstand a motion to dismiss. The court therefore reversed the trial court’s decision and remanded the case for further proceedings. *Id.* at 1072, 740 N.E.2d at 1179. Significantly, the Strata court applied the inevitable disclosure doctrine without requiring a finding of bad faith or inequitable conduct on the part of the former employee, as had been present in *PepsiCo*, although the former employee had signed a non-disclosure agreement as in *PepsiCo*.

4. **Illinois federal court application of the doctrine after Strata.**

The Strata decision remains good law in Illinois. For example, the court in *Kempner Mobile Electronics, Inc. v. Southwestern Bell Mobile Systems, LLC*, No. 02 C 5403, 2003 WL 1057929, at *22 (N.D. Ill. Mar. 10, 2003), reaffirmed the inevitable disclosure doctrine, enjoining for one year a former marketer and distributor of Cingular wireless products from competing with Cingular or soliciting customers with whom the former distributor had contact prior to the lawsuit. The court held that if the former distributor were allowed to solicit those customers, it would be “inevitable that the subscriber information [the former distributor] obtained through its affiliation with Cingular would be used to sell competing product and services.” See also *SKF USA, Inc. v. Bjerkness*, No. 08 C 4709, 2009 WL 1108494, at *13 (N.D. Ill. Apr. 24, 2009) (citing Strata for the idea that the inevitable disclosure doctrine “applies in Illinois”); *Complete Bus. Solutions, Inc. v. Mauro*, No. 01 C 0363, 2001 WL 290196, at *5 (N.D. Ill. Mar. 16, 2001) (citing Strata for the proposition that “the ‘inevitable disclosure’ doctrine has been recognized in trade secret misappropriation cases under Illinois law”).

For further discussion of the inevitable disclosure doctrine, see Appendix A to this outline, which analyzes national trends concerning the doctrine.

IV. **REMEDIES FOR TRADE SECRET MISAPPROPRIATION.**

A. **Preliminary Injunctions & Temporary Restraining Orders.**

This section discusses the standards for obtaining temporary restraining orders and preliminary injunctions as those tests are applied in trade secret cases. The standards for temporary injunctive relief are similar in Illinois state and federal courts. Motions for
temporary restraining orders generally are filed with little advance notice, e.g., one or two
days, and are decided on the papers filed, including the verified complaint, answers, the
briefs, and the supporting affidavits. Ex parte motions for temporary restraining orders are
discouraged and, if granted, are generally of brief duration. In contrast, temporary
restraining orders entered after notice typically remain in effect through a preliminary
injunction hearing. The parties often seek and obtain expedited discovery for a preliminary
injunction hearing, which may be held within weeks of the filing of the complaint. The
preliminary injunction hearing typically is, in effect, a “mini-trial,” with witnesses called and
exhibits presented. Although, as is discussed below, the courts weigh a variety of factors at
such hearings, the court’s view as to which party has the stronger case on the merits often is
dispositive at this juncture. The ruling at the preliminary injunction stage normally is vital in
the litigation, for two reasons. First, the ruling either enjoins or refuses to enjoin conduct
through trial, which can be a crucial period. Second, a ruling from the judge who ultimately
will hear the case that he or she views one party as more likely to prevail forces the non-
prevailing party to consider the wisdom of continuing the litigation. Note, however, that in
some circumstances, and in other jurisdictions, the same judge who ruled on the preliminary
injunction ultimately may not hear the case. This can reduce the importance of the
preliminary injunction ruling.

A further issue to consider is the scope of preliminary relief to request. As with
permanent injunctions, see Part IV(B)(2), infra, a preliminary injunction must be stated with
sufficient specificity to give the defendant guidance as to when its actions violate the
injunction. In Patriot Homes, Inc. v. Forest River Housing, Inc., 512 F.3d 412, 415 (7th Cir.
2008), the Seventh Circuit vacated a preliminary injunction entered in a trade secrets case
because the injunction was impermissibly vague. The court explained that “[t]he preliminary
injunction entered by the district court uses a collection of verbs to prohibit [the defendant]
from engaging in certain conduct, but ultimately it fails to detail what the conduct is, i.e.,
the substance of the ‘trade secret’ or ‘confidential information’ to which the verbs refer.” Id.
The court reasoned that the district court must “specify what information is a trade secret,”
particularly where the parties disputed the issue and some alleged trade secret information
was public, “in order to clearly delineate [the defendant’s] responsibilities pursuant to the
injunction.” Id.

PRACTICE TIP: Before initiating a lawsuit, a plaintiff should consider sending a “cease
and desist” letter demanding that the offending party (for example, a former employee)
leave using and return all trade secrets and other company property and provide
assurances that the party will protect the plaintiff’s interests, and take any actions
necessary to do so. Although such letters do not always lead to the resolution of the
dispute, among other benefits, cease and desist letters can help a plaintiff establish its need
for emergency injunctive relief. For example, if the letter demands assurances by a date
certain that the offending party will return and refrain from using the trade secrets, and
that deadline is not met, the plaintiff can cite that fact to bolster its argument that
emergency injunctive relief is necessary.
1. Preliminary injunctions.


“[A] trial court has a large measure of discretion in granting or denying a preliminary injunction.” *Elmer Miller Inc. v. Landis*, 253 Ill. App. 3d 129, 131, 625 N.E.2d 338, 341 (1st Dist. 1993). Because a preliminary injunction is an extraordinary remedy, it has been said that a preliminary injunction is available only in cases of extreme emergency, where serious harm would otherwise result. *Buzz Barton & Assocs. v. Giannone*, 108 Ill. 2d 373, 386, 483 N.E.2d 1271, 1277 (1985) (discussing a preliminary injunction and a restrictive covenant in the employment context). However, preliminary injunctions are granted in numerous instances.


a) Standards in Illinois state court.

In Illinois, preliminary injunctive relief is granted if the court finds:

a. a clearly ascertained right that must be protected;

b. that there will be irreparable injury without this protection;

c. no adequate remedy at law; and

d. a likelihood of success on the merits of the claim.

b) **Standards in federal court.**

As a threshold matter, the party seeking the injunction must show (1) a likelihood of success on the merits and (2) no adequate remedy at law because it will suffer irreparable harm if the injunction is denied. See *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 11 (7th Cir. 1992). If the moving party meets this burden, then the court will consider the elements in the second part of the test: whether (3) the non-moving party will be irreparably harmed if the injunction is granted and (4) whether the injunction is in the public interest. *Id.* at 11-12.

The court “weighs” all four factors in determining whether to grant the injunction, which is referred to as the “sliding scale” approach. As the court explained in *Abbott Laboratories*, “the more likely it is the plaintiff will succeed on the merits, the less the balance of irreparable harms need weigh towards its side; the less likely it is the plaintiff will succeed, the more the balance need weigh towards its side.” *Id.*

2. **Application of preliminary injunction factors in trade secret cases.**

The decision to grant a preliminary injunction in a trade secret case frequently turns on whether the information sought to be protected is in fact a trade secret and has been (or will be) misappropriated.

a) **Possession of a certain and clearly ascertained right.**

A party seeking a preliminary injunction must first “raise a fair question that it has a substantive interest recognized by statute or common law.” *Delta Med.*, 331 Ill. App. 3d at 788, 772 N.E.2d at 779. Generally, “any threatened business interest is an identifiable right that may be protected by injunctive relief.” *Sheehy v. Sheehy*, 299 Ill. App. 3d 996, 1005, 702 N.E.2d 200, 207 (1st Dist. 1998) (citations omitted) (denying injunction to enforce covenant not to compete). When the information sought to be protected is a trade secret, it follows that there is a protectible interest. See *Delta Med.*, 331 Ill. App. 3d at 788-89, 772 N.E.2d at 779-80. A protectible interest requirement is the first element of the test in state court, and it is subsumed into the likelihood of success analysis in federal court. See *Noddings Inv. Group, Inc. v. Kelley*, No. 93 C 1458, 1994 WL 91932, at *1 (N.D. Ill. Mar. 18, 1994).

b) **Irreparable injury and no adequate legal remedy.**

A plaintiff in a trade secret case also must establish an irreparable injury and the absence of an adequate legal remedy. Although irreparable injury and lack of an adequate remedy at law are separate elements for injunctive relief, courts often consider both factors together in a trade secrets case. See *Lawter Int’l, Inc. v. Carroll*, 116 Ill. App. 3d 717, 731, 451 N.E.2d 1338, 1348 (1st Dist. 1983) (citations omitted).

Under Illinois law, an injury is irreparable when the injured party cannot be adequately compensated with damages, when the damages are speculative and cannot be measured, or when the injury is of a continuing, constant and frequent manner such that there is no meaningful remedy at law. *Id.* To satisfy the irreparable harm element, plaintiff must
establish that the harm sought to be enjoined is “expected with reasonable certainty” and not merely possible. Callis, Papa, Jackstadt & Halloran, P.C. v. Norfolk & W. Ry., 195 Ill. 2d 356, 371, 748 N.E.2d 153, 162 (2001) (citation omitted). The Seventh Circuit held that by the term “inadequate,” “we do not mean wholly ineffectual; we mean seriously deficient as a remedy for the harm suffered.” Cooper v. Salazar, 196 F.3d 809, 817 (7th Cir. 1999) (not a trade secrets case) (internal citations omitted).

Whenever trade secrets are involved, there is a significant risk that misappropriation or misuse will create irreparable harm. IDS Fin. Servs. v. Smithson, 843 F. Supp. 415, 418-19 (N.D. Ill. 1994). Once the existence of a trade secret and its misappropriation have been established, “the inadequacy of legal remedies and the threat of irreparable harm are inherent [where] the destruction of goodwill and trade secrets are at issue.” IDS Life Ins. Co. v. SunAmerica, Inc., 958 F. Supp. 1258, 1281 (N.D. Ill. 1997), aff’d in part, rev’d in part on other grounds, 136 F.3d 537 (7th Cir. 1998).

Thus, where misappropriated trade secrets are at issue, courts often will find irreparable harm because of the ongoing nature of the injury and the difficulty in quantifying the injury. See:

YourNetDating, Inc. v. Mitchell, 88 F. Supp. 2d 870, 872 (N.D. Ill. 2000). Hacking into an online dating service was held to have irreparably harmed the goodwill of the service for purposes of a temporary restraining order.

IDS Life Ins. Co. v. SunAmerica, Inc., 958 F. Supp. 1258, 1281 (N.D. Ill. 1997), aff’d in part, rev’d in part on other grounds, 136 F.3d 537 (7th Cir. 1998). Where defendants were systematically raiding the plaintiff’s customers, agents, customer assets, and trade secrets, the court found that the plaintiffs were vulnerable to continued infliction of irreparable harm.

IDS Fin. Servs. v. Smithson, 843 F. Supp. 415, 418-19 (N.D. Ill. 1994). The court held that after solicitation from a client list begins or trade secrets are disclosed, the harm already is done because goodwill is damaged and confidential information is released.

Prentice Med. Corp. v. Todd, 145 Ill. App. 3d 692, 701, 495 N.E.2d 1044, 1051 (1st Dist. 1986). Misappropriation of a patient list resulted in irreparable harm, and preliminary injunctive relief was appropriate to prevent future loss.

Lawter Int’l, Inc. v. Carroll, 116 Ill. App. 3d 717, 731, 451 N.E.2d 1338, 1348 (1st Dist. 1983). Where the defendant was about to go into business with the plaintiff’s customer lists, confidential information, and formula, the plaintiff had made an adequate showing of irreparable injury.

c) Likelihood of success on the merits.

To establish a likelihood of success on the merits, a plaintiff need not prove it will receive relief at a final hearing. TIE Sys., Inc. v. Telcom Midwest, Inc., 203 Ill. App. 3d 142, 150, 560 N.E.2d 1080, 1086 (1st Dist. 1990) (citations omitted). Rather, a party seeking a
preliminary injunction must raise a fair question regarding the existence of a right to relief, for which the court should issue a preliminary injunction preserving the status quo until a decision on the merits. Buzz Barton & Assocs. v. Giannone, 108 Ill. 2d 373, 382, 483 N.E.2d 1271, 1275 (1985).

Although it may be “easy and tempting to expand the hearing into the merits of the ultimate question as to whether a permanent injunction should be issued,” the court should resist that temptation. Id. at 1277. The plaintiff is not required to carry the same burden of proof as is required on the ultimate issue. Id. Instead, the plaintiff must establish that “[i]t will be entitled to the prayed-for relief if the proof presented at trial should sustain its allegations [of trade secret misappropriation].” TIE Sys., Inc., 203 Ill. App. 3d at 150-51, 560 N.E.2d at 1086 (citations omitted); see also Lawter, 116 Ill. App. 3d at 729, 451 N.E.2d at 1346.

d) Balance of hardships.


In Illinois state court cases, the balancing of hardships is not an explicit factor in granting the injunction, but it is still considered by the courts in the course of the discussion. In addition to the four factors for an injunction, the courts must balance the equities to determine the relative inconvenience to the parties, and whether the benefit to plaintiff outweighs the burden to defendant. Prentice Med. Corp. v. Todd, 145 Ill. App. 3d 692, 697, 495 N.E.2d 1044, 1048 (1st Dist. 1986) (internal citation omitted); see Delta Med., 331 Ill. App. 3d at 788, 772 N.E.2d at 779 (referring to balancing as an additional inquiry required after the four-part test).

When balancing the harms, courts will consider the cost of developing the trade secrets. In ISC-Bunker Ramo Corp., 765 F. Supp. at 1335, the court, citing the ITSA, held that an injunction was in the public interest, because the Uniform Trade Secrets Act was intended to protect the investment of companies that develop new technology. Courts also have recognized that the public has an interest in preventing unfair competition, commercial piracy and misleading solicitations. IDS Life Ins. Co., 958 F. Supp. at 1282.

The protection for innovation and development is balanced by the competing interest in protecting legitimate competition. Am. Can Co. v. Mansukhani, 742 F.2d 314, 329 (7th Cir. 1984). Courts also weigh the needs of an employee “whose livelihood may well depend on the scope of the former employer’s trade secret protection,” because “it is important to permit the employee to use his or her skill, training and experience.” Id. An employer who invested time, money and effort into the development of a trade secret should be protected from an employee who obtained the secret by improper means, but the employee has a right to make use of the general knowledge and skills acquired during his or

3. Temporary restraining orders.


The standards for granting a temporary restraining order are “functionally identical” or “analogous” to the standards for a preliminary injunction. Crue v. Aiken, 137 F. Supp. 2d 1076, 1082-83 (C.D. Ill. 2001); YourNetDating, Inc. v. Mitchell, 88 F. Supp. 2d 870, 871 (N.D. Ill. 2000). See also Recycled Paper Greetings, Inc. v. Davis, 533 F. Supp. 2d 798, 806-07 (N.D. Ill. 2008) (denying a TRO because the plaintiff failed to demonstrate a likelihood of success on the merits, as it failed to show that it had made reasonable efforts to keep confidential information secret or that the purportedly confidential information had been misappropriated). The differences between these two types of relief are in the duration and the hearing procedures. A preliminary injunction may last for the duration of the lawsuit and requires notice to the opposing party. A TRO, on the other hand, is for a limited time and may be issued ex parte. See 735 ILCS 5/11-101 (West 2009).

Federal courts do not permit the appeal of a TRO. E.g., Chi. United Indus., Ltd. v. City of Chi., 445 F.3d 940, 943 (7th Cir. 2006). In Illinois courts, however, parties can appeal TROs. See Ill. S. Ct. R. 307(d)(1); J.S. SOLOVY ET AL., 4A ILLINOIS CIVIL LITIGATION GUIDE § 7:2 (2007-2008).

**PRACTICE TIP:** At the outset, every plaintiff in a trade secrets action must decide whether to seek emergency injunctive relief in the form of a temporary restraining order and/or preliminary injunction. The vast majority of trade secrets cases seek such relief, based on the need to prevent harm from the misappropriation. Indeed, success or non-success at the preliminary injunction stage will usually, as a practical matter, terminate the litigation. Two instances in which a plaintiff may not want to seek a TRO or preliminary injunction are: (1) where the misappropriation is discovered too late for emergency injunctive relief to be effective; and (2) where money damages are the preferred form of relief.
B. Permanent Injunctive Relief & Monetary Damages.

As with other tort or intellectual property claims, a variety of remedies are available under the ITSA to a plaintiff who has proven the elements of trade secret misappropriation. Such a plaintiff may receive permanent injunctive relief and/or compensatory damages, including actual losses and unjust enrichment damages. In cases of willful and malicious misappropriation, the plaintiff may be awarded punitive damages and/or attorneys’ fees. See 765 ILCS 1065/3, 1065/4 (West 2009).

The remedies available in trade secrets cases are similar to those in other tort or intellectual property cases. Trade secrets cases have some nuances, however. Both monetary and injunctive relief may be available; the time period for which damages are available may be based on a recognition that some trade secrets have a limited lifespan as protectible secrets; and a plaintiff’s decision on which form of damages to seek often depends on an evaluation of the type of damages that will be easiest to prove, given the nature of the trade secret and the extent of the defendant’s misappropriation.

1. Monetary damages.

There are three basic types of monetary damages potentially available under the ITSA: compensatory damages; unjust enrichment or restitution damages; and “reasonable royalty” damages. Specifically, the ITSA provides that available monetary damages “can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.” 765 ILCS 1065/4(a) (West 2009). In other words, under the ITSA, a prevailing plaintiff can seek both its actual losses and unjust enrichment damages. See id. When such actual losses or unjust enrichment damages are too difficult for the plaintiff to prove by a preponderance of the evidence, the ITSA provides for an alternative form of relief – “a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret.” Id.

a) Proving monetary damages.

The process of awarding monetary damages to a plaintiff prevailing on its trade secret claim is similar to the process for awarding damages to a plaintiff prevailing on any other tort claim. As in other cases, a trade secret plaintiff must prove its damages by a preponderance of the evidence. See id. Although “[i]t is not necessary that the amount of loss be proven with absolute certainty,” Abreu v. Unica Indus. Sales, Inc., 224 Ill. App. 3d 439, 455, 586 N.E.2d 661, 673 (1st Dist. 1991), the plaintiff must show a “reasonable basis for . . . computation.” C&F Packing Co., Inc. v. IBP, Inc., 224 F.3d 1296, 1304 (Fed. Cir. 2000) (applying Illinois law); see Schiller & Schmidt, Inc., 969 F.2d 410, 415 (7th Cir. 1992)
Plaintiffs in trade secrets cases, however, may have particular difficulty establishing, by a preponderance of the evidence, the causal connection between the defendant’s misappropriation and the harm the plaintiff experienced. Hence, courts frequently award injunctive relief in lieu of damages. Difficulties in proving causation commonly arise because factors other than the defendant’s misappropriation—such as changes in consumer demand for a product incorporating the trade secrets or the lawful entry of a competitor into the marketplace—can contribute to the plaintiff’s business losses or the defendant’s profits. See Schiller, 969 F.2d at 415-16. In that situation, the plaintiff must be particularly careful to use a methodology for proving damages that both accounts for the losses due to factors besides the defendant’s misappropriation and attempts to pinpoint the specific losses caused by the misappropriation. See id. (criticizing the expert testimony admitted at trial because the expert made no attempt to separate the damages caused by the unlawful misappropriation from those resulting from the lawful entry into the marketplace of a competitor). But see Roton Barrier, Inc. v. Stanley Works, 79 F.3d 1112, 1119-20 (Fed. Cir. 1996) (applying Illinois law) (holding that it was appropriate in the circumstances of the case not to separate the damages resulting from the defendant’s entry into the marketplace from the damages caused by the misappropriation because the evidence showed the defendant never would have entered the marketplace absent the unlawful use of the plaintiff’s trade secrets).

b) Types of monetary damages available under the ITSA.

(1) “Actual loss.”

Actual loss damages under the ITSA are intended to make the plaintiff whole for losses caused by the defendant’s misappropriation. Actual loss damages thus can include lost profits as well as price erosion. Roton Barrier, 79 F.3d at 1119-20 (applying Illinois law).

(a) Lost profits.

Lost profits are those profits the plaintiff would have received but for the defendant’s act of misappropriation. See Mangren Research & Dev. Corp. v. Nat’l Chem. Co., 87 F.3d 937, 945 (7th Cir. 1996) (implicitly approving a jury instruction on this point). Such lost profits may be measured by the amount of the defendant’s sales of a product incorporating the trade secret, minus the plaintiff’s costs, or the value of the product multiplied by the number of sales made by the defendant. See Bishop v. Wick, No. 88 C 6369, 1988 WL 166652, at *6 (N.D. Ill. Dec. 29, 1988) (awarding actual damages “measured by the value of the [product incorporating the trade secrets] times the number of improper uses or sales of the [product] by defendants”).

Additionally, lost profits may be measured by the profits of a third party who acquired the trade secret from the defendant, so long as the plaintiff shows it would have generated the sales had the third party not been able to use the trade secret. See Mangren Research & Dev. Corp., 87 F.3d at 945-46 (approving a damages award measured by a third party’s profits, where the plaintiff provided evidence that if the defendants had not financed a
third party’s development and marketing of the product that incorporated the plaintiff’s trade secret, the third party would never have possessed the trade secret and made the sales of the resulting product). The fact that the defendant did not personally benefit from the third party’s sales does not preclude such a damages award. See id.

(b) Price erosion.

Damages based on price erosion are those profits the plaintiff lost because it had to lower prices to compete with the defendant’s use of the trade secret. Roton Barrier, 79 F.3d at 1120 (applying Illinois law). No Illinois court appears to have awarded price erosion damages on an ITSA claim, although the Federal Circuit in Roton Barrier approved of a trial court’s award of past and future price erosion damages under the ITSA. Id. There, the trade secret owner had reduced its prices in response to the defendant’s entry into the market. Id. As to future price erosion damages, the trial court awarded damages for the length of time it would take the trade secret owner “to reestablish its prices and margins.” Id.

In the context of patent infringement claims, courts award price erosion damages as actual damages where the plaintiff can show “that the infringement caused the patent owner to charge lower prices than the market would otherwise have dictated.” Tel-Lock, Inc. v. Thomson Consumer Elecs., No. 03 C 320, 2005 WL 741930, at *10 (N.D. Ill. Mar. 30, 2005) (citation omitted). “The price erosion theory of damages is the difference between actual costs of goods and the potential price – the price [the plaintiff] could have realized had there been no competition from the infringers.” Id. (quotation and citation omitted). To recover price erosion damages, a plaintiff must prove “that ‘but for’ the infringement, it would have been able to charge and receive a higher price.” Id. (citation omitted).

(c) Other types of actual losses.

A plaintiff’s actual damages potentially encompass all forms of monetary losses experienced by the plaintiff as a result of the misappropriation, including: (1) lost profits, (2) a decline in the value of the business, (3) the costs of researching and developing the trade secret, and (4) the costs to remedy the effects of the misappropriation of the trade secret. Andrew Beckerman-Rodau, Trade Secrets – The New Risks to Trade Secrets Posed by Computerization, 28 Rutgers Computer & Tech. L.J. 227, 261 (2002); see, e.g., Sperry Rand Corp. v. A-T-O, Inc., 447 F.2d 1387, 1393-94 (4th Cir. 1971) (affirming damages award consisting of the profits from a lost production contract, the overhead costs that would have been recovered under the lost contract, and the profits and expenses for a second order the plaintiff would have received after performing under the contract). A plaintiff can prove that such losses were caused by the misappropriation by turning to a variety of evidence, including: profit and sales projections, market trends suggesting sales increases but for the defendant’s misappropriation, the decreased sales or profits of the trade secret owner after the misappropriation, or the defendant’s use of the trade secret to sell goods in competition with the plaintiff. Beckerman-Rodau, supra, at 261.
In contrast to damages based on actual losses, the goal of unjust enrichment damages is not to make the plaintiff whole; rather, the goal is to deprive the defendant of the fruits of its unlawful misappropriation. Consequently, under the ITSA, “unjust enrichment” damages are the amount by which the wrongdoer (usually the defendant or a third party who used the trade secrets through the defendant’s assistance), benefited from the use of the trade secret.

Unjust enrichment damages can be measured in several ways, including:

- The defendant’s profits on sales attributable to use of the trade secrets. See C&F Packing Co., Inc. v. IBP, Inc., 224 F.3d 1296, 1304 (Fed. Cir. 2000) (applying Illinois law) (affirming the jury’s damages award where the jury was presented with evidence of the defendant’s $70 million in sales, the plaintiff’s expert attributed all of the profit in the sales to the use of the trade secrets, the jury had been instructed to deduct the defendant’s costs, and the ultimate award was $10.9 million).

- The amount by which the defendant’s sales increased after the misappropriation, so long as the plaintiff can establish a causal connection between the sales increases and the misappropriation. See Thomas & Betts Corp. v. Panduit Corp., No. 93 C 4017, 1997 WL 603880, at *17 (N.D. Ill. Sept. 23, 1997) (suggesting such a measure of unjust enrichment).

- The plaintiff’s cost of development, on the rationale that the defendant received a benefit in that amount because it avoided expending resources to develop the product. See Minn. Mining & Mfg. Co. v. Pribyl, 259 F.3d 587, 607 (7th Cir. 2001) (applying Wisconsin law) (clarifying that cost of development damages are a form of the defendant’s unjust enrichment).

When the trade secret plaintiff fails to prove actual losses or unjust enrichment damages by a preponderance of the evidence, the ITSA allows a court to award damages in the form of a “reasonable royalty.” See 765 ILCS 1065/4(a) (West 2009).

Although there is no reported decision from an Illinois state court addressing the calculation of a reasonable royalty award in a trade secret case, the Northern District of Illinois awarded reasonable royalty damages following a bench trial in RKI, Inc. v. Grimes, 200 F. Supp. 2d 916, 926-27 (N.D. Ill. 2002). In that case, the court defined a reasonable royalty as “that amount which the trier of facts estimates a person desiring to use [the trade
secret] would be willing to pay for its use and a [trade secret owner] desiring to license the [trade secret] would be willing to accept.” Id. at 926 (quoting Perdue Farms Inc. v. Hook, 777 So.2d 1047, 1051-52 (Fla. Dist. Ct. App. 2001), which applied to trade secret misappropriation under Florida law the reasonable royalty calculation applicable to a patent infringement case). In so estimating a reasonable royalty, the court looked to the plaintiff’s costs in developing the trade secret as well as testimony purporting to value the trade secret and arrived at a $100,000 reasonable royalty award. Id. at 926-27.

In Forest Laboratories, Inc. v. Pillsbury Co., 452 F.2d 621, 627-28 (7th Cir. 1971), decided under Wisconsin trade secret law, the Seventh Circuit outlined a multi-factor analysis to calculate an appropriate reasonable royalty award. The Seventh Circuit defined a “reasonable royalty” as “what the parties would have agreed upon, if both were reasonably trying to reach an agreement.” Id. at 627 (quoting Egry Register Co. v. Standard Register Co., 23 F.2d 438, 443 (6th Cir. 1928), an early patent infringement case articulating a reasonable royalty measure of damages). Because such an inquiry contemplates a necessarily hypothetical agreement between the parties, the inquiry is fact-specific and not necessarily amenable to a “completely mathematical articulation.” Id. at 627. The amount of a reasonable royalty award thus can depend on a wide range of factors, including the development costs of the product incorporating the trade secret, profit margins, the nature and extent of the use of the trade secret, and the commercial posture of the parties. See id. at 627-28.

In deciding claims for a reasonable royalty in trade secret cases, courts frequently seek guidance from patent law, where the reasonable royalty doctrine is much more developed. See generally 7-20 CHISUM ON PATENTS § 20.03. In one of the seminal cases on reasonable royalty awards in trade secret cases, University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 539 (5th Cir. 1974) (citation omitted), the Fifth Circuit Court of Appeals assessed existing patent and trade secret case law on reasonable royalty awards and determined that the following factors should guide the calculation of such an award:

(1) “the resulting and foreseeable changes in the parties’ competitive posture”;

(2) “the prices past purchasers or licensees may have paid”;

(3) “the total value of the trade secret to the plaintiff, including the plaintiff’s development costs and the importance of the secret to the plaintiff’s business”;

(4) “the nature and extent of the use the defendant intended for the trade secret”; and

(5) “whatever other unique factors in the particular case . . . might have affected the parties’ agreement, such as the ready availability of alternative[s to the licensing of the trade secret].”
The Southern District of New York adopted a similar set of factors before it decided what evidence would be admissible to assist the jury in calculating a reasonable royalty award under New York trade secret law. See LinkCo, Inc. v. Fujitsu Ltd., 232 F. Supp. 2d 182 (S.D.N.Y. 2002). In that case, the court admitted evidence of the defendant’s projected sales calculations made prior to the time of the misappropriation, reasoning that the parties would have been likely to consider such data had they actually negotiated a license for the trade secrets. Id. at 188-89. Moreover, the court concluded that evidence of a lack of profits on the part of the defendant was inadmissible as overly prejudicial to the plaintiff because the parties could not have anticipated at the time of the hypothetical negotiations that there would be no profits from the use of the trade secret. Id. at 190. Finally, the court held that the jury would have to decide between two forms of royalty awards based on the parties’ evidence of the types of licensing agreements standard in the applicable industry: a “lump-sum” award or a “running royalty” award, which awards a plaintiff a percentage of the defendant’s actual sales. Id. at 188.

Alternatively, a court may be confronted with a situation in which the parties either engaged in licensing negotiations prior to the misappropriation of the trade secret or signed an agreement containing a liquidated damages clause applicable when one party misappropriates the other’s trade secret. In those situations, the calculation of a reasonable royalty award is much easier because it is based on the direct evidence of licensing negotiations. See Mid-Mich. Computer Sys., Inc. v. Marc Glassman, Inc., 416 F.3d 505, 511-12 (6th Cir. 2005) (applying Ohio law) (holding sufficient evidence supported the jury’s conclusion that a reasonable royalty should be based on a liquidated damages provision in an agreement governing the parties’ relationship).

c) Strategic considerations in choosing among the types of damages available.

In a given case, one form of damages may be a more accurate assessment of the plaintiff’s loss – or merely easier to prove – than another. As a result, trade secret plaintiffs and defendants often seek to measure damages in different ways, with the plaintiff seeking the form of damages that provides the greatest recovery, and the defendant arguing for the form of damages that is most difficult to prove or that provides the least recovery.

(1) Actual losses.

Depending on the nature of the trade secret and its use by the defendant, a plaintiff may have difficulty proving actual losses. Where the trade secret consists of information yet to be marketed or sold, a plaintiff’s actual losses may be only the costs of researching or developing the trade secret. See Eric S. Tautfest, Temptations to Take: Misappropriation of Trade Secrets, Damages and Remedies, 7 COMP. L. REV. & TECH. J. 117, 136 (2003). In such a situation, the plaintiff may receive a greater recovery from unjust enrichment damages, which measure the full extent of the various “benefits, profits, or advantages” acquired by the defendant from the misappropriation, including savings on development costs. See id.

Alternatively, a trade secrets plaintiff may struggle to prove its own actual losses because the defendant’s act of misappropriation kept the plaintiff out of a particular market
entirely. See Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605, at *19 (N.D. Ill. Apr. 28, 2003) (noting that the plaintiff’s lost profits were “necessarily uncertain” because the defendant’s misappropriation prevented the plaintiff from entering the market). In that situation, unjust enrichment damages may be easier to calculate, but a plaintiff still may attempt to prove lost profits through sales and profit projections. See id.

(2) Unjust enrichment damages.

Unjust enrichment damages may be particularly appropriate for a plaintiff whose trade secret remains a secret. For example, where the defendant has misappropriated the trade secret but it has not destroyed secrecy by disclosing the secret to the public, there likely has been no obviously quantifiable damage to the plaintiff. See Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 536 (5th Cir. 1974) (“[W]here the secret has not been destroyed and where the plaintiff is unable to prove specific injury . . . [,] the appropriate measure of damages . . . is not what plaintiff lost, but rather the benefits, profits, or advantages gained by the defendant in the use of the trade secret.”) (internal quotations and citations omitted). In that situation, the defendant’s gain – such as its savings in development costs or its better competitive position – may be the most accurate measure of the harm to the plaintiff caused by the misappropriation. See Tautfest, supra, at 135, 140-41 (suggesting such a situation where research and development costs may be “a more accurate measure of unjust enrichment” than the defendant’s profits); see also Salsbury Labs., Inc. v. Merieux Labs., Inc., 908 F.2d 706, 714-15 (11th Cir. 1990) (modifying damages amount for misappropriation of trade secrets under Georgia law to include only the amount the defendant saved in research and development costs because it used the plaintiff’s trade secret).

Where the defendant has profited from the misappropriated trade secret, unjust enrichment damages again may provide the plaintiff the most recovery. A complication, however, arises when the trade secret is incorporated into a product, is part of the process for manufacturing a product, or is akin to a customer list responsible for generating a business’s sales. In those instances, the plaintiff may have difficulty proving the percentage of the defendant’s profits attributable to its use of the trade secret. In such a case, a reasonable royalty award may be more appropriate. See Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d at 536-37 (stating that reasonable royalty awards were originally developed in the patent infringement context to “deal with the situation where the misappropriated idea is used either to improve the defendant’s manufacturing process, or is used as part of a larger manufactured product,” because in those instances, a plaintiff cannot apportion the defendant’s profits) (citation omitted).

(3) Reasonable royalty awards.

A reasonable royalty likely provides the greatest recovery for a plaintiff that cannot point to profits made by the defendant as a result of the misappropriation of the plaintiff’s trade secret, either because no profits were made or because of difficulties in apportioning the defendant’s profits. See Univ. Computing, 504 F.2d at 536-37 (5th Cir. 1974); Tautfest, supra, at 137. Practically speaking, a reasonable royalty may be the only form of damages available to such a plaintiff, assuming the plaintiff also experienced no quantifiable impact on its business due to the misappropriation. See LinkCo, Inc. v. Fujitsu Ltd., 232 F. Supp. 2d
182, 186-87 (S.D.N.Y. 2002) (applying reasonable royalty to trade secret case under New York law and reasoning that “LinkCo’s losses [were] an inadequate measure of damages because the company ceased operations very close to the time of the alleged misappropriation”). By the same rationale, a defendant may find a reasonable royalty award disadvantageous where it has yet to experience profits from the misappropriated trade secret; a reasonable royalty award will allow the plaintiff to recover more than what would be available as actual damages or unjust enrichment. See Milton E. Babirak, Jr., The Maryland Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law, 31 U. BALTIMORE L. REV. 181, 218 (2002) (analyzing strategic considerations for reasonable royalty awards under the Maryland Trade Secrets Act).

2. **Injunctive relief.**

Injunctive relief under the ITSA is designed not to punish the defendant or to put it out of business; rather, the purpose of injunctive relief is “to eliminate the unfair advantage that defendants gained by using [the] plaintiff’s trade secret information.” Chemetall GmbH v. Zr Energy, Inc., 138 F. Supp. 2d 1079, 1088 (N.D. Ill. 2001).

**a) Determining the terms and scope of the injunction.**

When determining the scope of injunctive relief to award to the plaintiff, a court balances the three doctrinal bases for protecting trade secrets and shaping remedies: (1) the encouragement of invention; (2) the maintenance of commercial morality; and (3) the “public interest in having free competition in the sale and manufacture of goods not protected by a valid patent.” See Brunswick Corp. v. Outboard Marine Corp., 79 Ill. 2d 475, 478, 404 N.E.2d 205, 207 (1980).

As a result, “[t]he injunctive relief issued in a trade secret case must be tailored to the facts of the case and must be sufficient to protect the interests of the trade secret holder.” Chemetall, 138 F. Supp. 2d at 1082. “[A]n injunction should generally be only as broad as necessary to protect the rights of the plaintiff.” Abreu v. Unica Indus. Sales, Inc., 224 Ill. App. 3d 439, 453, 586 N.E.2d 661, 672 (1st Dist. 1991).

**b) Defining the activities to be enjoined.**

The terms of an injunction thus depend on what the judge believes is necessary in that particular case to ensure: (1) the defendant is deprived of any benefit received from the misappropriation; and (2) the plaintiff receives protection from any further use of the trade secret. See Chemetall, 138 F. Supp. 2d at 1084 (outlining the terms of appropriate injunctive relief as those necessary to “prohibit[] defendants . . . from using any of the process elements that the Court has found to constitute trade secrets . . . or from possessing, using, or disclosing in any way that information”).

Consequently, injunctive relief can include a variety of terms, depending on the nature of the plaintiff’s trade secret and how readily it can be duplicated through independent means. An injunction should not be so broad that it prohibits the defendant’s lawful activity in relation to independently developing or reverse engineering the trade secret, see Roton Barrier v. Stanley Works, 79 F.3d 1112, 1121 (Fed. Cir. 1996) (applying Illinois law)
(striking an order of injunctive relief because it prohibited lawful as well as unlawful activity); Abreu v. Unica Indus. Sales, Inc., 224 Ill. App. 3d 439, 454, 586 N.E.2d 661, 672 (1st Dist. 1991) (remanding to modify an injunction to clarify that the defendants were not prohibited from using information readily available to the public), but it must be broad enough to provide protection to the plaintiff, see Chemetall, 138 F. Supp. 2d at 1084.

c) Level of specificity required.

“An injunctive order should be as precise and definite as possible to avoid creating misunderstandings or excuses for disobeying its terms.” Televation Telecomm. Sys., Inc. v. Saindon, 169 Ill. App. 3d 8, 19-20, 522 N.E.2d 1359, 1367 (2d Dist. 1988) (citation omitted). Moreover, an injunction should set forth generally what information constitutes the trade secrets and is to remain confidential, as well as describe in reasonable detail the exact acts of the defendant that are prohibited. See Roton Barrier, 79 F.3d at 1121-22 (applying Illinois law). However, the injunction order need not disclose the trade secrets, and a court should be wary of being overly specific and thereby creating loopholes in the relief provided to the plaintiff. See Minn. Mining & Mfg. v. Pribyl, 259 F.3d 587, 598 (7th Cir. 2001) (applying Wisconsin law) (noting that “[t]he more specific the order, the more opportunities for evasion” and that the court was not required to disclose the trade secrets in its injunction order) (citation omitted).

d) Modification of the injunction.

Given the difficulty in crafting an appropriate injunction in some circumstances, it may be helpful for the court to inform the parties that it will consider a future petition to modify the injunction. See Eng’g Res., Inc. v. CRS Steam, Inc., No. 97-3318, 1998 WL 231101, at *3 & n.2 (7th Cir. Apr. 28, 1998) (approving, when evaluating the scope of the injunction issued, the fact that the judge had made it clear to the parties that he would entertain future applications for modifications of the order).

e) Specific examples of the creation of injunctive relief.

(1) Trade secrets that are part of a manufacturing process.

For a trade secret that is part of the process used to manufacture a particular product, appropriate injunctive relief could include: (1) a requirement that the defendant certify to the court that it has destroyed all documents that include the trade secret; (2) an order prohibiting the defendant from reentering the market for the trade secret product for a specified period; (3) a requirement that the defendant refrain from selling its existing inventory of products using the trade secret for a specified period, and then only sell the product while giving the plaintiff a reasonable royalty; and (4) a procedure for inspecting the defendant’s plant to ensure that the trade secret is not being used to speed along the independent development process. Chemetall, 138 F. Supp. 2d at 1085-88.
(2) **Trade secrets that are components of products.**

Similarly, for a trade secret that is one component of a cohesive product, an appropriate injunction could include prohibitions regarding the defendant’s use of the entire product, not just the portion of the product consisting of the trade secret, where doing otherwise would provide the plaintiff with only illusory protection. See, e.g., ILG Indus., Inc. v. Scott, 49 Ill. 2d 88, 95-96, 273 N.E.2d 393, 397 (1971) (upholding an injunction that included the entire fan, of which the trade secret was an essential component, on the rationale that prohibiting only the sale of the component parts did not go far enough to protect the plaintiff and would be impractical to enforce).

(3) **Customer lists as trade secrets.**

For a trade secret that is a customer list, the scope of an appropriate injunction may reflect a particularly difficult balancing between prohibiting unlawful activities and allowing lawful ones. The court must allow the defendant to continue attracting customers using lawful means, but at the same time, it must “insure that the defendants are not using a general solicitation as a guise for soliciting customers from the allegedly stolen list.” Elmer Miller, Inc. v. Landis, 253 Ill. App. 3d 129, 135, 625 N.E.2d 338, 343 (1st Dist. 1993).

In striking this balance, a court could limit the duration of a permanent injunction for a customer list to that amount of time for which the customer list will be current, such as that period of time a type of customer usually needs such services in the industry. Stampede Tool Warehouse, Inc. v. May, 272 Ill. App. 3d 580, 591, 651 N.E.2d 209, 217-18 (1st Dist. 1995) (limiting an injunction prohibiting the use of a customer list to four years because the customers typically only spent three to five years in the industry).

3. **Timeframe for the calculation of damages or the duration of the injunction.**

An area of relative uncertainty under Illinois law is whether and to what extent the timeframe for accrual of damages or the duration of an injunction should be limited. The concern regarding time period limitations applies particularly where the trade secret at issue consists of a product or portion of a product that the plaintiff intended to put on the market. In that situation, had the plaintiff placed the product on the market, the trade secret probably would have been disclosed, and competitors then would have been free to reverse engineer the trade secret and develop a competitive product.

Where the plaintiff’s trade secret protection would have had an expiration date absent the misappropriation, courts have considered the potential that trade secret remedies could provide the plaintiff a windfall – protection for a longer period than the plaintiff otherwise would have enjoyed.

a) **Limits on the duration of injunctive relief.**

For this reason, several older Illinois cases limit the duration of an injunction against the use of trade secrets to a “head start” period – the period of time “required to duplicate the product by lawful means.” Schulenburg v. Signatrol, Inc., 33 Ill. 2d 379, 388 (1965); see
Brunswick Corp. v. Outboard Marine Corp., 79 Ill. 2d 475, 479-80, 404 N.E.2d 205, 207 (1980) (detailing the balancing of interests that justify limiting the duration of an injunction in this way). The idea is that limiting an injunction in this way most resembles the trade secret protection the plaintiff would have enjoyed had no misappropriation occurred. The existence of the injunction ensures the defendant is deprived of the benefit of its misappropriation, but the durational limit avoids the windfall to the plaintiff that results when the defendant is forever prohibited from reverse engineering the trade secret. See ILG Indus., Inc. v. Scott, 49 Ill. 2d 88, 97-98, 273 N.E.2d 393, 398 (1971) (holding that “commercial morality is preserved” and the defendant is “prevented from obtaining any advantage by the wrongful use of trade secrets” when the injunction is limited to the estimated amount of time required for reverse engineering).

“[T]he appropriate injunction period is the time required to legally produce a competing product, not merely the disputed portions of a product.” Televation Telecomm. Sys., Inc. v. Saindon, 169 Ill. App. 3d 8, 19, 522 N.E.2d 1359, 1367 (2d Dist. 1988) (citation omitted). Such a time period can be proven through evidence of the plaintiff’s own development process. See id. (affirming the imposition of a three-year injunction, despite testimony showing the independent development of the plaintiff’s trade secrets likely would have taken nine months to two years, because it would have taken up to five years to independently develop the trade secrets and incorporate them into a completed marketable product).

b) The “head start” rationale may foreclose the possibility of injunctive relief.

By the same rationale, injunctive relief is inappropriate where the court determines that by the time injunctive relief is requested, the defendant lawfully could have independently developed the trade secret. By that point, any future sales by the defendant are not attributable to the misappropriation, and there is no future harm to be enjoined. Rather, the plaintiff should be awarded only its damages for the defendant’s past use of the trade secret, in order to ensure the defendant retains no commercial advantage from the misappropriation of the plaintiff’s trade secrets. See Minn. Mining & Mfg. v. Pribyl, 259 F.3d 587, 609-10 (7th Cir. 2001) (applying Wisconsin law) (affirming the trial court’s refusal to award a permanent injunction, where the court determined that by the time injunctive relief was sought, the defendant already could have independently developed the product incorporating the trade secrets, that “there would be nothing further gained by enjoining [the defendant] from using the trade secret,” and that the plaintiff already had been awarded its cost of development damages).

c) Timeframe for the calculation of monetary damages.

Although support exists in Illinois case law for limiting the duration of an injunction to a “head start” period, no Illinois case discusses or applies a similar rationale in the context of monetary damages. As a result, it is unclear under the ITSA whether a plaintiff can receive damages for all future lost profits or unjust enrichment, or whether damages are limited to those occurring during the “head start” period.
However, the rationale applied to injunctions would seem to translate to the awarding of monetary damages. In fact, the Seventh Circuit, applying similar damages provisions under the Wisconsin Trade Secrets Act, adopted that rationale in holding that monetary damages should be limited to the timeframe of the defendant’s “head start” period. See Sokol Crystal Prods., Inc. v. DSC Commc’ns Corp., 15 F.3d 1427, 1433 (7th Cir. 1994) (“The point of the ‘head start’ period is that, once the defendant has discovered, or would have discovered, the trade secret without the misappropriation, any lost profits from that time forward are not caused by the defendant’s wrongful act.”).

4. Awarding both injunctive relief and monetary damages.

Under the ITSA, a plaintiff can be awarded both monetary damages and injunctive relief so long as the plaintiff does not recover twice for the same wrongful conduct by the defendant. See 765 ILCS 1065/4(a) (West 2009) (stating that damages for misappropriation are recoverable in addition to injunctive relief provided under the ITSA).

A court is free to award monetary damages to compensate the plaintiff for the defendant’s past use of the trade secret in addition to a permanent injunction to prevent the defendant’s future use of the trade secret. See Minn. Mining & Mfg. v. Pribyl, 259 F.3d 587, 608 (7th Cir. 2001) (applying Wisconsin law) (noting that an award of damages based on past use of the trade secret does not preclude an injunction against future use); RKI, Inc. v. Grimes, 200 F. Supp. 2d 916, 926 (N.D. Ill. 2002) (granting such relief); Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605, at *19 (N.D. Ill. Apr. 28, 2003) (awarding actual damages from the defendant’s current use and disclosure of the trade secret, in conjunction with injunctive relief to forestall the defendant’s future use and disclosure).

On the other hand, an award of both permanent injunctive relief and monetary damages that represent harm from future use of the trade secret would be an impermissible double recovery. See RKI, 200 F. Supp. 2d at 926 (holding that the plaintiff had not received a double recovery because it was awarded damages only for the period of the defendant’s use of the trade secret that occurred prior to the issuance of the injunction).

5. Awarding damages under the ITSA and under other theories of recovery.

As with awarding a plaintiff both monetary damages and injunctive relief, courts allowing a plaintiff to recover simultaneously for trade secret misappropriation and another type of claim are primarily concerned with avoiding double recovery.

a) Preemption and preventing a double recovery.

Where the plaintiff seeks recovery for trade secret misappropriation and another state-law cause of action, the ITSA’s preemption provision thwarts the prospect of double recovery. The ITSA displaces “conflicting tort, restitutionary, unfair competition, and other laws of [Illinois]…providing civil remedies for misappropriation of a trade secret,” but it does not preempt contractual remedies or “other civil remedies that are not based upon misappropriation of a trade secret.” 765 ILCS 1065/8 (West 2009). Because the ITSA’s preemption provision helps to ensure the plaintiff does not receive more than one recovery.
for the same unlawful conduct, the preemption inquiry is relevant at the remedies stage of a case involving trade secret misappropriation. For a more extensive discussion of the preemption issue, see infra Part VI.C.

A court also may decide to engage in the preemption inquiry for the first time at the remedies stage. Although a court may dismiss preempted causes of action prior to trial, it also may find it difficult to determine before trial which of the plaintiff’s causes of action are based solely on the misappropriation of the trade secret and thus are preempted, and which are based on a separate set of facts and thus are not preempted. See Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605, at *22 (N.D. Ill. Apr. 28, 2003). Consequently, the court may decide not to resolve the issue until after trial; at that point, the court can determine how damages should be allocated among the claims to adhere to the ITSA’s preemption provisions and thereby ensure that the plaintiff does not receive more than one recovery for the same unlawful conduct. See id. (finding that the facts relating to the plaintiff’s breach of fiduciary duty, fraud, and promissory estoppel claims – all of which were potentially preempted by the ITSA – were “inextricably linked” to the trade secret claim and therefore awarding all damages based solely on the plaintiff’s claim under the ITSA).

b) Recovering for both trade secret misappropriation and patent infringement.

Besides a claim for misappropriation of trade secrets under the ITSA, a plaintiff also may have a claim against a defendant for patent infringement. An award of damages for patent infringement is distinct from an award of damages for trade secret misappropriation because a trade secret cannot be the subject of a patent; the idea would not be “secret” if it were disclosed in a patent. Therefore, awarding a plaintiff damages for both causes of action does not constitute an impermissible double recovery. See Roton Barrier, Inc. v. Stanley Works, 79 F.3d 1112 (Fed. Cir. 1996) (applying Illinois law) (upholding awards of damages for both trade secret misappropriation and patent infringement).

However, a trade secrets claim and a patent infringement claim may be so closely related that it is difficult to calculate the damages for one form of misconduct without considering the damages caused by the other. See Nilssen v. Motorola, Inc., 255 F.3d 410, 413-14 (7th Cir. 2001) (detailing the burden in proving damages placed on the plaintiff by the trial judge’s order that the plaintiff’s trade secret and patent claims be tried separately; the plaintiff’s claims were intertwined because the trade secrets related to the use of the patents).

c) Recovering for both trade secret misappropriation and copyright infringement.

Similarly, a plaintiff may recover simultaneously for copyright infringement and trade secret misappropriation. Even where the two claims allege misuse of the same information – i.e., that the information is both a copyright and a trade secret – the plaintiff may recover under both theories so long as the damages awarded under each represent different losses. See McRoberts Software, Inc. v. Media 100, Inc., 329 F.3d 557, 569-70 (7th Cir. 2003) (applying Indiana law) (noting that the information at issue “represented both a
trade secret and a protectible [sic] copyright” and reinstating the jury’s damages awards under both theories after determining that the trade secret damages represented a different loss than the copyright damages); Bishop v. Wick, No. 88 C 6369, 1988 WL 166652, at *5-6 (N.D. Ill. Dec. 29, 1988) (awarding damages for copyright infringement as well as “defendants’ separate [trade secret] misappropriation activities”).

C. Punitive Damages.

Another area of relative uncertainty in Illinois trade secret law is the circumstances in which an award of punitive damages for trade secret misappropriation is justified. The ITSA authorizes exemplary damages of up to twice the amount of compensatory damages if the misappropriation was “willful and malicious.” See 765 ILCS 1065/4(b) (West 2009). Although several federal courts have attempted to provide contours to the notion of “willful and malicious” misappropriation, the ITSA does not define such behavior, and no Illinois state court has defined the phrase either.

Federal courts deciding ITSA cases have defined the phrase “willful and malicious” to include at least “‘intentional misappropriation as well as a misappropriation resulting from the conscious disregard of the rights of another.’” See Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 730 (7th Cir. 2003) (quoting Mangren Research & Dev. Corp. v. Nat’l Chem. Co., Inc., 87 F.3d 937, 946 (7th Cir. 1996)).

1. Intentional misappropriation.

In Mangren Research & Development Corp. v. National Chemical Co., the Seventh Circuit held sufficient evidence supported a jury’s award of punitive damages based on intentional misappropriation, where an officer of the defendant corporation essentially authorized the misappropriation of the trade secret. 87 F.3d at 946. After the corporate officer joked that he once won a trade secret case and that he would win again, he and another officer proceeded to incorporate the trade secret into a product they were developing. Id. The Seventh Circuit held that this intentional and deliberate conduct was more than sufficient to support a finding of willful and malicious misappropriation. Id.; see also Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605, at *19 (N.D. Ill. Apr. 28, 2003) (awarding exemplary damages where the defendants deliberately used a consulting arrangement with the plaintiff to access and then copy the plaintiff’s olive oil recipe, to steal key marketing information, and to usurp a lucrative contract, all while the defendants misrepresented themselves to the plaintiff).

2. A knowing disregard of the plaintiff’s trade secret rights.

Courts also will award punitive damages where the defendant has knowingly disregarded the plaintiff’s trade secret rights. In RKI, Inc. v. Grimes, the court found such a knowing misappropriation and awarded exemplary damages. 177 F. Supp. 2d 859, 879-80 (N.D. Ill. 2001). In that case, the defendant had engaged in a “calculated risk” by viewing the trade secrets it knew an employee had taken from his previous employer and then by having the employee sign an agreement stating he would indemnify the defendant should the trade secret owner sue. Id.; see MG Capital LLC v. Sullivan, No. 01 C 5815, 2001 WL
1609382, at *2, 6 (N.D. Ill. Dec. 13, 2001) (finding the plaintiff had pled sufficient facts to show it was entitled to exemplary damages, where the plaintiff alleged the defendant, while in the plaintiff’s employ, deliberately stole the plaintiff’s information and used it to start his own competing business).

3. **Something more than misappropriation itself.**

Federal courts also have relied on general Illinois case law concerning punitive damages in tort cases to flesh out the definition of willful and malicious misappropriation, concluding that exemplary damages are appropriate “when torts are committed with fraud, actual malice, deliberate violence or oppression, or when the defendant acts willfully, or with such gross negligence as to indicate a wanton disregard of the rights of others.” [Learning Curve Toys, Inc., 342 F.3d at 730 n.9 (quoting Kelsay v. Motorola, Inc., 74 Ill. 2d 172, 186, 384 N.E.2d 353, 359 (1978)).]

In other words, something more than the misappropriation itself is required to support an award of exemplary damages. See [Roton Barrier v. Stanley Works, 79 F.3d 1112, 1120 (Fed. Cir. 1996)](https://www.courts.gov/cgi-bin/open_case.pl?case=79=F.3d=1112=1120=Fed.+Cir.+1996) (“By its very terms, . . . trade secret misappropriation under ITSA requires a ‘bad act’: the disclosure of someone else’s trade secret. For an award of exemplary damages, that misappropriation must in addition be willful and malicious.”).

4. **Malicious motives versus competitive motives.**

One federal court has distinguished between the competitive motives that may underlie trade secret misappropriation and the malicious motives that justify an award of exemplary damages. That court refused to award exemplary damages based solely on the defendant’s competitive motives. See [Roton Barrier, 79 F.3d at 1121](https://www.courts.gov/cgi-bin/open_case.pl?case=79=F.3d=1112=1120=Fed.+Cir.+1996) (refusing to award punitive damages under the ITSA because the defendant had been motivated only by competition with its rival, rather than by malice as required by the statute).

D. **Attorneys’ Fees.**

The ITSA outlines several circumstances under which a party, including a defendant, may be awarded attorneys’ fees. See [765 ILCS 1065/5 (West 2009)](https://www.courts.gov/cgi-bin/open_case.pl?case=765=ILCS=1065=5=West+2009).

1. **Awarded to the plaintiff where willful and malicious misappropriation exists.**

Under the ITSA, the court may award reasonable attorneys’ fees to the plaintiff where the defendant has engaged in willful and malicious misappropriation. 765 ILCS 1065/5(iii). Willful and malicious misappropriation also justifies an award of exemplary damages, but a court may choose not to award attorneys’ fees even where exemplary damages have been allowed. The decision to award fees is within the discretion of the trial court. See [Chemetall GmbH v. Zr Energy, Inc., No. 99 C 4334, 2002 WL 23826, at *7 (N.D. Ill. Jan. 8, 2002)](https://www.courts.gov/cgi-bin/open_case.pl?case=99=C+4334=2002=WL=23826=at=*7=N.D.+Ill.+Jan.+8.+2002) (exercising its discretion to deny attorneys’ fees although the jury had awarded exemplary damages for the defendant’s willful and malicious misappropriation).
2. **Awarded to the defendant where a claim of misappropriation is made in bad faith.**

   Under the ITSA, the court may award reasonable attorneys’ fees to the defendant where a plaintiff has made a claim of misappropriation in bad faith. 765 ILCS 1065/5(i) (West 2009); see Hecny Transp., Inc. v. Chu, No. 98 C 7335, 2005 WL 2347228, at *1 (N.D. Ill. Sept. 23, 2005) (refusing to award attorneys’ fees to a defendant who had prevailed on an ITSA claim on summary judgment because the defendant failed to show the plaintiff’s objective or subjective bad faith and the plaintiff’s claims were arguably meritorious). In Clark Consulting, Inc. v. Richardson, No. 07 C 7231, 2009 WL 424541, at *2 (N.D. Ill. Feb. 19, 2009), the court awarded attorneys’ fees to a trade secret defendant because “[e]very one” of the plaintiff’s claims “was without foundation and was either known to be so at the time of filing or was learned to be so during the ensuing year while [the plaintiff] pursued the lawsuit vigorously” and therefore had been pursued in bad faith.

3. **Awarded to either party if a motion to terminate an injunction is made or resisted in bad faith.**

   Under the ITSA, the court may award reasonable attorneys’ fees to the prevailing party when a motion to terminate an injunction is made or resisted in bad faith. 765 ILCS 1065/5(ii) (West 2009).

4. **How a court determines when an award of attorneys’ fees is appropriate.**

   The decision to award attorneys’ fees under the ITSA is a matter within the court’s discretion, but the ITSA provides little guidance as to how a court should exercise that discretion. Chemetall GmbH v. Zr Energy, Inc., No. 99 C 4334, 2002 WL 23826, at *2 (N.D. Ill. Jan. 8, 2002) (noting that “neither the statutory language nor the cases decided under the ITSA sheds light on what factors a court should consider to inform its decision whether to exercise discretion to award reasonable fees”).

   In deciding how to exercise its discretion on the question of attorneys’ fees, one federal court has adopted the factors used by courts making attorneys’ fees determinations in patent infringement cases. See id. at *2-4. In adopting these factors, the court reasoned that they are similar to those used under other Illinois fee-shifting statutes and are referenced in the attorneys’ fees provision in the Uniform Trade Secrets Act. See id.

   The patent law inquiry with regard to an award of attorneys’ fees is a two-step process. First, the court must determine whether the case is “exceptional, a finding that normally would extend to cases of bad faith litigation or those involving fraud or inequitable conduct . . . or willful infringement.” Id. at *2 (internal quotations and citations omitted). Second, assuming the case is exceptional, the court then must determine whether an award of attorneys’ fees is appropriate, based on factors including “the degree of culpability of the infringer, the closeness of the question, litigation behavior, and any other factor whereby fee-shifting may serve as an instrument of justice.” Id. (internal quotations and citations omitted).
In conducting this inquiry, the Chemetall court exercised its discretion to deny an award of attorneys’ fees to the prevailing plaintiff, even though the jury had determined that willful and malicious misappropriation existed. Id. at *7. The court reasoned that the evidence of willful and malicious misappropriation was “at the lower rather than the higher end of the culpability spectrum,” that the case was close both in terms of liability and punitive damages, and that the defendant had defended the case appropriately and ethically. Id. Moreover, the court decided that an award of attorneys’ fees would not be an instrument of justice because it would have had little deterrent effect, the lawsuit had not presented a novel legal question, and the defendant would have had little ability to satisfy such a judgment. Id. For all these reasons, the court declined to exercise its discretion to award attorneys’ fees to the plaintiff. Id.

5. Calculation of fees where more than one cause of action is involved.

A party is entitled to attorneys’ fees only “for the time spent in furtherance of the specific action for which fees are allowed. Where . . . [the party] is successful on one or more claims all based on a common core of facts, counsel can collect fees for all litigation involving the trade secret count.” Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605, at *20-21 (N.D. Ill. Apr. 28, 2003) (citations omitted) (awarding attorneys’ fees for time spent on the trade secret claim while excluding fees for time spent on non-ITSA claims).


The ITSA’s attorneys’ fees provision will apply to cases governed by the ITSA, rather than the substantive law of another state. However, if a trade secrets case brought in Illinois state or federal court is governed by the law of another state, the ITSA’s attorneys’ fees provision may not apply, even though the availability of attorneys’ fees is usually considered procedural in nature. Because the ITSA is a comprehensive statutory scheme creating a substantive right in Illinois, most of the ITSA probably would be considered substantive rather than procedural and thus inapplicable to a claim governed by the substantive law of another state. See Schmitz v. Campbell-Mithun, Inc., 124 F.R.D. 189, 194 (N.D. Ill. 1989) (noting in dicta that although attorneys’ fees usually are considered procedural under Illinois law, they are considered substantive where they are “part and parcel of a state-created substantive right” – as is the attorneys’ fees section of the ITSA).

7. Current debate on ITSA’s attorneys’ fees provision.

In the spring of 2009, legislation was proposed in the Illinois Senate that would change the circumstances under which attorneys’ fees would be available under the ITSA. S.B. 2149, 96th Gen. Assem. (Ill. 2009). Under this proposal, the prevailing party in a trade secrets case would be entitled to attorneys’ fees, and a court would award attorneys’ fees against any party that amends its initial trade secret disclosure (a requirement to provide an initial disclosure is another of the bill’s proposed changes to the ITSA). Id. As of the publication of this outline, the bill had passed through the Senate Judiciary Committee, but missed its deadline for approval by the full Senate in the most recent session.
V. PRACTICE AND PROCEDURE ISSUES.

This section provides a general discussion of practice and procedure issues as they relate to trade secrets claims. However, a detailed discussion of these issues is beyond the scope of this outline.

PRACTICE TIP: Another question confronting the trade secrets plaintiff is whom to name as defendants. The most common context in which this question arises is the instance of a former employee going to work for a competitor of the plaintiff. In that case, trade secret plaintiffs usually name both the former employee and the new employer as defendants. Among other things, this facilitates discovery and obtaining full relief.

PRACTICE TIP: In a case in which both a former employee and the new employer are named as defendants, the defendants will need to decide whether to retain separate counsel. In most cases, the same counsel will represent all defendants, for reasons of efficiency and cost, because the interests of the defendants are usually aligned. In certain instances, however, it may be appropriate for the former employee to have separate counsel, for example, depending on the specific allegations against the former employee or the former employee’s prominence or position.

A. Personal Jurisdiction in Trade Secret Cases.

1. Applicable facts and law.


Federal courts in diversity cases, including cases involving claims under the ITSA, determine personal jurisdiction based on the jurisdictional law of the forum state. FAIP N. Am., Inc. v. Sistema S.R.L., No. 05 C 4002, 2005 WL 3436398, at *3 (N.D. Ill. Dec. 14,

1 Some Illinois state court cases cited in this section do not involve trade secrets issues but are cited to set forth the “general rule” in the absence of Illinois cases addressing the issue in the trade secrets context.
2005); BAB Sys. v. Pilatus Group, Inc., No. 05 C 3038, 2005 WL 2850119, at *3 (N.D. Ill. Oct. 27, 2005). In federal cases with federal question jurisdiction and a pendent state trade secrets claim, personal jurisdiction over a defendant must comply only with federal due process and the defendant must be amenable to service of process. Ozonology, Inc. v. Campbell, No. 96 C 6330, 1998 WL 704161, at *3 (N.D. Ill. Sept. 24, 1998). A party is amenable to service if a specific federal statute authorizes service, or if the party could be subjected to the jurisdiction of a state court in the state where the federal court sits. FED. R. CIV. P. 4(k)(1-2).


Personal jurisdiction over a person or property is a consequence of the state’s physical power to carry out a judgment. The exercise of personal jurisdiction must be authorized by Illinois statutory law and comport with Illinois and federal constitutional law. Rollins v. Ellwood, 141 Ill. 2d 244, 271, 565 N.E.2d 1302, 1314 (1990) (stating the general rule) (internal citations omitted).


a) General jurisdiction (“doing business”).


Unlike specific jurisdiction, general jurisdiction can be established without regard to the connection between the cause of action and the defendant’s presence in the state. A natural person or corporation “doing business” in the state enjoys the benefits and protections of the laws of the state. These benefits come with obligations, including responding to lawsuits filed in the state, without regard to the nature of the claim. See Borden Chems. & Plastics, 312 Ill. App. 3d at 42, 726 N.E.2d at 79 (citing Int’l Shoe v. Washington, 326 U.S. 310, 319 (1945)).

Courts have looked for various types of contacts when determining if a party is “doing business” in the state. See Maunder v. DeHavilland Aircraft of Canada, Ltd., 102 Ill. 2d 342, 350-51, 466 N.E.2d 217, 221 (1984) (“A determination of whether a foreign
corporation is doing business in the State of Illinois turns on the facts unique to each case.”). These contacts include property in the state, registration to conduct business in the state, an office or employees in the state, or an in-state phone number. See Kennelsource, 2006 WL 2578975, at *3 n.4 (examining such factors as state of incorporation, location of corporate owners and assets; residency, voter registration and driver’s license; personal bank accounts; contracts entered; and where the individual was served with process). See also:

**Japax, Inc. v. Sodick Co.**, 186 Ill. App. 3d 656, 542 N.E.2d 792 (1st Dist. 1989). Plaintiff, a Japanese corporation, claimed that defendants, another Japanese corporation and its U.S. subsidiary, misappropriated trade secrets and interfered with business agreements with distributors. Reversing the trial court’s dismissal of the defendant Japanese corporation for lack of personal jurisdiction, the Appellate Court held sufficient contacts existed to support general jurisdiction under the “doing business” standard. The court held that the defendant’s products did not find their way into Illinois “by happenstance, on an occasional basis” but rather because of a sales strategy that included a Midwest distributorship agreement with an Illinois-based company; trade journal advertisements for the Japanese corporation listing the Illinois distributor; and extensive contacts between the Japanese parent’s employees, the U.S. subsidiary’s employees, and the Illinois distributor. These contacts also led the court to impute the subsidiary’s Illinois marketing and servicing activities to the parent corporation. For all these reasons, the court concluded that the Japanese corporation “certainly appears to have targeted Illinois as a State in which it intended for its products to be sold, advertised, and serviced.”

**Hexacomb Corp. v. GTW Enters., Inc.,** No. 93 C 3107, 1994 WL 174114 (N.D. Ill. May 5, 1994). Plaintiff claimed that a former employee acquired trade secrets about continuous-feed machines. The employee then used the information to start his own business, selling continuous-feed machines to various manufacturers. The court declined to find general jurisdiction over two manufacturers who operated out of California and Ohio. Specifically, the court noted that the manufacturers were not “doing business” in Illinois as they owned no property in Illinois, they were not registered in Illinois, they did not pay Illinois taxes, and they had no offices or sales activities in Illinois that demonstrated a continuous and permanent presence.

**Reliance Elevator Co. v. Miller,** No. 92 C 3702, 1993 WL 34718 (N.D. Ill. Feb. 8, 1993). Plaintiff accused a licensee of wrongfully modifying its elevator operating software. The court stated that the licensee was not “doing business” in Illinois because it did not have an office, mailing address, telephone number, agents, employees, or real property in Illinois. However, the licensee had purposefully availed itself of the benefits of Illinois, making it susceptible to suit there, based on numerous telephone calls and mailings to plaintiff.

b) **Specific jurisdiction (long-arm).**

Specific jurisdiction is conferred on parties whose contacts with the state clearly relate to or create the issue in dispute. **Borden Chems.,** 312 Ill. App. 3d at 41-42, 726 N.E.2d at 79. The Illinois long-arm statute, 735 ILCS 5/2-209(a) (West 2009), provides that “any person, whether or not a citizen or resident of this State, who in person or through an agent does any of the acts hereinafter enumerated, thereby submits such person . . . to the
jurisdiction of the courts of this State as to any cause of action arising from the doing of any of such acts . . . .” The statute lists 14 acts that may establish personal jurisdiction. Trade secrets cases involve two of these provisions: (1) the transaction of any business within this state and (2) the commission of a tortious act within this state. See Wiles v. Morita Iron Works Co. Ltd., 125 Ill. 2d 144, 149, 530 N.E.2d 1382, 1384 (1988) (general rule); BAB Sys. v. Pilatus Group, Inc., No. 05 C 3038, 2005 WL 2850119, at *3 (N.D. Ill. Oct. 27, 2005) (“Under the Illinois long-arm provision, a court may exercise jurisdiction over nonresident defendants for any cause of action arising from acts such as transacting any business within the state, committing a tortious act within the state, or making or performing any contract or promise substantially connected with the state.”).

(1) Transaction of any business within the state.

Courts have required that for business transactions to create jurisdiction under 735 ILCS 5/2-209(a)(1) (West 2009), they must relate to the claims in question. Poplar Grove State Bank v. Powers, 218 Ill. App. 3d 509, 518-19, 578 N.E.2d 588, 595-96 (2d Dist. 1991). “The term ‘transaction of business’ refers to business in the commercial sense. Essentially, the statute requires that a plaintiff’s claim relate to the commercial activities by which a defendant submitted to the jurisdiction of Illinois courts. Only the acts of the defendant may be considered to determine whether business was transacted in Illinois. In determining whether a given transaction amounts to transacting business in Illinois, courts look to factors such as who initiated the transaction, where the contract was entered into, and where performance of the contract was to take place.” Id. at 518, 578 N.E.2d at 595 (citations omitted). “[A] defendant does not transact business in Illinois merely by entering into a contract that involves an Illinois resident.” Id. at 519, 578 N.E.2d at 596 (citations omitted). See also: Hexacomb Corp. v. GTW Enters., Inc., No. 93 C 3107, 1994 WL 174114 (N.D. Ill. May 5, 1994). The court found defendant manufacturers’ business transactions not sufficient to confer personal jurisdiction under section 2-209(a)(1). Plaintiff alleged that one of the manufacturers had purchased materials from and sent its payments to Illinois, as well as conducted business with the California office of an Illinois corporation. These contacts were not sufficient because they were unrelated to the claims in question; the manufacturer purchased the products containing the trade secrets outside of Illinois.

(2) Tortious act within the state.

Cases interpreting 765 ILCS 5/2-209(a)(2) (West 2009) – jurisdiction based on the commission of a tortious act – uphold jurisdiction over the alleged tortfeasor if the plaintiff suffered injury within the state. E.g., Yates v. Muir, 112 Ill. 2d 205, 208, 492 N.E.2d 1267, 1268 (1986) (stating general rule). Jurisdiction lies in the state in which the plaintiff suffered injury because “[a] wrong does not become a ‘tort’ until an injury has occurred . . . and the location of the injury therefore is vital to understanding where the tort occurred.” Janmark, Inc. v. Reidy, 132 F.3d 1200, 1202 (7th Cir. 1997); Yates, 112 Ill. 2d at 210, 492 N.E.2d at 1269 (noting that the distinction “may seem as much a metaphysical point as a legal one”). “Although the general rule is that a tort occurs where its harm is felt[,] . . . an Illinois court does not acquire jurisdiction simply because the ‘last act’ of the tort is an economic loss felt
in Illinois when all the conduct contributing to the injury occurred outside of Illinois [and] [a]n economic injury, by itself, does not support the conclusion that a tortious act was committed in Illinois.” Griffith v. Wood Bros., No. 04 C 3118, 2004 WL 2418296, at *4 (N.D. Ill. Oct. 27, 2004) (internal citations omitted). Thus, in addition to the location of the injury, Illinois courts assessing personal jurisdiction consider whether a defendant’s actions relating to the misappropriation occurred in the forum state. See id. (denying jurisdiction under section 2-209(a)(2) because only the economic injury, and no actions of the defendants, occurred in Illinois). See also:

Info. Techs. Int’l, Inc. v. ITI of N. Fla., Inc., No. 01 C 4668, 2001 WL 1516750, at *7 (N.D. Ill. Nov. 28, 2001). Plaintiff brought claims arising out of defendants’ actions including the misappropriation of trade secrets such as customer lists and preferences. Defendant company and individuals were employees of plaintiff company when they hacked into plaintiff’s Illinois accounting system computer database and changed the address in the billing software to their new company. Defendants also sent a message to plaintiff’s existing customers, directing them to make payments to the new company. In finding personal jurisdiction, the court explained that “[j]urisdiction . . . is proper when the injury occurs in Illinois, even if all other conduct takes place elsewhere. . . . Where the injury is economic, the plaintiff must additionally demonstrate an intent to affect an Illinois interest.” Applying this reasoning, the court noted that plaintiff, an Illinois corporation, experienced economic loss in Illinois. In addition, defendants’ actions demonstrated an intent to affect an Illinois interest because the defendants hacked into plaintiff’s computer system and redirected accounts receivable from Illinois to Florida and directly contacted and instructed plaintiff’s customers (including customers in Illinois) to send payments to Florida instead of Illinois. Because plaintiff experienced economic injury in Illinois, and defendants intentionally affected an Illinois interest, jurisdiction was proper.

Seaga Mfg. Inc. v. Fortune Metal, Inc., No. 99 C 50332, 2001 U.S. Dist. LEXIS 16341 (N.D. Ill. Oct. 10, 2001). The plaintiff sued under the ITSA, claiming that proprietary and confidential information had been unlawfully appropriated. The court denied jurisdiction over one of the defendants, whom the plaintiff alleged had come to Illinois and met with plaintiff’s officers. The court ruled that these allegations could not serve as the basis for jurisdiction without a discussion of the contents of the meetings. Conversely, a co-defendant company was properly haled into court based on the plaintiff’s evidence of “nearly countless” faxes, letters, and other communications between the defendant and the plaintiff in Illinois that discussed the very information that was misappropriated. Further, the purpose of that defendant’s communications was to strike a deal to send equipment to the plaintiff in Illinois, which was the subject of the plaintiff’s tortious interference claim.

Sys. Software Assocs., Inc. v. Trapp, No. 95 C 3874, 1995 WL 506058, at *6 (N.D. Ill. Aug. 18, 1995). The plaintiff alleged that its former employee, who took a job with a competitor, “misappropriated” trade secrets to the extent that he would inevitably disclose them to his new employer. The defendant’s former position was located in Wisconsin, but his reporting superior was in Illinois, and in the course of his employment he made periodic calls to potential clients in Illinois, received directions from his reporting superior in Illinois, received other confidential materials
from Chicago, and traveled to Chicago on business. Noting that the plaintiff had alleged only that the defendant would “inevitably” disclose the plaintiff’s trade secrets, not that he actually misappropriated the trade secrets, the court denied personal jurisdiction over the defendant, holding that “[p]ersonal jurisdiction cannot be based on future contacts, even if such contacts are allegedly ‘inevitable.’”

c) Specific jurisdiction (catch-all provision).


For this reason, courts typically no longer first analyze whether a defendant’s actions fall within the statute’s fourteen specific bases for jurisdiction. Instead, they simply evaluate whether exercising jurisdiction over the defendant would comport with Illinois and federal due process concerns. See, e.g., Commerce Trust Co., 366 Ill. App. 3d at 141, 851 N.E.2d at 136 (stating general rule); see also Euromarket Designs, Inc. v. Crate & Barrel Ltd., 96 F. Supp. 2d 824, 833-37 (N.D. Ill. 2000); Brandt Consol., Inc. v. Agrimar Corp., 801 F. Supp. 164, 168-69 (C.D. Ill. 1992). However, Illinois due process concerns may not allow jurisdiction to the maximum extent permitted by federal due process; rather, the Illinois Constitution “contains its own guarantee of due process to all persons, a guarantee which stands separate and independent from the Federal guarantee of due process.” Lakeview Tech., 2007 WL 79246, at *4 (quoting Rollins v. Ellwood, 141 Ill. 2d 244, 275, 565 N.E.2d 1302, 1316 (1990)). No Illinois court so far has encountered a situation, however, where jurisdiction exists under one but not the other. See Sabados v. Planned Parenthood of Greater Ind., 378 Ill. App. 3d 243, 247 n.2, 882 N.E.2d 121, 125 n.2 (1st Dist. 2007).

(1) Existence of a contract with resident plaintiff.

Trade secrets defendants sometimes have a contractual relationship with the plaintiff trade secret owner. Under federal due process jurisprudence, a contractual relationship can help to establish jurisdiction, but “an out-of-state party’s contract with an in-state party is alone not enough to establish the requisite minimum contacts” making the exercise of jurisdiction proper. Burger King Corp. v. Rudzewicz, 471 U.S. 462, 478 (1985). “Rather, prior negotiations and contemplated future consequences, along with the terms of the contract and the parties’ actual course of dealing[,] must indicate the purposeful avilment that makes litigating in the forum state foreseeable to the defendant.” Id. at 479.
In *Burger King*, the U.S. Supreme Court analyzed whether a Michigan resident subjected himself to specific jurisdiction in Florida as a result of a franchise contract he entered into with the Burger King headquarters, which were located in Miami, Florida. Id. at 464-68. The Court held the contract, along with the relationship between the nonresident franchisee and the Florida headquarters, was enough to subject the franchisee to specific jurisdiction. First, although the franchisee had apparently never set foot in Florida, his franchise partner visited Florida for a training course. Id. at 479. Second, the franchisee had deliberately negotiated a long-term franchise agreement that contemplated extensive regulation of the franchisee’s business from the Miami headquarters. Id. at 479-80. In addition, the contract itself established that all notices were to be sent to Burger King in Florida, and a provision established that Florida law would govern all disputes. Id. at 481. Finally, the franchisee’s actions – his refusal to make payments to Burger King and his continued use of Burger King’s trademarks and confidential information – caused foreseeable injuries to the Florida corporation. Id. at 480.

The holding in *Burger King* is relevant to trade secrets cases that involve a nonresident defendant who executed, for instance, an employment contract or a confidentiality agreement with a resident corporate plaintiff. In *Experian Information Solutions, Inc. v. I-Centrix LLC*, the trade secrets defendant had a consulting agreement with the plaintiff corporation, an Illinois resident. No. 04 C 4437, 2004 WL 2643459, at *1 (N.D. Ill. Nov. 19, 2004). After leaving employment with the plaintiff, the defendant started his own company (also named as a defendant), which entered into a consulting agreement with the plaintiff. Id. at *2-19. During the course of that agreement, both defendants communicated frequently with plaintiff’s employees, located in Illinois, and made twelve trips to Illinois. Id. The plaintiff alleged the defendants misappropriated the plaintiff’s trade secrets while performing consulting work. Id. The court held that under these circumstances, and given the frequent contact with plaintiff in Illinois, jurisdiction was proper over both defendants. Id. at *3. See also:

*Underwriters Labs., Inc. v. Hydrofilm LP*, No. 05 C 5509, 2005 WL 2494748, at *7-8 (N.D. Ill. Aug. 23, 2006). The plaintiff brought a declaratory judgment action involving, among others, a trade secrets claim. Although the Illinois plaintiff had two contracts with the defendant, the court held it could not assert jurisdiction. The court reasoned that unlike *Burger King*, the defendant here had negotiated the contracts with the plaintiff’s New York office rather than its Illinois office, and the contracts did not suggest that future contacts would be with the Illinois office. In addition, the parties’ course of dealing did not support jurisdiction because the defendant dealt only with the New York office.

*Griffith v. Wood Bros.*, No. 04 C 3118, 2004 WL 2418296 (N.D. Ill. Oct. 27, 2004). The plaintiff, an Illinois resident, executed a lease agreement granting one defendant the right to use an automobile part that the plaintiff considered a trade secret. The plaintiff alleged the defendant misappropriated his trade secret by sharing the part with a second defendant. The court declined to exercise jurisdiction over either defendant. The court reasoned that it was the plaintiff who initiated contact with the first defendant; the contract they signed was negotiated in Missouri and finalized in Virginia, rather than Illinois; no representative of the defendant traveled to Illinois under the contract; the defendant had only
communicated with the plaintiff in Illinois in a few phone conversations; and the contract was performed entirely outside Illinois.

*Thomas Eng’g, Inc. v. McLean*, No. 00 C 8125, 2001 WL 811653, at *2 (N.D. Ill. July 18, 2001). The plaintiff’s trade secrets claim arose out of a former employee’s decision to use its trade secrets to solicit business for another corporation. The former employee had signed an employment agreement with the plaintiff that prohibited the disclosure of the plaintiff’s confidential information. Although the former employee did not challenge jurisdiction, his new employer, which was also a defendant, did. The court held that the contract between the defendant former employee and the plaintiff was insufficient to confer jurisdiction over the new employer. The new employer learned of the existence of the agreement after it had created its relationship with the plaintiff’s former employee, and it was not a party to the agreement.

(2) “Effects doctrine.”

Even where Section 2-209(a)(2) – commission of a tortious act within the state – does not permit jurisdiction, a court may still exercise jurisdiction consistent with due process. See *Calder v. Jones*, 465 U.S. 783, 789-90 (1984); *Zazove v. Pelikan, Inc.*, 326 Ill. App. 3d 798, 806, 761 N.E.2d 256, 262 (1st Dist. 2001) (noting general rule). “Under the ‘effects doctrine,’ personal jurisdiction over a nonresident defendant is proper when defendant’s intentional tortious actions aimed at the forum state cause harm to the plaintiff in the forum state, and the defendant knows such harm is likely to be suffered.” *Riddell, Inc. v. Monica*, No. 03 C 3309, 2003 WL 21799935, at *3 (N.D. Ill. July 25, 2003). In the Seventh Circuit, “‘the state in which the victim of a tort suffers the injury may entertain a suit against the accused tortfeasor’ even if all the other relevant conduct took place outside Illinois.” *Id.* (quoting *Janmark, Inc. v. Reidy*, 132 F.3d 1200, 1202 (7th Cir. 1997)).

The effects doctrine allows a court to assert jurisdiction over any defendant who allegedly misappropriates trade secrets owned by an Illinois business. For instance, in *International Molding Machine Co. v. St. Louis Conveyor Co.*, the alleged misappropriation occurred in Missouri, but the injury was suffered in Illinois because that was the location of the owner of the trade secrets. No. 01 C 8305, 2002 WL 1838130, at *4 (N.D. Ill. Aug. 12, 2002). In addition, the defendant knew, before the misappropriation, that the trade secret owner was an Illinois corporation. *Id.* Under these circumstances, jurisdiction was proper. *Id.*; see *Spank! Music & Sound Design, Inc. v. Hanke*, No. 04 C 6760, 2005 WL 300390, at *3 (N.D. Ill. Feb. 7, 2005) (applying effects doctrine to assert jurisdiction in trade secret case). See also: *UTStarcom, Inc. v. Starent Networks, Corp.*, No. 07 C 2582, 2009 WL 799486 (N.D. Ill. Mar. 25, 2009). One defendant moved to dismiss the plaintiff’s complaint under the ITSA for lack of personal jurisdiction, arguing that his contacts with Illinois “amount[ed] to four business trips into Illinois within the last twelve years.” The court denied the motion, reasoning that under the effects doctrine, the court could exercise personal jurisdiction because the defendant’s alleged misappropriation was “purposeful conduct [that] harmed plaintiff in Illinois.” The court rejected the defendant’s argument that the plaintiff was not harmed in Illinois because it was a Delaware company with its principal place of business in
California, as the alleged misappropriation specifically affected a business unit of the plaintiff that was located in Illinois.

**Consol. Commercial Controls, Inc. v. 5 Star Supply, LLC, No. 08 C 4388, 2008 WL 5094402 (N.D. Ill. Nov. 26, 2008).** The court held that although the defendants allegedly committed trade secret misappropriation in Connecticut, the entity suffering resulting injury was located in Illinois. After finding harm was felt in Illinois, the court went on to grant the defendants’ motion to dismiss, reasoning that “even under the effects doctrine, a court must still assess each defendant’s contacts with the forum state.” Because the plaintiff had failed to allege the defendants had any contact with Illinois other than causing harm there, the court could not exercise personal jurisdiction.

**U.S. Gypsum Co. v. LaFarge N. Am., Inc., 508 F. Supp. 2d 601 (N.D. Ill. 2007).** None of the four defendants had ever lived in Illinois or had their place of employment in Illinois, but all were former employees of US Gypsum, which was headquartered in Illinois; their contracts with US Gypsum had Illinois choice of law provisions; and two of the defendants had attended brief training sessions in Illinois, although the claims were unrelated to these visits. Citing Seventh Circuit precedent, the court found personal jurisdiction because the defendants were aware that US Gypsum was an Illinois-based company when they allegedly misappropriated its trade secrets, and thus committed “intentional conduct aimed to appropriate property of a plaintiff located in Illinois.”

3. **Illinois’ “fiduciary shield” doctrine.**

Under the “fiduciary shield” doctrine, which derives from Illinois rather than federal due process concerns, a court in Illinois cannot exercise personal jurisdiction over a non-resident if that person’s presence in Illinois is in a representative capacity and not for personal gain. See Lakeview Tech., Inc. v. Vision Solutions, Inc., No. 05 C 7209, 2007 WL 79246, at *5 (N.D. Ill. Jan. 9, 2007) (quoting Rollins v. Ellwood, 141 Ill. 2d 244, 280, 565 N.E.2d 1302, 1318 (1990) (“[W]e find it to be unfair and unreasonable, under Illinois’ due process clause and the tenets of our concept of the jurisdictional power of the Illinois courts, to assert personal jurisdiction over an individual who seeks the protection and benefits of Illinois law, not to serve his personal interests, but to serve those of his employer or principal.”)). The doctrine is equitable and discretionary, with fairness being the primary consideration. Id. at *14. Thus, a key consideration is whether the representative is a major stockholder, director, or officer of the company. Id. (citation omitted). Courts reason that the doctrine should not protect an agent who also has “a direct financial stake in the company’s health” because in such cases, the agent’s presence also entails a personal benefit. Id.; see also Femal v. Square D Co., 388 Ill. App. 3d 134, 141, 903 N.E.2d 32, 38 (1st Dist. 2009) (whether defendant was motivated by personal interests to commit tortious act in Illinois was important factor to whether fiduciary shield doctrine applied). A related consideration is whether the agent was following a supervisor’s orders or, rather, acting under the agent’s own discretion. Clear clad Coating, Inc. v. Xontal Ltd., No. 98 C 7199, 1999 WL 652030, at *18 (N.D. Ill. Aug. 20, 1999).

The fiduciary shield doctrine comes into play in trade secrets cases involving claims against former employees who are not residents of the state. If the defendant’s actions in
Illinois were performed solely in the defendant’s capacity as an employee of the plaintiff-employer, those actions may not provide a basis for personal jurisdiction. See:

Lakeview Tech., Inc. v. Vision Solutions, Inc., No. 05 C 7209, 2007 WL 79246 (N.D. Ill. Jan. 9, 2007). Fiduciary shield precluded jurisdiction over trade secrets defendant. Although the defendant was once employed with the plaintiff, an Illinois corporation, the claims all concerned the defendant’s actions upon leaving the plaintiff corporation and joining a non-resident, third-party corporation. Consequently, the fiduciary shield doctrine barred jurisdiction.

Clearclad Coating, Inc. v. Xontal Ltd., No. 98 C 7199, 1999 WL 652030 (N.D. Ill. Aug. 20, 1999). Fiduciary shield not granted to an individual who was a salesperson for the defendant company. Although ostensibly acting on behalf of his employer, the salesperson retained “discretion in all matters” and, moreover, his interests coincided with the interests of his employer because his father was the company president.

Sys. Software Assocs., Inc. v. Trapp, No. 95 C 3874, 1995 WL 506058, at *5 (N.D. Ill. Aug. 18, 1995). Defendant was shielded from jurisdiction even though he was responsible for customers in Illinois and regularly contacted Chicago because he was not a major or minor stockholder, nor did he hold any position of authority. There was no evidence that he had discretion to decide whether he was going to make contact with Illinois. The defendant’s contacts with Illinois (correspondence, corporate visits, client visits, seminars, etc.) were all for the benefit and at the behest of the company and conferred no benefit on him.

B. Venue in Trade Secret Cases; Forum Non Conveniens.

The Illinois venue statute provides generally that every action must be commenced (1) in the county of residence of any defendant who is joined in good faith and with probable cause for the purpose of obtaining a judgment against him or her and not solely for the purpose of fixing venue in that county, or (2) in the county in which the transaction or some part thereof occurred out of which the cause of action arose. 735 ILCS 5/2-101 (West 2009). “If all defendants are nonresidents of the State, an action may be commenced in any county.” Id.

A corporation, including a foreign corporation authorized to transact business in Illinois, is considered a resident of any county in which it has an office or is doing business. 735 ILCS 5/2-102(a).

A partnership is a resident of any county in which any of its partners reside, and in the counties in which the partnership has an office or is doing business. 735 ILCS 5/2-102(b). Likewise, a voluntary unincorporated association is a resident of any county in which any of its officers reside, or in the counties in which the voluntary unincorporated association has an office or is doing business. 735 ILCS 5/2-102(c).

Even where venue and jurisdiction are proper, a party may move to dismiss on the basis of the equitable doctrine of forum non conveniens. Although a plaintiff’s choice of forum normally will not be disturbed, “a court may decline jurisdiction of a case even though
it may have proper jurisdiction over all parties and the subject matter involved . . . [i]f it appears that there is another forum that can better ‘serve the convenience of the parties and the ends of justice.’” Mergenthaler Linotype Co. v. Leonard Storch Enters., Inc., 66 Ill. App. 3d 789, 800, 383 N.E.2d 1379, 1387-88 (1st Dist. 1978) (quoting Adkins v. Chi., Rock Island & Pac. R.R. Co., 54 Ill. 2d 511, 514, 301 N.E.2d 729, 730 (1973)).

C. Choice of Law in Trade Secrets Cases.

1. The “most significant contacts” approach.

Illinois courts use the “most significant contacts” approach to conflicts of law as described in the Restatement (Second) of Conflicts of Law § 145. Mergenthaler Linotype Co. v. Leonard Storch Enters., Inc., 66 Ill. App. 3d 789, 803, 383 N.E.2d 1379, 1389 (1st Dist. 1978). Under this approach, a court applies the law of the state that has “the most significant relationship to the occurrence and the parties with respect to the issue involved” in the claim. Abbott Labs. v. Chiron Corp., No. 97 C 0519, 1997 WL 208369, at *2 (N.D. Ill. Apr. 23, 1997) (citation omitted).

A trade secrets claim is a tort claim. For conflicts of law purposes, the significant contacts to be weighed in a tort claim consist of the following:

1. the place where the injury occurred;
2. the place where the conduct causing the injury occurred;
3. the domicile, residence, nationality, place of incorporation and place of business of the parties; and
4. the place where the relationship, if any, between the parties is centered.


a) The place where the injury occurred.

Generally speaking, the type of contact accorded the most significance for conflicts of law purposes in tort claims is usually the place where the injury occurred. See Salton, Inc. v. Philips Domestic Appliances & Pers. Care B.V., 391 F.3d 871, 878-79 (7th Cir. 2004) (“The rules on choice of law in tort cases usually select the law of the place where the victim of the tort was injured.”); Precision Screen Machs., Inc. v. Elexon, Inc., No. 95 C 1730, 1996 WL 495564, at *3 (N.D. Ill. Aug. 28, 1996). In most tort claims, the place where the injury occurred usually can be pinpointed as the plaintiff’s domicile or principal place of business. A plaintiff bringing a trade secrets claim, however, may lack this connection to a particular state. A trade secret plaintiff may run its business nationally and thus experience the injury in several or many states, or it may experience a less direct injury from the defendant’s unfair
profits acquired as a result of the misappropriation. See, e.g., Mergenthaler Linotype Co., 66 Ill. App. 3d at 803, 383 N.E.2d at 1389-90. Consequently, this contact may be of less use than usual in determining which state’s law should apply.

**b) The place where the conduct causing the injury occurred.**

Because of the difficulties in pinpointing the place where the injury occurred, courts analyzing trade secrets misappropriation claims accord another contact the most significance for choice of law purposes: the place where the conduct causing the injury occurred. In a trade secrets claim, this place is the state where the alleged wrong of misappropriation was committed – usually, the state where the trade secrets were used or where the defendant enjoyed the benefits of the alleged misappropriation. Cognis Corp. v. Chemcentral Corp., 430 F. Supp. 2d 806, 811 (N.D. Ill. 2006) (“Under Illinois law, a misappropriation claim is subject to either the law of the defendant’s principle place of business or the law of the state where the misappropriation took place.”).

The defendant’s principal place of business is typically chosen because courts assume that this is where any decisions to use the misappropriated trade secrets, or any profits derived from them, would have occurred. Salton, 391 F.3d at 879 (“[T]he Illinois choice of law rule applicable to misappropriation cases . . . selects the place where the misappropriation took place or the defendant obtained the benefit of the misappropriation, the latter being the state or other jurisdiction in which the defendant has its principal place of business.”); Abbott Labs. v. Chiron Corp., No. 97 C 0519, 1997 WL 208369, at *2-3 (N.D. Ill. Apr. 23, 1997) (applying the law of the defendant’s principal place of business); Precision Screen, 1996 WL 495564, at *3 (same); Fleming Sales Co. v. Bailey, 611 F. Supp. 507, 510 (N.D. Ill. 1985) (same).

For instance, in Zucker v. American Greetings Corp., No. 94 C 1844, 1995 WL 398933, at *2 (N.D. Ill. June 30, 1995), the plaintiffs argued that Illinois law governed their trade secrets misappropriation claim because the plaintiffs had developed their alleged trade secrets in Illinois, the defendant manufactured greeting cards containing the alleged trade secrets in Illinois and the defendant profited from Illinois sales of such greeting cards. Rejecting the plaintiffs’ argument, the court held that the place where the alleged wrong was committed or the benefit obtained – in other words, the defendant’s principal place of business in Ohio – remained the most significant contact. Id. The court reasoned that any misappropriation occurred in Ohio, where the decision to develop and manufacture the greeting cards originated and where the benefit from any misappropriation ultimately accrued. Id. at *2-3. Consequently, the court decided the claim was governed by Ohio law, not Illinois law. Id. at *3; see also Precision Screen, 1996 WL 495564, at *3 (concluding that Illinois law governed the trade secrets misappropriation claim because all parties resided or had their principal place of business in Illinois, and thus the alleged misappropriation occurred in Illinois and any benefit thereby was received in Illinois).

Because this contact is accorded such significance in a trade secrets choice of law determination, courts frequently apply the law of the defendant’s principal place of business with little further analysis. See, e.g., Wilson v. Electro Marine Sys., Inc., 915 F.2d 1110, 1115 (7th Cir. 1990) (simply applying the law of the defendant’s principal place of business);
On occasion, however, the place where the wrong occurred could be the state in which the physical act of misappropriation happened, rather than the state of the defendant’s principal place of business. This was the result in Flavorchem, 939 F. Supp. at 597. In determining where the alleged wrongful conduct took place, the court noted that this location is usually the defendant’s principal place of business. Id. The “tricky issue” in this case, however, was that there was “no one location of Defendants’ alleged wrongdoing”: the defendant first wrongfully copied the trade secret while still employed by the plaintiff in Illinois, but did not use the wrongfully obtained formulas until he reached California. Id. Because the “most critical element” of wrongful misappropriation occurred while the defendant was still in Illinois, and because this was also the location of the employment relationship and the plaintiff’s injury, the court concluded that Illinois was also the location of the tortious conduct. Id. at 598. Therefore, Illinois law applied. Id.

c) The domicile, residence, nationality, place of incorporation, and place of business of the parties.

This third contact generally is accorded little weight in the choice of law analysis in trade secrets cases. Often, the defendant’s principal place of business already is considered the most significant contact because it is presumed to be the place where the alleged wrong of misappropriation was committed. See Salton, 391 F.3d at 878-79 (“[I]n a case such as this in which a company is complaining of a misappropriation of trade secrets that place [of injury] would be – one might suppose – the site of the company’s principal place of business.”); Cognis Corp. v. Chemcentral Corp., 430 F. Supp. 2d 806, 811 (N.D. Ill. 2006) (“Because Cognis’s complaint does not specify the state where the misappropriation took place, the Court will apply the law of Chemcentral’s principle place of business – Illinois.”). Alternatively, an assessment of the parties’ places of incorporation or places of business may point to several states and fail to provide guidance for selecting a particular state’s law to apply. See Abbott Labs. v. Chiron Corp., No. 97 C 0519, 1997 WL 208369, at *2-3 (N.D. Ill. Apr. 23, 1997).

d) The place where the parties’ relationship is centered.

The fourth Restatement contact – the place where the parties’ relationship is centered – likewise is usually of little significance to the choice of law analysis in trade secrets cases, particularly where the parties conduct their businesses nationally or where the conduct that led to the opportunity for the alleged misappropriation took place in several states. See Abbott Labs., 1997 WL 208369, at *2. This contact, however, might bolster a conclusion as to the significance of the second contact, the location of the alleged misappropriation. See Good Earth Lighting, Inc. v. New Chao Feng Indus. Co., Ltd., No. 98 C 1442, 1999 WL 58555, at *3 (N.D. Ill. Feb. 3, 1999) (noting that because the injury from the alleged misappropriation occurred in more than one state, the place of the injury
was entitled to little significance in the conflicts analysis; rather, the location of the defendant’s conduct – Taiwan – and the fact that the parties’ relationship was centered in Taiwan meant that Taiwanese law governed the claim).

2. Contractual choice of law clauses and trade secret misappropriation claims.

A plaintiff alleging trade secrets misappropriation often will allege other claims as well. Generally speaking, a court evaluates each claim separately for purposes of determining which law applies to which claim. See, e.g., Cognis Corp. v. Chemcentral Corp., 430 F. Supp. 2d 806, 811 (N.D. Ill. 2006) (applying separate analysis and reaching different results for claims of misappropriation of trade secrets and intentional interference with business relations); Precision Screen Machs., Inc. v. Elexon, Inc., No. 95 C 1730, 1996 WL 495564, at *2-3 (N.D. Ill. Aug. 28, 1996).

Where the plaintiff alleges both a breach of contract and a trade secrets misappropriation claim, the applicable law may be determined by a choice of law clause in the contract, depending on the language of the contract. A contractual choice of law clause generally will not determine the law applicable to other, non-contract-based claims between the parties unless the express language of the agreement indicates such intent. Thus in Precision Screen, the plaintiff alleged both breach of a confidentiality agreement and misappropriation of trade secrets, and the defendant argued that the agreement’s choice of law clause governed both claims. Nothing in the clause stated or implied that it was intended to apply to “all claims” between the parties, however, and the court concluded that the misappropriation claim was not “dependent” on the confidentiality agreement and could “exist without” it; therefore, the contract’s choice of law provision did not apply to the trade secrets claim and a separate choice of law analysis was required for each claim. Precision Screen, 1996 WL 495564, at *2-3.

By contrast, in Facility Wizard Software, Inc. v. Southeastern Technical Services, LLC, No. 08 C 5382, 2009 WL 2059934, at *4-6 (N.D. Ill. July 9, 2009), the court held that a contractual choice of law clause governed the parties’ tort claims, including a trade secrets claim. The court reasoned that because the contract required the defendant to protect the plaintiff’s confidential information, the plaintiff’s trade secret misappropriation claim essentially concerned non-performance under the agreement. Id. at *5. The choice of law clause clearly applied to “performance” of the contract, so it applied to the trade secrets claim. Id. Alternatively, the court held that even if the choice of law clause did not represent the parties’ intentions as to the law to govern tort claims, the plaintiff’s tort claims depended on the contract because they were based on wrongful acts under the contract, the claims were “closely related to the parties’ contractual relationship,” and “the tort claims could not exist without the contractual agreement.” Id. at *5-6.

D. Statute of Limitations.

The ITSA provides that “[a]n action for misappropriation must be brought within 5 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.” 765 ILCS 1065/7 (West 2009). A party cannot bring a claim
for trade secrets misappropriation until after it accrues, and a cause of action “does not accrue until all events necessary to fix [the] liability of [the] defendant have occurred.” C&F Packing Co. v. IBP, Inc., No. 93 C 1601, 1998 WL 1147139, at *4 (N.D. Ill. Mar. 16, 1998) (citing U.S. v. Cocoa Berkau, Inc., 990 F.2d 610, 613 (Fed. Cir. 1993)). A misappropriation claim is said to have accrued when the defendant either wrongfully disclosed or used one or more of plaintiff’s trade secrets. Id.

Because the statute of limitations is an affirmative defense, the plaintiff is not required to plead facts in its complaint to prove that its trade secrets claim is timely; however, if the complaint reveals on its face that the claim is barred by the statute of limitations then the plaintiff has “pleaded itself out of court.” Mopex, Inc. v. Barclays Global Investors, NA, No. 01 C 5976, 2003 WL 880996, at *1 (N.D. Ill. Mar. 5, 2003). See also:

Mopex, Inc. v. Barclays Global Investors, N.A., No. 01 C 5976, 2003 WL 880996 (N.D. Ill. Mar. 5, 2003). In its first amended complaint the plaintiff alleged that it first learned of the misappropriation of its trade secret when the defendant’s product was first publicly traded – but this turned out to be several months outside the limitations period. In its second amended complaint, the plaintiff revised this claim, alleging that it could not have learned of the misappropriation until defendants published certain information about its product, which occurred just inside the limitations period. In a related action in another state, however, the plaintiff had also alleged that discovery occurred when the product was first publicly traded, only in that case the plaintiff had mistakenly set the date of first public trading much later, within the limitations period. Holding that this other allegation constituted a “binding judicial admission” that discovery occurred at the first public trading – whatever the date – the court concluded that because the earlier date was the factually correct one, discovery occurred outside the limitations period and the trade secrets claim was barred.

Eng’g Res., Inc. v. CRS Steam, Inc., No. 94 C 6970, 1997 WL 232778 (N.D. Ill. May 1, 1997), aff’d, No. 97-3318, 1998 WL 231101 (7th Cir. Apr. 28, 1998). The defendant asserted that the plaintiff discovered trade secret misappropriation when it bought the defendant’s product, which incorporated the plaintiff’s trade secret information. The plaintiff successfully overcame this affirmative defense by producing evidence that it was unable to discern from the product whether the defendant had utilized the plaintiff’s confidential information. The plaintiff presented affirmative evidence that it did not discover the defendants’ misappropriation until it had the opportunity to inspect one of the defendants’ installations – and this occurred within the limitations period.

Because Illinois courts consider statutes of limitations to be procedural rather than substantive, a court sitting in Illinois will apply the ITSA statute of limitations even when another state’s substantive law governs the claim. See Flavorchem Corp. v. Mission Flavors & Fragrances, Inc., 939 F. Supp. 593, 598 (N.D. Ill. 1996) (even if California law governed the trade secrets misappropriation claim, the ITSA statute of limitations still would apply) (citations omitted).
E. Pleading Standards.

A trade secrets plaintiff will face different pleading standards, depending on whether the claim is pending in federal or state court. Federal courts use a notice pleading standard, meaning the complaint need only give defendants fair notice of the basis of the plaintiff’s claim, although mere conclusory allegations that mirror the ITSA’s statutory language are insufficient. In contrast, Illinois state courts require fact pleading, which is a more stringent standard requiring the plaintiff to allege the facts that give rise to each cause of action.

**PRACTICE TIP:** For actions brought in Illinois state court, the plaintiff should consider filing a verified complaint. Having a verified complaint is helpful in obtaining an ex parte TRO, and it may facilitate the entry of a later judgment or other order more efficiently than if the complaint was not verified.

1. Federal courts require notice pleading.

Under the Federal Rules of Civil Procedure, a sufficiently pled complaint provides the defendant with a notice of the claims. Rule 8(a)(2) requires only “a short and plain statement of the claim showing that the pleader is entitled to relief.” *Fed. R. Civ. P.* 8(a)(2). In *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 555 (2007), the U.S. Supreme Court held that a complaint must provide some detail beyond “labels and conclusions, and a formulaic recitation of the elements of a cause of action.” Later, in *Ashcroft v. Igbal*, 129 S. Ct. 1937, 1951 (2009), the Supreme Court further clarified that neither conclusory recitation of the elements of a cause of action nor legal conclusions are entitled to be accepted as true on a motion to dismiss. Even after Twombly, however, fact pleading is not required: “[a] plaintiff must still provide only enough detail to give the defendant fair notice of what the claim is and the grounds upon which it rests . . . .” *Tamayo v. Blagojevich*, 526 F.3d 1074, 1083-84 (7th Cir. 2008). “[A] complaint . . . does not need detailed factual allegations” . . . . A complaint must always, however, allege ‘enough facts to state a claim to relief that is plausible on its face,’ and how many facts are enough will depend on the type of case.” *Limestone Dev. Corp. v. Vill. of Lemont, Ill.*, 520 F.3d 797, 803 (7th Cir. 2008) (quoting Twombly, 550 U.S. at 555, 570). Thus, determining whether a complaint states a plausible claim for relief is “context-specific.” *Ashcroft*, 129 S. Ct. at 1950.

In a trade secret case, the plaintiff generally must plead: “(1) what the trade secret at issue is, (2) its misappropriation and (3) its use in defendants’ business.” *Sentry Pool v. Wavetec Pools, Inc.*, No. 07-4082, 2008 WL 3200837, at *2 (C.D. Ill. Aug. 6, 2008); see *C.H. Robinson Worldwide, Inc. v. Command Transp., LLC*, No. 05 C 3401, 2005 WL 3077998, at *6 (N.D. Ill. Nov. 16, 2005) (complaint sufficient where it alleged how the defendants unlawfully acquired the trade secrets, described generally the trade secrets and explained how the defendants were using the trade secrets); *BAB Sys., Inc. v. Pilatus Inv. Group, Inc.*, No. 05 C 3038, 2005 WL 2850119, at *7 (N.D. Ill. Oct. 27, 2005) (complaint sufficient where it alleged a franchise agreement between the parties that prohibited disclosure of plaintiff’s trade secrets, that defendant acquired the trade secrets, and that defendant used the trade secrets in a competing business).
a) Conclusory allegations may be generally sufficient to plead a trade secrets claim if they put the defendant on notice of the nature of the claim.

In Lawson Prods., Inc. v. Chromate Industrial Corp., 158 F. Supp. 2d 860, 864 (N.D. Ill. 2001), the plaintiff alleged that the defendant had gained access to the plaintiff’s trade secrets, including customer and price lists, by hiring the plaintiff’s former employees. On a motion to dismiss, the defendant argued that the information was not protectible as a trade secret and that even if it were, the plaintiff did not treat the information as secret. Id. at 864. Denying the motion to dismiss, the court stated that even if the complaint did not specifically identify the allegedly misappropriated information, reference to the customer and price lists was enough to put the defendant on notice as to the nature of the claim. Id. at 864-5. Regarding the effort to keep the information secret, the plaintiff’s allegations that the information was provided only to select individuals within the company were sufficient under the federal notice pleading requirement, even though the plaintiff did not identify which individuals received what information and for what purpose. Id. at 865.

As Lawson Prods. illustrates, notice pleading permits conclusory allegations in pleading the existence of the trade secret, especially when the plaintiff wishes to avoid disclosing the nature of the trade secret in the complaint itself because the complaint is in the public record. See Papa John’s Int’l, Inc. v. Rezko, 446 F. Supp. 2d 801, 810-11 (N.D. Ill. 2006) (complaint’s “vague and conclusory” allegations were sufficient to state an ITSA claim under “liberal” federal pleading standards, even though the complaint failed to disclose which aspects of a business’s proprietary information were trade secrets that had been misappropriated).

The same standards appear to hold true after Twombly. In Sentry Pools, the court held a complaint sufficiently pled a trade secrets claim where it identified the two products it claimed were trade secrets and alleged that the defendants sent “print books and manufacturer cut sheets” related to the products to the plaintiff’s competitors “without the authority and express permission of Plaintiff.”' 2008 WL 3200837, at *2-3. As to the identification of the trade secrets at issue, the court stated that it was sufficient for the plaintiff to name “two specific products instead of broadly generalizing numerous products;” these allegations were enough to avoid discovery just “to discern which trade secrets were misappropriated.” Id. at *3. In terms of the “use” requirement, the court noted that the plaintiff “need not provide the factual details” of its allegations in its complaint, as “[d]iscovery could reveal that Defendants provided [the print books and cut sheets] in an effort to develop a business relationship with Plaintiff’s competitors. . . . All that matters is that Plaintiff has adequately claimed that Defendants sent this intellectual property to a competitor in the course of their business.” Id. See also:

Motorola, Inc. v. Lemko Corp., 609 F. Supp. 2d 760, 770 (N.D. Ill. 2009). Rejecting a motion to dismiss an ITSA claim, the court held that the plaintiff had sufficiently identified the trade secrets at issue where it “identified a number of its technologies, programs, and similar materials that it has undertaken significant efforts to protect.” The court reasoned that “[t]hough Motorola does not disclose the precise details of its trade secrets
in its complaint, it is not required to do so, as this would result in public disclosure of the alleged trade secret.”

**Jano Justice Sys., Inc. v. Burton, No. 08-3209, 2008 WL 5191765, at *2-3 (C.D. Ill. Dec. 11, 2008).** The court held a trade secrets complaint was sufficient where it alleged a defendant “gained knowledge of proprietary information through his affiliation with [the plaintiff] and then used that information to create and run” a new company. Although the complaint was not detailed, it “suffice[d] to appraise Defendants of the conduct forming the basis of the suit,” and that was all that was required.

b) **Plaintiff must plead more than a repetition of statutory language.**

Mere repetition of statutory language, however, will not satisfy the notice pleading standard. In **Magellan Int’l Corp. v. Salzgitter Handel GmbH, 76 F. Supp. 2d 919 (N.D. Ill. 1999),** plaintiff Magellan provided the defendant, acting as a middleman, with written specifications for steel bars the defendant was to obtain from a Ukrainian steel mill. After the defendant’s efforts to renegotiate aspects of the contract failed, the defendant attempted to sell Magellan’s steel bars elsewhere, and Magellan sued for breach of contract and misappropriation of trade secrets. **Id.** at 921. The factual basis of Magellan’s claim was that the steel bars were manufactured according to its “secret” specifications, but the complaint offered only conclusory allegations that these specifications were “sufficiently secret” and the “subject of reasonable efforts to maintain their secrecy.” **Id.** at 927. The court held that mere allegations of information being “sufficiently secret” and of “reasonable efforts” to maintain secrecy were insufficient to provide the defendant with notice of the basis of Magellan’s claims. **Id.** Moreover, given the fact that any “secret” specifications were manifest in the steel bars that Magellan intended to sell to third parties, Magellan’s allegations failed to demonstrate that it took measures to ensure the secrecy of its trade secrets and instead “clarified itself right out of court.” **Id.** See also:

**Woodard v. Harrison, No. 08-2167, 2008 WL 4724370, at *2-3 (C.D. Ill. Oct. 24, 2008).** The court dismissed the plaintiff’s ITSA claim without prejudice for failure to allege use by the defendants. Although the plaintiff sufficiently alleged the existence of a trade secret by identifying the software at issue, that it had value, and that he tried to protect its secrecy with a Confidentiality Agreement, the plaintiff alleged only that a defendant “intends to use [the software] to develop his business.” That showed only the plaintiff’s fear that the defendant might use the plaintiff’s trade secrets in his business, not that the defendant has or will do so.

**Abbott Labs. v. Chiron Corp., No. 97 C 0519, 1997 WL 208369 (N.D. Ill. Apr. 23, 1997).** Abbott claimed its alleged trade secrets were “sufficiently secret” and “the subject of reasonable efforts to maintain their secrecy and confidentiality.” The court held that a complaint that fails to provide any factual allegations illustrating the plaintiff’s efforts to maintain confidentiality is nothing more than pleading bare legal conclusions and insufficient to satisfy the notice pleading requirements. Even a notice pleading standard will require some factual allegations regarding the existence and secrecy of the trade secret.
c) **Plaintiffs limited to trade secret pled in complaint.**

The Northern District of Illinois has limited plaintiffs to the trade secrets pled in the complaint. Combined Metals of Chi. Ltd. P’ship v. Airtek, 985 F. Supp. 827, 832 (N.D. Ill. 1997). The Combined Metals court’s decision was based upon problems encountered in Thermodyne Food Service Products, Inc. v. McDonald’s Corp., 940 F. Supp. 1300 (N.D. Ill. 1996). In Thermodyne, the defendants claimed the wording difference between the plaintiff’s first and second amended complaint expanded the definition of its claimed trade secrets and therefore caught them by surprise. Id. at 1304-05. Noting that the defendants had waited until summary judgment to raise this issue, however, the court held that the plaintiffs had sufficiently clarified the alleged secret to put the defendants on notice. Id. at 1304-05. Expressly to avoid repeating the confusion in Thermodyne, the Combined Metals court, ruling on a motion to dismiss, opined that disputes regarding the scope of the trade secret would no longer be tolerated beyond the pleadings stage. 985 F. Supp. at 832. Henceforth plaintiffs would not be allowed to change or narrow their allegations as the case progresses. Id. at 985. Note, however, that any application of this dicta from Combined Metals may be narrow given the provision for liberal amendment of pleadings in Federal Rule of Civil Procedure 15(a). See also:

**Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., 542 F. Supp. 2d 849 (N.D. Ill. 2008).** In a dispute about alleged misappropriation of frozen pizza crust recipes, the plaintiff provided a list of the specific trade secrets it was claiming during discovery at the court’s request. At a later deposition, its vice president of operations testified that the listed trade secrets in turn involved various processes and techniques that were not specifically included on the list provided. When asked whether these specific processes were trade secrets, he responded, “No.” The plaintiff was later granted leave to amend its complaint, and it attempted to add several of the processes and techniques discussed during the deposition in its amendment. The defendant objected, but the court ruled that the processes the vice president had specifically mentioned during the deposition were admissible because the defendant was on notice about them as a result of the testimony.

2. **Illinois state courts require fact pleading.**

The pleading of trade secrets in Illinois state court requires a plaintiff to support its complaint with factual allegations. Because Illinois is a fact pleading state, plaintiffs are required to set out the facts that give rise to their cause of action. Schal Bovis, Inc. v. Casualty Ins. Co., 314 Ill. App. 3d 562, 574, 732 N.E.2d 1082, 1092 (1st Dist. 1999).

a) **Elements of trade secret misappropriation in Illinois.**

To state a cause of action for misappropriation of trade secrets, the “plaintiff must allege facts that the information at issue was: (1) a trade secret; (2) misappropriated; and (3) used in the defendant’s business.” Strata Mktg., Inc. v. Murphy, 317 Ill. App. 3d 1054, 1068, 740 N.E. 2d 1166, 1176 (1st Dist. 2000) (citation omitted); see Arcor Inc. v. Haas, 363 Ill. App. 3d 396, 400, 842 N.E.2d 265, 269 (1st Dist. 2005). But see Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 281, 827 N.E.2d 909, 925 (1st Dist. 2005) (“We believe the three elements of trade secret misappropriation . . . are: (1) a trade secret existed; (2) the secret was
misappropriated through improper acquisition, disclosure, or use; and (3) the owner of the trade secret was damaged by the misappropriation.”) (citing Am. Antenna Corp. v. Amperex Elec. Corp., 190 Ill. App. 3d 535, 538, 546 N.E.2d 41, 43-44 (2d Dist. 1989)).

In *Strata*, the defendant, who previously worked for the plaintiff as a sales representative, resigned and accepted employment with the plaintiff’s competitor. *Strata Mktg., Inc.*, 317 Ill. App. 3d at 1057-59, 740 N.E.2d at 1168-69. Strata brought suit alleging that customer and product information had been misappropriated. *Id.* On the defendant’s motion to dismiss, the court held that Strata sufficiently pled the existence of its trade secrets and reasonable efforts to protect them. *Id.* at 1069, 740 N.E.2d at 1176. Specifically, Strata’s complaint included allegations that it: (1) took considerable time, effort and money to compile its customer lists; (2) kept the information under lock and key; (3) limited computer access; and (4) required its employees to sign confidentiality agreements. *Id.*, 740 N.E.2d at 1176-77. Moreover, the court ruled that Strata sufficiently pled “use” of its misappropriated trade secrets by way of claiming inevitable disclosure. *Id.*, at 1069-70, 740 N.E.2d at 1177-78 (citing *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995)).

On the other hand, in *Liebert Corp. v. Mazur*, 357 Ill. App. 3d 265, 281, 827 N.E.2d 909, 925 (1st Dist. 2005), the court refused to interpret *Strata* as narrowly “requir[ing] those claiming trade secret misappropriation to show use in every case.” Noting that under the ITSA misappropriation “can be shown one of three ways – by improper acquisition, unauthorized disclosure, or unauthorized use,” the *Liebert* court concluded that “use” is “just one theory that can be pursued under the ITSA; it is not the only theory.” *Id.* On this basis, the Illinois Appellate Court reversed the trial court’s finding that the plaintiffs failed to establish a likely claim of “misappropriation” because the defendants had not “used” the alleged trade secrets; rather, the facts alleged by the plaintiffs raised a fair inference that the defendants acquired the information through improper means, making dismissal of the plaintiffs’ motion for preliminary injunction inappropriate. *Id.* at 283, 827 N.E. 2d at 927.

b) **Detail required to plead trade secret misappropriation in Illinois.**

Although there is little case law discussing the detail required to plead a trade secrets case in Illinois state court, *Strata* may provide plaintiffs with useful guidelines. Trade secrets should be pled to a level of detail that permits drawing an analogy to circumstances where courts sustained allegations of trade secrets and reasonability of efforts of protection. *Strata Mktg., Inc.*, 317 Ill. App. 3d at 1069, 740 N.E.2d at 1176-77. In *Strata*, the plaintiff’s alleged trade secret was its customer list, but the pleading included allegations that this list took considerable time, effort, and money to compile. *Id.* The court concluded that such details were sufficient to allege the existence of a trade secret. *Id.* Similarly, the court concluded that the plaintiff pled sufficient facts to illustrate its methods for maintaining secrecy – limiting computer access, requiring employees to sign confidentiality agreements, and keeping customer contracts under lock and key. *Id.*, 740 N.E.2d at 1177.

Recently, in *Alpha School Bus Co., Inc. v. Wagner*, 391 Ill. App. 3d 722, 742-43, 910 N.E.2d 1134, 1154 (1st Dist. 2009), the Illinois Appellate Court affirmed the dismissal of a trade secret claim where the plaintiffs “failed to attach [to their complaint] either [the]
document[s they claimed comprised trade secrets] or an affidavit indicating why the document was unavailable,” as required by 735 ILCS 5/2-606 (West 2009). That statute applies any time a plaintiff pleads a claim “founded upon a written instrument.” 735 ILCS 5/2-606 (West 2009). By failing to comply with the statute, plaintiffs’ assertion that the information comprised trade secrets “amount[ed] to little more than a conclusory allegation, which must be rejected on a motion to dismiss.”  Alpha Sch. Bus. Co., Inc., 391 Ill. App. 3d at 743, 910 N.E.2d at 1154 (citations omitted).

3. Defendant’s options in obtaining early disclosure of plaintiff’s trade secret.

Federal notice pleading standards do not require a plaintiff to reveal the substance of an alleged trade secret in the pleadings. See 1 MELVIN F. JAGER, TRADE SECRET LAW § 5.38 at 5-169 (West 2004) (“A plaintiff is not required to plead all facts necessary to support a trade secret claim, or to plead all of the elements of each cause of action in the complaint.”). If the trade secrets claim is pled so insufficiently that the defendant is unable to identify the trade secret, however, the defendant may file a Rule 12 motion to compel greater disclosure of the alleged trade secret. Federal Rule 12(b)(6) entitles the defendant to request that the court dismiss the plaintiff’s cause of action for failure to state a claim upon which relief can be granted. FED. R. CIV. P. 12(b)(6). Alternatively, a defendant may move for a more definite statement if the pleading is so ambiguous that the defendant cannot reasonably draft a responsive pleading. FED. R. CIV. P. 12(e). See also:

Complete Bus. Solutions v. Mauro, No. 01 C 0363, 2001 WL 290196 (N.D. Ill. Mar. 16, 2001). “Although Defendants argue [on a motion to dismiss] that CBSI merely asserts, in a conclusory fashion, that it has trade secrets, the Court finds that CBSI has adequately pled that it has confidential information and trade secrets. Indeed, the Complaint clearly alleges that, while employed by CBSI, Mr. Mauro had access to CBSI’s most valuable and sensitive information, including case and client studies, customer and employee lists, market analyses, gross margins, marketing materials, pricing lists, technological research reports, and client process and operation data, all of which was confidential. Furthermore, the Complaint alleges that CBSI goes to great lengths to ensure that this material remains confidential by requiring its employees to sign non-disclosure agreements and by maintaining a company-wide limited access policy. The Court finds that CBSI has adequately pled that the information at issue is a trade secret.” (internal citations omitted).

The plaintiff likely will have to identify the trade secret specifically during the discovery process. “A party to a lawsuit who raises a claim or defense based on trade secret information must be prepared to disclose the information to the other party under a protective order.” 1 MELVIN F. JAGER, TRADE SECRET LAW § 5.33 at 5-153 (West 2004). Federal Rule of Civil Procedure 26 allows a court to enter a protective order “that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a specified way.” FED. R. CIV. P. 26(c)(1)(G); see also AutoMed Techs., Inc. v. Eller, 160 F. Supp. 2d 915, 925-26 (N.D. Ill. 2001) (refusing to compel discovery until plaintiff identified more specifically which of its trade secrets were allegedly misappropriated, but granting the defendant’s and the third party’s motions for a protective
order to protect their own trade secrets that would be disclosed inevitably when they responded to plaintiff’s discovery requests).

A similar scenario holds true for defendants in state court. A court may order pleadings that are insufficient in substance to be amended to provide a more particular statement. 735 ILCS 5/2-612 (West 2009). The defendant may also raise a motion that the pleadings be amended or the cause of action be dismissed. Id. Additionally, Illinois Supreme Court Rule 201 governs discovery in Illinois state courts and entitles the defendant to discover information relevant to a pending action’s subject matter. Ill. S. Ct. R. 201(b)(1). Again, the plaintiff’s specific trade secret is relevant to a misappropriation of trade secrets action.

Under new legislation proposed in the Illinois Senate in 2009, any party asserting a claim for trade secrets misappropriation would be required, before beginning discovery, to serve an initial disclosure describing the trade secrets it believes were misappropriated. S.B. 2149, 96th Gen. Assem. (Ill. 2009). The information disclosed in this statement may be subject to a protective order. Id. If the party later desired to amend its disclosure, it would need to seek leave from the court; upon granting leave, the court must award the opposing party its attorneys’ fees and costs. Id. As of the publication of this outline, the bill had passed through the Senate Judiciary Committee, but missed its deadline for approval by the full Senate in the most recent session.

Finally, as in federal court, in Illinois state courts either party may obtain a protective order “denying, limiting, conditioning, or regulating discovery” in order to safeguard the party’s confidential business information during discovery. Ill. Sup. Ct. R. 201(c)(1); see generally Hall v. Sprint Spectrum L.P., 368 Ill. App. 3d 820, 858 N.E.2d 955 (5th Dist. 2006) (discussing a trial court’s discretion to enter protective orders during discovery).

VI. ILLINOIS TRADE SECRETS ACT’S INTERSECTION WITH OTHER AREAS OF LAW.

A. Trade Secrets and Restrictive Covenants.

Restrictive covenants include noncompetition, non-solicitation and confidentiality provisions that remain in effect after the termination of employment. One way to protect trade secrets is through a restrictive covenant in an employment agreement. The existence of a restrictive covenant to protect trade secrets aids a trade secret owner in establishing that it has taken reasonable steps to maintain secrecy. See infra Part I. This section provides a very general discussion of the basic issues of such agreements as they relate to trade secrets. For a more detailed discussion of restrictive covenants, see Terri L. Mascherin & R. Douglas Rees, Enforcement of Employee Restrictive Covenants: Recent Developments Under Illinois Law, Jenner & Block Practice Series (2009).

Very generally, to be enforceable, a restrictive covenant must be “reasonable and necessary to protect a legitimate business interest of the employer,” a determination that is a question of law. Capsonic Group v. Swick, 181 Ill. App. 3d 988, 992, 537 N.E.2d 1378, 1382 (2d Dist. 1989). Restrictive covenants are considered restraints on trade and will be
scrutinized “to ensure that their intended effect is not the preclusion of competition per se.” Id. However, courts also recognize that restrictive covenants “have a social utility in that they protect an employer from the unwarranted erosion of confidential information.” Tower Oil & Tech. Co. v. Buckley, 99 Ill. App. 3d 637, 642, 425 N.E.2d 1060, 1065 (1st Dist. 1991) (citation omitted). A restrictive covenant that protects a legitimate business interest may be appropriately enforced through a preliminary injunction. See PCx Corp. v. Ross, 168 Ill. App. 3d 1047, 1056, 522 N.E.2d 1333, 1339 (1st Dist. 1988).

In general, a restrictive covenant will be enforceable where it meets the following four requirements: (1) it protects a legitimate business interest; (2) it is reasonable in temporal, geographic and activity scope; (3) it is supported by adequate consideration; and (4) it is ancillary to a valid employment agreement or the sale of a business. See Lawrence & Allen, Inc. v. Cambridge Human Res. Group, Inc., 292 Ill. App. 3d 131, 137-42, 685 N.E.2d 434, 440-44 (2d Dist. 1997). Restrictive covenants will be deemed to protect a legitimate business interest in two situations: “(1) where the customer relationships are near permanent and, but for his association with [the employer, the former employee] would not have had contact with the customers; and (2) where the former employee acquired trade secrets or other confidential information through his employment and subsequently tried to use it for his own benefit.” Capsonic, 181 Ill. App. 3d at 993, 537 N.E.2d at 1382 (internal quotation and citation omitted). This section discusses the latter category, and briefly reviews each of these elements as they apply to the protection of trade secrets through restrictive covenants.

Under new legislation introduced in but not passed by the Illinois House of Representatives in the spring of 2009, non-competition clauses would be valid only if applied to a “key” employee or independent contractor. H.B. 4040, 96th Gen. Assem. (Ill. 2009). This would require that the employee or independent contractor have: (1) substantial involvement in the executive management of the business, (2) direct and substantial customer contact, (3) knowledge of bona fide trade secrets, (4) such unique skills that the person has achieved fame or notoriety as a representative of the business, or (5) earnings among the top 5% of the company’s employees or independent contractors in the year preceding separation. Id. Under the new law, a non-competition clause would also be invalid if the employer does not inform the key employee or independent contractor at least two weeks before the first day of work that the clause is a condition of employment or provide a material advancement or bonus in exchange for the employee agreeing to accept the clause. Id.

1. Trade secrets as a “legitimate protectible interest.”

To enforce a restrictive covenant where the legitimate business interest is to protect trade secrets, the employer must show that the former employee acquired trade secrets or other confidential information through employment and has attempted or will attempt to use such information for his or her own benefit. See Lawrence & Allen, 292 Ill. App. 3d at 141-42, 685 N.E.2d at 443 (citing Capsonic, 181 Ill. App. 3d at 993, 537 N.E.2d at 1382). However, the employer, in some cases, can meet this element by showing that the employee had “extensive and intimate knowledge” of the employer’s strategies and other confidential information and the employment by a competitor would lead to an inevitable disclosure of the information. PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269-70 (7th Cir. 1995); see infra
Part III. This requirement of actual, attempted or inevitable use or disclosure is a departure from the law of certain other states’ non-competition agreement doctrines, which permit the employee’s mere knowledge of confidential information to constitute a legitimate protectible interest. See, e.g., Modern Controls, Inc. v. Andreadakis, 578 F.2d 1264, 1268-69 (8th Cir. 1978) (“An employer need only show that an employee had access to confidential information and a court will then determine the overall reasonableness of the covenant in light of the interest sought to be protected.”) (applying Minnesota law); Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 633 (E.D.N.Y. 1996) (enforcing restrictive covenant where high-level employee has access to trade secrets) (applying New York law); Procter & Gamble Co. v. Stoneham, 747 N.E.2d 268, 278 (Ohio Ct. App. 2000) (“In actions to enforce covenants not to compete, Ohio courts have held that an actual threat of harm exists when an employee possesses knowledge of an employer’s trade secrets and begins working in a position that causes him or her to compete directly with the former employer . . . .”). Representative Illinois state and federal cases include:

**Cincinnati Tool Steel Co. v. Breed,** 136 Ill. App. 3d 267, 482 N.E.2d 170 (2d Dist. 1985). A restrictive covenant could not be enforced where there was no evidence that the employee disclosed any confidential information.

**PepsiCo, Inc. v. Redmond,** 54 F.3d 1262 (7th Cir. 1995). The court affirmed the trial court’s ruling granting injunctive relief to enforce a restrictive covenant to prevent the disclosure of trade secrets and confidential information where a former employer established its former employee’s position with a competitor “would necessarily force him to breach his agreement not to disclose confidential information acquired while employed [by former employer].”

**Quixote Transp. Safety, Inc. v. Cooper,** No. 03 C 1401, 2004 WL 528011 (N.D. Ill. Mar. 12, 2004). The court denied summary judgment to enforce a restrictive covenant to protect trade secrets where the former employer failed to establish a lack of genuine issue of material fact as to whether information constituted trade secrets and whether the employee had used or attempted to use the information. The court also rejected the former employer’s argument that the inevitable disclosure doctrine supported injunctive relief, stating that through the use of the inevitable disclosure doctrine, “the non-disclosure agreement as written effectively becomes a permanent non-compete agreement,” which is unenforceable under Illinois law.

**Unisource Worldwide, Inc. v. Carrara,** 244 F. Supp. 2d 977 (C.D. Ill. 2003). A restrictive covenant could not be enforced where the former employer failed to show that information sought to be protected was a trade secret or confidential information, and additionally failed to show that employees tried to use confidential information for their own or a competitor’s benefit.

**RKI, Inc. v. Grimes,** 177 F. Supp. 2d 859 (N.D. Ill. 2001). Under Illinois law, the non-compete clauses in employer’s contracts with a sales representative were enforceable where the representative downloaded a large amount of the employer’s confidential customer and financial information to his home computer and intended to use it to solicit customers for employer’s competitor, where the employer had a near-permanent
relationship with many of its customers and the representative would not have had contact with those customers but for his work for the employer.

2. Temporal scope limitations in the context of trade secrets.

Although a non-competition or non-solicitation covenant must generally be reasonable in scope, “a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of duration or geographic limitation on the duty.” 765 ILCS 1065/8(b)(1) (West 2009); see also Coady v. Harpo, Inc., 308 Ill. App. 3d 153, 161, 719 N.E.2d 244, 250 (1st Dist. 1999) (stating that “a confidentiality agreement will not be deemed unenforceable for lack of duration or geographic limitations where trade secrets and confidential information are involved”); Abbott-Interfast Corp. v. Harkabus, 250 Ill. App. 3d 13, 22, 619 N.E.2d 1337, 1344 (2d Dist. 1993) (under the ITSA, a contractual prohibition on disclosure of trade secrets containing no time limitation was enforceable); PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1272 n.10 (7th Cir. 1995) (holding that confidentiality agreement was not invalid for want of durational limitation).

At least one court has also held that a non-compete covenant is not overbroad even when it restricts an employee from providing services that may threaten disclosure. RTC Indus., Inc. v. Haddon, No. 06 C 5734, 2007 WL 2743583, at *5 (N.D. Ill. Sept. 10, 2007). In that case, defendant argued that a non-compete covenant restricting providing services that may result in the “actual or threatened” disclosure of confidential information was too broad in scope to be enforceable. Id. at *4-5. However, the court determined that the broad scope of the non-compete covenant was no broader than the inevitable disclosure doctrine applied de facto in PepsiCo. Id. at 5. The court concluded, “[i]t would be a strange result if, as a matter of law, contracting parties could not do directly what the Illinois law permits them to do indirectly.” Id.

B. Patent Law.

Depending on the circumstances, an invention may qualify for legal protection under either patent law or trade secrets law, which provide alternative but mutually exclusive avenues of protection.

The requirements for patent and trade secret protection overlap but are not synonymous. Unlike “a patentable invention, a trade secret need not be novel or unobvious.” 2 RUDOLF CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 14.15, at 14-124 (4th ed. 2003). “The idea need not be complicated; it may be intrinsically simple and nevertheless qualify as a secret, unless it is common knowledge and, therefore, within the public domain.” Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 724 (7th Cir. 2003) (quoting Forest Labs., Inc. v. Pillsbury Co., 452 F.2d 621, 624 (7th Cir. 1971)). However, it is commonly understood that “if an invention has sufficient novelty to be entitled to patent protection, it may be said a fortiori to be entitled to protection as a trade secret.” 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.08[1], at 1-478 (2008) (internal footnotes omitted).
So long as the information remains a secret and outside of the public domain, there is no requirement that the owner seek patent protection. “Since every inventor has the right to keep his invention secret, one who has made a patentable invention has the option to maintain it in secrecy, relying upon protection accorded to a trade secret rather than upon the rights which accrue by a patent grant.”

Recognizing the respective roles that patent law and trade secrets law play, the U.S. Supreme Court has held that federal patent law does not preempt state trade secrets law. See Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 493 (1974); see also Laff v. John O. Butler Co., 64 Ill. App. 3d 603, 624, 381 N.E.2d 423, 439 (1st Dist. 1978) (citing Kewanee for the proposition that “federal patent law does not preempt state trade secret law”). The Kewanee Court explained the basis for this holding, stating:

Trade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it. Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets.

416 U.S. at 493.

C. ITSA Preemption of Related Causes of Action.

Additional causes of action that permit an aggrieved party to seek redress for another’s improper business conduct, and which are often included with claims under the ITSA, are listed and discussed briefly below. However, the ITSA preempts other Illinois common law and statutory causes of action that are predicated on trade secret misappropriation. See 765 ILCS 1065/8(a) (West 2009); see also Delta Med. Sys., Inc., 331 Ill. App. 3d 777, 796, 772 N.E.2d 768, 784 (1st Dist. 2002). Section 8 of the ITSA provides:

(a) Except as provided in subsection (b), this Act is intended to displace conflicting tort, restitutionary, unfair competition, and other laws of this State providing civil remedies for misappropriation of a trade secret.
765 ILCS 1065/8(a) (West 2009). The ITSA does not preempt or affect “other civil remedies that are not based upon misappropriation of a trade secret.” 765 ILCS 1065/8(b)(2) (West 2009). Moreover, the ITSA’s preemption provision is limited to non-contractual civil remedies. The ITSA does not affect:

contractual remedies, whether or not based upon misappropriation of a trade secret, provided however, that a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty.

765 ILCS 1065/8(b)(1) (West 2009). Thus, causes of action based on contractual remedies, such as a cause of action to enforce a restrictive covenant or to recover for its breach, are not preempted by the ITSA.

Courts interpreting the ITSA’s preemption provision have held a variety of claims predicated on misappropriation of trade secrets to be preempted. Courts are in some disagreement, however, over whether the ITSA preempts all causes of action based on the misappropriation of confidential information, or whether it preempts causes of action only when the confidential information at issue is, in fact, a trade secret.

The court in Ace Novelty Co., Inc. v. Vijuk Equipment, Inc. was the first court to address the issue. No. 90 C 3116, 1990 WL 129510, at *4 (N.D. Ill. Aug. 31, 1990). In that case, the court took the first view, explaining that “it is the type of property which must determine whether [a] claim has been preempted rather than whether the plaintiff has a valid Trade Secrets action. The preemption provision is an indication of the outer limit of Illinois’ protection of intangible property.” Id. (holding conversion claim preempted). Similarly, in 1992, the Seventh Circuit appeared to adopt the first view by recognizing that with the passage of the ITSA, “Illinois has abolished all common law theories of misuse of [confidential] information. Unless defendants misappropriated a (statutory) trade secret, they did no legal wrong.” Composite Marine Propellers, Inc. v. Van der Woude, 962 F.2d 1263, 1265 (7th Cir. 1992) (citing the ITSA) (rejecting as preempted the plaintiff’s unfair competition and breach of fiduciary duty claims, which were based entirely on the defendants’ alleged use of the plaintiff’s secret information).

Most courts have interpreted the Seventh Circuit’s decision in Composite Marine Propellers to mean claims are preempted where they are based solely on the misappropriation of confidential information, regardless of whether the information ultimately will be considered a trade secret. For instance, in Thomas & Betts Corp. v. Panduit Corp., the plaintiff “[a]t bottom . . . claim[ed] that defendants wrongfully took confidential information from [the plaintiff] and used that information to undermine [the plaintiff’s] business.” 108 F. Supp. 2d 968, 970 (N.D. Ill. 2000). Based on this basic set of facts, the plaintiff alleged seventeen causes of action, including a claim under the ITSA. Id. In analyzing whether the ITSA preempted any of the causes of action, the court explained that “facts constituting a misappropriation of trade secrets give rise to liability under the ITSA, but not under any other state law theory.” Id. at 971. Thus, to evaluate preemption, the court had to review each
cause of action in the plaintiff’s complaint “to determine whether they [we]re based on a misappropriation of trade secrets, or on something more.” Id. at 972.

After conducting this analysis, the court held that because each was based solely on the defendants’ misappropriation of confidential information, the plaintiff’s claims for breach of fiduciary duty, conversion, unfair competition, tortious interference with business relations, fraud, violation of the Illinois Consumer Fraud Act, conspiracy, and tortious interference with a contract were preempted. Id. at 972-76. Although the plaintiff tried to avoid preemption by arguing that its confidential information might not “rise to the level of a trade secret,” the court rejected this argument, stating that “this theory would render [the ITSA’s preemption provision] meaningless, for it would forbid preemption of state law claims until a final determination has been made with respect to whether the confidential information at issue rises to the level of a trade secret.” Id. at 972-73; see also Dick Corp. v. SNC-Lavalin Constrs., Inc., No. 04 C 1043, 2004 WL 2967556, at *10-11 (N.D. Ill. Nov. 24, 2004) (rejecting notion that common-law theories of recovery were available if the plaintiff’s confidential information was ultimately not found to be a trade secret); Master Tech Prods., Inc. v. Prism Enters., Inc., No. 00 C 4599, 2002 WL 475192, at *2-4 (N.D. Ill. Mar. 27, 2002) (same); AutoMed Techs., Inc. v. Eller, 160 F. Supp. 2d 915, 921-22 (N.D. Ill. 2001) (same).

However, other courts have declined to follow this reasoning, adopting instead the second view – that the ITSA’s preemption provision applies only when the confidential information allegedly misappropriated is, in fact, a trade secret. In FAIP North America, Inc. v. Sistema, the court quoted Composite Marine Propellers but then held that “confidential information is a broader category of information” and that, at least on a motion to dismiss, the court was “unwilling to limit the alleged misappropriation of confidential information to merely trade secrets.” No. 05 C 4002, 2005 WL 3436398, at *6 (N.D. Ill. Dec. 14, 2005). Because the court could conceive of a common-law unfair competition claim based on the misappropriation of information not rising to the level of a trade secret, the court declined to find the plaintiff’s claim preempted. Id. The court applied the same reasoning to deny the defendant’s motion to dismiss the plaintiff’s tortious interference, breach of fiduciary duty, and inducement of breach of fiduciary duty claims. Id. Similarly, in Combined Metals of Chicago Ltd. Partnership v. Airtek, Inc., the court held that if the plaintiff’s confidential information was not a trade secret, the ITSA preemption provision did not apply. 985 F. Supp. 827, 830 (N.D. Ill. 1997). Because the court had not yet determined whether the information was a trade secret, the court declined to find the plaintiff’s breach of fiduciary duty claim preempted. Id.; see also Bagley v. Lumbermens Mut. Cas. Co., 100 F. Supp. 2d 879, 883 (N.D. Ill. 2000) (allowing plaintiff to plead an ITSA claim and, in the alternative, common-law misappropriation and unfair competition claims, which plaintiff could pursue if his confidential information did not rise to the level of a trade secret).

In Hecny Transportation, Inc. v. Chu, 430 F.3d 402 (7th Cir. 2005), the Seventh Circuit attempted to clarify this issue. There, the court adopted “[t]he dominant view . . . that claims are foreclosed only when they rest on the conduct that is said to misappropriate trade secrets.” Id. at 404-05. In other words, ITSA’s preemption provision is narrow – it does not preempt claims that “are not dependent upon the existence of competitively significant secret information.” Id. at 405. Rather, the ITSA preempts claims that are based solely on conduct
that also could be considered misappropriation.  Id. Accordingly, the Seventh Circuit held that the ITSA did not preempt the plaintiff’s fraud, breach of fiduciary duty, and theft claims.  Id. at 405. The Hecny plaintiff had alleged that while the defendant worked for the plaintiff, he had used the plaintiff’s assets, personnel, and information to operate his own competing ventures out of the plaintiff’s business premises.  Id. at 403. Although the Seventh Circuit affirmed the district court’s holding that the plaintiff’s customer list was not a trade secret, the court held that the lack of trade secrets did not destroy the plaintiff’s other claims.  Id. at 404. Rather, the court reasoned that even “[i]f [the plaintiff] had put its customer list on its web site for the world to ogle, that would not have permitted its managers to go into covert competition using [the plaintiff’s] own depot and staff, or to walk off with computers and fax machines, as [the plaintiff] alleges [the defendant] did. Trade secrets just have nothing to do with [the plaintiff’s] principal claims.”  Id.

Thus, because the Hecny plaintiff could establish the elements of his fraud, theft, and breach of fiduciary duty claims regardless of whether the stolen information rose to the level of a trade secret, his claims were not preempted by the ITSA.  Id.; see also Dominion Nutrition, Inc. v. Cesca, No. 04 C 4902, 2006 WL 560580, at *4 (N.D. Ill. Mar. 2, 2006) (relying on Hecny to hold that the plaintiff’s breach of fiduciary claims “[could not] possibly be preempted just as any breach of loyalty or stealing of a business opportunity would not be,” and the ITSA likewise did not preempt the plaintiff’s interference with a business expectancy claim, since that claim did not require the plaintiff to prove the defendant relied on any confidential information).

In sum, under Hecny, a claim is preempted by the ITSA if it is based solely on conduct that otherwise would be misappropriation under the ITSA. If the claim is based on conduct that is something more than misappropriation, the ITSA does not preempt the claim. The Illinois Appellate Court recently applied a Hecny-type preemption analysis to conclude the ITSA did not preempt a breach of fiduciary duty claim, although the court did not cite Hecny. In Alpha School Bus Co., Inc. v. Wagner, 391 Ill. App. 3d 722, 736-37, 910 N.E.2d 1134, 1149-50 (1st Dist. 2009), the court reasoned that the ITSA did not preempt the fiduciary duty claim because although it included allegations the defendant used trade secrets to prepare the bid that constituted the alleged breach of duty, the claim was “not dependent upon the misappropriation of trade secret” and therefore not preempted. However, to the extent a claim against another defendant was based on misappropriation, it was preempted by the ITSA.  Id. at 739, 910 N.E.2d at 1151.

Still unclear is whether, under Hecny, courts will find claims preempted even where the confidential information at issue does not rise to the level of a trade secret. Since Hecny, at least one court has held that ITSA does not preempt a breach of fiduciary duty claim where confidential (but not trade secret) information is at issue. Universal Imagine Print Group, LLC v. Mullen, No. 07 C 6720, 2008 WL 62205, at *3 (N.D. Ill. Jan. 4, 2008) (“If the [confidential] information does not qualify as a trade secret, the availability of civil remedies designed to address unlawful disclosure or use would be unaffected by ITSA.”). But see RTC Indus., Inc. v. Haddon, No. 06 C 5734, 2007 WL 2743583, at *3 (N.D. Ill Sept. 10, 2007) (“The [post-Hecny] test is whether the plaintiff’s claim would lie if the information at issue were non-confidential.”).
Even before Hecny, courts regularly applied a Hecny-type analysis to find claims not preempted by the ITSA. For example, in AutoMed Technologies, Inc. v. Eller, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001), the court held that common law claims with elements other than those necessary to establish misappropriation of trade secrets, such as breach of fiduciary duty by usurpation of corporate opportunities, are not preempted. Thus, a strategy for avoiding preemption is to structure a claim in such a way as to make it actionable without reference to misappropriation of trade secrets. See, e.g., Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., No. 05 C 6022, 2006 WL 1460461, at *2 (N.D. Ill. Apr. 6, 2006) (holding that an unjust enrichment claim was not preempted because it was based on the defendant’s use of the plaintiff’s equipment without paying for its use, rather than on the existence of trade secrets); Charles Schwab & Co., Inc. v. Carter, No. 04 C 7071, 2005 WL 2369815, at *4-5 (N.D. Ill. Sept. 27, 2005) (holding that breach of fiduciary duty and conversion claims were not preempted because the defendant could be liable on those claims regardless of whether the plaintiff’s confidential and proprietary information rose to the level of trade secrets); Do It Best Corp. v. Passport Software, Inc., No. 01 C 7674, 2004 WL 1660814, at *20 (N.D. Ill. July 23, 2004) (holding that tortious interference with contact claim premised on conduct other than trade secret misappropriation was not preempted); Cohabaco Cigar Co. v. U.S. Tobacco Co., No. 98 C 1580, 1998 WL 773696, at *6-8 (N.D. Ill. Oct. 30, 1998) (denying motion to dismiss civil conspiracy and tortious interference with prospective economic advantage claims where the claims were independent of misappropriation of trade secrets claims). But see Thermodyne Food Serv. Prods., Inc. v. McDonald’s Corp., 940 F. Supp. 1300, 1309 (N.D. Ill. 1996) (breach of fiduciary duty claim preempted where plaintiff failed to indicate that claim was premised on conduct other than trade secret misappropriation).

Where a claim is based entirely on conduct that otherwise would be misappropriation under the ITSA, however, courts generally will find the claim preempted. Courts routinely find tortious interference, unfair competition, common-law misappropriation, unjust enrichment, and conversion claims preempted. See:

State Court:


Federal Court:

**Composite Marine Propellers, Inc. v. Van der Woude,** 962 F.2d 1263, 1265 (7th Cir. 1992). Finding unfair competition and breach of fiduciary duty claims preempted.

D. Potential Related Causes of Action.

Notwithstanding the preemptive effect of the ITSA, other causes of action may be viable, depending upon the facts of the individual case.

1. Breach of restrictive covenant / action to enforce restrictive covenant.

Where a restrictive covenant has been executed in order to protect trade secrets, a trade secret owner can file suit to enforce the restrictive covenant and to recover for its breach. In general, the courts will uphold restrictive covenants to protect trade secrets. Integrated Genomics, Inc. v. Kyrpides, No. 06 C 6706, 2008 WL 630605, at *8 (N.D. Ill. Mar. 4, 2008). A cause of action to enforce a restrictive covenant or recover for its breach is not subject to preemption under the ITSA. See 765 ILCS 1065/8(b) (West 2009) (stating that ITSA preemption “does not affect . . . contractual remedies, whether or not based upon misappropriation of a trade secret . . .”).
2. Breach of fiduciary duty.

Under Illinois law, the elements of a breach of fiduciary duty claim are: (1) the existence of a fiduciary duty; (2) breach of that duty; and (3) resulting damages to the plaintiff. Prime Leasing, Inc. v. Kendig, 332 Ill. App. 3d 300, 313, 773 N.E.2d 84, 96 (1st Dist. 2002) (internal citations omitted). An employee or agent owes a fiduciary duty of fidelity and loyalty to his or her employer, which includes a prohibition against soliciting the employer’s customers, enticing away the employer’s employees, or misappropriating the employer’s personal property during the period of employment. See, e.g., ABC Trans Nat’l Transp., Inc. v. Aeronautics Forwarders, Inc., 62 Ill. App. 3d 671, 683, 379 N.E.2d 1228, 1237 (1st Dist. 1978); Dames & Moore v. Baxter & Woodman, Inc., 21 F. Supp. 2d 817, 823 (N.D. Ill. 1998) (citing ABC Trans Nat’l).

Pre-ITSA cases made clear that an employee owed the employer a fiduciary duty not to disclose trade secrets. See, e.g., Schulenburg v. Signatrol, Inc., 33 Ill. 2d 379, 387, 212 N.E.2d 865, 869 (1965). Where no restrictive covenant bound the employee, the employer seeking to establish misappropriation was required to prove a breach of the duty of confidentiality in order to establish that the trade secret was not acquired legally, for example through reverse engineering. Lincoln Towers Ins. Agency v. Farrell, 99 Ill. App. 3d 353, 358, 425 N.E.2d 1034, 1038 (1st Dist. 1981) (citations omitted). Under the ITSA, the existence of a trade secret and its misappropriation by means of fiduciary breach remain separate elements requiring separate proof. See TIE Sys., Inc., Illinois v. Telcom Midwest, Inc., 203 Ill. App. 3d 142, 148-49, 560 N.E.2d 1080, 1085 (1st Dist. 1990) (on appeal from order granting preliminary injunction, affirming separate findings that (1) plaintiff-employer’s confidential information constituted a trade secret, and (2) defendants-employees obtained information through a breach of confidentiality).

Under the common law, an agent’s or employee’s fiduciary duty ceases once the employment relationship ends, unless the duty is extended by an express contract or other restrictive covenant. Jostens, Inc. v. Kauffman, 842 F. Supp. 352, 354 (C.D. Ill. 1994); Prudential Ins. Co. of Am. v. Sempetrean, 171 Ill. App. 3d 810, 816-17, 525 N.E.2d 1016, 1020 (1st Dist. 1988). Pre-ITSA cases established an exception for trade secrets: where a fiduciary duty existed during employment, use of trade secrets after the end of the employment relation qualified as a breach of the former employee’s ongoing duty of confidentiality. See Prudential Ins. Co. of Am. v. Van Matre, 158 Ill. App. 3d 298, 312, 511 N.E.2d 740, 749 (5th Dist. 1987) (holding that former employee’s use of former employer’s confidential information after termination would not support a claim for breach of fiduciary duty unless employer could establish that customer lists and policy-holder information were trade secrets). Thus, where the employer is unable to establish that misappropriated information was a trade secret, timing becomes crucial; the use of confidential or proprietary information that is not a trade secret will qualify as a fiduciary breach only if it occurred while the employment relationship still existed. See Dames & Moore, 21 F. Supp. 2d at 823 (post-ITSA case holding that where plaintiff failed to allege that information at issue was a trade secret, plaintiff’s claims for breach of fiduciary duty for misappropriation of proprietary and confidential information would be allowed only for actions that occurred while defendant was employed by plaintiff; claims based on actions that occurred after termination were dismissed).
After the ITSA became law, plaintiffs pleading ITSA claims against their former employees often have added breach of fiduciary duty claims. Before the Seventh Circuit’s decision in Hecny Transportation, Inc. v. Chu, 430 F.3d 402 (7th Cir. 2005), a number of courts held that Section 8 of the ITSA, 765 ILCS 1065/8(a) (West 2009), preempted breach of fiduciary duty claims. See, e.g., Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968, 972 n.1 (N.D. Ill. 2000) (on defendant’s motion for summary judgment, ruling that a separate claim for breach of fiduciary duty based on misappropriation of trade secrets was preempted under the ITSA, and distinguishing cases where separate claims for fiduciary breach were allowed at the “preliminary stage” of a motion to dismiss before the plaintiff “had the opportunity to develop its factual allegations”); Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 796, 772 N.E.2d 768, 784 (1st Dist. 2002) (refusing to address cross-appeal on issue of fiduciary breach because claims involved alleged misappropriation of trade secrets and thus were preempted under the ITSA). But see RKI, Inc. v. Grimes, 177 F. Supp. 2d 859, 880 (N.D. Ill. 2001) (without specifically addressing preemption, holding that defendant who “improperly” copied and downloaded confidential information violated the ITSA, but also breached his fiduciary duty to his employer by downloading and copying other proprietary information during his employment).

After Hecny, courts are unwilling to hold that the ITSA preempts breach of fiduciary duty claims where the claim is predicated on conduct unrelated to trade secrets. For example, in Jano Justice Systems, Inc. v. Burton, No. 08-3209, 2008 WL 5191765, at *2 (C.D. Ill. Dec. 11, 2008), the court refused to dismiss a breach of fiduciary duty claim as preempted by the ITSA. The court explained that the defendant allegedly “breached his fiduciary duties, not simply by stealing information, but also by setting up a competing business and hiring away [the plaintiff’s] employees. With or without misappropriation of trade secrets, this could constitute the breach of a fiduciary duty under Illinois law.” Id. In Alpha School Bus Co., Inc. v. Wagner, 391 Ill. App. 3d 722, 739, 910 N.E.2d 1134, 1151 (1st Dist. 2009), the court reversed the dismissal of a breach of fiduciary duty claim because it was based on conduct that did not depend on the misappropriation of trade secrets and therefore not preempted by the ITSA. See, e.g., EBI Holdings, 2009 WL 400634, at *4 (holding that a breach of fiduciary duty claim was not preempted where it was based on conduct different from the misappropriation of trade secrets, such as diverting customers away from the employer and actively competing with the employer during employment); Stereo Optical Co. v. Judy, No. 08 C 2512, 2008 WL 4185689, at *4 (N.D. Ill. Sept. 8, 2008) (breach of fiduciary duty claim not preempted where the claim was based on writing unauthorized checks and not on the misuse of trade secrets). See also:

FAIP N. Am., Inc. v. Sistema S.R.L., No. 05 C 4002, 2005 WL 3436398, at *6 (N.D. Ill. Dec. 14, 2005). Plaintiff and defendant each manufactured, distributed, and sold electronic pressure washers and hoses. A disgruntled employee left plaintiff and went to work for defendant, but after leaving continued to exchange information secretly with another employee of plaintiff. Plaintiff sued defendant for multiple counts, including misappropriation of trade secrets, unfair competition, tortious interference with contract, and breach of fiduciary duty. On defendant’s motion to dismiss the breach of fiduciary duty count based on ITSA preemption, the court distinguished Thomas & Betts and Thermodyne Food Serv. Prods., Inc. v. McDonald’s Corp., 940 F. Supp. 1300 (N.D. Ill. 1996), based on procedural posture: “[I]n order to assess the present motion to dismiss, we
must only consider whether [the plaintiff] alleges that each count is based solely upon the misappropriation of trade secrets, or upon wrongdoing of a different sort.” The court then upheld the breach of fiduciary claim as “predicated on more than the mere misappropriation of trade secrets alone.”

**AutoMed Tech., Inc. v. Eller, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001).** Plaintiff sued two former high-level employees on numerous claims. Two claims alleged that the defendants breached the fiduciary duties they owed the plaintiff by “assum[ing] control over a particular project, segregat[ing] their work and . . . recruiting fellow transferors . . . while still working for AutoMed.” The defendants claimed that the ITSA preempted the fiduciary duty claims and moved to dismiss. The court dismissed both without prejudice, reasoning that the complaint failed to specify how the employees acted adversely to the employer and, thus, that the plaintiff “could still state a claim for disloyalty without implicating trade secrets.”

**Thermodyne Food Serv. Prods., Inc. v. McDonald’s Corp., 940 F. Supp. 1300, 1309 (N.D. Ill. 1996).** Plaintiffs were manufacturers of food service equipment that sued a former employee who allegedly stole oven designs and provided them to defendant. Plaintiffs claimed that the former employee breached his fiduciary duty. On a motion for partial summary judgment, the court held that only those claims based on misappropriation of a trade secret were preempted: “To the extent that the breach of fiduciary duty is premised on conduct other than the misappropriation of [a trade secret], the claim survives.”

In addition, a breach of fiduciary duty claim may survive preemption where the information may not qualify as a trade secret in the first place. See **Hecny, 430 F.3d at 404 (“[I]t is unimaginable that someone who steals property, business opportunities, and the labor of the firm’s staff would get a free pass just because none of what he filched is a trade secret.”). Numerous courts, both before and after Hecny, have held that the ITSA does not preempt a breach of fiduciary duty claim where the information may not qualify as a trade secret. See, e.g., **SFK USA, Inc. v. Bjerkness, No. 08 C 4709, 2009 WL 1108494, at *14 (N.D. Ill. Apr. 24, 2009) (no preemption of fiduciary duty claim where that claim “more generally addresses the harm caused by the transfer of information not rising to the level of trade secrets that nevertheless caused injury”). See also:**

**Del Monte Fresh Produce, N.A., Inc. v. Chiquita Brands Int'l, Inc., 616 F. Supp. 2d 805, 822-23 (N.D. Ill. 2009).** Plaintiff brought breach of fiduciary duty and ITSA claims against a former employee. The court refused to grant summary judgment against the breach of fiduciary duty claim, reasoning that breach of fiduciary duty claims are not automatically preempted and that the employee’s theft of confidential information could give rise to a breach of fiduciary duty claim, even if the information was not a trade secret.

**Integrated Genomics, Inc. v. Kyrpides, No. 06 C 6706, 2008 WL 630605, at *8 (N.D. Ill. Mar. 4, 2008).** Plaintiff software developer brought breach of fiduciary duty and ITSA claims against two former employees, alleging that they misappropriated proprietary information while employed by plaintiff. On a motion to dismiss, the court refused to dismiss the fiduciary duty claim because plaintiff “may be able to protect more than would fit into the strict definition of a trade secret.”
Universal Imagine Print Group, LLC. v. Mullen, No. 07 C 6720, 2008 WL 62205, at *1, *3 (N.D. Ill. Jan. 4, 2008). Plaintiff brought breach of fiduciary duty and ITSA claims against a defendant who was a former employee. On a motion to dismiss, the court held that the ITSA does not necessarily preempt a breach of fiduciary duty claim based on a confidentiality agreement. “If the [confidential] information does not qualify as a trade secret, the availability of civil remedies designed to address unlawful disclosure or use would be unaffected by ITSA.”

RTC Indus., Inc. v. Haddon, No. 06 C 5734, 2007 WL 2743583, at *3 (N.D. Ill. Sept. 10, 2007). Plaintiff brought an ITSA claim relying on the inevitable disclosure doctrine and a breach of fiduciary duty claim based on the defendant’s past disclosure of information. The court held that the breach of fiduciary duty claim survived ITSA preemption under the test of “whether the plaintiff’s claim would lie if the information at issue were non-confidential.”

Combined Metals of Chi. Ltd. P’ship v. Airtek, Inc., 985 F. Supp. 827, 830 (N.D. Ill. 1997). On a motion to dismiss, the court held that ITSA preemption of a claim for fiduciary breach is “premature” until plaintiff has the opportunity to demonstrate that misappropriated information qualifies as a trade secret.

3. Civil conspiracy.

Civil conspiracy is an independent common law tort recognized under Illinois law. See Adcock v. Brockgate, Ltd., 164 Ill. 2d 54, 62-63, 645 N.E.2d 888, 894 (1994). Civil conspiracy is defined as “a combination of two or more persons for the purpose of accomplishing by concerted action either an unlawful purpose or a lawful purpose by unlawful means.” Buckner v. Atl. Plant Maint., Inc., 182 Ill. 2d 12, 23-24, 694 N.E.2d 565, 571 (1998). Under Illinois law, the elements for a claim of civil conspiracy are: “(1) an agreement between two or more persons; (2) for the purpose of accomplishing by some concerted action either an unlawful purpose or a lawful purpose by unlawful means; and (3) some tortious or illegal act by a party to the agreement in furtherance of the agreement.” Ill. Non-Profit Risk Mgmt. Ass’n v. Human Serv. Ctr. of So. Metro-East, 378 Ill. App. 3d 713, 724, 884 N.E.2d 700, 711 (4th Dist. 2008) (quotation and citation omitted); see McClure v. Owens Corning Fiberglass Corp., 188 Ill. 2d 102, 133, 720 N.E.2d 242, 258 (1999); Adcock, 164 Ill. 2d at 63, 645 N.E.2d at 894.

Where conspiracy is claimed in conjunction with trade secrets misappropriation, the conspiracy claim is preempted if the sole basis for the claim is the misuse of trade secrets. See, e.g., Rotec Indus., Inc. v. Mitsubishi Corp., 179 F. Supp. 2d 885, 893 n.2 (C.D. Ill. 2002) (granting summary judgment on claims preempted by the ITSA, noting: “It is well established that claims of intentional interference and conspiracy based upon a misappropriation of trade secrets are preempted by the Illinois Trade Secrets Act.”); AutoMed Tech., Inc. v. Eller, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001) (dismissing as preempted claims of conspiracy based on a plan to steal confidential information, but refusing to dismiss claim of conspiracy based on plan to sabotage former employer’s customer relations). As one court has explained, “[w]here the tort underlying a civil conspiracy is the misappropriation of trade secrets, the civil conspiracy claim is . . .
preempted by the ITSA.” Medallion Prods., Inc. v. McAllister, No. 06 C 2597, 2008 WL 5046055, at *16 (N.D. Ill. Nov. 20, 2008) (granting summary judgment on civil conspiracy claim).

Where a civil conspiracy is predicated on acts that “go beyond trade secret misappropriation,” such as an agreement between employees to steal customers away from an employer during the employment relationship, the ITSA will not preempt the claim. See EBI Holdings, 2009 WL 400634, at *5 (holding that the ITSA did not preempt a claim of civil conspiracy that was “not dependant upon misrepresentation”); Stereo Optical, 2008 WL 4185689, at *5 (conspiracy claim not preempted where defendants conspired to destroy company records, as such conduct “[fell] outside” of the misappropriation of trade secrets cause of action). Accordingly, a plaintiff seeking to avoid preemption of conspiracy claims when the complaint also alleges misappropriation of confidential information is advised to plead clearly the separate factual bases for each claim. See Abanco Int’l, Inc. v. Guestlogix Inc., 486 F. Supp. 2d 779, 782 (N.D. Ill. 2007) (dismissing conspiracy count because the court could not “reasonably read the complaint to include information other than trade secrets as the underlying conspiracy”); Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968, 975 (N.D. Ill. 2000) (on motion for summary judgment, dismissing conspiracy claims that merely “restate[d]” ITSA claims and added “no new facts or parties”).


Under Illinois law, conversion is any unauthorized act that deprives a person of that person’s personal property or chattel permanently or for an indefinite time. See In re Thebus, 108 Ill. 2d 255, 259, 483 N.E.2d 1258, 1260 (1985) (quoting Union Stock Yard & Transit Co. v. Mallory, Song & Zimmerman Co., 157 Ill. 554, 563, 41 N.E. 888 (1895)). To establish a conversion claim, a plaintiff must allege: (1) a right to the personal property; (2) an absolute and unconditional right to the immediate possession of the personal property; (3) that a demand for possession was made; and (4) that the defendant wrongfully and without authorization assumed control, dominion, or ownership over plaintiff’s personal property or chattel. See Cirrincione v. Johnson, 184 Ill. 2d 109, 114, 703 N.E.2d 67, 70 (1998) (citation omitted). An action for conversion is valid only for property that is tangible, “or at least represented by or connected with something tangible.” In re Thebus, 108 Ill. 2d at 260, 483 N.E.2d at 1260 (citation omitted).

The ITSA preempts all claims of conversion of intangible property, such as claims based on the theft of an “idea” or a “plan.” See Ace Novelty Co., Inc. v. Vijuk Equip., Inc., No. 90 C 3116, 1990 WL 129510, at *3 (N.D. Ill. Aug. 31, 1990) (dismissing claims of conversion of an “invention” as preempted under the ITSA, where the only property alleged stolen comprised “plans and ideas” and “research and development”). For ITSA preemption purposes, a court may regard even software or digital designs stored on tangible media as “intangible.” See QSRSoft, Inc. v. Rest. Tech., Inc., No. 06 C 2734, 2006 WL 3196928, at *9-10 (N.D. Ill. Nov. 2, 2006) (dismissing as preempted under the ITSA a claim of conversion of “proprietary materials” consisting of source code, data engine, ISP data and web page displays); Sys. Am., Inc. v. Providential Bancorp, Ltd., No. 05 C 2161, 2006 WL 463314, at *6-7 (N.D. Ill. Feb. 24, 2006) (dismissing conversion claim because it was based solely on the misappropriation of software). See also:

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AutoMed Tech., Inc. v. Eller, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001). Plaintiff sued two former high-level employees on numerous counts, including a claim under the ITSA and a claim for conversion. The court dismissed the conversion claim because it was based solely on defendants’ having “assumed unauthorized control” over plaintiff’s proprietary software and design plans. “Although these items exist in tangible form, their value is primarily from the information contained within that form.”

Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968, 973 (N.D. Ill. 2000). On a motion for summary judgment, the court dismissed the claims of conversion based on theft of “computer, disks, and documents containing confidential information” because the ITSA preempts claims “to the extent that they are based on a misappropriation of trade secrets” and “these physical items have little value apart from the information contained therein.”

Nevertheless, the ITSA does not preempt a conversion claim for property that is tangible, so long as the tangible property has “intrinsic value apart from the information it contains.” See Cardionet, Inc. v. Lifewatch Corp., No. 07 C 6625, 2008 WL 567223, at *3 (N.D. Ill. Feb. 27, 2008) (theft of tangible medical equipment not preempted under ITSA, as that equipment itself was not a trade secret); accord Stereo Optical, 2008 WL 4185689, at *4 (on a motion to dismiss, ITSA did not preempt conversion claim where plaintiff allegedly stole tangible information regarding employee processes and then erased those files from her computer, preventing her employer from accessing them). See also:

RKI, Inc. v. Grimes, 177 F. Supp. 2d 859, 880 (N.D. Ill. 2001). Without specifically addressing preemption, the court held that the defendant violated the ITSA by misappropriating plaintiff’s trade secrets, but went on to hold that the defendant was liable for conversion because “continued possession of the data constitutes exercise of control over property inconsistent with [plaintiff’s] right to possession thereof.”

5. Employee raiding.

Claims seeking relief from a former employee’s allegedly improper conduct of “employee raiding” are often brought as claims for breach of fiduciary duty. See supra Part V.C(1). Although it is generally permissible for employees who are not corporate officers to “plan, form, and outfit a competing corporation while still working for the employer,” corporate officers have a broader fiduciary duty to their corporate employer not to “(1) actively exploit their positions within the corporation for their own personal benefit, or (2) hinder the ability of a corporation to continue the business for which it was developed.” Veco Corp. v. Babcock, 243 Ill. App. 3d 153, 160, 611 N.E.2d 1054, 1059 (1st Dist. 1993) (citations omitted).

One way that plaintiffs may establish a former employee’s fiduciary status is to allege that the former employee had access to trade secrets or other confidential information. In Labor Ready, Inc. v. Williams Staffing, LLC, 149 F. Supp. 2d 398, 415 (N.D. Ill. 2001), the plaintiff claimed breach of fiduciary duty based on its former employees’ attempts to solicit the plaintiff’s other employees, and the plaintiff alleged that the former employees’ access to trade secrets proved that they stood in a “confidential relationship” to plaintiff. The court refused to dismiss the claim as preempted by the ITSA: “[I]t is clear that plaintiff is using the
former employees’ access to that information solely to establish their fiduciary duty to [plaintiff].” Id.

However, where a plaintiff alleges a breach of fiduciary duty for soliciting employees and also alleges a breach of fiduciary duty for misappropriation of confidential information, it is important to distinguish the factual basis for each claim so that the former claim can survive even if the latter claim is preempted under the ITSA. See AutoMed Tech., Inc. v. Eller, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001) (striking as preempted under the ITSA those portions of a claim of breach of fiduciary duty based on misuse of confidential information, but holding that the portion of the claim based on soliciting employees “independent of any trade secrets involved” was not preempted).

As to competitors or former employees, a claim for employee raiding also may fit, under unusual circumstances, a claim for tortious interference with contract or tortious interference with prospective economic advantage. See infra Part V.C(6, 7).

6. Tortious interference with contract.

Section 8 of the ITSA preempts all “non-contract causes of action” to the extent they are based on misappropriation of trade secrets. Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968, 971 (N.D. Ill. 2000). Because a claim for tortious interference with contract sounds in tort, not in contract, it is subject to preemption under the ITSA. Id. at 971, 974.

Under Illinois law, the elements for a claim of tortious interference with contractual relations are: (1) the existence of a valid and enforceable contract; (2) defendant’s awareness of the contractual obligation; (3) defendant’s intentional and unjustified inducement of a breach; (4) subsequent breach caused by defendant’s unlawful conduct; and (5) damages. See Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 796, 772 N.E.2d 768, 784 (1st Dist. 2002).

Although tortious interference claims predicated on the misuse of trade secrets are preempted by the ITSA, claims based on “conduct independent of the misuse of trade secrets” are not. Compare Dick Corp. v. SNC-Lavalin Constructions, Inc., No. 04 C 1043, 2004 WL 2967556, at *10-11 (N.D. Ill. Nov. 24, 2004) (claim based on the misuse of ideas preempted), with Cardionet, Inc., v. Lifewatch Corp, No. 07 C 6625, 2008 WL 567223, at *5 (N.D. Ill. Feb. 27, 2008) (ITSA did not preempt claim based on underlying contract that did not “depend on existence of a trade secret,” but instead concerned a sales agreement with the employer and another company). Indeed, where a plaintiff alleges inducements not predicated on the existence or use of trade secrets, such as inducements to compete with a current employer, to solicit other employees and customers away from an employer, or to sell a franchise, the ITSA will not preempt those claims. See, e.g., EBI Holdings, 2009 WL 400634, at *5 (no preemption where plaintiffs asserted that defendants were induced to commit breaches “in addition to the communication of confidential information,” such as an inducement to actively compete with an employer during employment); Stereo Optical, 2008 WL 4185689, at *4 (no preemption where the defendants made defamatory statements, not based on trade secrets, about the plaintiff in order to convince the plaintiff’s customers to
Where the claim involves interference with a confidentiality agreement, plaintiffs will need to plead carefully to avoid preemption under the ITSA, which defines “misappropriation” to include “inducement of a breach of a confidential relationship or other duty to maintain secrecy.” 765 ILCS 1065/2(a) (West 2009). See Thomas & Betts, 108 F. Supp. 2d at 971 (dismissing plaintiff’s claim of tortious interference with a confidentiality agreement as preempted by the ITSA, where the defendant induced plaintiff’s ex-employee to disclose secret sales data and other confidential information, in breach of his confidentiality agreement).

However, where the information protected by the confidentiality agreement is not a trade secret, a court may be less likely to hold the interference claim preempted. See Abanco, 486 F. Supp. 2d at 781–82 (on motion to dismiss, tortious interference with a confidentiality agreement not preempted insofar as the agreement could apply to information which did not rise to the level of a trade secret). See also:

**FAIP N. Am., Inc. v. Sistema S.R.L.**, No. 05 C 4002, 2005 WL 3436398, at *18 (N.D. Ill. Dec. 14, 2005). Plaintiff and defendant each manufactured, distributed, and sold electronic pressure washers and hoses. A disgruntled employee left plaintiff and went to work for defendant. Plaintiff sued defendant on multiple claims, including violation of the ITSA and tortious interference with contract. On defendant’s motion to dismiss, the court held that the ITSA did not preempt the tortious interference claim. “[W]e believe confidential information encompasses a broader amount of information than merely trade secrets . . . . [The defendants] could have committed the alleged harm by enticing [plaintiff’s former employee] to breach his confidentiality agreement by providing him with confidential information not of a trade secret nature.”

**Do It Best Corp. v. Passport Software, Inc.**, No. 01 C 7674, 2004 WL 1660814, at *20 (N.D. Ill. July 23, 2004). Plaintiff lumber distributor sought declaratory judgment that it did not breach licensing agreement with defendant software owners and resellers. On defendants’ counterclaims, which alleged that the plaintiff misappropriated trade secrets and also tortiously interfered with the distribution contract between the defendants, the court found that the interference claims involved licensing arrangements between the two defendants and defendants’ other customers, while the trade secrets claims derived from defendants’ licensing agreement with plaintiff. “As these claims involve two distinct contracts, the court finds that [defendants’] counterclaim is not preempted by the ITSA.”

7. **Tortious interference with prospective economic advantage.**

Under Illinois law, the elements for a claim of interference with prospective economic advantage are: “(1) [the plaintiff’s] reasonable expectation of entering into a valid business relationship; (2) the defendant’s knowledge of the plaintiff’s expectancy;
(3) purposeful interference by the defendant that prevents the plaintiff’s legitimate expectancy from ripening into a valid business relationship; and (4) damages to the plaintiff resulting from such interference." Dowd & Dowd, Ltd. v. Gleason, 181 Ill. 2d 460, 484, 693 N.E.2d 358, 370 (1998).

Tortious interference with prospective economic advantage is closely related to but analytically different from tortious interference with contract. “[T]he signal [sic] difference between the two torts . . . is the inviolability of the contractual right, and the greater protection given that right.” Belden Corp. v. InterNorth, Inc., 90 Ill. App. 3d 547, 552, 413 N.E.2d 98, 102 (1st Dist. 1980). Thus, a bona fide competitor is privileged to interfere with a plaintiff’s business relationships; however, the privilege does not extend to improper competitive strategies that employ fraud, deceit, intimidation or deliberate disparagement. See Soderlund Bros. v. Carrier Corp., 278 Ill. App. 3d 606, 615, 663 N.E.2d 1, 8 (1st Dist. 1995). “That privilege extends to the tort of interference with a prospective business relation or economic advantage but does not apply to the tort of interference with a contractual relation.” Id. (citations omitted).

Unlike tortious interference with contract, claims for tortious interference with prospective economic advantage involving misappropriation of confidential information are less prone to run afoul of ITSA preemption. This is because the elements needed to establish the latter claim require the plaintiff to allege facts beyond the act of misappropriation – namely, facts relating to the “reasonable expectation” of entering a new business relationship and to defendant’s knowledge of plaintiff’s expectancy, and damages related to that expectancy. See EBI Holdings, 2009 WL 400634, at *6 (refusing to dismiss claim of tortious interference with prospective economic advantage as preempted by the ITSA because it “rest[ed] on conduct other than the misappropriation of trade secrets”); Dick Corp. v. SNC-Lavalin Constructions, Inc., No. 04 C 1043, 2004 WL 2967556, at *10-11 (N.D. Ill. Nov. 24, 2004) (dismissing claims of tortious interference with prospective business relations as preempted by the ITSA only to the extent they were based on “misuse of ideas,” but concluding that claims based on solicitation and misuse of employees remained “viable”); Dames & Moore v. Baxter & Woodman, Inc., 21 F. Supp. 2d 817, 823 (N.D. Ill. 1998) (refusing to dismiss claims for tortious interference with business expectancy with employees and clients where, in addition to allegations of misappropriation and use of confidential information, plaintiff also alleged that defendants solicited plaintiff’s employees and encouraged plaintiff’s customers to terminate relationships with plaintiff).


The Illinois Deceptive Trade Practices Act (“IDTPA”) states in pertinent part:

A person engages in a deceptive trade practice when, in the course of his or her business, vocation, or occupation, the person: (1) passes off goods or services as those of another; (2) causes likelihood of confusion or of misunderstanding as to the source, sponsorship, approval, or certification of goods or services . . . ; (8) disparages the goods, services, or business of another by false or misleading representation of fact; [or] . . .
(12) engages in any other conduct which similarly creates a likelihood of confusion or misunderstanding.


Although the preemption provision of the ITSA states that it is intended to “displace conflicting tort, restitutionary, unfair competition, and other laws . . . .,” 765 ILCS 1065/8(a) (West 2009), plaintiffs bringing claims under the ITSA are not barred from also bringing claims for commercial misuse of those trade secrets under the IDTPA to the extent that the misconduct alleged under each of the two statutes does not overlap. See Chemetall GmbH v. Zr Energy, Inc., No. 99 C 4334, 2000 WL 1808568, at *4 (N.D. Ill. Dec. 6, 2000) (contrasting the two statutes and observing that allegations of misrepresentation of a product’s origin “markedly differ[] from allegations of misuse or misappropriation of secret information”). See also:

Combined Metals of Chi., Ltd. P’ship v. Airtek, 985 F. Supp. 827, 832-833 (N.D. Ill. 1997). Airtek contracted with Combined Metals to manufacture catalytic converter shells using Airtek’s proprietary designs and processes. Combined Metals later used these designs and processes to produce and sell catalytic converter shells to Airtek’s competitors without Airtek’s authorization. On Combined Metal’s motion to dismiss Airtek’s counterclaims of ITSA misappropriation and IDTPA misrepresentation, the court held that Airtek adequately alleged the existence and misappropriation of trade secrets but failed to allege that its catalytic converter shells contained any distinctive identifying “mark” that the defendant misrepresented: “If there is nothing distinctive about the shells which identify them as Airtek products, Combined Metals could not have created a likelihood of confusion as to whether the shells come from Airtek’s competitors or Airtek.” Without specifically addressing preemption, the court dismissed the IDTPA counterclaim without prejudice.


The Illinois Consumer Fraud and Deceptive Trade Practices Act prohibits “unfair or deceptive acts or practices, including but not limited to the use or employment of any deception, fraud, false pretense, false promise, misrepresentation or the concealment, suppression or omission of any material fact, with intent that others rely upon the concealment, suppression or omission of such material fact.” 815 ILCS 505/2 (West 2009). To state a claim under the Act, plaintiffs must allege that “(1) defendants committed a deceptive act; (2) defendants intended to induce consumer reliance on the deception; and (3) the deception occurred during trade or commerce.” Sys. Am. Inc. v. Providential Bancorp., Ltd., No. 05 C 2161, 2006 WL 463314, at *7 (N.D. Ill. Feb. 24, 2006) (citing Weatherman v. Gary-Wheaton Bank of Fox Valley, N.A., 186 Ill. 2d 472, 492, 713 N.E.2d 543, 552 (1999)). To be entitled to relief, the plaintiff must demonstrate that the defendant’s

Several courts have concluded that Consumer Fraud Act claims are preempted when they “simply restate [a] claim for misappropriation of trade secrets.” Master Tech Prods., Inc. v. Prism Enters., Inc., No. 00 C 4599, 2002 WL 475192, at *4 (N.D. Ill. Mar. 27, 2002). For example, when a plaintiff merely alleges that a defendant lied about taking confidential information, there is nothing to distinguish the claim from a trade secrets action, and therefore it may not be brought as a Consumer Fraud Act claim. Id.; see also Woodard, 2008 WL 4724370, at *3-4 (holding that a Consumer Fraud Act claim predicated on lies made during the misappropriation of trade secrets was preempted under the ITSA); Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968, 974-75 (N.D. Ill. 2000) (concluding that a misrepresentation may give rise to misappropriation under the ITSA, and therefore a plaintiff may not plead a separate claim under the Consumer Fraud Act when a defendant has lied about taking confidential information). But see Learning Curve Toys, 1999 WL 529572, at *3-5 (preempting common law claims but not engaging in a preemption analysis for the statutory Consumer Fraud Act claim).

10. Unfair competition.

The ITSA’s preemption provision states that it is intended to “displace conflicting tort, restitutionary, unfair competition, and other laws . . . .” 765 ILCS 1065/8(a) (West 2009). Thus, the Seventh Circuit has stated that claims of unfair competition based on the unauthorized use of confidential information must stand or fall as trade secrets claims because “Illinois has abolished all common law theories of misuse of such information”: “Unless defendants misappropriated a (statutory) trade secret, they did no legal wrong.” Composite Marine Propellers, Inc. v. Van der Woude, 962 F.2d 1263, 1265 (7th Cir. 1992); see Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968 at 973 (N.D. Ill. 2000) (on summary judgment, holding that a claim of unfair competition is preempted by the ITSA, despite plaintiff’s “lengthy” allegations of the defendants’ efforts to undermine plaintiff’s sales and service programs and to make inroads into plaintiff’s distribution and customer base because all such actions involved defendants’ “use of a trade secret,” and thus were merely “a restatement of [the plaintiff’s] misappropriation of trade secrets claim.”).

In fact, it is unclear whether unfair competition is an independent common law tort recognized under Illinois law. Despite its inclusion as a claim in numerous cases (including cases involving trade secret misappropriation), the law on common law claims of unfair competition is not well-developed. As the Seventh Circuit has stated: “The law of unfair competition . . . is elusive; its elements escape definition.” Wilson v. Electro Marine Sys., Inc., 915 F.2d 1110, 1118 (7th Cir. 1990). Common law unfair competition has been described as an activity which “so shocks judicial sensibilities or violates standards of commercial morality that it cannot be tolerated.” Id. “Generally speaking, an unfair competition claim requires misappropriation of the labors and expenditures of another, i.e., one party reaps where another has sown.” Lynch Ford, Inc. v. Ford Motor Co., 957 F. Supp. 142, 146 (N.D. Ill. 1997) (citing Wilson, 915 F.2d at 1118-19). Further adding to the lack of clarity, in attempting to set forth the elements of a common law claim of unfair competition,
one court in the Northern District of Illinois analogized the essence of one plaintiff’s allegations to the most similar cause of action – a claim for tortious interference with prospective economic advantage – and proceeded to apply the elements of that cause of action. See Zenith Elec. Corp. v. Exzec, Inc., No. 93 C 5041, 1997 WL 798907, at *14 (N.D. Ill. Dec. 24, 1997), aff’d, 182 F.3d 1340 (Fed. Cir. 1999).

Perhaps because of this underlying uncertainty about the pleading requirements necessary to state a common law claim of unfair competition, courts appear more cautious about dismissing such claims as preempted under the ITSA merely because trade secrets may be involved; instead, they generally urge the plaintiff to develop further the factual basis of the allegations. See, e.g., U.S. Gypsum Co. v. LaFarge N. Am., Inc., 508 F. Supp. 2d 601, 638 (N.D. Ill. 2007) (refusing to dismiss as preempted any “specific aspect” of an unfair competition claim based on misappropriation of confidential and proprietary information, but urging plaintiff to narrow down claims for trial and “carefully consider which claims it will continue to pursue.”). See also:


FAIP N. Am., Inc. v. Sistema S.R.L., No. 05 C 4002, 2005 WL 3436398, at *18 (N.D. Ill. Dec. 14, 2005). Plaintiff and defendant each manufactured, distributed, and sold electronic pressure washers and hoses. A disgruntled employee left plaintiff and went to work for defendant. Plaintiff sued defendant for multiple claims, including violation of the ITSA and unfair competition. On defendant’s motion to dismiss, the court held that the ITSA did not preempt the unfair competition claim. “[W]e believe it is reasonable to assume that misappropriated confidential information, not of trade secret nature, could give Defendants an unfair advantage and therefore allow them to compete in the pressure washer market.”

Labor Ready, Inc. v. Williams Staffing, LLC, 149 F. Supp. 2d 398, 412-13 (N.D. Ill. 2001). The court dismissed without prejudice an unfair competition claim based on allegations that defendants used plaintiff’s confidential information to solicit plaintiff’s customers and also sought to recruit plaintiff’s employees without using confidential information. “Plaintiff is given leave to file an amended complaint alleging a claim of unfair competition that does not rely on misappropriation of trade secrets.”

Bagley v. Lumbermens Mut. Cas. Co., 100 F. Supp. 2d 879, 883-884 (N.D. Ill. 2000). Plaintiff brought suit against defendant, alleging both ITSA and unfair competition claims. The court refused to dismiss as preempted the unfair competition claim based on misappropriation of plaintiff’s business plan, where the plaintiff pleaded in the alternative, as a separate count, that the business plan was a trade secret.

11. Unjust enrichment.

The doctrine of unjust enrichment underlies a number of legal and equitable actions and remedies and may be predicated on either a quasi-contract or tort theory. See Peddinghaus v. Peddinghaus, 295 Ill. App. 3d 943, 949-50, 692 N.E.2d 1221, 1225-26.
It is also a distinct cause of action. Under Illinois law, the elements for a claim of unjust enrichment are: (1) the defendant received a benefit; (2) the benefit was to the plaintiff’s detriment; and (3) the defendant’s retention of that benefit would be unjust. See HPI Health Care Servs., Inc. v. Mt. Vernon Hosp., Inc., 131 Ill. 2d 145, 160, 545 N.E.2d 672, 678-79 (1989).

As with claims of unfair competition, however, the ITSA expressly preempts claims of unjust enrichment (or quantum meruit) based on misappropriation of trade secrets. See Stereo Optical, 2008 WL 4185689, at *4 (even though pled as an alternative theory, the ITSA preempted an unjust enrichment claim “for restitution for the alleged misrepresentation of the purportedly secret information”); Web Comm’ns Group, Inc. v. Gateway 2000, Inc., 889 F. Supp. 316, 321 (N.D. Ill. 1995) (holding that a “claim for unjust enrichment based on alleged misappropriation of a trade secret . . . is preempted”).

However, common law claims of unjust enrichment that are “related to, but not in conflict with” claims of trade secrets misappropriation may avoid preemption under the ITSA if the plaintiff is able to plead facts that reach “beyond . . . mere misappropriation.” EarthDweller, Ltd. v. Rothnagel, No. 93 C 3790, 1993 WL 487546, at *7 (N.D. Ill. Nov. 22, 1993). See also:

**EBI Holdings, Inc. v. Butler, No. 07-3259, 2009 WL 400634, at *5 (C.D. Ill. Feb. 17, 2009).** Plaintiffs sued a former salesperson and his current employer after the former employee left their employ and began selling medical products for a competitor. Among numerous claims, plaintiffs alleged an unjust enrichment claim and a claim under the ITSA. The court held that the ITSA did not preempt the unjust enrichment claim, based on a failure to return documents, because the documents at issue may not solely have contained trade secrets, but could have “include[d] other information that f[e][ll][] outside the ITSA definition of trade secret as well.”

**U.S. Gypsum Co. v. LaFarge N. Am., Inc., 508 F. Supp. 2d 601, 638 (N.D. Ill. 2007).** The court refused to dismiss as preempted any “specific aspect” of an unjust enrichment claim based on misappropriation of confidential and proprietary information, but urged the plaintiff to narrow its claims for trial and “carefully consider which claims it will continue to pursue.”

**Charles Schwab & Co., Inc. v. Carter, No. 04 C 7071, 2005 WL 2369815, at *5 (N.D. Ill. Sept. 27, 2005).** Plaintiff sued former employee for violations of the ITSA and for unjust enrichment, based on the defendant’s alleged removal of information from the plaintiff’s computer systems before leaving the plaintiff’s employ. On a motion to dismiss, the court held that the ITSA did not preempt the unjust enrichment claim because “within the downloaded files, the e-mailed information, and other information removed from Schwab's office, Carter acquired proprietary and confidential information that could give rise to common law liability, even if that information does not constitute a full-blown trade secret.”

**12. Related causes of action under federal law.**

Only Illinois common law and statutory causes of action predicated on trade secret misappropriation are preempted by the ITSA. Thus, a number of plaintiffs alleging
misappropriation of trade secrets also have included claims for violations of various federal laws.

a) Computer Fraud and Abuse Act.

The Computer Fraud and Abuse Act (“CFAA”), 18 U.S.C. § 1030 (West 2009), has become an important part of trade secrets litigation. With more trade secrets and confidential information being stored on computers, a potential misappropriator now can copy huge amounts of another’s trade secrets or confidential information on a USB drive or other storage device. Although originally enacted as a criminal statute, with the enactment of the Computer Abuse Amendments Act of 1994, the CFAA now includes a civil cause of action that provides that “[a]ny person who suffers damage or loss by reason of a violation of this section may maintain a civil action against the violator to obtain compensatory damages and injunctive relief or other equitable relief.” 18 U.S.C. § 1030(g).

The civil cause of action applies only when a plaintiff experiences “damage” or “loss” as a result of the defendant’s violation of the CFAA. 18 U.S.C. § 1030(g) (West 2009). There are three provisions of the CFAA most likely to apply in the context of a civil action predicated on trade secret or confidential information misappropriation. First, a defendant may violate the CFAA by “intentionally access[ing] a computer without authorization or exceed[ed] authorized access, and thereby obtain[ed] . . . information from any protected computer.” 18 U.S.C. § 1030(a)(2)(C). Second, a defendant may violate the CFAA by “knowingly and with intent to defraud, access[ing] a protected computer without authorization, or exceed[ing] authorized access, and by means of such conduct further[ing] the intended fraud and obtain[ing] anything of value, unless the object of the fraud and the thing obtained consists only of the use of the computer and the value of such use is not more than $5,000 in any 1-year period.” 18 U.S.C. § 1030(a)(4). Third, a defendant may violate the CFAA by “intentionally access[ing] a protected computer without authorization, and as a result of such conduct, cause[] damage and loss.” 18 U.S.C. § 1030(a)(5)(C). The CFAA defines a “protected computer” as one “which is used in or affecting interstate or foreign commerce or communication, including a computer located outside the United States that is used in a manner that affects interstate or foreign commerce or communication of the United States.” 18 U.S.C. § 1030(e)(2)(B).

Furthermore, the CFAA civil cause of action is limited to four types of damages caused by these violations. 18 U.S.C. § 1030(g) (West 2009). First, the civil cause of action is available if the defendant’s conduct caused “loss to 1 or more persons during any 1-year period . . . aggregating at least $5,000 in value.” 18 U.S.C. § 1030(c)(4)(A)(i)(I). Damages for this conduct are limited to economic damages. 18 U.S.C. § 1030(g). Second, the civil remedy is available if the conduct caused the “modification or impairment, or potential modification or impairment, of the medical examination, diagnosis, treatment, or care of 1 or more individuals.” 18 U.S.C. § 1030(c)(4)(A)(i)(II). Third, a civil action is available if the offense caused “physical injury to any person” or fourth, if the offense caused “a threat to the public health or safety.” 18 U.S.C. § 1030(c)(4)(A)(i)(III-IV).

The typical CFAA fact pattern in the trade secret context involves a current or former employee who uses his or her access to the employer’s computers to obtain trade secret
information and then later provides the information to a competitor or uses it in some way adverse to the employer. Although CFAA liability may exist on such facts, a plaintiff employer would have to show the requisite loss or damage required under the CFAA and demonstrate that the former employee lacked authorization or exceeded his or her authority in accessing the trade secret information from the employer’s computer.

The CFAA defines a “loss” as “any reasonable cost to any victim, including the cost of responding to an offense, conducting a damage assessment, and restoring the data, program, system, or information to its condition prior to the offense, and any revenue lost, cost incurred, or other consequential damages incurred because of interruption of service.” 18 U.S.C. § 1030(e)(11) (West 2009). Cases interpreting the loss requirement have clarified that a plaintiff may establish this economic damage threshold through evidence of remedial or investigative expenses it incurred. See, e.g., E.F. Cultural Travel BV v. Explorica, Inc., 274 F.3d 577, 584-85 (1st Cir. 2001); Shurgard Storage Ctrs., Inc. v. Safeguard Self Storage, Inc., 119 F. Supp. 2d 1121, 1126-27 (W.D. Wash. 2000). At least one court has limited a CFAA claim in the trade secret context by requiring the loss to “be related to the misuse of the computer—something more than misuse of information obtained from the computer.” Am. Family Mut. Ins. Co. v. Rickman, 554 F. Supp. 2d 766, 772 (N.D. Ohio 2008).

The CFAA defines “damage” as “any impairment to the integrity or availability of data, a program, a system, or information.” 18 U.S.C. § 1030(e)(7) (West 2009). In recent opinions, the Northern District of Illinois has held that allegations under the ITSA, alone, do not claim the level of “damage” under the CFAA sufficient to withstand a motion to dismiss. See, e.g., Garelli Wong & Assoc. v. Nichols, 551 F. Supp. 2d 704, 710 (N.D. Ill. 2008). Similarly, “copying electronic files from a computer database – even when the ex-employee e-mails those files to a competitor – is not enough to satisfy the damage requirement under the CFAA.” Del Monte Fresh Produce, NA, Inc. v. Chiquita Brands Int’l, Inc., 616 F. Supp. 2d 805, 811 (N.D. Ill. 2009); see also Motorola v. Lemko Corp., 609 F. Supp. 2d 760, 769 (N.D. Ill. 2009) (“The only harm Motorola has alleged is [trade secret misappropriation]. The CFAA’s definition of damage does not cover such harm.”). These recent cases can be distinguished from International Airport Centers v. Citrin, 440 F.3d 418, 420 (7th Cir. 2006), where the employee actually destroyed computer data. In Citrin, the Seventh Circuit held that the employee’s destruction (by deletion) of company data was “damage” under the CFAA. Id. But see C.H. Robinson Worldwide, Inc. v. Command Transp., No. 05 C 3401, 2005 WL 3077998 (N.D. Ill. Nov. 16, 2005) (Plaintiff’s loss allegations of “(1) the loss in value of trade secrets . . . and other proprietary and confidential information that was not previously known to the public and (2) the loss of competitive advantage” were sufficient to withstand motion to dismiss).

The Northern District of Illinois has referenced congressional intent in its recent opinions that exclude trade secret misappropriation as damage under the CFAA. The Del Monte court specifically focused on the purpose of the CFAA to prevent computer piracy and hacking, rather than to protect employers from trade secret misappropriation:

[Defendant] is not a hacker. She is not a virus or a worm writer. She did not “trash” Del Monte’s “data on the way out.” She is a sales manager who apparently believed the customers
with whom she spent years building relationships were her clients as opposed to Del Monte’s. The CFAA should not be used to prosecute employees who are merely disloyal.

Del Monte Fresh Produce, 616 F. Supp. 2d at 813.

Over the last several years, as more civil litigation has arisen under the CFAA, courts have split on one key issue that arises in typical trade secrets cases under the CFAA – namely, the proper interpretation of the “without authorization” requirement. Am. Family Mutual Ins. Co., 554 F. Supp. 2d at 769 (recognizing split in authority). Some courts have held that an employee – who otherwise has access to his employer’s computer network – acts without authority if he acts against his employer’s interest by copying or accessing the data for his own self-interest. See Citrin, 440 F.3d at 419-20; Forge Indus. Staffing, Inc. v. De La Fuente, No. 06 C 3848, 2006 WL 2982139, at *6 (N.D. Ill. Oct. 16, 2006). However, other courts have held that the CFAA reaches only outside hackers, and not employees with access to the computers, regardless of their motives. See Lockheed Martin Corp. v. Speed, No. 05 CV 1580, 2006 WL 2683058, at *4-5 (M.D. Fla. Aug. 1, 2006); see also Brett Senior & Assoc. PC v. Fitzgerald, No. 06-1412, 2007 WL 2043377, at *6-7 (E.D. Pa. July 13, 2007); Int’l Ass’n of Machinists & Aerospace Workers v. Werner-Masuda, 390 F. Supp. 2d 479, 495-96 (D. Md. 2005).

Invoking the CFAA to protect trade secrets has, among other potential strategic benefits, two potential advantages over exclusive reliance on the ITSA. First, unlike a cause of action under the ITSA, there is no requirement of proving the existence of a “trade secret” per se. Thus, for example, there is no need to establish that the plaintiff took reasonable steps to maintain the secrecy of the information. However, Illinois courts have recently held that to maintain an action under the CFAA, plaintiffs must allege loss or damage beyond trade secret misappropriation. Second, the CFAA allows access to federal courts based on federal question jurisdiction, which, depending on the circumstances, may be advantageous. As such, the CFAA has the potential to become a common supplement to state law trade secrets claims. See, e.g., Charles Schwab & Co., Inc. v. Carter, No. 04 C 7071, 2005 WL 2369815 (N.D. Ill. Sept. 27, 2005) (plaintiff brought CFAA, conversion, breach of fiduciary duty, breach of contract, and ITSA claims against a former employee and his new employer, alleging the employee had downloaded and copied its confidential information and trade secrets to sell to the new employer); George S. May Int’l Co. v. Hostetler, No. 04 C 1606, 2004 WL 1197395 (N.D. Ill. May 28, 2004) (plaintiff brought CFAA, copyright infringement and breach of restrictive covenant claims against former employee who accessed plaintiff’s computers to obtain copyrighted and confidential information).

While the CFAA allows access to federal courts based on federal question jurisdiction, a plaintiff may also bring a claim for violation of the CFAA in state court. In a case of first impression, the Northern District of Illinois noted that “[n]othing in the CFAA’s jurisdictional provision [18 U.S.C. § 1030(g)] indicates that civil claims under the statute may only be brought in federal court.” Liebert Corp. v. Mazur, No. 04 C 3737, 2004 WL 2095666, at *2 (N.D. Ill. Sept. 17, 2004). In Liebert, plaintiffs alleged that a former employee took computer files containing trade secrets with him upon resigning to begin work for a competitor. Id. at *1. Initially, plaintiff filed a complaint in state court, alleging
violations of the ITSA. Id. Subsequently, plaintiff filed a one-count complaint in federal court, alleging defendants violated the CFAA. Id. Defendants moved to stay the federal case based on the Colorado River doctrine. Id. In granting defendants’ motion, the court noted that the state and federal cases were parallel, as the cases involved substantially the same parties litigating substantially the same issues. Id. at *2-3. Thus, the district court dismissed the federal case without prejudice to reinstatement of the case within 30 days of the state court case becoming final. Id. at *4. The court also indicated that plaintiffs could amend their state court complaint to add a cause of action under the CFAA. Id. at *2.

b) RICO.


To allege a substantive RICO claim under 18 U.S.C. § 1962(c), a plaintiff must allege (1) conduct (2) of an enterprise (3) through a pattern (4) of racketeering activity. Slaney v. Int’l Amateur Athletic Fed’n, 244 F.3d 580, 597 (7th Cir. 2001) (citation omitted); Sears, Roebuck & Co. v. Emerson Elec. Co., No. 02 C 5771, 2003 WL 60573, at *3 (N.D. Ill. Jan. 7, 2003). To allege racketeering activity, the plaintiff must plead at least two valid RICO predicate acts – meaning acts that are tied to some “scheme or artifice to defraud.” Reynolds v. E. Dyer Dev. Co., 882 F.2d 1249, 1251 (7th Cir. 1989); Sears, 2003 WL 60573, at *3.

While largely unsuccessful, plaintiffs have attempted to bring claims under RICO relating to misappropriation of trade secrets. See, e.g., U.S. Markets, Inc. v. Irvine, 298 F. Supp. 2d 743 (N.D. Ill. 2004) (finding that the allegations made in support of a RICO claim based on misappropriation of trade secrets were insufficient to establish a “pattern” of racketeering activity); Sears, Roebuck & Co., 2003 WL 60573, at *5 (dismissing RICO claim, based on misappropriation of trade secrets, for failure to establish “enterprise” where allegations did not establish that enterprise had its own structure or goals beyond the commission of the predicate acts); Monosol, LLC v. Cast Film Tech, Inc., No. 02 C 1611, 2002 WL 1822915, at *4 (N.D. Ill. Aug. 7, 2002) (dismissing RICO claim, based on misappropriation of trade secrets, for failure to establish an enterprise separate and distinct from the pattern of racketeering activity alleged).

c) Economic Espionage Act.

The Economic Espionage Act of 1996 makes it a federal crime to steal trade secrets. See 18 U.S.C. § 1831 et seq. (West 2009). The Economic Espionage Act’s definition of trade secrets is similar to those of the UTSA and the ITSA, and includes “all forms and types of financial, business, scientific, technical, economic, or engineering information” that “derives independent economic value, actual or potential, from not being generally known to,
and not being readily ascertainable through proper means, by the public.” 18 U.S.C. § 1839(3). Cognizant of the harm that can be caused by public disclosure of trade secrets, the Economic Espionage Act provides that a court shall take appropriate measures to “preserve the confidentiality of trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws.” 18 U.S.C. § 1835.

The statute provides for a maximum penalty of 15 years in prison, a $500,000 fine and a corporate fine of $10 million. See 18 U.S.C. § 1831. While few prosecutions have occurred, in United States v. Lange, 312 F.3d 263 (7th Cir. 2002), an individual was sentenced to 30 months in prison for attempting to sell the manufacturing processes of an aircraft parts manufacturer to third parties.


VII. INSURANCE COVERAGE FOR TRADE SECRETS MISAPPROPRIATION.

Commercial General Liability (“CGL”) insurance policies, as the name suggests, cover risks that businesses face generally, many of which of course have nothing to do with trade secrets or any other form of intellectual property. Melvin Simensky & Eric C. Osterberg, The Insurance and Management of Intellectual Property Risks, 17 CARDOZO ARTS & ENT. L. J. 321, 331 (1999). CGLs ordinarily have no category explicitly encompassing loss due to misappropriation of trade secrets, though there may be a few, limited instances where coverage may exist for defendants sued for trade secret misappropriation.

A. Advertising Injury.

The Insurance Services Office (“ISO”), which publishes standard policies for the insurance industry, added coverage for “advertising injury” to the standard CGL policy in 1973. Id. In the late 1980s and early 1990s, attorneys for insured parties began to argue that “advertising injury” includes many of the claims alleged in intellectual property disputes. Brian W. Klemm, Insurance Coverage for Intellectual Property Claims: A Changing Landscape, 563 PLI/LIT 421, 423 (1997). In recent years, there has been significant litigation over whether advertising injury coverage includes coverage of intellectual property claims, including trade secrets claims. Winklevoss Consultants, Inc. v. Fed. Ins. Co., 991 F. Supp. 1024, 1026 (N.D. Ill. 1998). The resulting case law indicates that there may be coverage under the standard CGL policy for defendants facing suit or liability for misappropriating trade secrets, but only in rather narrowly defined circumstances.

The term “coverage” as used here includes both the insurer’s duty to defend and to indemnify. The duty to defend is broader than the duty to indemnify. DAVID A. GAUNTLETT, INSURANCE COVERAGE OF INTELLECTUAL PROPERTY ASSETS § 2.01[A] (1999). Under
Illinois law, the duty to defend is triggered whenever facts alleged in the underlying complaint would support a claim that even potentially falls within the terms of the policy. U.S. Fire Ins. Co. v. Aetna Life & Cas., 291 Ill. App. 3d 991, 997, 684 N.E.2d 956, 960-61 (1st Dist. 1997). Even under that broad standard, the coverage afforded by advertising injury provisions of CGL policies for misappropriation of trade secrets has, to date, been held to be relatively narrow.

Illinois courts, like those of other jurisdictions, have followed California in this area. See Winklevoss, 991 F. Supp. at 1031 n.7 (indicating that because Illinois case law on advertising injury coverage is sparse, the court would look to other jurisdictions, especially the Ninth Circuit). Thus, while this section addresses Illinois law, it necessarily also includes a discussion of California law.

Courts applying Illinois law have decided a number of cases in which an insured sought advertising injury coverage after being sued for misappropriation of trade secrets. One of those courts, in denying coverage, began with the proposition that “a complaint charging trade secret misappropriation does not allege advertising injury.” Lexmark Int’l, Inc. v. Transp. Ins. Co., 321 Ill. App. 3d 128, 138, 761 N.E.2d 1214, 1223 (1st Dist. 2001) (citations omitted). While this is an accurate statement of the general rule, it is highly questionable if it is meant to be a categorical denial of the possibility of coverage for misappropriation of trade secrets. Dicta in other Illinois cases, and the holding in one influential California case, strongly suggest that there are exceptions to the general rule.

The advertising injury provision the ISO added to the standard CGL policy in 1973 covers “injury arising out of an offense committed during the policy period in the course of the named insured’s advertising activities, if such injury arises out of libel, slander, defamation, violation of the right to privacy, piracy, unfair competition, or infringement of copyright, title, or slogan.” Simensky & Osterberg, supra at 331 (internal quotations and citations omitted). In 1986 the ISO changed the standard provision by eliminating “piracy” and “unfair competition” from the list of covered offenses, and adding coverage for “misappropriation of advertising ideas or style of doing business.” Klemm, supra at 424. The ISO has stated that the change in language was not intended to alter the scope of coverage, and courts have not treated the difference between the 1973 language and the 1986 language as crucial. See GAUNTLETT, supra, at § 1.02[B].

In Illinois, the three elements of advertising injury coverage are: (1) the insured engaged in advertising during the policy period when the injury occurred; (2) the complaint against the insured makes allegations that raise a potential for liability under one of the offenses enumerated in the policy; and (3) there is a causal connection between the advertising activity and the alleged injury. Lexmark, 327 Ill. App. 3d at 137, 761 N.E.2d at 1222 (citation omitted). Semantics aside, these three requirements are also the elements of advertising injury coverage in California and elsewhere. See GAUNTLETT, supra at § 2.01[A] n.3 (collecting cases from California and other jurisdictions).
1. Illinois courts have not settled on a definition of “advertising.”

The issue most likely to arise regarding the first element is whether one-on-one solicitation of customers is advertising, or whether a widely disseminated message is required. The Seventh Circuit held, while applying California law in a trade secrets coverage dispute, that one-on-one solicitation is not advertising. Zurich Ins. Co. v. Amcor Sunclipse N. Am., 241 F.3d 605, 608 (7th Cir. 2001). According to a leading commentator, this is a mistake; California does recognize one-on-one solicitation as advertising. David A. Gauntlett, Recent Developments in Intellectual Property Law, 37 TORT & INS. L.J. 543, 559-60 (2002). In another trade secrets coverage dispute, applying Wisconsin and Illinois law, the Seventh Circuit suggested that “advertising” is not equivalent to “marketing” before (apparently) deciding the issue on causation grounds. W. States Ins. Co. v. Wisc. Wholesale Tires, Inc., 184 F.3d 699, 702 (7th Cir. 1998).

Despite the Seventh Circuit’s evident preference for a narrow definition of advertising that excludes one-on-one solicitation, Illinois law has not settled on a definition in this context. Lexmark, 327 Ill. App. at 138, 761 N.E.2d at 1223 (quoting Winklevoss, 991 F. Supp. at 1032). In any case, courts are likely to leave the question to one side when coverage would be denied on the basis of one of the other two elements. See id.

2. In the typical trade secrets case, the third element – causal connection between advertising and the injury or offense – is missing.

There are a number of published opinions that address whether misappropriation of trade secrets is covered as an advertising injury under Illinois law. All have held that it was not. Three of the courts concluded that the third element, causal connection, was missing.

a) Bank of the West established that under California law, a causal connection between advertising and the covered offense is an element of coverage for advertising injury.

In Bank of the West v. Superior Court, 833 P.2d 545, 549 (Cal. 1992), the plaintiff Bank sued for a writ of mandate after the Superior Court of Contra Costa County rendered a declaratory judgment that the Bank’s CGL insurer had no duty to indemnify. The Bank sought indemnification under the standard advertising injury provision of its CGL policy for $500,000 it had paid to settle a class action suit. Id. at 548-49. The class action plaintiffs alleged that the sale of one of the Bank’s loan products was an unfair business practice under a California statute. Id. at 547-48. As part of its second of two alternative grounds for upholding the Superior Court, the California Supreme Court held that “‘advertising injury’ must have a causal connection with the insured’s ‘advertising activities’ before there can be coverage.” Id. at 560.

The Bank had advertised the offending loan product to insurance agents, who in turn sold it to their customers, including the class action plaintiffs. Id. at 547-48. The court reasoned that, under those facts, the Bank’s position must be that there is advertising injury coverage whenever there is any connection, no matter how remote, between advertising and
the allegedly harmful practices. Id. at 558. If the Bank were right, then no causal connection between the advertising and the harmful act would be required and “any harmful act, if it were advertised in some way, would fall under the grant of coverage . . . .” Id. at 559 (internal quotation marks omitted). The court rejected the argument, holding that no insured could reasonably understand the policy so broadly, for two reasons. Id. First, the kinds of advertising injury expressly enumerated in the policy – defamation, violation of the right to privacy, infringement of copyright, title or slogan – involve a causal connection between advertising and the basis for the claim against the insured. Id. at 559-60. Second, almost every good or service is advertised in some way, and common sense prevents a reasonable insured from believing that advertising injury insurance covers almost everything a business does. Id.

b) Subsequent California opinions required causation in cases involving trade secret misappropriation.

In Microtec Research, Inc. v. Nationwide Mutual Insurance Co., 40 F.3d 968 (9th Cir. 1994), Microtec sought a declaratory judgment that its CGL insurer had a duty to defend a complaint that alleged misappropriation of trade secrets. Green Hills, the plaintiff in the underlying complaint, alleged that Microtec took Green Hills’ compiler code and passed it off in the market as its own. Applying the rule set forth in Bank of the West “that the injury for which coverage is sought must be caused by the advertising itself,” the court held that the Green Hills complaint did not allege an advertising injury. Id. at 971.

Microtec argued that the necessary causal link was established by allegations in Green Hills’ complaint that, by marketing Green Hills’ code as its own, Microtec injured Green Hills by making it appear that Green Hills is no better at programming than its competitors. Id. at 970-71. The court rejected this on the ground that “[t]he harm, though, is allegedly caused by misappropriation of the code, not by the advertising itself.” Id. at 971. The court noted that “Green Hills did not aver . . . that Microtec used stolen code in its ads, as one might use a copyrighted piece of music in an ad.” Id.

In Simply Fresh Fruit, Inc. v. Continental Insurance Co., 94 F.3d 1219 (9th Cir. 1996), the court again upheld a denial of coverage for a trade secrets claim. Simply Fresh sued its CGL insurer for refusing to defend a complaint that alleged that Simply Fresh misappropriated trade secrets by copying a competitor’s production system. Id. at 1220-21. Simply Fresh had promoted its products by giving prospective customers tours of its new production facility. Id. at 1221. Simply Fresh argued that the claims against it fell under the “misappropriation of style of doing business” language of the policy. Id. at 1222. But the court held that, even if that is true, under Microtec Research, Inc., 40 F.3d 968, there is no duty to defend because the harm that was alleged was caused by the misappropriation of the trade secret, not the promotion itself. Id.

c) Illinois courts have adopted the causation element and relied on it to hold that there is no coverage.

In Winklevoss Consultants, Inc. v. Federal Insurance Co., 991 F. Supp. 1024, 1026-27 (N.D. Ill. 1998), Lynchval, a software developer, filed a complaint alleging that
Winklevoss misappropriated trade secrets and used them to develop software that competed with Lynchval’s software. Winklevoss sought a declaratory judgment that its insurer Federal had a duty to defend. Id. at 1029. The court held that Federal had no duty. Id.

After interpreting the language of Winklevoss’ policy as implying the three “components” or elements of advertising injury coverage, the court held that none of the allegations in Lynchval’s complaint even arguably fit any of the enumerated offenses and, even if one did, Winklevoss did not commit any offense in the course of advertising. Id. at 1032. Citing Microtec Research, Inc., 40 F.3d 968, Simply Fresh, 94 F.3d 1219, and Davila v. Arlasky, 857 F. Supp. 1258 (N.D. Ill. 1994), which involved a patent infringement claim, the court held that, “To meet the ‘in the course of advertising’ requirement, . . . advertising activity must be the source of the offense.” Winklevoss, 991 F. Supp. at 1034 (citations omitted). However, “[i]n this case, all the allegations of trade secret misappropriation are limited to Winklevoss’ development of a competing product – conduct that took place long before Winklevoss began its promotional efforts.” Id. at 1033. In particular, the Lynchval complaint did not say that Winklevoss improperly disclosed trade secrets in the course of promoting its software, nor did it claim that Winklevoss took Lynchval’s proprietary marketing materials or customer lists. Id. at 1033, 1035. Thus, the “course of advertising” element was not met.

Winklevoss argued the necessary causal connection between advertising and the injury was present because the complaint alleged injuries – loss of revenue, profits and customers – that were caused by Winklevoss’ promotion of the allegedly pirated software. Id. The court rejected this for two reasons. First, any injuries that were partly caused by something that occurred after the misappropriation of trade secrets did not arise solely out of a covered offense, as required by the policy. Id. Second, because the misappropriation of trade secrets did not occur in the course of advertising, any injuries that did arise solely out of the misappropriation are not covered by the policy either. Id.

In McDonald’s Corp. v. American Motorists Insurance Co., 321 Ill. App. 3d 972, 748 N.E.2d 771 (2d Dist. 2001), McDonald’s sought indemnity after it paid $25 million to settle litigation in which it was accused of misappropriating trade secrets and using them to develop an oven. McDonald’s promoted the oven to its franchisees and to others. The language in the disputed part of McDonald’s policy differed from the standard advertising injury provision in CGL policies, but the court held that the duty to indemnify under McDonald’s policy depended on three elements that resemble the three elements of an advertising injury coverage claim: (1) the complaint in the underlying litigation pursued one of the enumerated offenses; “(2) the enumerated offense was committed in the content of advertising, publicity or promotion; and (3) the enumerated offense arose out of the publication of advertising, publicity or promotional material.” Id. at 980, 748 N.E.2d at 778. The trial court held that, even though theft of trade secrets arguably was included in the enumerated offenses, the theft occurred before McDonald’s promoted the oven, and therefore could not have arisen out of promotion. Id. at 977, 748 N.E.2d at 776. Citing Simply Fresh and Winklevoss, the appellate court agreed that McDonald’s promotional activities must cause the offense, and McDonald’s misappropriation did not arise out of its promotion of the oven. Id. at 981, 985, 748 N.E.2d at 779, 782.
McDonald’s attempted to avoid this conclusion by arguing that its promotion of the oven supported an action for “cloud on title” with respect to the oven design. Id. at 980-81, 748 N.E.2d at 778-79. The court held that the “cloud on title” theory is not a cause of action in Illinois, but was part of the underlying plaintiff’s theory of his damages from the misappropriation of the oven design. Id. at 984, 748 N.E.2d at 781. The court concluded that McDonald’s policies “do not afford coverage if the only causal connection is between an insured’s promotional activities and the measure of damages asserted by an underlying plaintiff.” Id. at 984, 748 N.E.2d at 782. The court added an extensive discussion of Winklevoss in support of this conclusion.

In Western States Insurance Co. v. Wisconsin Wholesale Tires, Inc., 184 F.3d 699, 701 (7th Cir. 1999), insurers sought a declaratory judgment that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint alleging that they had no duty to defend a complaint 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The court began by suggesting that it is not advertising when salespersons contact customers, and, therefore, the underlying complaint did not allege that the insured did any advertising. Id. But even if the insured did advertise in the Yellow Pages or elsewhere, the court held that there was “a disconnect” between the advertising and the theft of trade secrets. Id. Citing a Wisconsin Supreme Court case that held that there is no advertising injury coverage for an insured who misappropriated the design of a bicycle and then advertised the resulting bicycle, the court held that “only when advertising is an independently tortious source of injury does the ‘advertising injury’ clause supply coverage.” Id. at 703. Thus, because the underlying complaint “did not seek recovery for anything Wisconsin Tire said in advertising” there was no coverage. Id.

Judge Rovner dissented, arguing that the fact that the allegations in the underlying complaint included the statement that the plaintiff engaged in print advertising was enough to create a colorable inference that an advertising injury was involved. Id. at 704.

In sum, these cases hold that under Illinois law, if the offense of misappropriation was not causally connected to advertising, there is no advertising injury coverage in a trade secrets case. Courts sometimes make this point in a confusing way by explaining that there is no coverage because the injury was not caused by advertising, thus seeming to say, implausibly, that advertising was not a proximate cause of the damages claimed by the plaintiff in the underlying trade secrets dispute. See Frog, Switch & Mfg. Co. v. Travelers Ins. Co., 193 F.3d 742 (3d Cir. 1999) (lamenting this confusion). But a careful reading of, for example, Winklevoss, shows that the rule is that the offense must be caused by advertising to be considered in the course of advertising.
d) A probable exception to the general rule: An Illinois court would probably hold that taking trade secrets that are about advertising is a covered offense that is causally connected to advertising.

As discussed above, Illinois courts dealing with advertising injury coverage have adopted the rule that coverage requires a causal connection between the advertising and the alleged offense or injury. That rule was first announced by the California Supreme Court in *Bank of the West*, and then applied in California coverage cases involving trade secrets. Because Illinois has followed California in holding that there is no coverage when the misappropriation of trade secrets is not causally connected to advertising, it is probable that an Illinois court would also follow California law to hold that, in certain circumstances, misappropriation of trade secrets is causally connected in the way necessary to constitute an advertising injury. See generally *David A. Gauntlett, Insurance Coverage of Intellectual Property Assets*, §§ 14-15 (1999) (surveying all U.S. jurisdictions to argue that when claims for trade secret misappropriation are based on disclosure or use of proprietary information and the disclosure or use is derived from advertising, the three elements of coverage are met).

In *Sentex Systems, Inc. v. Hartford Accident & Indemnity Co.*, 882 F. Supp. 930 (C.D. Cal. 1995), aff’d, 93 F.3d 578 (9th Cir. 1996), the district court applied California law to find advertising injury coverage in a trade secrets context. *Sentex*, a maker of telephone entry systems for buildings, sued its CGL insurer for breach of contract after the insurer refused to defend a complaint in which a competitor, *ESSI*, alleged that *Sentex* misappropriated trade secrets, including “customer lists, methods of bidding jobs, methods and procedures for billing, marketing techniques, and other . . . confidential information.” *Id.* at 935. The court held that customer lists are “advertising ideas,” so that misappropriating a confidential customer list is, at least for purposes of the duty to defend, a covered offense under the rubric of “misappropriation of advertising ideas.” *Id.* at 943-44. The court then held that there was a causal connection between *Sentex*’s use of the lists and other trade secrets in its advertising activities and the injuries that *ESSI* alleged. *Id.* at 945.

On appeal, *Hartford* accepted that the necessary causal connection was present, but argued that it was error to hold that taking confidential customer lists constituted “misappropriation of advertising ideas” under the policy. *Sentex*, 93 F.3d at 580. *Hartford* argued that there is no misappropriation of advertising ideas unless there is wrongdoing that directly involves “the text, words, or form of an advertisement.” *Id.* The Ninth Circuit rejected this, holding that “advertising ideas” refers to “a wide variety of direct and indirect advertising strategies” and not just to the texts of advertisements. *Id.* The court stated that it did not necessarily agree with the district court’s broader conclusion that misappropriation of a customer list alone can trigger the duty to defend under the “misappropriation of advertising ideas” language. *Id.* at 580-81. Citing *Simply Fresh*, the court noted that “[i]t is significant that *ESSI*’s claims for misappropriation of trade secrets relate to marketing and sales and not to secrets relating to the manufacture and production of security systems.” *Id.* at 580 (citing *Simply Fresh*, 84 F.3d at 1107-08).
Thus *Sentex*, as affirmed by the Ninth Circuit, stands for the proposition that when a complaint alleges that trade secrets that are about marketing are misappropriated and used, there is a duty to defend under the 1986 standard advertising injury provision. The case further indicates that customer lists may fall within this category. At least one other court has followed *Sentex* to find a duty to defend in a trade secrets case. In *Tradesoft Technologies, Inc. v. Franklin Mutual Insurance Co.*, 746 A.2d 1078 (N.J. Super. Ct. App. Div. 2000), Tradesoft sued its CGL insurer for reimbursement of defense costs after an “amicable” settlement of the underlying suit. The underlying complaint alleged that Tradesoft misappropriated trade secrets, including confidential business plans, customer surveys and marketing studies. *Id.* at 1087. Citing *Sentex*, the court held that “[w]hile the subject of the misappropriation thus alleged is not merely sales and marketing, we are satisfied that its sales and marketing components are sufficiently substantial to invoke the coverage . . .” *Id.* (citation omitted).

Given the leading role that California law plays in this area, an Illinois court may also follow *Sentex* under comparable facts. Indeed, the court in *Winklevoss* stated that “taking a trade secret is not equivalent to taking an advertising idea unless the secret has [to do] with how something is advertised.” *Winklevoss*, 991 F. Supp. at 1039 (emphasis added). This dictum indicates that the *Winklevoss* court, at least, may have followed *Sentex* had the facts been similar.

However, this is not to say that taking and using any secret information that relates to advertising guarantees advertising injury coverage. For example, in *Delta Computer Corp. v. Frank*, 196 F.3d 589 (5th Cir. 1999), the underlying complaint alleged infringement of copyrighted software which, though its primary purpose was to generate bills for long distance phone charges, could also print advertising on the bills. *Id.* at 591. The court held that the insurer had no duty to defend, reasoning that “even if the TEC parties had never discovered or used the software advertising feature in the course of their billing activity, DCC could still have suffered the same injury and asserted the same software copyright infringement claim.” *Id.* Thus, it may be that only secret information that is primarily or essentially about advertising triggers the duty to defend. See also *Farmington Cas. Co. v. Cyberlogic Techs., Inc.*, 996 F. Supp. 695, 702-03 (E.D. Mich. 1998) (allegations that insured used misappropriated trade secrets to create software which it then marketed by sending out samples did not trigger advertising injury duty to defend).

3. **Illinois courts also have held that the second element – the underlying complaint alleged a covered offense – is not satisfied in a trade secrets case.**

In *Lexmark International, Inc. v. Transportation Insurance Co.*, 327 Ill. App. 3d 128, 761 N.E.2d 1214 (1st Dist. 2001), Lexmark sought a declaratory judgment that its CGL insurer had a duty to defend a complaint accusing it of misappropriating trade secrets relating to paper singulation technology used in the paper feed tray of a laser printer. BDT, the underlying plaintiff, alleged that it discovered that its trade secrets had been taken by Lexmark when Lexmark attempted to market the infringing laser printer to BDT and to others.
The court stated that, “a complaint charging trade secret misappropriation does not allege advertising injury,” so that to establish coverage Lexmark “would have to find in one of the BDT complaints factual allegations of a listed advertising injury other than trade secret misappropriation.” Id. at 138, 761 N.E.2d at 1223. In support of this, the court cited to pages from Winklevoss and Simply Fresh that deal with causation. Lexmark appears to misstate what Winklevoss and Simply Fresh held; those cases do not state that trade secret misappropriation cannot constitute an advertising injury.

The court’s discussion of Lexmark’s attempts to characterize its misappropriation of trade secrets as one of the enumerated offenses is instructive. Lexmark’s policy used the 1986 version of the standard ISO language, which covers liability for “misappropriation of advertising ideas or style of doing business.” Id. at 131, 761 N.E.2d at 1218. Lexmark argued that the underlying complaint alleged that, by misappropriating BDT’s trade secrets Lexmark misappropriated BDT’s “trade dress,” and misappropriation of trade dress is included under “misappropriation of advertising ideas or style of doing business.” Id. at 138-39, 761 N.E.2d at 1223-24. The court agreed that trade dress infringement is a covered offense. Id. at 139, 761 N.E.2d at 1224. But it held that Lexmark had not infringed BDT’s trade dress, because trade dress has to do with appearance, while the trade secrets Lexmark allegedly took had to do with function, not appearance. Id. at 140, 761 N.E.2d at 1224.

In Winklevoss, 991 F. Supp. at 1037-39, the court considered whether the underlying complaint alleged “misappropriating advertising ideas” or “style of doing business” when it alleged theft of trade secrets. The court concluded that it did not because “the broadest reading of misappropriating advertising ideas is that the insured wrongfully took an idea about the solicitation of business,” whereas the ideas that Winklevoss allegedly took were about how to make a product – software – not about how to sell it. Id. at 1038. It also was not misappropriation of a style of doing business, which has to do with the “outward appearance or signature of a business.” Id. at 1039 (citation and internal quotations omitted). Lynchval’s complaint alleged that Winklevoss stole ideas about the product’s inner workings, not its appearance. Id.

4. **There are other possible – but less likely – ways in which a court might find an exception to the general rule that there is no coverage under “advertising provisions” in trade secret cases.**

Two other cases bear mentioning as possible sources of arguments for coverage that differ from the argument that the secrets were secrets about advertising.

In John Deere Insurance Co. v. Shamrock Industries, Inc., 696 F. Supp. 434 (D. Minn. 1988), aff’d, 929 F.2d 413 (8th Cir. 1991), the insured was accused in the underlying complaint of taking trade secrets, using them to design a competing product, and disclosing the secrets in the course of marketing the product. Id. at 436. The court held that there was a duty to defend. Id. at 440. The court agreed with the insured that, first, solicitation of customers was advertising and, second, that but for the activity of advertising the machine, there would have been no disclosure of the trade secrets, which is an element of the misappropriation claim. Therefore the claim arose out of the advertising activity. Id. Moreover, only “but for” causation, not proximate causation, is required. Id. Although no
Illinois court has followed this reasoning, it remains a possible route to finding coverage in a trade secrets case. See Winklevoss, 991 F. Supp. at 1033 (suggesting in dicta that disclosing trade secrets in the course of advertising might support coverage).

In Dogloo, Inc. v. Northern Insurance Co. of New York, 907 F. Supp. 1383 (C.D. Cal. 1995), Dogloo sought coverage for the defense of a counterclaim that alleged it misappropriated trade secrets relating to the design and manufacture of a doghouse. Id. at 1385. The complaint further alleged that Dogloo’s doghouse infringed the “trade dress” of the plaintiff’s doghouse, a violation of the Lanham Act, 15 U.S.C. § 1125(a) (West 2009). Id. at 1388. The court held that the “trade dress” claim fell squarely within the “misappropriation of advertising ideas and style of doing business” offense enumerated in Dogloo’s advertising injury coverage. Id. at 1390. Thus, Dogloo teaches that when a complaint alleges that the insured stole trade secrets and used them to make a product that looks like the plaintiff’s product, there might be advertising injury coverage. However, it is important to note that it is the way the trade secrets were used, and not the misappropriation itself, that was the basis for coverage in Dogloo. See Winklevoss, 991 F. Supp. at 1036 (in a trade secrets case, distinguishing Dogloo and other trade dress cases). See also Frog, Switch & Mfg. Co. v. Travelers Ins. Co., 193 F.3d 742, 747-48 (3d Cir. 1999) (same).

B. Some Policies Are Written So Broadly That They Cover Trade Secret Liability.

In Fight Against Coercive Tactics Network, Inc. v. Coregis Insurance Co., 926 F. Supp. 1426, 1428-29 (D. Colo. 1996), the insured had a Nonprofit Organization Liability Insurance Policy that promised to indemnify for liability “for any civil claim or claims . . . because of a Wrongful Act.” Under that broad language there was no question that the insured was covered when it was accused of misappropriating trade secrets. The question in the case was whether the coverage included a duty to defend as well as a duty to indemnify. As discussed above, the standard CGL policy is not written as broadly as the policy in this case.

Policies could specifically cover trade secret liability. Some insurers write risk-specific policies that, if so written, could cover any dispute involving any particular kind of intellectual property claims. DAVID A. GAUNTLETT, INSURANCE COVERAGE OF INTELLECTUAL PROPERTY ASSETS, § 17A-17B (1999). There are insurers that write risk-specific technology and intellectual liability policies. Id. at 17B. Errors and Omissions (“E & O”) policies are also typically written to cover specific risks. Melvin Simensky & Eric C. Osterberg, The Insurance and Management of Intellectual Property Risks, 17 CARDOZO ARTS & ENT. L. J. 321, 326 (1999). However, because E & O and other risk-specific policies are written to cover specific risks, in contrast to the general coverage of a CGL policy, it is unlikely that an insured will obtain coverage for trade secret liability unless the insured specifically purchases it. See Albert J. Schiff Assocs. v. Flack, 417 N.E.2d 84 (N.Y. 1980) (holding that a policy that expressly covers errors and omissions in insurance agent’s professional activity does not oblige his insurer to defend allegations that he stole a proprietary business plan).
C. Coverage for the Victims of Misappropriation.

There appears to be no insurance that expressly covers losses incurred as the result of trade secret misappropriation. Thus the victim of trade secret misappropriation must seek compensation directly from the wrongdoer by threatening or pursuing litigation. A few insurers offer “infringement abatement” policies that pay all or part of the plaintiff’s costs in litigating intellectual property disputes though one only covers patent litigation and the other does not clearly indicate whether trade secrets are covered. DAVID A. GAUNTLETT, INSURANCE COVERAGE OF INTELLECTUAL PROPERTY ASSETS § 17A-17B (1999).
NATIONAL TRENDS REGARDING
THE INEVITABLE DISCLOSURE DOCTRINE

Because the inevitable disclosure doctrine is in its relative infancy, it continues to evolve. A majority of the states have addressed the inevitable disclosure doctrine and have adopted it in some form. Only four states have categorically rejected the inevitable disclosure doctrine, while three states have limited the concept to apply only where a valid non-competition agreement is present. Within jurisdictions adopting the inevitable disclosure doctrine, the doctrine has been applied in various, and sometimes inconsistent, ways. In the words of one commentator: “In drawing a comparison between the states, it becomes apparent that no two enforce the same version of inevitable disclosure.” Brandy L. Treadway, An Overview of Individual States’ Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?, 55 SMU L. REV. 621, 623 (2002).

The states may be grouped according to their treatment of the doctrine, ranging from those states adopting the doctrine in its strongest or “pure” form to those states explicitly and categorically rejecting the doctrine.

A. States Adopting a “Pure” Version of Inevitable Disclosure

The first group consists of states that have adopted what can be termed a “pure” version of the inevitable disclosure doctrine, which supports granting injunctive relief in the absence of proof of actual misappropriation, proof of the traditional requirements for establishing threatened misappropriation, an express non-competition agreement, or bad faith or inequitable conduct. In contrast to actual or threatened misappropriation, the pure version of the inevitable disclosure doctrine provides that a former employee may be enjoined from performing certain post-employment activities if it can be shown that, by simply performing duties for the new employer, the employee cannot help but utilize or disclose knowledge of trade secrets gained as a result of that employee’s performance of duties for the former employer.

The states that apply a pure version of the inevitable disclosure doctrine include Arkansas, Delaware, Georgia, Minnesota, New Jersey, Pennsylvania, Utah, and Washington. The following are representative cases from each state:

Arkansas. **Cardinal Freight Carriers, Inc. v. J.B. Hunt Transp. Servs., Inc., 987 S.W.2d 642, 647 (Ark. 1999)** (affirming trial court’s injunction preventing former employees of the plaintiff-corporation from conducting any new business with four of the defendant’s customers for a period of one year, despite lack of non-competition agreement); see also Statco Wireless, LLC v. Sw. Bell Wireless, LLC, 95 S.W.3d 13, 23 (Ark. Ct. App. 2003) (citing Cardinal for the proposition that “an injunction may issue if there is evidence that an inevitable misappropriation will occur,” but finding the doctrine inapplicable to the instant case).

Delaware. **E. I. duPont de Nemours & Co. v. Am. Potash & Chem. Corp., 200 A.2d 428, 436 (Del. Ch. 1964)** (denying motion for summary judgment and holding that former employer could bring suit to obtain injunctive relief upon allegations that former employee would inevitably disclose trade secrets to new employer); see also W.L. Gore & Assocs., Inc.
v. Wu, No. 263-N, 2006 WL 2692584 at *17-18 (Del. Ch. Sept. 15, 2006) (unpublished opinion) (holding five- and ten-year injunctions reasonable in scope under the court’s authority to “limit a defendant from working in a particular field if his doing so poses a substantial risk of the inevitable disclosure of trade secrets”), aff’d, 2007 WL 148690 (Del. Jan 22, 2007); Am. Hoechst Corp v. Nuodex, Inc., No. 7950, 1985 WL 11563, at *3 (Del. Ch. Apr. 23, 1985) (unpublished opinion) (“Injunctions have been granted to protect former employers when an employee has taken a job with a competitor, the nature of which will demand that the employee disclose and use trade secrets of the former employer regardless of the employee’s intent so to disclose or to make use of the trade secrets.”).


Pennsylvania. Air Prods. & Chem., Inc. v. Johnson, 442 A.2d 1114, 1128 (Pa. 1982) (affirming trial court’s injunction preventing former employee of the plaintiff-corporation from conducting any new business with four of the defendant’s customers for a period of one year, despite absence of non-competition agreement).


Whether Illinois has adopted the “pure” version of the doctrine is somewhat unclear. Although the Illinois Appellate Court in *Strata Marketing, Inc. v. Murphy*, 317 Ill. App. 3d 1054, 740 N.E.2d 1166 (1st Dist. 2000), appeared to adopt the “pure” version, other Illinois courts remain skeptical and usually find the doctrine applies only when there is evidence of bad faith or improper acts on the part of the former employee or new employer. See, e.g., *Liebert Corp. v. Mazur*, 357 Ill. App. 3d 265, 827 N.E.2d 909 (1st Dist. 2005) (inevitable disclosure likely where employee’s behavior indicated he was likely to use his former employer’s trade secrets). For a full discussion of the inevitable disclosure doctrine in Illinois, please see Part III.D. of this outline.

**B. States where adherence to the inevitable disclosure doctrine is unclear**

The second group includes states that have addressed the inevitable disclosure doctrine, but whose courts have not provided a clear indication of whether the doctrine has been adopted, often reasoning that it was unnecessary to decide one way or the other given the facts of the case. These states include Georgia, Massachusetts, North Carolina, and Texas.

**Georgia.** *Essex Group, Inc. v. Southwire Co.*, 501 S.E.2d 501, 505 (Ga. 1998) (finding no abuse of discretion in trial court’s injunction against former employee from working for competitor for five years or until competitor independently created a logistics system, in the absence of non-competition agreement; inevitable disclosure not mentioned).

**Massachusetts.** *Marcam Corp. v. Orchard*, 885 F. Supp. 294, 297 (D. Mass. 1995) (granting preliminary injunction and enforcing terms of non-competition agreement preventing former employee from working for competitor based upon finding that the former employee would inevitably disclose his former employer’s trade secrets because he would necessarily be influenced by that knowledge in his new position). But see *Architext, Inc. v. Kikuchi*, No. 0500600, 2005 WL 2864244, at *3 (Mass. Super. Ct. May 19, 2005) (unpublished opinion) (doctrine of inevitable disclosure “not yet adopted by the Massachusetts courts” and inapplicable in the instant case); *CSC Consulting, Inc. v. Arnold*, No. 001800, 2001 WL 1174183, at *6 (Mass. Super. Ct. July 11, 2001) (unpublished opinion) (refusing to grant injunctive relief to prevent former employee from working for competitor because “even if Massachusetts law permitted a claim of breach to be premised on a theory of inevitable disclosure,” there was no evidence of threatened disclosure in the instant case); *Unitrode Corp. v. Linear Tech. Corp.*, No. 985983, 2000 WL 281688, at *5 (Mass. Super. Ct. Feb. 15, 2000) (unpublished opinion) (denying motion to dismiss claim based on inevitable disclosure of trade secrets, in absence of non-competition agreement, and stating that “[w]hile there may not be Massachusetts cases which have yet recognized the inevitable disclosure rule, none of the cases relied on by the defendants actually rejects it”).

**North Carolina.** *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 454-55 (N.C. Ct. App. 2003) (“We need not reach the consideration of whether to adopt the doctrine of inevitable disclosure since it would not be applied in the [pure version] fashion promoted by [plaintiff].”); see also *Merk & Co., Inc. v. Lyon*, 941 F. Supp. 1443, 1459-60 (M.D.N.C. 1996) (indicating that “it appears that the North Carolina courts employ their own version of an ‘inevitable disclosure rule’ through the [following] factors . . . used in
evaluating whether there would be sufficient likelihood of irreparable injury to issue a preliminary injunction . . . (1) The circumstances surrounding the termination of employment, (2) the importance of the employee’s job or position, (3) the type of work performed by the employee, and (4) the kind of information sought to be protected and the value of the information or the need of the competitor for it.”; FMC Corp. v. Cyprus Foote Mineral Co., 899 F. Supp. 1477, 1482 (W.D.N.C. 1995) (“Even assuming that North Carolina would recognize this so-called ‘inevitable discovery’ doctrine, the Court does not believe that North Carolina would apply the doctrine with the broad strokes” exemplified by the pure version of the doctrine.).

Texas. Conley v. D.S.C. Comm’cns Corp., No. 05-98-01051-CV, 1999 WL 89955, at *3-4 (Tex. Ct. App. Feb. 24, 1999) (unpublished opinion) (stating that although “no Texas case refer[ed] to a ‘doctrine of inevitable disclosure,’” it was proper to grant an injunction where disclosure was “probable”; here, the trial court’s preliminary injunction, prohibiting a former employee from using confidential information in subsequent employment, was proper because the former employee “would probably use [the former employer’s] confidential information,” given the close relationship between the two jobs and the absence of a non-competition agreement); T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc., 965 S.W.2d 18, 24 (Tex. Ct. App. 1998) (unpublished opinion) (affirming trial court’s preliminary injunction preventing former employees from performing work in area of former employer’s trade secret, even in absence of non-competition agreement).

C. States that conflate the inevitable disclosure doctrine with threatened misappropriation.

The third group includes states that conflate the inevitable disclosure doctrine with the notion of threatened misappropriation. Some states do so by treating inevitable disclosure and threatened misappropriation as variations of the same theory, as in the approach taken by various federal courts applying Iowa law. Other states, such as Indiana, Michigan, and Missouri, do so by incorporating the traditional requirements for establishing threatened misappropriation, i.e., by requiring a showing of bad faith conduct on the part of the former employee.

Iowa. Barilla Am., Inc. v. Wright, No. 4 02 CV 90267, 2002 WL 31165069, at *8-9 (S.D. Iowa July 5, 2002) (holding that inevitable disclosure is merely a variation on threatened disclosure, and inevitable disclosure is simply analyzed under a stricter standard); see also Interbake Foods, LLC v. Tomasiello, 461 F. Supp. 2d 943, 973 (N.D. Iowa 2006) (concluding that inevitable disclosure and threatened disclosure are variations of the same theory, and inevitable disclosure is “one way of showing a threatened disclosure in cases where additional evidence showing the existence of a substantial threat of impending injury is unavailable to the movant”).

Indiana. Ackerman v. Kimball Int’l, Inc., 652 N.E.2d 507, 508 (Ind. 1995) (stating, “we write to clarify that otherwise unenforceable covenants not to compete do not automatically become enforceable solely because an employee is in possession of trade secrets” but affirming trial court’s granting of permanent injunction preventing a former employee from working for a competitor on the grounds that the former employee had
taken customer and supplier lists prior to his termination; inevitable disclosure not mentioned); see also Dearborn v. Everett J. Prescott, Inc., 486 F. Supp. 2d 802, 820 (S.D. Ind. 2007) (citing Ackerman for the proposition that “Indiana courts may entertain attempts to use the inevitable disclosure theory, but that the theory should remain limited to a rare and narrow set of circumstances in which the departing employee has acted in bad faith in taking or threatening to take valuable confidential information”); Bridgestone/Firestone, Inc. v. Lockhart, 5 F. Supp. 2d 667, 681-82 (S.D. Ind. 1997) (refusing to grant injunctive relief and distinguishing Ackerman on the basis that the former employee had not demonstrated any bad faith conduct).

Michigan. CMI Int'l, Inc. v. Intermet Int'l Corp., 649 N.W.2d 808, 813-14 (Mich. Ct. App. 2002) (affirming trial court’s dismissal of claim alleging inevitable disclosure, and interpreting PepsiCo, 54 F.3d at 1270-71, as requiring a showing of bad faith on the part of the former employee); see also Leach v. Ford Motor Co., 299 F. Supp. 2d 763, 775 (E.D. Mich. 2004) (interpreting the PepsiCo holding as based largely on the former employee’s display of bad faith, but ultimately refusing to apply the inevitable disclosure doctrine on the facts presented).

Missouri. H&R Block E. Tax Servs., Inc. v. Enchura, 122 F. Supp. 2d 1067, 1075 (W.D. Mo. 2000) (interpreting PepsiCo, 54 F.3d at 1271, as providing that “demonstrated inevitability alone is insufficient to justify injunctive relief; rather, demonstrated inevitability in combination with a finding that there is unwillingness to preserve confidentiality is required”).

D. States applying inevitable disclosure to determine validity of restrictive covenant.

The fourth group includes states that apply the inevitable disclosure doctrine only to determine the validity or enforceability of an existing non-competition agreement. Accordingly, in these states, the inevitable disclosure doctrine does not constitute an independent form of trade secret misappropriation. These states include Connecticut, New York (which has not adopted the UTSA), and Ohio.

A discussion regarding New York law is instructive. In New York’s most recent pronouncement on the subject, the New York Supreme Court, Appellate Division refused to apply the inevitable disclosure doctrine in the absence of a non-competition agreement, even though a non-disclosure agreement existed. Marietta Corp. v. Fairhurst, 301 A.D.2d 734, 737-38 (N.Y. App. Div. 2003). In Marietta, the trial court had granted an injunction against a former employee from working for the plaintiff-corporation’s competitor. Id. at 735. On appeal, the court noted that the trial court had “utilized a doctrine, not yet adopted by the state courts, of inevitable disclosure,” and then stated:

As no restrictive covenant was in existence here and our well entrenched state policy considerations disfavor such agreements, the doctrine of inevitable disclosure is disfavored as well, “absent evidence of actual misappropriation by an employee.” In those rare instances where such doctrine is applied, it is further cautioned that the proponent should not be
permitted to “make an end-run around the [confidentiality] agreement by asserting the doctrine of inevitable disclosure as an independent basis for relief.”

Id. at 737 (quoting EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 310-11 (S.D.N.Y. 1999) (alteration in original)). See also Spinal Dimensions, Inc. v. Chepenuk, No. 4805-07, 2007 WL 2296503, at *7-9 (N.Y. Sup. Ct. Aug. 8, 2007) (unpublished opinion) (ruling that proof of inevitable disclosure may be used to justify enforcement of a non-competition agreement, but ultimately finding that inevitable disclosure was not available on the facts presented).

The New York federal courts similarly refuse to apply the inevitable disclosure doctrine unless a non-competition agreement exists. See Payment Alliance Int’l v. Ferreira, 530 F. Supp. 2d 477, 480-81 (S.D.N.Y. 2007) (“While . . . proof of inevitable disclosure would not provide a basis for injunctive relief independent of an express restrictive covenant,” the inevitable disclosure doctrine may be used to support enforcement of a non-competition agreement); compare EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 311 (S.D.N.Y. 1999) (refusing to “re-write the parties’ employment agreement under the rubric of inevitable disclosure and thereby permit [the former employer] to broaden the sweep of its restrictive covenant”), with Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 631 (E.D.N.Y. 1996) (enforcing the terms of a non-competition agreement and enjoining a former employee from working for a competitor based on the fact that “it is inevitable that [the employee] will disclose important [] trade secrets and confidential information in his efforts to . . . aid his new employer and his own future”).

The following are representative cases from Connecticut and Ohio.

Connecticut. Aetna, Inc. v. Fluegel, No. CV0740333455, 2008 WL 544504, at *5-6 (Conn. Super. Ct. Feb. 7, 2008) (noting that Connecticut courts have only applied the inevitable disclosure doctrine “where the employee was bound by a covenant not to compete” and refusing to apply the doctrine because, even if it applied without a non-compete agreement, it did not apply to the case because the new and former employers were not “direct competitors” and the trade secrets at issue were not “highly valuable” to the new employer); Avery Dennison Corp. v. Finkle, No. CV010757706, 2002 WL 241284, at *3 (Conn. Super. Ct. Feb. 1, 2002) (granting temporary restraining order and enforcing non-competition agreement based on inevitable disclosure doctrine and finding balance of hardships in favor of former employer based on non-competition agreement executed at inception of employer-employee relationship); Branson Ultrasonics Corp. v. Stratman, 921 F. Supp. 909, 913 (D. Conn. 1996) (granting preliminary injunction and enforcing non-competition agreement on grounds that “it is likely, if not inevitable” that former employee would disclose trade secrets to new employer).

Ohio. Procter & Gamble Co. v. Stoneham, 747 N.E.2d 268, 278-79 (Ohio Ct. App. 2000) (“In actions to enforce covenants not to compete, Ohio courts have held that an actual threat of harm exists when an employee possesses knowledge of an employer’s trade secrets and begins working in a position that causes him or her to compete directly with the former employer or the product line that the employee formerly supported. Although the courts do not refer to this evidentiary proposition as
‘inevitable use’ or ‘inevitable disclosure,’ the concepts are the same.")


These cases, although recognizing the concept of inevitable disclosure, effectively reject the inevitable disclosure doctrine as an independent basis for enjoining competition.

**PRACTICE TIP:** Even in states adopting the pure version of the inevitable disclosure doctrine, it is easier to obtain injunctive relief if the former employee has signed a non-competition agreement. In such cases, the concept of inevitable disclosure can be used to support a claim under a non-competition agreement, as well as providing an independent basis for a trade secrets claim. In fact, one court has even suggested that non-competition agreements and the pure inevitable disclosure doctrine are two sides of the same coin. RTC Indus., Inc. v. Haddon, No. 06 C 5734, 2007 WL 2743583, at *5 (N.D. Ill. Sept. 10, 2007). In that case, a former employee argued that the non-competition agreement he had signed was unenforceable because it prohibited “actual or threatened disclosure” of confidential information, and this restriction was too broad. Id. at *4. The court disagreed, noting that the explicit non-competition agreement he had signed was “similar to the de facto non-compete covenant in PepsiCo” that was created by the application of the inevitable disclosure doctrine. Id. at *5. In other words, both explicit covenants and implied restrictions created through the use of the inevitable disclosure doctrine can be used to protect confidential information from misappropriation.

**E. States rejecting inevitable disclosure.**

The final group consists of four states that have explicitly rejected the inevitable disclosure doctrine: California, Florida, Maryland, and Virginia. These states typically reject the doctrine by reasoning that the ability to enter into non-compete agreements provides sufficient protection for a former employer’s trade secrets.


Florida. Del Monte Fresh Produce Co. v. Dole Food Co., Inc., 148 F. Supp. 2d 1326, 1335-37 (S.D. Fla. 2001) (noting that Florida courts have never adopted the inevitable disclosure doctrine, and holding that a preliminary injunction could not be granted based on the inevitable disclosure doctrine without a showing of actual or threatened disclosure or
that a non-competition agreement was in effect; the court also specifically distinguished the inevitable disclosure doctrine from the threatened disclosure or misappropriation theory).

**Maryland.** *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 467-71 (Md. 2004) (in light of the same employee mobility policies that motivated California’s rejection of the inevitable disclosure doctrine and the fact that the former employee had not signed a non-competition agreement, the court held that “the theory of ‘inevitable disclosure’ cannot serve as a basis for granting a plaintiff injunctive relief under [the Maryland Uniform Trade Secrets Act]”).

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