

JENNER & BLOCK

PRACTICE SERIES

# UNDERSTANDING AND LITIGATING TRADE SECRETS

*An Outline for Analyzing the Statutory and  
Common Law of Trade Secrets in Illinois*

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## INTRODUCTION TO 2022 EDITION

Since the first edition of this outline was published in 2009 and the second and third editions were published in 2014 and 2017, Illinois case law addressing the protection of confidential and trade secret information has continued to develop, especially with the advent of the federal Defend Trade Secrets Act of 2016. This fourth edition contains updated case law references throughout the outline and adds new information, including about recent cases applying and interpreting the Defend Trade Secrets Act, the evolving jurisprudence and laws concerning restrictive covenants in employment relationships in Illinois, the intersection between claims for misappropriation of trade secrets and other common law and statutory causes of action, and the protection of social media content.

Although Illinois law remains the focus of this outline, we hope it is useful to anyone working to protect trade secrets or litigating a trade secret matter. The law in many U.S. jurisdictions reflects concepts similar to those found in Illinois, and the “practice tips” included throughout the outline provide useful ideas no matter the applicable law. In addition, the two appendices to this outline are national in focus, with a 50-state survey on the doctrine of inevitable disclosure of trade secrets and a nationwide overview of the developing law under the Defend Trade Secrets Act.

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## PREFACE

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 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 in a manner that gives rise to liability, including the concepts of threatened use and inevitable disclosure of trade secrets. Section IV considers the remedies available under 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 ITSA and those other claims, including the extent to which ITSA preempts other claims. Section VII highlights issues involved in obtaining insurance coverage in relation to trade secrets.

Finally, this outline also includes two substantive appendices, one providing an overview of the inevitable disclosure doctrine in all fifty states (Appendix A) and the other (Appendix B) focusing on the Defend Trade Secrets Act of 2016 and the growing body of caselaw applying and interpreting it.

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# UNDERSTANDING AND LITIGATING TRADE SECRETS

## *An Outline For Analyzing The Statutory And Common Law Of Trade Secrets In Illinois*

### I. WHAT IS A TRADE SECRET UNDER ILLINOIS LAW?

#### A. Definition of a Trade Secret.

Illinois courts have long recognized that “[a]n exact definition of a 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 2022) (the “ITSA”), but also to the extensive body of trade secrets common law developed by Illinois courts prior to the adoption of 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.

ITSA defines a “trade secret” as:

[I]nformation, 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 2022). Thus, under 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). Notably, no provision of ITSA imposes a requirement that protected information be marked or otherwise denoted in a specific manner. Miller UK Ltd. v. Caterpillar Inc., No. 10-CV-03770, 2017 WL 1196963, at \*3 (N.D. Ill. Mar. 31, 2017). Nevertheless, as discussed in Section I.C.5.d., *infra*, marking trade secrets may prove to be a valuable step in showing that the owner took necessary steps to protect the confidentiality of the information.

**a) The information must be sufficiently secret.**

First, the information must be sufficiently secret. 765 ILCS 1065/2(d) (West 2022). “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); see also Inmar, Inc. v. Vargas, No. 18-cv-2306, 2018 WL 6716701 (N.D. Ill. Dec. 21, 2018) (denying motion to dismiss where the plaintiff alleged “that the information [at issue] is not readily ascertained or generally known”); Act II Jewelry, LLC v. Wooten, 318 F. Supp. 3d 1073, 1090 (N.D. Ill. 2018) (explaining that once the trade secret was published, it would have lost its trade secret status through public disclosure, but that “it cannot be the rule that any product or information that will eventually be disclosed has no protection while it is in development”); Am. Ctr. for Excellence in Surgical Assisting Inc. v. Cmty. Coll. Dist. 502, 315 F. Supp. 3d 1044, 1057–60 (N.D. Ill. 2018) (explaining that even though the materials were proprietary in nature, and that the school should not copy or reproduce the material, the plaintiff could not meet the secrecy prong requirements because it took none of the affirmative measures that courts in Illinois have recognized as secrecy-preserving); Zep, Inc. v. First Aid Corp., No. 09 CV 1973, 2010 WL 1195094, at \*10 (N.D. Ill. Mar. 19, 2010) (denying motion to dismiss where plaintiff sufficiently described its efforts to maintain secrecy).

Information may be sufficiently secret even though related information has been disclosed publicly. In Life Spine, Inc. v. Aegis Spine, Inc., 8 F.4th 531, 535 (7th Cir. 2021), the Seventh Circuit upheld a preliminary injunction against further misappropriation of trade secrets, concluding that the plaintiff’s effort to patent and then market the surgical spinal insert that related to the alleged trade secrets did not defeat trade secret protection. The court explained that “[t]he precise specifications of the [spinal insert] are not available from marketing materials . . . Nor are they available from patent materials, which disclose the components and their interaction but not their precise measurements or dimensions.” Id. at 536. Further, the plaintiff had carefully monitored who had access to the measurement information, as well as required distributors to sign non-disclosure agreements and to act as fiduciaries for the plaintiff who were required to monitor the individual products from the time they were received until they were used in surgery. Id. at 542. The Seventh Circuit noted that while certain aspects of the product had been made public, “a company can maintain trade secret protection in the undisclosed aspects of a product, even if it has publicly disclosed other aspects of the same product.” Id. at 540.

**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 2022). 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. 1989)). “[T]he purpose of the ‘economic value’ requirement in the [ITSA] is ‘to preclude protection for information not generally known to the public but clearly understood in a particular industry.’” George S. May Int’l Co. v. Int’l Profit Assocs., 256 Ill. App. 3d 779, 788, 628 N.E.2d 647, 653 (1st Dist. 1993) (quoting Minogue, 180 Ill. App. 3d at 454, 535 N.E.2d at 1132). 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). 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).

**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 secrecy. 765 ILCS 1065/2(d) (West 2022). Courts will not protect information that owners leave exposed to the public. See, e.g., Abrasic 90 Inc. v. Weldcote Metals, Inc., 364 F. Supp. 3d 888 (N.D. Ill. 2019) (denying the plaintiff’s motion for preliminary injunction motion because “there was no policy at [the plaintiff corporation] regarding confidentiality beyond a vague generalized admonition about not discussing” the plaintiff’s business outside of work); Ho v. Taflove, 696 F. Supp. 2d 950, 957 (N.D. Ill. 2010) (granting summary judgment for the defendant where the plaintiff publicly disclosed a mathematical model for which it was claiming trade secret protection); Web Commc’ns Grp. v. Gateway 2000, Inc., 889 F. Supp. 316, 320-21 (N.D. Ill. 1995) (granting summary judgment for the defendant “where the plaintiff took virtually no steps to insure the confidentiality of the” information at issue).

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)); see also Scan Top Enter. Co. v. Winplus N. Am., Inc., No. 14 C 7505, 2015 WL 4945240, at \*4 (N.D. Ill. Aug. 19, 2015) (“[T]rade secret law does not offer protection against discovery by fair and honest means [including] the process known as ‘reverse engineering,’ in which a skilled person studies a project and figures out how to produce it.”) (quotations omitted) (alterations in original).

However, courts have held that trade secret owners need only take reasonable measures—not perfect ones—to maintain secrecy. Switchboard Apparatus, Inc. v. Wolfram, No. 20 C 1665, 2021 WL 2311969, at \*4 (N.D. Ill. Jun. 7, 2021) (holding that the plaintiff’s allegations that it used non-disclosure agreements were sufficient to allege secrecy at the motion to dismiss stage and that the plaintiff did not need to allege it engaged in “purported best practices” in order to gain trade secret protection); Zeigler Auto Grp. II, Inc. v. Chavez, No. 19-CV-02748, 2020 WL 231087, at \*4 (N.D. Ill. Jan. 15, 2020) (holding that a plaintiff company that acted “swiftly but not immediately” to revoke the defendants’ access to confidential information after the defendants resigned was entitled to trade secret protection

because trade secret owners need only take “reasonable” measures to protect secrecy); Inmar, Inc. v. Vargas, No. 18-cv-2306, 2018 WL 6716701, \*4 (N.D. Ill. Dec. 21, 2018) (denying motion to dismiss where the plaintiffs alleged information was protected “by using passwords, key cards, security personnel, terminating access to confidential information when employment end[ed], and requiring employees to sign nondisclosure and noncompetition agreements”); Puroon, Inc. v. Midwest Photographic Resource Ctr., No. 16 C 7811, 2018 WL 5776334, at \*6-7 (N.D. Ill. Nov. 2, 2018) (denying motion to dismiss based on purported lack of secrecy, even though the plaintiff sent prototypes to third parties without non-disclosure agreements, where the alleged trade secrets were manufacturing specifications that were not apparent from the prototypes); BankDirect Capital Fin., LLC v. Capital Premium Fin., Inc., No. 15 C 10340, 2018 WL 3374655, at \*2 (N.D. Ill. July 11, 2018) (denying motion to dismiss where the counter-plaintiff “alleges it took ‘reasonable measures’—including its confidentiality provision with [the counter-defendant] to protect the information from being generally known to the public or competitors”); Assocs. Int’l v. Quest Software, Inc., 333 F. Supp. 2d 688, 696 (N.D. Ill. 2004) (holding that plaintiffs could avail themselves of ITSA’s protection despite certain weaknesses found in plaintiffs’ information security procedures because ITSA requires “reasonable measures, not perfection” from trade secret owners).

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

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

ITSA first differs from UTSA in its listing of types of information that may be trade secrets. Although both ITSA’s and UTSA’s lists appear non-exclusive, ITSA’s list specifically identifies a broader spectrum of information that may qualify as a trade secret. For example, ITSA identifies customer lists, supplier lists, financial data and technical or non-technical data as trade secrets; UTSA’s list includes none of these. Compare 765 ILCS 1065/2(d) (West 2022), with UNIF. TRADE SECRETS ACT § 1.

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

ITSA also omits UTSA’s language requiring that the information “not be[] easily ascertainable by proper means.” UNIF. TRADE SECRETS ACT § 1 (1990). In its place, ITSA includes a requirement that the information be “sufficiently secret.” 765 ILCS 1065/2(d) (West 2022). This omission seems to be of no consequence, however. Specifically, courts have rejected the argument that drafters of ITSA intended to eliminate the defense available under UTSA that the information could be lawfully developed through other means. See Hamer Holding Grp., 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. ITSA may be applied extraterritorially.**

A number of courts have concluded that, “unlike other Illinois statutes that courts have found to be geographically limited, the ITSA may be applied extraterritorially.” IPOX Schuster, LLC v. Nikko Asset Mgmt. Co., 304 F. Supp. 3d 746, 758–59 (N.D. Ill. 2018); see also Miller UK Ltd. v. Caterpillar Inc., No. 10 C 3770, 2017 WL 1196963, at\*7 (N.D. Ill. Mar. 31, 2017) (holding that ITSA may be applied extraterritorially). Courts have distinguished ITSA’s language from that of the Illinois Consumer Fraud Act, which the Illinois Supreme Court concluding lacked extraterritorial application. See Avery v. State Farm Mut. Auto. Ins. Co., 216 Ill. 2d 100, 183–185, 835 N.E.2d 801, 852–53 (2005). These courts have looked to ITSA’s statutory language, concluding that it permits broader geographic application. See also Miller UK, 2017 WL 1196963, at \*7 (citing 765 ILCS 1065/8(b)(1), which states 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 a durational or geographical limitation on the duty”).

**3. Trade secrets under the Illinois common law.**

Illinois’ adoption of ITSA explicitly displaced all common law theories of trade secret misappropriation. See 765 ILCS 1065/8 (West 2022); Composite Marine Propellers, Inc. v. Van Der Woude, 962 F.2d 1263, 1265 (7th Cir. 1992) (“Illinois has abolished all common law theories of misuse of such secret information. Unless defendants misappropriated a statutory trade secret, they did no legal wrong.”). Nevertheless, Illinois courts continue to look to common law for guidance on whether information is a trade secret. See, e.g., Delta Med. Sys. v. Mid-Am. Med. Sys, Inc., 331 Ill. App. 3d 777, 789-91, 772 N.E.2d 768, 780 (1st Dist. 2002); George S. May Int’l Co. v. Int’l Profit Assocs., 256 Ill. App. 3d 779, 788, 628 N.E.2d 647, 653 (1st Dist. 1993).

**a) The Restatement’s six-factor analysis.**

Before Illinois adopted ITSA, courts had developed a substantial body of common 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 393, 395 (1971). Also, 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 measures 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 the common law six-factor analysis.**

Illinois courts have retained the Restatement’s six-factor analysis to supplement ITSA’s definition of a trade secret. See Fleetwood Packaging v. Hein, 14 C 09670, 2015 WL 6164957, at \*3 (N.D. Ill. Oct. 20, 2015); Chicagoland Aviation, LLC v. Todd, No. 12-cv-1139, 2012 WL 5948960, at \*4 (N.D. Ill. June 8, 2012), report and recommendation adopted by 2012 WL 5949358 (N.D. Ill. Nov. 27, 2012) (citing Sys. Dev. Serv., Inc. v. Haarmann, 389 Ill. App. 3d 561, 571, 907 N.E.2d 63, 73 (5th Dist. 2009)); 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 ITSA, the Seventh Circuit reaffirmed the continued relevance of Illinois’ common law factors and indicated that failing one factor does not necessarily mean that a trade secret does not exist. 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 of the six common law factors 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 ITSA’s definition of “trade secret,” primarily elaborating on the issues of secrecy and economic value. However, the common law factors provide additional detail regarding the key facts courts will consider in ITSA’s inquiry.

#### **4. The existence of a trade secret is a question of fact.**

Whether a particular piece of information constitutes a trade secret is a question of fact. See Scan Top Enter. Co. v. Winplus N. Am., Inc., No. 14 C7505, 2015 WL 4945240, at \*4 (N.D. Ill. Aug. 19, 2015); Nilssen v. Motorola, Inc., 963 F. Supp. 664, 675 (N.D. Ill. 1997). 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; see also Act II Jewelry, LLC v. Wooten, 318 F. Supp. 3d 1073, 1089 (N.D. Ill. 2018); GlobalTap LLC v. Elkay Mfg. Co., No. 13-cv-632, 2015 WL 94235, at \*10 (N.D. Ill. Jan. 5, 2015).

However, a plaintiff may not survive summary judgment merely by pointing to broad categories of information rather than identifiable trade secrets. In National Tractor Parts, Inc. v. Caterpillar Logistics Inc., 2020 IL App (2d) 181056 (2020), the Appellate Court affirmed summary judgment against a trade secret claim where the plaintiff had been unable to identify, with sufficient specificity, what the trade secrets were, let alone marshal evidence that the information was valuable because it was secret. The plaintiff was a company hired by the defendant to perform sub-assembly for heavy machinery. Id. ¶ 5. The plaintiff claimed “general principles” like the “organization of the assembly process” as trade secrets. Id. ¶ 28. The Appellate Court held that the plaintiff had “only pointed to broad areas and not concrete trade secrets” and thus failed to raise a genuine issue of material fact on its trade secrets claim. Id. ¶ 46. The Appellate Court also concluded that the plaintiff had not shown the value of its alleged trade secret information, reasoning that if the plaintiff could not “explain its trade secret other than in the most very general terms,” then the court could not “assess the value of that secret.” Id. ¶ 50.

#### **5. Use by the owner is not required.**

Under Illinois law, it is irrelevant to the trade secret inquiry whether the owner of the information actually has 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); cf. 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.”).



## 6. Being the first or only one to use the information 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 fact that the plaintiff was the first in the industry to use a particular software feature did not “transform otherwise general knowledge into a trade secret”); Web Commc’ns Grp. v. Gateway 2000, Inc., 889 F. Supp. 316, 319 (N.D. Ill. 1995) (holding that the fact that the plaintiff was the first to use stepped inserts in perfect bound publications did not make that use a trade secret).

## 7. The 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 to produce information may help prove the information’s value, which is relevant to 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.* By contrast, 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*:

### State Court:

Nat’l Tractor Parts, Inc. v. Caterpillar Logistics Inc., 2020 IL App (2d) 181056, ¶ 51 (2020) (“NTP argues that its trade secret was developed over time and discusses the ‘thousands of hours spent and the revenue earned by NTP and its predecessor companies beginning in 1973 as the trade secrets were developed, refined, and applied to projects undertaken by NTP at the request of its clients.’ It then lists its labor costs that it charged to customers from 1975 to 1986. None of this information, however, specifically explains the amount of effort or money expended on this amorphous ‘trade secret.’”).

Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 791, 772 N.E.2d 768, 781 (1st Dist. 2002) (“Delta presented no testimony at the hearing as to the amount of effort expended in acquiring its customer list.”).

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.”).

**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 protectable interest where the employer developed the information over a number of years, at great expense, and kept the information under lock and key.”).

#### **Federal Court:**

**Act II Jewelry, LLC v. Wooten, 318 F. Supp. 3d 1073, 1090 (N.D. Ill. 2018)** (denying motion for summary judgment and holding that the expenditure of “significant time and effort” in curating a jewelry collection was sufficient to extend trade secret protection to the “compilation of the collection,” even where each piece of jewelry was not entitled to trade secret protection).

**Dryco, LLC v. ABM Indus., No. 07 CV 0069, 2009 WL 3401168, at \*3 (N.D. Ill. Oct. 16, 2009)** (granting defendant’s summary judgment motion where plaintiff failed to demonstrate that its internal compilations of “custom engineering specifications” were developed “over a number of years at great expense and kept [] under tight security”).

### **8. Whether a trade secret exists involves a balancing of interests.**

“The protection afforded trade secrets reflects a balancing of conflicting social and economic interests.” Mintel Int’l Grp., Ltd. v. Neergheen, No. 08-cv-3939, 2010 WL 145786, at \*11 (N.D. Ill. Jan. 12, 2010); see also 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, the trade secret should be protected from others, including departing employees, who obtain it through improper means. See, e.g., First Fin. Bank, N.A. v. Bauknecht, 71 F. Supp. 3d 819, 839 (C.D. Ill 2014); 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, “employees in competitive markets must be entitled to utilize the general knowledge and skills acquired through experience in pursuing [their] chosen occupation.” First Fin. Bank, 71 F. Supp. 3d at 839 (internal quotation marks omitted); see also Mintel, 2010 WL 145786, at \*11; 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. “[I]t is not enough to point to broad areas of technology and assert that something there must have been secret and misappropriated. The plaintiff must show concrete secrets.” Instant Tech., LLC v. DeFazio, 40 F. Supp. 3d 989, 1015 (N.D. Ill. 2014) (quotation marks omitted); see also Vendavo, Inc. v. Long, 397 F. Supp. 3d 1115, 1130 (N.D. Ill. 2019); AutoMed Techs., Inc. v. Eller, 160 F. Supp. 2d 915 (N.D. Ill. 2001). For a more extensive discussion of pleading issues and the trade secret identification requirement, see infra Section V.E.

Under ITSA, a trade secret can be tangible property. Richerme v. Trumbull Ins. Co., No. 18 CV 1286, 2018 WL 5264239, at \*3 (N.D. Ill. Oct. 23, 2018) (noting that the designs and drawings at issue were the kind of tangible items required for a trade secret suit, but ultimately granting summary judgment to the defendant because the business exclusion rule applied). See also 765 ILCS 1065/2(d) (West 2022) (defining “trade secret” as “information, including but not limited to ... [a] device, method, technique, drawing, process, financial data, or list of actual or potential customers or suppliers” that is sufficiently secret to derive economic value and subject to reasonable efforts to maintain its secrecy).

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. The principal categories are discussed below.

**PRACTICE TIP:** Parties to trade secret litigation should avoid taking positions in the litigation that could adversely affect their businesses in the future. For example, where a defendant and a plaintiff compete in the same industry, the defendant should be careful in arguing that no legitimate trade secrets exist due to the nature of the industry because taking such a position could undermine the defendant’s ability in the future to protect its own trade secrets against similar allegations of misappropriation.

### 1. Customer lists.

Customer lists are one of the most frequently litigated categories of potential trade secrets. 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. Although some lists may simply consist of mailing labels, other customer 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 can be readily compiled from public sources. Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*8-9 (N.D. Ill. Dec. 22, 2021) (denying the plaintiff’s motion for preliminary injunction with respect to its customer lists, explaining that the information was reminiscent of a “yellow-page listing of moving companies” with no explanation as to why any “extra” information included would take substantial time or effort to compile); Ledbetter Trucking & Excavating, Inc. v. Miller’s Classic Carpet, Inc., 2019 IL APP (3d) 190147-U, 2018 WL 5858222, ¶¶ 25-31 (unpublished) (no trade secret protection where “[t]he client list consisted of businesses’ names and phone numbers” and “[a]ny of these phone numbers could have been obtained through the phone book.”).

**a) Public availability and the cost of compilation of the customer list information frequently determine trade secret status.**

Under Illinois common law, a customer list or other customer information may qualify for trade secret protection if the plaintiff “developed the information over a number of years, at great expense, and kept the information under lock and key.” 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); see also Cornerstone Assurance Grp., Inc. v. Harrison, No. 17 CV 4718, 2017 WL 4460761, at \*4 (N.D. Ill. Oct. 5, 2017) (concluding that the plaintiff stated a plausible claim under ITSA after the plaintiff alleged that it spent years developing data—data which was not likely to be ascertainable to others from readily available sources—and that the information was not generally accessible to other persons); First Fin. Bank, 71 F. Supp. 3d at 841-42 (“In determining whether a customer list is a trade secret, the manner in which an employer maintains its confidentiality is the most important factor.”). 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 ITSA have held that if someone could easily create a customer list by referring to professional directories, trade publications, association memberships, or mailing lists, or simply by looking in the phone book, the list likely does not constitute a trade secret. 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 part of this inquiry concerns the time, energy and money the owner invested in compiling the list. See Hamer Holding Grp., 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 compiling 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).** The 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 list. 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."

**Federal Court:**

**20/20 Foresight, Inc. v. George, No. 20-CV-5310, 2021 WL 2823095, at \*2-3 (N.D. Ill. July 7, 2021).** The court denied the defendant's motion to dismiss the plaintiff's trade secrets claims, rejecting the defendant's argument that the information was not secret. The court held that the plaintiff's allegation "that [names and contact information of candidates and potential job recruiters] [are] not publicly available is not a legal conclusion—it is a factual allegation that, at this stage, the Court must assume is true." The court further noted that the plaintiff "alleges that it built up its information through effort and expense" and that information derived from public sources but requiring "laborious accumulation, culling, and/or analysis . . . can still qualify as a trade secret."

**Mickey's Linen v. Fisher, No. 17 C 2154, 2017 WL 3970593, at \*9 (N.D. Ill. Sept. 8, 2017).** The court granted trade secret protection to select customer lists that identified the plaintiff's top 150 customers—its highest revenue-producing customers—and its problem or at-risk customers. Given testimony that the information was valuable and the defendant's concession that the information was treated as confidential, the court held that the select customer lists went "beyond mere public customer identities."

**First Fin. Bank, N.A. v. Bauknecht, 71 F. Supp. 3d 819, 843-44 (C.D. Ill. 2014).** The court granted summary judgment in favor of a bank in an action against a former employee, holding that the bank's customer lists and financial information qualified for trade secret protection because the bank took appropriate steps to keep the information private, including by requiring employees to sign confidentiality agreements and use security codes to access computer systems and by instructing employees on how to remove confidential information from personal devices. The court also noted that the bank had shown that the lists had significant economic value because they contained "unique knowledge" of the customers' needs (in addition to the customer names themselves) and because the bank had made significant

efforts to build and maintain relationships with its customers. The court further held that the bank’s decision to allow the former employee “to possess confidential information outside of these measures [did] not vitiate the reasonableness of the measures.”

***Trade Secret Protection Denied:***

**State Court:**

**Moves Dance Studio, Inc. v. Foster, 2018 IL App (2d) 180210-U, ¶¶ 31-41.** The Appellate Court affirmed the trial court’s order granting summary judgment in favor of the defendants on the plaintiff’s ITSA claim. The plaintiff, a recreational dance studio, alleged that the defendants, former employees of the plaintiff, had misappropriated its client lists, which it kept in a database, as well as its budget and student database. The court concluded that the client lists in the database were not trade secrets because the database was accessible to most, if not all, employees, and the database could be accessed by anyone with an Internet connection. Similarly, the budget and student database were not trade secrets because they were not confidential; for instance, the budget and other dance materials were distributed to the students and their parents, and names and contact information for the students were routinely disclosed to parents and others.

**Bridgeview Bank Grp. v. Meyer, 2016 IL App (1st) 160042, ¶¶ 17-19.** The Appellate Court affirmed the trial court’s denial of a motion for temporary restraining order, holding that a customer list was not a trade secret because there was insufficient evidence that the plaintiff had expended resources in acquiring and retaining its customers or that the customer relationships were longstanding. The Appellate Court also explained that there is no *per se* rule that customer lists qualify as protectable trade secrets.

**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 that, 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, 402-03, 842 N.E.2d 265, 270-71 (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. Nonetheless, the Appellate Court held 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 Appellate 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 Appellate Court also held that the information was sufficiently secret to derive economic value from its secrecy. The Appellate 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-protectable 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).** The plaintiff, a mammography equipment repair service, alleged misappropriation of trade secrets, including a customer list, and sought injunctive relief 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, N. 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 secret protection for 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 Appellate Court held that the client information was not protectable 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 Grp., 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. The court concluded that, despite this cost and effort, 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. The court also reasoned that, 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 that the list was secret.

#### **Federal Court:**

**Arjo, Inc. v. Handicare USA, Inc., No. 18 C 2554, 2018 WL 5298527, at \*4-5 (N.D. Ill. Oct. 25, 2018).** The plaintiff, a medical device supplier, sued a competitor, alleging that it misappropriated its trade secrets, specifically: (a) pricing and sales contract information; (b) customer lists and identifying information; (c) information related to the plaintiff's "diligent assessment program"; and (d) slides related to a strategic analysis of the plaintiff's products, marketing strategy, and business strategy. The plaintiff moved for a preliminary injunction, which the court denied. The court acknowledged that the identity of the plaintiff's "customers in the relevant territory—hospitals, nursing homes, and care facilities—[we]re relatively few and [we]re easily ascertainable," and that the lists can "be easily reverse-engineered." It further noted that "[a]lthough password protection and other efforts to keep a customer list private are relevant, they are not sufficient to warrant protection if the list can be easily reconstructed using publicly available information."

**Fleetwood Packaging v. Hein, No. 14 C 009670, 2015 WL 6164957, at \*3 (N.D. Ill. Oct. 20, 2015).** A manufacturer of packaging materials sued a former salesman, alleging that he misappropriated trade secrets and breached a confidentiality agreement by copying the manufacturer's customer list, profit reports, and product matrices. The court dismissed a claim for misappropriation of the customer list because the complaint contained insufficient details as to how the customer list was built or the steps the company took to keep the list secret. The court also stated that the fact that the plaintiff competed for the same customers as its competitors in "a niche industry" suggested that the limited universe of potential customers could not be secret.

**Chicagoland Aviation, LLC v. Todd, No. 12-cv-1139, 2012 WL 5948960 (N.D. Ill. June 8, 2012), report and recommendation accepted by 2012 WL 5949358 (N.D. Ill. Nov. 27, 2012).** A flight aviation school sought a preliminary injunction against the use of its customer list by a former employee who was using the information to lure customers to his new company. Recommending denial of the preliminary injunction, the magistrate judge held that the list was not protectable because all company



employees had access to it, the company made no special efforts to protect it, and the company had been in business for only two years. The district court accepted the magistrate judge's recommendation.

**Curtis 1000, Inc. v. Suess, 843 F. Supp. 441 (C.D. Ill. 1994), aff'd, 24 F.3d 941 (7th Cir. 1994).** The distributor of custom stationary, 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) The size and nature of the plaintiff's business may affect whether the customer list is protected.**

Two other important factors courts consider when analyzing whether a customer list qualifies as a trade secret are: (1) the nature of the business, and (2) 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 generally are 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 for specialized businesses. 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 thus, the identity of its customer base can be 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 had expended resources by 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 abused its discretion in granting preliminary injunctive relief.

**c) The 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 the importance of customer relationships to a plaintiff's business. If the relationships are insignificant, the court may be less likely to grant trade secret status.

**d) The size and content of a customer list may affect whether the list is subject to trade secret protection.**

The more information a company's customer list contains, the more likely a court will find that it is a trade secret. For example, courts are more likely to protect a customer list that includes historical sales information, pricing information, and profit margin information (as opposed to just names and contact 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), for example, the court granted the plaintiff's motion for partial summary judgment and explained that the plaintiff had worked with the defendant-former employee 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 that the customer lists and pricing information constituted protectable trade secrets.

**e) Whether the former employee had a prior relationship with customers on the list may affect trade secret protection.**

Employees sometimes have an existing relationship with their customers. Whether the employee or the employer is the actual owner of the customer relationship can be a source of tension between the employer and the employee. If the employee had a relationship with the customers before working for the employer, it will be difficult for the employer to establish that the list of those customers is a trade secret protectable 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).** An 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 before his original employment. The court ruled against the plaintiff, holding that an employer's interest in its customers is proprietary and potentially protectable as a trade secret only if, by the nature of the business, the customer relationship is near-permanent and, but

for the employment with the plaintiff, the employee would not have had contact with the clients in question.

**f) Whether a purchased customer list is protected is fact-specific.**

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 exclusively owned the customer list, he could not show the list was a trade secret. 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. In allowing trade secret protection, the court noted that the plaintiff allocated \$60,000 of the \$70,000 purchase price for the customer list and customer information.

**PRACTICE TIP:** Purchasers of customer lists should consider demanding that the sellers sign non-competition or non-solicitation agreements and 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.

**g) Courts will not provide perpetual protection to client-related information unless the plaintiffs provide sufficient evidence to suggest that such information remains valuable in perpetuity.**

Courts will not protect customer information as a trade secret in perpetuity unless sufficient evidence demonstrates the information will maintain value in perpetuity. Vendavo, Inc. v. Long, 397 F. Supp. 3d 1115 (N.D. Ill. 2019) illustrates this point. In Vendavo, a software company alleged an employee misappropriated trade secrets after departing the company. Id. at 1126. The secrets in question included customer names, product preferences, and contact information; the company argued the information constituted protectable trade secrets. Id. at 1131. Although the court agreed the information could be a trade secret, it granted trade secret protection to only the specific information that the court held was currently relevant and valuable. Id. at 1133. The court noted that because the plaintiff had not presented sufficient evidence to demonstrate the information would remain valuable in perpetuity, the “client-related information [could] not be protectable as a trade secret forever.” Id. at 1133.

**2. Pricing information, pricing formulas, and profit margins.**

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 which is disclosed by a business to any of its customers, unlike a unique formula used to calculate the price information which is not disclosed to a business’s customers, does not constitute trade secret information protected by the [ITSA]” because once the price is quoted, the customer is free to share the information with others. SBS Worldwide, Inc. v. Potts, No. 13 C 6557, 2014 WL 499001, at \*4 (N.D. Ill. Feb. 7, 2014) (internal quotation marks omitted); see also 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 presented at the evidentiary 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.

**Label Printers v. Pflug**, 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:**

**Westrock Co. v. Dillon**, No. 21-CV-05388, 2021 WL 6064038, at \*9-10 (N.D. Ill. Dec. 22, 2021). The court granted the plaintiff’s motion for preliminary injunction in part, though it denied the request to protect certain categories of information, such as customer lists and pricing information, including individual customer price lists and a national contract with a major customer. The court explained that the plaintiff had not shown a sufficient likelihood of success in proving that the pricing information was a trade secret where the record showed “that prices are benchmarked from publicly known indices, suppliers do not restrict customers from sharing product prices, and customers frequently share supplier product pricing during price

negotiations.” The court also explained that the plaintiff had not shown that such pricing information was considered secret either in the industry, or by the plaintiff.

**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. To prove that a pricing formula constitutes a trade secret within the meaning of 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 Fleetwood Packaging v. Hein, No. 14 C 09670, 2015 WL 6164957, at \*4 (N.D. Ill Oct. 20, 2015) (holding that product matrices, which included costs and other information used to set prices, could be protected as trade secrets); cf. Serv. Ctrs. of Chi., Inc. v. Minogue, 180 Ill. App. 3d 447, 454-55, 535 N.E.2d 1132, 1136-37 (1st Dist. 1989) (reversing the trial court’s entry of preliminary injunction, explaining that a pricing formula would not be protected as a trade secret where the plaintiff appellee failed to show that its formula involved anything more than what was generally known within the industry).

In Service Centers of Chicago, 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. 180 Ill. App. 3d 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. Significantly, 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 Granted:***

**Triumph Packaging Grp. v. Ward, 834 F. Supp. 2d 796 (N.D. Ill. 2011).** The plaintiff claimed that its pricing and customer information, among other information, should be protected as trade secrets. The court held that the pricing and customer information qualified for trade secret protection. The court explained that the pricing strategy was “unique because it incorporate[d] [the plaintiff’s] confidential information, including, among other things, the cost of raw materials, ink prices, machine speeds, and [] overhead costs.” Additionally, the court determined that the information was sufficiently secret because only three people at the plaintiff’s company, including the defendant, knew of the pricing strategy, and the plaintiff used a confidentiality agreement with its customers prohibiting disclosure of the prices to competitors. Ultimately, however, the court denied a preliminary injunction because there was no threat of disclosure justifying such relief.

***Trade Secret Protection Denied:***

**Arjo, Inc. v. Handicare USA, Inc., No. 18 C 2554, 2018 WL 5298527, at \*4 (N.D. Ill. Oct. 25, 2018).** The plaintiff sued the defendant, seeking to protect its customer and distributor pricing information. The court, denying the plaintiff’s motion for a preliminary injunction, declined to find trade secret status for the customer pricing information because “pricing information shared freely with customers is insufficiently secret to garner protection.” The court also declined to find trade secret status for the distributor information because customer pricing was not confidential and provided “a ready means of calculating distributor pricing.”

**Cortz, Inc. v. Doheny Enters., Inc., No. 17 C 2187, 2017 WL 2958071, at \*10 (N.D. Ill. July 11, 2017).** The court denied trade secret protection for the plaintiff’s vendor pricing because the plaintiffs failed to allege many of the factors set forth in the Seventh Circuit’s decision in Learning Curve Toys. For instance, the plaintiff did “not discuss the amount of time, effort, or the money that it expended in developing its vendor pricing[,] nor whether it would be difficult to duplicate its effort in doing so.”

**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.

**Chicagoland Aviation, LLC v. Todd, No. 12-cv-1139, 2012 WL 5948960 (N.D. Ill. June 8, 2012), report and recommendation accepted by 2012 WL 5949358 (N.D. Ill. Nov. 27, 2012).** The plaintiff alleged that the defendant misappropriated its confidential pricing scheme. In recommending denial of a preliminary injunction, the magistrate judge explained that all of the customers were aware of the company’s prices and “[the defendant]’s method of charging his customers was, in fact, different from [the plaintiff]’s

pricing structure.” The district court accepted the magistrate judge’s recommendation.

**c) Price differentials and net profits.**

Like pricing formulas, price differentials or profit margins may satisfy the requirement of secrecy, but a number of Illinois courts have declined to hold they are trade secrets. See Applied Indus. Materials Corp. v. Brantjes, 891 F. Supp. 432 (N.D. Ill. 1994). At least one court, however, has held such information may qualify as a trade secret. See Mickey’s Linen v. Fischer, No. 17 C 2154, 2017 WL 3970593 (N.D. Ill. Sept. 8, 2017). 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 ITSA’s requirement of actual or potential economic value. See Applied Indus. Materials Corp. v. Brantjes, 891 F. Supp. 432 (N.D. Ill. 1994) (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 Granted:***

**Mickey’s Linen v. Fischer, No. 17 C 2154, 2017 WL 3970593, at \*9–10 (N.D. Ill. Sept. 8, 2017).** The plaintiff sought trade secret protection for its customer lists that included customer profiles that detailed information including the customer’s profitability and margins, purchasing preferences, quality control programs, contract terms, pricing, expirations, renewal terms and discounts, marketing strategies, and installation schedules. The court granted trade secret protection because “customer lists have been long held to warrant trade secret protection” and the detailed information it issue “deserved” protection. Further, the information was maintained in confidence, even if customers subsequently shared such information with competitors. The court noted that the preeminent advantage of such customer profiles was that they were “gathered in one place” to reference “before they [were] given to the customers.” Thus, so long as the information met the requirements for trade secret protection at the outset, the information could be treated as confidential regardless of what the customer ultimately did with that information. The court added that internal information concerning profitability, which was not allowed to leave management meetings, was “closely guarded” and thus “plainly qualifie[d] for trade secret protection.”

***Trade Secret Protection Denied:***

**Stenstrom Petroleum Servs. Grp., 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 that the plaintiff was unlikely to establish that 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.

**Chicagoland Aviation, LLC v. Todd, No. 12-cv-1139, 2012 WL 5948960 (N.D. Ill. June 8, 2012), report and recommendation accepted by 2012 WL 5949358 (N.D. Ill. Nov. 27, 2012).** The plaintiff sought a preliminary injunction to prevent the defendants from using or disclosing a spreadsheet outlining “hypothetical costs and profit margin for a flight business,” including the “cost of fuel, the cost of storage and insurance, the rates paid to instructors and charged to customers, and even the number of hours a rental aircraft was rented per month.” In recommending denial of the preliminary injunction, the court explained that the information was not confidential because the defendant could have ascertained the information on the sheet “either through his experience as a flight instructor or by making inquiries.” The district court accepted the magistrate judge's recommendation.

### **3. Computer software.**

Illinois courts repeatedly have held that computer programs can constitute protectable trade secrets. See, e.g., Computer Assocs. Int'l, Inc. v. Quest Software, Inc., 333 F. Supp. 2d 688, 691 (N.D. Ill. 2004); ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310, 1333 (N.D. Ill. 1990). “The combination and interrelationship of component parts constituting computer programs” can be a trade secret. Lynchval Sys. Inc. v. Chi. Consulting Actuaries, Inc., No. 95 C 1490, 1998 WL 151814, at \*5 (N.D. Ill. Mar. 27, 1998) (citations omitted).

As with other types of information, the focus of the trade secrets inquiry will be on the secrecy of the software the plaintiff seeks to protect as a trade secret. Comp. Care v. Serv. Sys. Enters. Inc., 982 F.2d 1063 (7th Cir. 1992); Arkeyo, LLC v. Cummins Allison Corp., 342 F. Supp. 3d 622 (E.D. Pa. 2017) (software not a protectable trade secret where it was disclosed publicly on the Internet). In addition, the software owner must produce evidence demonstrating “with particularity” that the defendant misappropriated “concrete secrets” and not “broad areas of technology” to survive summary judgment. Lynchval, 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); see also infra Section V.E.

#### **a) Trade secret misappropriation is not an exclusive claim.**

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



**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. 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 non-responsive 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, 636 F. Supp. 2d 763, 766 (C.D. Ill. 2009), the court granted a preliminary injunction after determining that 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.; see also Geraci v. Macey, No. 14 CV 06876, 2016 WL 3671400, at \*8 (N.D. Ill. July 11, 2016) (denying motion for summary judgment because a jury might conclude that there was economic value in the secrecy of plaintiff’s software source code).

**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 International v. Quest Software, Inc., 333 F. Supp. 2d 688, 691 (N.D. Ill. 2004), the court enjoined the plaintiff’s competitor from using, selling, licensing, or distributing a software program allegedly derived from the 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 had 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; as a result, 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. For instance, 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 belonging to 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 protectable 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 there was

no trade secret because the plaintiff's product was on the market and the claimed secret was readily disclosed by the product itself. 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 that 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 ha[d] 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" the 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) Reverse engineering may not be a defense, if the defendant actually used the drawing or blueprint.**

At least 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 the drawings were not trade secrets because their product was an improvement of the earlier drawing. Id.

**c) Artists' concepts are generally not protectable.**

Unlike product drawings and blueprints, artists' concepts are usually less technical and often just represent 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 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:**

**Minn. Mining & Mfg. Co. v. Pribyl, 259 F.3d 587, 595-96 (7th Cir. 2001).**

A jury determined that former employees and the corporation they founded were liable for misappropriating a manufacturer's operating procedures and manuals. Applying Wisconsin's version of UTSA, the court affirmed the jury verdict and held that a compilation of "cleaning procedures, temperature settings, safety protocols, and equipment calibrations" was a trade secret even though it may have been "comprised solely of materials available in the public domain." In so holding, the court recognized that 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 protectable secret."

**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 Grp., 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 the 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 [the process] 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.

**Federal Court:**

**Ultraviolet Devices, Inc. v. Kubitz, No. 09-cv-5697, 2009 WL 3824724 (N.D. Ill. Nov. 13, 2009).** The court refused to grant a preliminary injunction seeking to protect alleged trade secrets, reasoning that the identified information did not qualify for such protection. First, the court held that the ratio of carbon granules to the Microthene binder used in the plaintiff's new air filters was not a trade secret because that ratio was "commonly accepted" and "publicly known." The court explained that "[w]here a process is commonly known within an industry and the plaintiff in a trade secret case claims to have made significant improvements to the process, but not to have changed the process in a way amounting to a meritorious discovery or invention, there is no trade secret protection." Second, the court held that protection for the period of time for mixing carbon granules and the Microthene binder was not a trade secret. The court explained that no trade secret protection is available where "standard ingredients" in "standard ratios" are mixed using "standard equipment." Third, the court held that protection for the temperature at which the filters are heated was not a trade secret. The court pointed out that the plaintiff's witness described the temperature as "200 something degrees." The court explained that such a "vague characterization" of the temperature was insufficient because it was "widely known within the industry that bonded carbon panels are baked at some temperature for some period of time." And, there was no indication that the plaintiff's "time and temperature are novel and protectable," as opposed to "merely within industry standards."

## 6. Product models.

Illinois courts generally have been reluctant to recognize product models as trade secrets. There is some overlap between this category and product design. As explained in Sections I.B.4 and I.B.7, 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. Before 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 sued the competition for trade secret misappropriation. Id.

On summary judgment, the court held that it could not prohibit the copying of a product once it enters the public domain. Id. at \*8-9. “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, sued 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 the plaintiff allegedly disclosed the information to the defendants or whether, before 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, even before the disclosure, the information had long since passed into the public domain. Therefore, the design was not a protectable trade secret.

***Trade Secret Protection Granted:***

**Roton 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 protectable trade secret under ITSA.

**RRK Holding Co. v. Sears, Roebuck & Co., 563 F. Supp. 2d 832 (N.D. Ill. 2008).** The 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 Section I.A.5. Instead, courts will consider such factors as (1) the amount of time, effort, and money expended to develop the design, and (2) 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 protectable 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 a defense to a

trade secret claim only if the product is lawfully acquired and then reverse engineered. *Id.* at 729-30.

**b) Design information may not be afforded trade secret protection where the information was obtained from a non-fiduciary third-party.**

Companies that fail to take measures to protect against disclosure by third parties privy to trade secret information, such as suppliers or distributors, may lose protection for the information. 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 manufacturing similar products, the plaintiff brought suit under ITSA. Although 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.

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| <p><b>PRACTICE TIP:</b> Obtain confidentiality and nondisclosure agreements from third parties, including their employees, before disclosing sensitive information.</p> |
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**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 the plaintiff's product. 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, the holder of the trade secret appeared to be the third party, not the plaintiff, because the third party was the one that actually developed the formula. 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:***

**U.S. Gypsum Co. v. Lafarge N. Am. Inc., 670 F. Supp. 2d 737 (N.D. Ill. 2009).** Denying a motion in limine, the court admitted expert testimony that the "same or substantially similar formulas to the one [plaintiff] used were common in the industry." The court held that the testimony was relevant because it tended to show that "the formula was either generally available in the industry or obvious based on what was commonly known."

**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); see also Ancraft Prods. Co. v. Universal Oil Prods. Co., 84 Ill. App. 3d 836, 843, 405 N.E.2d 1162, 1168 (1st Dist. 1980) (employee took only general skills when he left his employer, even though employee's work experience with former employer likely "augmented" his skills and therefore assisted his current employer); Fleming Sales Co. v. Bailey, 611 F. Supp. 507, 514 (N.D. Ill. 1985) (departing employee not required "to perform a prefrontal lobotomy on himself or herself"). As the Illinois Supreme Court has 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:*

State Court:

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 that the plaintiff's knowledge of the intricacies of its customers' computer systems and networks was a trade secret. The Appellate Court held that the evidence was insufficient to support this finding because 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 a protectable trade secret.

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 was free to take with him when his employment ended. 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.

**Federal Court:**

**Triumph Packaging Grp. v. Ward, 834 F. Supp. 2d 796 (N.D. Ill. 2011).** The court held that the plaintiff was not likely to succeed on the merits of a trade secret claim because it failed to show “that its lean manufacturing and efficient processes are not simply a skill set that [the defendant] has acquired during his 20-plus years in the packaging business.” The court also noted that the defendant had “extensive experience and training in lean manufacturing” before working for the plaintiff. Ultimately, however, the court denied a preliminary injunction because there was no threat of disclosure justifying such relief.

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 protectable 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.”

**Ancraft Prods. Co. v. Universal Prods. Co., 84 Ill. App. 3d 836, 405 N.E.2d 1162 (1st Dist. 1980).** 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 trade secrets.**

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 protectable 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:**

**Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*11-12 (N.D. Ill. Dec. 22, 2021).** The court granted in part and denied in part a motion for preliminary injunction. It granted the motion as to the plaintiff’s historic sales, profits, and product stock figures as well as “snapshot” customer order logs showing similar information. The major issue was whether the information could constitute a trade secret. The defendants claimed that the plaintiffs failed to show sufficient likelihood of success on the merits because the information was highly volatile given the COVID-19 pandemic, and thus not likely to be useful for very long, and because the wholesale prices were known in the industry and thus not secret. The court found that customer sales histories, the plaintiff’s profit margins and product stock information for hundreds of customers with year-over-year comparisons could be both highly valuable and not easily replicable, even if the information was hypothetically available. Daily sales “snapshots” that provided similar information but for a shorter period also were protectable for the same reasons. The court denied protection for customer contact information, individual customers’ pricing data and files related to a particular customer. The court found that the plaintiff was unlikely to succeed in showing that these categories were protectable trade secrets because the plaintiff had not sufficiently protected their confidentiality or treated the information as confidential.

**Mickey’s Linen v. Fischer, No. 17 C 2154, 2017 WL 3970593, at \*10 (N.D. Ill. Sept. 8, 2017).** The court granted trade secret protection to the plaintiff’s

financial information, including profitability and financial data for each department, budgetary details related to labor costs and requirements, and other financial information that was not allowed to be taken from management meetings attended by the defendant former employee. The court concluded that such closely guarded financial information “plainly qualifies for trade secret protection.”

**Intertek USA Inc. v. AmSpec, LLC, No. 14 CV 6160, 2014 WL 4477933, at \*5 (N.D. Ill. Sept. 11, 2014).** The court granted the plaintiff’s motion for a preliminary injunction, finding that the plaintiff’s profit and loss statements and aging and sales reports constituted trade secrets because the plaintiff took adequate measures to keep the information secret and the financial information contained in the reports was not publicly available. The court also concluded that a “wish list” identifying the equipment and testing capabilities necessary for a competitor to establish a viable competing lab constituted a trade secret because, among other reasons, the specific equipment and methods identified in the list would not have been readily known and used in other labs, and they had taken the plaintiff five to ten years to develop.

**Covenant Aviation Sec., LLC v. Berry, 15 F. Supp. 3d 813, 818-19 (N.D. Ill. 2014).** A company providing passenger and baggage screening services at airports alleged that its former president misappropriated profit and loss information; internal costs and overhead figures; and operational, bid, and proposal information related to the company’s clients. The court denied a motion to dismiss, reasoning that the plaintiff had sufficiently alleged that this information had economic value and had been kept confidential.

**Centimark Corp. v. Vitek, No. 08 C 7323, 2010 WL 5490662 (N.D. Ill. Dec. 29, 2010).** The court held that there was a genuine issue of fact on a misappropriation claim such that summary judgment would be improper where the plaintiff alleged a range of business information, including “customer lists, customer contact information, pricing and profit information and pricing strategies,” constituted trade secrets. The court explained that the information presented was sufficient to show that the business information constituted trade secrets, even though it did not involve a process or device, because the company went to great lengths to keep the information confidential, and that the defendant’s use of the business information to “alter its sales strategy to improve its bids when competing with” the company was enough to withstand summary judgment.

**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 conclusion.

**Sw. Whey, Inc. v. Nutrition 101, Inc., 117 F. Supp. 2d 770 (C.D. Ill. 2000).** The plaintiff successfully established that its methods, practices and techniques in connection with the marketing and distribution of whey as a hog feed element constituted a protectable trade secret.

**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 that the alleged trade secrets were only generalized business information, which 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."

**Nilssen v. Motorola, Inc., 963 F. Supp. 664 (N.D. Ill. 1997).** The court denied the defendant's summary judgment motion where the trade secrets alleged included confidential information relating to a ballast design, including analyses of the ballast's reliability, manufacturing cost, and efficiency, as well as the ballast's economic advantages and disadvantages, potential distribution channels, the ballast market overall, and expected profitability from the ballast. The court specifically recognized that "a 'trade secret' under [the ITSA] may include a compilation of confidential business and financial information."

**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:**

**Instant Tech., LLC v. DeFazio, 40 F. Supp. 3d 989 (N.D. Ill 2014), aff'd, 793 F.3d 748 (7th Cir. 2015).** Plaintiff, an IT staffing company, alleged that information about its clients qualified as trade secrets. Following a bench trial, the court found that certain client information, which included the identity of clients, hiring needs of clients, and qualifications of candidates



seeking IT positions, was not a trade secret because the information was publicly available and had been given to the plaintiff's clients. The court also noted that the plaintiff's competitors had posted such information on public job boards.

**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 [the plaintiff's], owed it no allegiance, and did not promise confidentiality." Therefore, the plaintiff possessed no protectable 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) Identifying a niche market that is already established 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 protectable interest in identity of hired employees.**

Illinois courts have held that employers have no protectable 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 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. Courts usually apply a lower degree of scrutiny to non-solicitation agreements than to non-compete agreements.

## 11. Social media.

The proliferation of social media in business and everyday life has created a new arena for potential trade secret litigation. Companies have sought trade secret protection for coveted lists of social media contacts—friends, followers, members, or connections, depending on the platform—and their personal details, with mixed results. In these cases, whether the social media account is effectively owned by the employee or the employer is often a defining issue. For example, in CDM Media USA, Inc. v. Simms, No. 14 CV 9111, 2015 WL 1399050, at \*1 (N.D. Ill. Mar. 25, 2015), a business offering marketing and media services sued its former employee for refusing to transfer control of a LinkedIn “group” that the business alleged it owned. The business claimed that the LinkedIn group contained “private communications” regarding the identities of the group’s members and their interests. Id. at \*4-5. The court denied a motion to dismiss a claim for misappropriation of the names of the members of the group, holding that “the complaint plausibly alleges that the membership list was a valuable secret commodity.” Id. at \*5. However, with respect to the contents of the group’s discussion, which included messages shared by its members, the court granted a motion to dismiss, stating: “While a private communication can contain a trade secret, it is not itself a trade secret. . . Plaintiff must allege that certain messages—or at least classes of messages—contained trade secrets, setting forth what it is about the messages that plausibly satisfies the applicable definitions.” Id. at \*5.

Courts in other UTSA jurisdictions also have addressed whether social media information can be protectable as a trade secret. For instance, in Christou v. Beatport LLC, 849 F. Supp. 2d 1055, 1062-64 (D. Colo. 2012), a nightclub owner sued a former employee and his competing company for allegedly misappropriating trade secrets, which included lists of friends and contact information from a MySpace account. Applying Colorado’s version of UTSA, the court denied a motion to dismiss because the information at issue was nonpublic and required significant effort to compile and replicate. Id. at 1075-76; see also Cellular Accessories for Less v. Trinitas LLC, No. 12-cv-06736, 2014 WL 4627090, at \*4 (C.D. Cal. Sept. 16, 2014) (denying motion for summary judgment as to whether LinkedIn contacts qualified as trade secrets because issues of material fact remained as to whether the contacts were kept sufficiently private); PhoneDog v. Kravitz, No. C 11-03474, 2011 WL 5415612, at \*7 (N.D. Cal. Nov. 8, 2011) (denying motion to dismiss claim under California Uniform Trade Secrets Act where employer sued former employee who continued to use a company-issued Twitter account that had 17,000 followers).

More recently, a federal court in Virginia denied a plaintiff-employer’s motion for a temporary restraining order and preliminary injunction on the grounds that the “plaintiff [did not] provide any evidence of irreparable harm, given the fact that the followers of the subject Twitter account are publicly known.” Dkt. 26, BH Media Group v. Bitter, No. 7:18-CV-00388 (W.D. Va. Sept. 27, 2018). In that case, the plaintiff was a newspaper, and it sued a former

reporter for “taking” his Twitter account upon departure. Complaint, Dkt. 1, BH Media Group v. Bitter, 7:18-CV-00388 (W.D. Va. Sept. 27, 2018). The newspaper unsuccessfully argued that it owned the Twitter account and that the account and its followers constituted trade secrets.

### **C. Acceptable Steps for Maintaining Information’s Secrecy.**

Although 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 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 are the most important consideration 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. The steps taken must be reasonable, but need not be perfect.**

While 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:***

##### **State Court:**

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 to be 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.

##### **Federal Court:**

Symbria, Inc. v. Callen, No. 20-CV-4084, 2022 WL 60530, at \*11-12 (N.D. Ill. Jan. 6, 2022). The court rejected the defendant’s motion to dismiss the plaintiff’s claims for trade secret misappropriation. The defendant argued that the plaintiff had failed to take sufficient steps to protect the alleged trade secrets, but the court held that “restricting access to the building with a fingerprint scanner or through a check-in with receptionist; storing hard copy files securely; and providing employees access to digital files on a need-to-know basis” was sufficient. This was the case even for software that the plaintiff shared with clients because these steps reflected “a reality of the

business environment that some confidential information must sometimes be shared with the client who pays for it without making the necessary effort to arrange a non-disclosure agreement.”

**2. A court may consider a failure to enforce known violations of confidentiality agreements as 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), opinion withdrawn by No. 01-cv-0873, 2002 WL 31598839 (N.D. Ill. Oct. 31, 2002) (notably, the opinion was withdrawn following settlement, as opposed to re-evaluation on the merits). 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 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 the steps taken were reasonable is a question of fact.**

Whether the measures taken by a trade secret owner are sufficient to satisfy 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); Motorola, Inc. v. Lemko Corp., No. 08 C 5427, 2012 WL 74319, at \*19 (N.D. Ill. Jan. 10, 2012).

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; see also CMBB LLC v. Lockwood Mfg., Inc., 628 F. Supp. 2d 881, 884 (N.D. Ill. 2009). For this reason, courts may decline to resolve the issue on summary judgment or on a motion to dismiss. 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 on 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, the third party had assured the plaintiff that the prototypes would remain confidential, and there was no evidence the plaintiff disclosed its prototypes to anyone else. Id. at \*15. See also:

**State Court:**

**Quality Lighting, Inc. v. Benjamin, 227 Ill. App. 3d 880, 897, 592 N.E.2d 377, 384 (1st 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.

**Federal Court:**

**Act II Jewelry, LLC v. Wooten, 318 F. Supp. 3d 1073, 1090 (N.D. Ill. 2018).** The plaintiff, a jewelry company engaged in multi-level marketing of jewelry through home parties, argued that one of its existing and unreleased jewelry styles was protected as a trade secret. The defendant, a new jewelry company started by a former employee of the plaintiff, argued that the plaintiff had failed to take reasonable measures to protect the confidentiality of its jewelry collection. The plaintiff provided evidence that its employees who developed or had access to the jewelry collection were required to sign confidentiality, non-disclosure, and development agreements to maintain the secrecy of its jewelry designs. The defendant disputed this and also argued that the plaintiff could not establish that the information was secret where the information's value lay only in the eventual publication of that information. The court noted that material, factual disputes would be left for the jury and that although the jewelry collection would have lost its trade secret status through public disclosure once published, "it cannot be the rule that any product or information that will eventually be disclosed has no protection while it is in development."

**Am. Ctr. for Excellence in Surgical Assisting, Inc. v. Cmty. Coll. Dist. 502, No. 15-cv-7290, 2016 WL 3165763, at \*5-6 (N.D. Ill. June 7, 2016).** The plaintiff operated a surgical assistant training program. The defendant, a community college seeking to create a surgical assistant program, retained the plaintiff to develop a curriculum, assist in assembling a budget for the program, and train the defendant's employees to teach the new curriculum. Although the plaintiff allegedly asked the defendant to sign a non-disclosure agreement, the complaint did not indicate whether the parties actually executed any agreements. Ultimately, the defendant declined to partner with the plaintiff, but launched its own surgical assistant training program. Subsequently, the plaintiff brought a claim for trade secret misappropriation. The court denied the defendant's motion to dismiss, noting that the allegations that the defendant "repeatedly had to request information from" the plaintiff suggested that the plaintiff's precautions taken to protect its trade secrets "were reasonable, as a potential competitor interested enough in the program to invest considerable time and money in replicating it could not obtain the information other than from [the plaintiff] directly, and [the

plaintiff] did not provide [the defendant] with these items except upon specific request.”

**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, stating 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.

**HotSamba, Inc. v. Caterpillar Inc., No. 01 C 5540, 2004 WL 609797 (N.D. Ill. Mar. 24, 2004).** The plaintiff, HotSamba, claimed that the defendant had misappropriated its software in violation of ITSA. The defendant moved for summary judgment, arguing that HotSamba had not produced enough evidence of reasonable efforts to protect the secrecy of its software. The court disagreed and denied the defendant’s summary judgment motion. In so holding, the court explained that “whether the measures taken by a trade secret owner are sufficient to satisfy the [ITSA’s] reasonableness standard ordinarily is a question of fact for the jury” that cannot be settled at the summary judgment stage. In turn, because HotSamba had identified some measures it had taken to protect the secrecy of its software, such as stating in its license agreements that its software was “a confidential and proprietary product,” the court held that the plaintiff had satisfied its burden and overcome the defendant’s summary judgment motion.

**PRG-Schultz Int’l, Inc. v. Kirix Corp., No. 03 C 1867, 2003 WL 22232771 (N.D. Ill. Sept. 19, 2003).** The plaintiff claimed that the defendant had misappropriated its software in violation of ITSA. The defendant moved for summary judgment, arguing that the plaintiff had not produced enough proof of its efforts to protect the secrecy of its software. In denying the motion, the court held that “only in an extreme case” would it grant the defendant’s summary judgment motion on the grounds that the plaintiff had not produced sufficient evidence of reasonable efforts. In turn, because the plaintiff had produced evidence that it had taken some measures to protect the security of the software, such as requiring “confidentiality agreements from . . . independent and secondary contractors,” the court held that the plaintiff had satisfied its burden and overcome the defendant’s summary judgment motion.

By contrast, courts have held that a trade secret owner’s actions were inadequate as a matter of law where the 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 Commc'ns Grp. v. Gateway 2000, Inc., 889 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:

**Abrasic 90, Inc. v. Weldcote Metals, Inc., 364 F. Supp. 3d 888 (N.D. Ill. 2019)**: The court denied a preliminary injunction where the plaintiff, an abrasive manufacturer, failed to take any steps to protect its trade secrets beyond overly broad, generic notices in the employee handbook that “employees are not to reveal or discuss information about [the plaintiff], its customers or its employees when outside of the company.” The court held that this statement was “too broad and vague to confer meaningful protection over the information at issue.” Thus, the court denied the plaintiff’s motion for preliminary injunction because it was unlikely to succeed on the merits.

**Ho v. Taflove, 648 F.3d 489 (7th Cir. 2011)**. A professor sued a former student for misappropriating a novel atomic model that the professor had designed. The professor alleged that the former student had published the model in various academic papers and presentations without ascribing credit to the professor. The court granted summary judgment in favor of the former student because the professor published the model himself and therefore failed to make reasonable efforts to maintain the model’s secrecy.

**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 had made reasonable efforts to keep the document confidential, and summary judgment was appropriate.

**Dryco, LLC v. ABM Indus., No. 07 CV 0069, 2009 WL 3401168 (N.D. Ill. Oct. 16, 2009)**. The court granted summary judgment for the defendant on an ITSA claim because the plaintiffs made “no attempt in their opposition briefs to address” the reasonableness of the steps they took to protect their alleged trade secrets. The plaintiffs also did “not dispute [the defendant’s] assertions that Plaintiffs required no confidentiality agreements with . . . their own employees . . . , did not label any of their documents as confidential, and did not seek any protective order in this litigation.”

**CMBB LLC v. Lockwood Mfg., Inc., 628 F. Supp. 2d 881 (N.D. Ill. 2009)**. The court granted summary judgment on an ITSA claim because of the “absence of any showing that [the original owner of the alleged trade secret customer information] took reasonable affirmative steps to prevent dissemination of Customer information.” The owner 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. The size and resources of the 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 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, 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 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).

***Trade Secret Protection Denied:***

**Fail-Safe LLC v. A.O. Smith Corp., 674 F.3d 889 (7th Cir. 2012).** Applying the Wisconsin Uniform Trade Secrets Act, the Seventh Circuit affirmed the grant of summary judgment because the plaintiff, a small company, had disclosed trade secrets to the defendant while negotiating a joint development agreement without taking sufficient steps to protect confidentiality. Although the plaintiff had signed the defendant’s confidentiality agreement, the defendant itself did not sign the agreement or give any other promise of confidentiality to the plaintiff. In denying recovery for the plaintiff, the court explained that the plaintiff, though a small company, was “a sophisticated party familiar with [confidentiality] agreements” and therefore had acted unreasonably in failing “to take any steps to maintain [] secrecy.”



**b) Larger businesses are held to higher standards for protecting secrecy.**

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. For instance, in Gillis Associated Industries, Inc. v. Cari-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 the list's 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 that 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).** An 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:**

**Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*11-12 (N.D. Ill. Dec. 22, 2021).** The court granted the plaintiff's motion for preliminary injunction as to certain categories of files taken by a former employee of the company though denied the motion with respect to other categories of files, such as customer lists. The day after the former employee

departed the company, he purportedly logged into his work email account and forwarded confidential information to his personal email account. While the court agreed with the defendants that the plaintiff's security may have been lacking in some respects, the court explained that "at a preliminary injunction phase, a party must only make a sufficiently 'strong' showing that it will succeed on the merits" and found that the plaintiff "has made such a showing" for certain files. Further, the court noted that the plaintiff cut the defendant-employee's access to his work system two days after his unexpected exit (which originally had been scheduled for the following week). The court concluded that the plaintiff "acted reasonably and quickly."

**Mintel Int'l Grp., Ltd. v. Neergheen, No. 08-cv-3939, 2010 WL 145786 (N.D. Ill. Jan. 12, 2010).** The court found, after a bench trial, that the plaintiff's confidential marketing information was a protectable trade secret because the plaintiff took sufficient steps to keep the information confidential, including (1) limiting access to "only those employees who needed to know the contents of these documents to perform their job functions"; and (2) requiring the defendant "to sign nondisclosure agreements, which clearly stated that such information was not to be disseminated and needed to be returned at the end of his employment." However, the court ultimately ruled for the defendant after concluding the plaintiff had presented insufficient evidence of misappropriation.

**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 website, by keeping its trade secrets out of public display at conventions, and by not ever allowing customers and competitors 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. Long before litigation arises, companies should seek to catalog their trade secrets and document efforts to maintain their secrecy. In the event of litigation, the employer then could present a history of company awareness of which information the company considers its trade secrets, along with the company's corresponding efforts to protect those secrets.

**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 maintaining 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 satisfied, the trade secret owner had informed its employees verbally or in writing about confidentiality).

A confidentiality agreement alone, however, may not be enough to show reasonable steps to maintain secrecy. For example, in Opus Fund Servs. (USA) LLC v. Theorem Fund Servs., LLC No. 17 C 923, 2018 WL 1156246, at \*3 (N.D. Ill. Mar. 5, 2018), the court dismissed an ITSA claim, with leave to amend, where the plaintiff alleged it had protected its trade secrets by requiring employees to sign confidentiality agreements. The court explained that confidentiality agreements, without more, were "not enough" to show reasonable steps to maintain secrecy under ITSA), as the plaintiff had not pled any facts "to differentiate its protective measures for the alleged proprietary trade secrets from those imposed on any other corporate information." Id.; see also 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 that 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:

**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, disagreed and held that the plaintiff had taken substantial steps to protect the formula’s secrecy. Those steps 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.

**Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*14 (N.D. Ill. Dec. 22, 2021).** Although the court granted in part the plaintiff’s motion for preliminary injunction based on a theory of inevitable disclosure, the court also found that the plaintiff could not use the defendant-former-employee’s breach of the plaintiff’s “acceptable use policy” to prove misappropriation. The policy forbade use of personal email accounts, but the defendant had routinely used his personal email account to conduct business, including by emailing other employees. Further, the plaintiff provided no evidence that “it provided interactive training on the policy; periodically reiterated the policy; monitored employees’ compliance with the policy; or otherwise ensured that employees knew and followed it.”

**Shield Techs. Corp. v. Paradigm Positioning, LLC, No. 11 C 6183, 2012 WL 4739263 (N.D. Ill. Oct. 3, 2012).** The court denied a motion to dismiss an ITSA claim, explaining that the plaintiff took reasonable steps to keep the information confidential because it entered into a non-disclosure agreement with the defendant, prohibiting him from disclosing confidential information.

**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 were subject to non-disclosure agreements.

**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.

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 that manufacturer took substantial steps to protect the secrecy of its design' 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:** Confidentiality problems also arise with the hiring of new employees. Unbeknownst to the employer, new employees may hold trade secret information belonging to their past employers, the disclosure of which may subject the new employer to third-party misappropriation liability. Employers should discuss and verify in writing in advance that new employees are not bringing trade secrets from their prior employers and should explain that they are not interested in such information.

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 under which the employee affirms 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 also should confirm in writing that it respects the confidential information of its competitors and has no interest in the employee attempting to use any such information.

#### **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 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.; 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 showed that not all the critical information was supplied, and that the manufacturer understood 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).** All salaried and supervisory employees of the plaintiff were required to sign a confidentiality agreement that prevented disclosure of any confidential matter relating to the business during 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. The court explained 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 contractor who developed the formula was under no obligation to keep it confidential or maintain exclusivity with 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 or laws protecting trade secret information.

**PRACTICE TIP:** A company that loses an employee to a competitor may want to send a letter to the new employer, copying the former employee, to notify the new employer of the employee's confidentiality agreement, if one exists. Such a letter can serve as further evidence that a company has taken reasonable steps to protect trade secrets. The letter also should ask the new employer to take steps to ensure that the employee does not use the company's confidential information in their new role or otherwise breach the confidentiality agreement, and to provide assurances in writing that it has done so. Another advantage of sending such a letter is that if the new employer fails to provide the requested assurance, or to respond at all, that fact may be helpful in obtaining preliminary injunctive relief.

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

Limiting access to confidential information to a need-to-know basis reduces the possibility of unauthorized disclosure and can help a plaintiff show trade secret status. See, e.g., Duberville v. WMG, Inc., No. 13 C 02061, 2015 WL 186834, at \*15 (N.D. Ill. Jan. 13, 2015) ("In evaluating the [requirement to make reasonable efforts to keep information secret], courts often look to the extent to which the information is known by the employees of the owner of the information and the steps that the owner of the information took to protect the [alleged trade secret]."); Lincoln Park Sav. Bank v. Binetti, No. 10 CV 5083, 2011 WL 249461, at \*2 (N.D. Ill. Jan. 26, 2011) (denying motion to dismiss in part because the plaintiff alleged it "only made confidential business information available to select employees on a need to know basis, that defendants agreed not to retain, use, or disclose this confidential information, and that defendants agreed to protect [plaintiff's] trade secrets"); 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 Televation 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 the 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 if it discloses the trade secret to a large number of temporary employees. 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 that information was not a trade secret where it was disclosed without a confidentiality agreement to employees of plaintiff, which experienced a 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].”



*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. 1969).** 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 had freely distributed its cylinders to customers in such a manner that the customers could easily disassemble and reverse engineer the product.

**Federal Court:**

**Duberville v. WMG, Inc., No. 13 C 02061, 2015 WL 186834, at \*15-16 (N.D. Ill. Jan. 13, 2015).** The court granted summary judgment in favor of the defendant, a former employee, because there was no evidence that the former employer had taken any measures to protect the customer lists that allegedly constituted trade secrets. In particular, the employer had not required its employees to sign employment or confidentiality agreements prohibiting the disclosure of confidential information.

**Marc Maghsoudi Enters., Inc. v. Tufenkian Imp./Exp. Ventures, Inc., No. 08 C 441, 2009 WL 3837455, at \*2 (N.D. Ill. Nov. 16, 2009).** The court granted a motion to dismiss because the plaintiff did not allege that it took any steps to ensure that its customer list would remain confidential. The court highlighted that the plaintiff failed to allege that the defendant was bound by either a confidentiality agreement or any other "legal obligation created by contract or law, requiring it to maintain the secrecy of the customer list."

**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. The court explained that, because "[t]rade secrets are a subset of a company's overall information," reasonable steps to protect their secrecy 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.

Procedures to limit the public's access to company property also can be relevant to demonstrating reasonable steps to protect secrecy. Maintaining a reception area with a receptionist and sign-in books can constitute reasonable protection measures. Companies

should consider limiting public tours. Further, 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.

What constitutes securely storing documents is context-specific. For physical documents, storing confidential documents in locked filing cabinets or offices is another security measure that can help to establish that the company took reasonable efforts to preserve confidentiality. See Elmer Miller, 253 Ill. App. 3d at 134, 625 N.E.2d at 342. Also, the confidential documents should be circulated on as limited a basis as possible. Hexacomb, 875 F. Supp. at 462-66 (upholding trade secret protection where employer did not prepare a 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 could be to number all copies and require that the documents be checked in and out from a centralized location. See Televation, 169 Ill. App. 3d at 15, 522 N.E.2d at 1364 (suggesting that numbering copies can support a finding of reasonable steps to protect secrecy, 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 (1st 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.

**Tlevation 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 a 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.

Other measures are required for electronically stored documents. These include password-protecting the databases in which they are kept. See, e.g., QSRSoft, Inc. v. Rest.

Tech., Inc., No. 06 C 2734, 2006 WL 2990432 (N.D. Ill. Oct. 19, 2006) (granting the plaintiff's preliminary injunction motion, finding the party took reasonable measures in part based on using passwords to protect database of information); Lane v. Brocq, No. 15 C 6177, 2016 WL 1271051, at \*3-4 (N.D. Ill. Mar. 28, 2016) (denying the defendant's motion to dismiss the plaintiff's trade secret claim, explaining that the plaintiff adequately pled steps to maintain secrecy consisting of password-protecting online servers and granting limited access to the passwords). Limiting access to computer systems containing sensitive information and giving instructions on proper retention and destruction policies also can be important. See, e.g., First Financial Bank, N.A. v. Bauknecht, 71 F. Supp. 3d 819, 843 (C.D. Ill. 2014) (granting summary judgment in favor of the plaintiff on the issue of liability and concluding that the plaintiff's use of computer passwords, limiting access to systems with confidential information, and instructing employees "how to remove confidential information from personal iPads" was sufficient as a matter of law to grant trade secret protection). It also can be important for companies to make sure employees understand the confidential nature of the trade secret information. See Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 827 N.E.2d 909, 925 (1st Dist. 2005) (noting that in the absence of a confidentiality agreement, a plaintiff should "show, at minimum, that its employees understood the information as to be kept confidential").

**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 that the owner's failure to label information as confidential was fatal to trade secret claim); Web Commc'ns Grp. v. Gateway 2000, Inc., 889 F. Supp. at 316, 320-21 (N.D. Ill. 1995) (holding that 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 (1st Dist. 1992).** A former employee was allegedly misappropriating technical, internal business information of its 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 affixing of legends to all confidential blueprints and drawings stating the information belonged to the employer, among other steps, created a factual issue as to the reasonableness of the steps taken to maintain secrecy. Therefore, summary judgment was inappropriate.

**Huawei Techs. Co., Ltd. v. Motorola, Inc., No. 11-cv-497, 2011 WL 612722 (N.D. Ill. Feb. 22, 2011).** In granting a preliminary injunction, the court determined that the plaintiff had taken reasonable steps to maintain the secrecy of its information. Those steps included labeling printed documents as "Internal Use" or "Highly Confidential," and limiting access to the information to parties who signed non-disclosure agreements.

**PRACTICE TIP:** While trade secret owners should label trade secrets as such, they should use these labels prudently because 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. As just one 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 (1st Dist. 1992) (reversing and remanding entry of 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 how it addresses 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 take this step 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 ITSA must also prove that the defendant misappropriated the trade secret. PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1268 (7th Cir. 1995); see also Leggett & Platt, Inc. v. Hickory Springs Mfg. Co., 285 F.3d 1353, 1360 (Fed. Cir. 2002); Geraci v. Macey, No. 14 CV 06876, 2016 WL 3671400, at \*4 (N.D. Ill July 11, 2016); Stevens v. Interactive Fin. Advisors, Inc., No. 11 C 2223, 2012 WL 6568236, at \*3 (N.D. Ill. Dec. 17, 2012).

**A. Definition.**

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 2022).

## **B. Acquisition By Improper Means.**

### **1. Statutory definition of “improper means.”**

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 2022).

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

A person may improperly acquire another’s trade secret by, among other means, physically taking, copying, downloading, or memorizing the trade secret. See, e.g., RKI, Inc. v. Grimes, 177 F. Supp. 2d 859, 875 (N.D. Ill. 2001); Stampede Tool Warehouse v. May, 272 Ill. App. 3d 580, 590, 651 N.E.2d 209, 217 (1st Dist. 1995).

#### **a) Taking.**

Physically taking another’s trade secrets is perhaps the most basic form of misappropriation. In Fleetwood Packaging v. Hein, No. 14 C 09670, 2015 WL 6164957, at \*5 (N.D. Ill. Oct. 20, 2015), the court concluded that the defendant misappropriated trade secrets when he returned only three of ten external hard drives containing trade secrets before leaving the company. Similarly, in Labor Ready, Inc. v. Williams Staffing, LLC, 149 F. Supp. 2d 398, 412 (N.D. Ill. 2001), 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 thirty 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).

Misappropriation also can be demonstrated if the defendant emailed trade secrets to a personal account before leaving his employment. In Allied Waste Services of North America, LLC v. Tibble, 177 F. Supp. 3d 1103, 1112 (N.D. Ill. 2016), the court denied a former employee’s motion to dismiss because the former employer had alleged that the former

employee sent emails containing trade secrets to his personal email account immediately before terminating his employment. Similarly, in Symbria, Inc. v. Callen, the defendants moved to dismiss the plaintiff's claim for trade secret misappropriation. The court denied this motion and held that alleging the "transmission of trade secrets from a work email account to a personal email account in violation of company policy and without authorization sufficiently pleads a theory of improper acquisition." No. 20-CV-4084, 2022 WL 60530, at \*12 (N.D. Ill. Jan. 6, 2022). Further, the court held that the plaintiffs adequately alleged misappropriation under an unauthorized disclosure theory where defendants forwarded confidential information to a competitor. Id. at 13; see also Intertek USA Inc. v. AmSpec, LLC, No. 14 CV 6160, 2014 WL 4477933, at \*5 (N.D. Ill. Sept. 11, 2014) (granting plaintiff's motion for preliminary injunction where former employee had emailed plaintiff's trade secrets to his personal email account).

A plaintiff must present more than mere "speculation and innuendo," however, to show that the defendant possesses the plaintiff's trade secrets. Glenayre Elecs., Ltd. 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.; see also Indus. Packaging Supplies, Inc. v. Channell, No. 18 CV 165, 2018 WL 2560993, at \*2 (N.D. Ill. June 4, 2018) (dismissing without prejudice claims in which the plaintiff alleged on information and belief that the defendant had encouraged the individual-defendant to steal trade secrets before the individual resigned, but the plaintiff had not explained why additional information was unavailable about the alleged misappropriation, nor did it plead "reasonable grounds for its suspicions" that misappropriation had occurred).

#### **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 also Lane v. Brocq, No. 15 C 6177, 2016 WL 1271051, at \*3-4 (N.D. Ill. Mar. 28, 2016) (denying the defendant's motion to dismiss, explaining that the plaintiff properly alleged misappropriation under ITSA based on the defendant's act of copying files containing trade secret information, including customer lists from his firm's cloud-based electronic storage system in anticipation of starting his own law practice); Burt Dickens & Co. v. Bodi, 144 Ill. App. 3d 875, 878, 883-85, 494 N.E.2d 817, 818, 822-23 (1st Dist. 1986) (affirming the trial court's preliminary injunction under the ITSA where the 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, 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. 177 F. Supp. 2d 859, 875 (N.D. Ill. 2001); 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, 1988 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, 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.; see also Stampede Tool Warehouse, 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); First Fin. Bank, 71 F. Supp. 3d at 845 (holding that the defendant had violated ITSA by memorizing a bank's customer lists and using the information at his new job); SKF USA Inc. v. Bjerckness, Nos. 08 C 4709, 09 C 2232, 2010 WL 3155981, at \*7 (N.D. Ill. Aug. 9, 2010) (holding the defendant liable for trade secret misappropriation after a bench trial, based on evidence that the defendant had memorized and rebuilt a confidential database pattern).

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 Televation 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:** 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 potential evidence of misappropriation. 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.

**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: (1) the former employee's banks, lenders and other sources of financing; (2) the former employee's real estate brokers and leasing companies; (3) the lessors of computers and other major office equipment; and (4) 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

### **3. Spoliation of evidence may create an inference of trade secret misappropriation.**

The Seventh Circuit has held that a defendant's spoliation of evidence on their computer can support a negative inference that the defendant destroyed evidence of misappropriation. Minnesota Mining & Mfg. Co. v. Pribyl, 259 F.3d 587, 606 n.5 (7th Cir. 2001). See also RKL, Inc. v. Grimes, 177 F. Supp. 2d 859, 877 (N.D. Ill. 2001) (noting that because of the destruction of evidence, the court could find misappropriation even without direct evidence of misappropriation).

However, evidence of destruction—without an explanation of what evidence the plaintiff lacks as a result—may not be enough to support the factfinder drawing an inference in the plaintiff's favor. In Minnesota Mining & Manufacturing, the district court instructed the jury that the defendants had engaged in spoliation of evidence because, the evening before one defendant was to turn over a computer pursuant to a discovery request, six gigabytes of data were downloaded to his hard drive, destroying certain space on that drive. 259 F.3d at 606 n.5. The jury found for the plaintiff, 3M, but then the Court granted a directed verdict in the defendant's favor. Id. On appeal, 3M argued that the inference of spoliation was itself enough to show misappropriation and support the jury's verdict, but the Seventh Circuit disagreed. Id. The Seventh Circuit held that, although the district court was correct to give the negative inference instruction, "the fact that hard drive space was destroyed on [the defendant's] computer d[id] not relieve 3M of having to prove the elements of its claims." Id. The court



explained that 3M could not rely on evidence of spoliation to prove misappropriation because it “ha[d] not suggested how the evidence it believed it would have received from the computer would have impacted its misappropriation claim.” Id.

#### **4. 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 with respect to the trade secrets was proper or improper.

Indeed, 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 ITSA if its conduct in acquiring the trade secret does not violate that agreement. See Ocean Tomo, LLC v. PatentRatings, LLC, 375 F. Supp. 3d 915, 951-52 (N.D. Ill. 2019) (concluding at the end of a bench trial that the defendant did not misappropriate trade secrets because the plaintiff failed to prove “a contractual or other duty [the defendant] had to refrain from copying the files, or an affirmative duty to delete the copies when he resigned,” and thus the plaintiff “failed to present evidence that [the defendant’s] acquisition or retention of [plaintiff’s] files was ‘improper’ for the purposes of the Act”); Stevens v. Interactive Fin. Advisors, Inc., No. 11 C 2223, 2012 WL 6568236, at \*4 (N.D. Ill. Dec. 17, 2012) (denying motion to dismiss where interpretation of controlling confidentiality agreement was necessary to resolve financial advisor’s ITSA claim that his former firm misappropriated client information); 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).

#### **5. Reverse engineering or independent development.**

ITSA makes clear that “[r]everse engineering or independent development shall not be considered improper means.” 765 ILCS 1065/2(a) (West 2022) (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 that did not authorize the party to use the trade secrets in that way. 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 that independently develops a trade secret can defeat liability by demonstrating that it did not use or rely on the plaintiff’s trade secret to develop the product. See Motorola, Inc. v. DBTEL, Inc., No. 02 C 3336, 2002 WL 1610982, at \*17-19 (N.D. Ill. July 22, 2002) (evidence that the defendant independently developed a phone that plaintiff claimed incorporated its trade secrets showed that the plaintiff was unlikely to succeed on the merits of its ITSA claim). Even where the defendant had access to the trade secret, it might be able to defeat liability where it demonstrates that it did not use the trade secret. See Rotec, 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 the 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 determine as a matter of law that the defendant had not improperly used the plaintiff’s trade secrets to develop its product). See also:

**Mangren Research & Dev. Corp. v. Nat’l Chem. Co., 87 F.3d 937 (7th Cir. 1996).** The court affirmed a jury verdict for trade secret misappropriation because the evidence showed the defendants could not have created the infringing product without using the plaintiff’s trade secret. In so ruling, the court held that “the user of another’s trade secret is liable even if he uses it with modifications or improvements upon it effected by his own efforts, so long as the substance of the process used by the actor is derived from the other’s secret.” The defendants “could not have produced their product without using” the plaintiff’s “essential secret ingredient—a highly degraded PTFE having a low molecular weight and low tensile strength.” A reasonable juror therefore “could conclude . . . that [the] defendants’ mold release agent was substantially derived from [the plaintiff’s] trade secret.” Accordingly, the defendant did not independently develop the infringing product, and therefore was liable under ITSA.

**Maxtech Consumer Prods., Ltd. v. Robert Bosch Tool Corp., 255 F. Supp. 3d 833, 850-53 (N.D. Ill. 2017).** The defendant filed a motion for summary judgment, arguing that the statute of limitations barred the plaintiff's ITSA claim. The court agreed, explaining that the five-year statute of limitations is triggered upon actual or constructive notice of the alleged misappropriation. The court held that the plaintiff had constructive notice of its ITSA claim based on the defendant's two published patent applications implicating the trade secret information. Thus, upon these facts, the defendant demonstrated notice and the court held that the statute of limitations barred the plaintiff's claim. The defendant separately argued, and again the court agreed, that the plaintiff's trade secret claim failed on independent development grounds: the defendant established that it already had this idea before it learned the plaintiff's information.

**Thermodyne Food Serv. Prods., Inc. v. McDonald's Corp., 940 F. Supp. 1300 (N.D. Ill. 1996).** The plaintiffs engaged in the research and development of ovens that incorporated what they called "Thermodyne technology." This technology used "precise computer controls and the interrelationship of numerous component parts to cook and hold food items at lower temperatures through conduction processes, rather than by means of convection heat." The defendant fast food company had ordered several of these ovens, shipped them back, and subsequently developed its own oven called the "Temperfect." Although the Temperfect, like the plaintiffs' oven, used conduction processes, none of its component parts were identical to the component parts in the plaintiffs' oven. The plaintiffs sued under ITSA, alleging that the defendants misappropriated "the interrelationship of the component parts" contained in the Thermodyne technology. The defendant moved for summary judgment, arguing that it "did not misappropriate the secret because the Temperfect oven . . . did not utilize any of the component parts" contained in the Thermodyne oven. The court denied the defendant's motion. In so holding, the court explained that "[a]lthough a product appears to be a new or modified product, a violation of the ITSA occurs if the modification or new product was substantially derived from another's trade secret." Thus, because the evidence left open the possibility that "the Temperfect oven could not have been developed but for the secret information underlying the interrelatedness of the component parts comprising the Thermodyne oven," there was a genuine dispute as to whether the defendant's product was substantially derived from plaintiffs' trade secret or had been developed independently.

## **6. 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) after the defendant's misappropriation or during the course of the lawsuit may not negate the defendant's liability for improperly acquiring the trade secret. Bankers Life & Cas. Co. v. Miller, No. 14 CV 3165, 2015 WL 515965, at \*6 (N.D. Ill. Feb. 6, 2015)

(denying motion to dismiss trade secrets claim because of public disclosure of the trade secrets subsequent to their theft); see also 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 the 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 fact that allegedly confidential information is available lawfully may prevent a finding that a protectable trade secret exists in the first place.

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

Under ITSA, misappropriation may occur 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 2022).

#### **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 help show misappropriation under 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 the 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 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. Bodi, 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 ITSA. See id.; see also Scan Top Enter. Co. v. Winplus N. Am., Inc., No. 14 C7505, 2015 WL 4945240, at \*1, 4 (N.D. Ill. Aug. 19, 2015) (motion to dismiss denied where defendant allegedly came into possession of trade secrets under distribution agreement); Precision Screen Machs., Inc. 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 ITSA where it alleged that 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 ITSA, a third party commits misappropriation by disclosing or using a trade secret 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 2022). 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 held 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, which was his former employer, and still used the trade secrets to develop a competing product).

Similarly, purposefully hiring away a competitor’s employees, fully aware that they have knowledge of trade secrets, and then encouraging the employees to use that knowledge in their new employment, also can give rise to liability. See Lawson Prods., Inc. v. Chromate Indus. 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 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 misconduct in violation of ITSA.

## 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. 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 ITSA, which was affirmed on appeal. See C&F Packing Co. 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 that 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, *infra*, 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 Co. 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 it does not appear that any Illinois state court has addressed the issue, some Illinois federal 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 Inventus Power, Inc. v. Shenzhen Ace Battery Co., Ltd., No. 20-cv-3375, 2020 WL 3960451, at \*11 (N.D. Ill. July 13, 2020), the court granted a temporary restraining order, relying in part on a respondeat superior theory of liability. The defendant corporation argued that respondeat superior could not apply because the defendant employees worked for the plaintiff at the time of the alleged misappropriation. Id. The court disagreed and noted “Defendant has not shown as a matter of law... that this would foreclose liability under a respondeat superior theory.” Id. Further, in Signal Financial Holdings LLC v. Looking Glass Financial LLC, No. 2019 WL 6467323, at \*8-9 (N.D. Ill. Dec. 2, 2019), the court denied defendant-corporations’ motion to dismiss on trade secret misappropriation claims based on the theory of respondeat superior.

As for other jurisdictions, 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 2022). As discussed below, to satisfy this element, a plaintiff 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 when considering injunctive relief. See, e.g., Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605, at \*17-18 (N.D. Ill. Apr. 28, 2003).

##### **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. For example, a plaintiff may be able to establish actual use with only circumstantial evidence where the plaintiff demonstrates that the misappropriating party had access to the trade secret and the defendant's design is similar to the secret. See Destiny Health Inc. v. Conn. Gen. Life Ins. Co., 2015 IL App (1st) 142530, ¶ 32 ("circumstantial evidence can satisfy a plaintiff's burden to prove trade secret misappropriation"). Actual use may take various forms. See Learning Curve Toys, Inc. v. PlayWoodToys, Inc., 324 F.3d 714 (7th Cir. 2003) (the defendant's use of the plaintiff's concepts in product development demonstrated actual use); Mangren Research & Dev. Corp. v. Nat'l Chem. Co., 87 F.3d 937 (7th Cir. 1996) (same); Multiut Corp. v. Draiman, 359 Ill. App. 3d 527, 834 N.E.2d 43 (1st Dist. 2005) (the defendant's use of the plaintiff's trade secret customer list to contact customers demonstrated actual use); RKI, Inc. v. Grimes, 177 F. Supp. 2d 859 (N.D. Ill. 2001) (same). Even if the defendant modified or improved the plaintiff's trade secrets, a court will find actual use if the plaintiff's trade secrets formed the basis of the defendant's improved product or data. Mangren, 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, which then used the trade secret to assist a non-defendant in its business. Id.

Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605 (N.D. Ill. Apr. 28, 2003) 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. Id. The defendant, Grappolini, had worked as a consultant to Lucini 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 to a product, 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. Id.; see also Vienna Beef, Ltd. v. Red Hot Chicago, Inc., 833 F. Supp. 2d 870, 876 (N.D. Ill. 2011) (denying motion for temporary restraining order where plaintiff hot dog manufacturer failed to show that the defendant was using the plaintiff's recipes).

When a court finds actual use of trade secrets, it may award damages and enjoin future use, or both. In Lucini Italia, 2003 WL 1989605, at \*18-19, 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. 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 Section 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.**

Under the inevitable disclosure doctrine, a former employee may be enjoined from performing certain post-employment activities (even if there is no covenant not to compete in place) if the former employer/trade secret owner can show the employee inevitably will disclose or use the trade secrets while acting for the new employer, regardless of whether the former employee denies any intention 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). Put differently, 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, allows 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).

Typically, the threat of disclosure must be unavoidable or certain to occur to constitute an actionable threat under the inevitable disclosure doctrine. A mere suspicion or a mere possibility of disclosure will not constitute an actionable threat. See generally 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 a defendant “‘intend[ed] to use” the trade secrets but did not allege any actual use or any grounds for finding use inevitable.

An injunction is the available remedy for the threatened use of trade secrets. See, e.g., Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 285, 827 N.E.2d 909, 928 (1st Dist. 2005) (reversing and remanding for a determination of the proper scope of injunctive relief against threatened misappropriation based on the inevitable disclosure doctrine).

### **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. v. Mazur, 357 Ill. App. 3d 265, 284-86, 827 N.E.2d 909, 927-29 (1st. Dist. 2005), 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 failed to disclose his new job to his former employer, copied confidential files immediately before resigning, and tried to delete 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. Under the *Mazur* court’s reasoning, 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.

#### **D. Inevitable Disclosure in Illinois.**

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

##### **1. PepsiCo, Inc. v. Redmond.**

Although the inevitable disclosure doctrine had existed for many years, the doctrine achieved increased significance following the Seventh Circuit’s seminal decision in *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995), in which the court affirmed the grant of a preliminary injunction that enjoined a former employee from working for a competitor for six months. A detailed discussion of this case is helpful to understand the law on inevitable disclosure in Illinois.

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”; and
- 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 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 2022).

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 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 was an inevitably threatened misappropriation under the ITSA and an inevitable breach of the confidentiality agreements, the court held that it was appropriate to enjoin Redmond from working for Quaker for six months. *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, *PepsiCo* involved 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 show that the employee simply is applying general skills in the same industry, and that applying the inevitable disclosure doctrine would give the former employer a noncompetition agreement that it neither paid for nor negotiated.

## 2. Illinois state court recognition of inevitable disclosure – *Strata Marketing, Inc. v. Murphy*.

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). Yet, 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 alleged breach of Murphy’s non-competition and non-disclosure agreements. Second, Strata sought injunctive relief under 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 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 the inevitable disclosure doctrine. 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 would inevitably disclose, while working for MRP, her knowledge of Strata’s pricing structure, customers’ needs, anticipated product launch dates, product problems, and information concerning existing customers’ contracts, because 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 in Strata had signed a non-disclosure agreement as in PepsiCo.

### 3. Case law after PepsiCo and Strata.

After PepsiCo and Strata, Illinois courts have continued to apply the inevitable disclosure doctrine in evaluating misappropriation claims. For example:

#### State Court:

**Tate & Lyle Ingredients Americas LLC v. Craig, 2017 IL App (4th) 160886-U, No. 4-16-0886, 2017 WL 155907, at \*6 (Ill. App. Apr. 28, 2017) (unpublished).** The appellate court held that the trial court did not abuse its discretion in granting a preliminary injunction based on the inevitable disclosure doctrine. The evidence indicated that the defendant left his job to perform substantially similar duties at a direct competitor. Further, the court noted that before he left his employer, the defendant had, among other things, emailed documents from his work e-mail to his personal e-mail and downloaded materials from his work computer to a thumb drive, which he did not return to the plaintiff. Based on this evidence, the court determined that it could be presumed that the defendant was copying materials in anticipation of starting his employment with a competitor, and even though the competitor had policies against using misappropriated trade secret information, the evidence supported the trial court's finding of inevitable disclosure.

**Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 281-87, 827 N.E.2d 909, 925-29 (1st Dist. 2005).** 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 a showing 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.

#### Federal Court:

**Groupon, Inc. v. Shin, No. 21 C 6082, 2022 WL 60526, at \*3-5 (N.D. Ill. Jan. 6, 2022).** In granting the plaintiff's motion for a preliminary injunction, the court held that the plaintiff was likely to succeed on the merits of its inevitable disclosure claim. The defendant-former employee, who had left employment with Groupon to work for Yelp, argued that Yelp and Groupon were not direct competitors and, therefore, the plaintiff could not succeed on an inevitable disclosure claim. The court held that because "both companies seek to pair merchants with consumers" and both "regularly have sales employees calling on the very same merchants for advertising services" they were direct competitors. It did not matter that the methods the companies employed (coupons vs. reviews) were different where the two companies were "after the same [advertising] dollars in the same or similar

marketplace[s].” The court also held that the defendant had taken “[a]ll kinds of trade secret information” and that he was unlikely to be able to compartmentalize the information in his new job at Yelp.

**Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*15 (N.D. Ill. Dec. 22, 2021).** Relying on the inevitable disclosure doctrine, the court granted the plaintiff’s motion for a preliminary injunction in part, reasoning that the plaintiff had made a sufficiently strong showing that the defendant “misappropriated or may inevitably disclose the files” found to be protectable as trade secrets. The court explained that the defendant-employee left the plaintiff for a substantially similar job at a direct competitor and the defendant-employer produced no evidence at the preliminary injunction phase related to steps to prevent the disclosure of the trade secrets. The court also used the purported bad faith of the employee to justify injunctive relief because “where evidence exists that the employee copied the employer’s confidential information, it leads to the conclusion of inevitable disclosure.”

**Aon plc v. Infinite Equity, Inc., No. 19-cv-07504, 2021 WL 4034068, at \*13 (N.D. Ill. Sept. 3, 2021).** The court held that even though the allegations in the complaint were insufficient to indicate actual misappropriation, the plaintiff nevertheless could proceed on a theory of inevitable disclosure. The plaintiff alleged that the individual-defendants “occup[ied] roles at [the defendant-corporation] that are nearly identical to their roles at [the plaintiff corporation].” Further, the new corporation sold a product that was “virtually identical” to the previous product the individual defendants sold when working for the plaintiff.

**CZS Holdings, LLC v. Kolbe, No. 20 C 6886, 2021 WL 1837385, at \*4 (N.D. Ill. May 7, 2021).** The trial court denied the defendant’s motion to dismiss and held that the plaintiff-employer alleged a plausible theory of trade secret misappropriation based on inevitable disclosure. The defendant had been a regional manager for the plaintiff and had signed valid non-competition and non-disclosure agreements. Nevertheless, the defendant left his employment with the plaintiff and began a competing business. The court held that it was plausible that the defendant would inevitably rely on the plaintiff’s trade secrets because he had never done any work in the relevant industry before his employment with the plaintiff. Thus, prior access to the plaintiff’s “confidential information, trade secrets, financial documents, client lists, and technological know-how” made up the entirety of the defendant’s specialized knowledge in the field. Further, the court noted that the defendant had not just left his employment to work at a competing company; rather, he started a new company. The court reasoned that because the defendant was “the one who created [defendant corporation] and currently acts as its CEO, it is unlikely he has taken steps to prevent himself from disclosing [the plaintiff’s] trade secrets.”

**General Elec. Co. v. Uptake Techs., Inc., 394 F. Supp. 3d 815, 822-23 (N.D. Ill. 2019).** The plaintiff designed a system connecting heavy industrial equipment to cloud-based software and analytics, in order “to provide customers with a better way to track production efficiency and monitor the health and life of their machinery.” A number of employees who designed and worked on this system ultimately resigned from the plaintiff and took positions with a competing company, which offered data analytics for industrial equipment. The plaintiff filed a lawsuit against the competitor and its former employees, alleging, among other things, violations of ITSA and DTSA. The defendants moved to dismiss. The plaintiff alleged that the

individual defendants would be unable to perform their new jobs without disclosing its trade secrets. The court, relying on PepsiCo, denied the motion to dismiss and concluded that the complaint sufficiently stated an ITSA claim under the inevitable disclosure doctrine because it alleged that the plaintiff and the defendant were direct competitors, the individual defendants assumed the same or substantially similar positions, and defendant targeted and hired plaintiff's employees "for the very purpose of gaining access to [the plaintiff's] confidential and trade secret information." Additionally, the plaintiff alleged that the individual defendants, prior to their departure, scheduled meetings to acquire additional confidential information that was beyond the scope of their typical work, accessed and maintained documents on a cloud storage platform, and accessed that information after their departure.

**AptarGroup, Inc. v. Chamulak, No. 18 C 50328, 2019 WL 2425175, at \*5 (N.D. Ill. June 10, 2019).** Plaintiff, a developer and manufacturer of dispensing and sealing products used in the packaging of consumer goods, sought a preliminary injunction against a former executive who served as Vice President and General Manager until she resigned to take a position as president and CEO of a competitor. The defendant moved to dismiss. Plaintiff alleged, among other things, that the defendant would violate the ITSA and DTSA by inevitably disclosing plaintiff's trade secrets. The plaintiff alleged that their trade secrets included the technology, materials, and manufacturing methods it used, including its proprietary LIM silicone molding process, as well as its proprietary cost and pricing models that identify its cost structure and calculations. The court noted that ITSA and DTSA claims were analyzed together, and determined that plaintiff had sufficiently alleged trade secret misappropriation under the inevitable disclosure doctrine. Specifically, the court determined that defendant's new position involved overseeing a direct competitor's packaging business and thus was comparable to her prior position in which she supervised similar operations. Moreover, plaintiff sought assurances from defendant and her new employer that she "would not render services in connection with products that compete with plaintiff's products or be employed in a position where she could use or disclose plaintiff's confidential information," but the defendant and her new employer refused to provide those assurances. Accordingly, the court denied the motion to dismiss, and delayed ruling on the motion for a preliminary injunction until plaintiff provided "a much more clearly defined description of what information specifically plaintiff wants to keep defendant from using and why that information warrants protection."

**Mickey's Linen v. Fischer, No. 17 C 2154, 2017 WL 3970593, at \*12-13 (N.D. Ill. Sept. 8, 2017).** The court granted a preliminary injunction, concluding that, absent the injunction, the plaintiff's former employee would inevitably use or disclose the plaintiff company's trade secrets during his new employment. The court noted, in support of its decision, that: (1) the new employer was the former employer's strongest competitor, (2) the employee's sales consultant position with the new employer was comparable to the service management position held with the former employer because both positions included substantial customer contact and sales activities, and (3) the purported preventive measures taken by the new employer were inadequate since it had never prohibited the former employee from pursuing the plaintiff's customers or pursuing the plaintiff's trade secrets. Moreover, there was no evidence that the new employer had implemented broad measures to prevent other employees from inquiring about the plaintiff's trade secrets.

**Primesource Bldg. Prods., Inc. v. Felten, No. 16-cv-11468, 2017 WL 11500971, at \*6-8 (N.D. Ill. July 7, 2017), report and recommendation adopted by 2017 WL 10188772 (N.D. Ill. July 6, 2017).** The court determined that the plaintiff had sufficiently pled trade secret misappropriation by means of inevitable disclosure and denied the defendant's motion to dismiss. The court held that the plaintiff "detailed at length the ways in which it competes with" the defendant corporation and alleged that the individual defendants took substantially similar jobs to their previous jobs at the competitor, including working on the same project. The court held that, at this stage of the litigation where the plaintiff had not yet had discovery, the court did not have to consider whether the competitor had taken steps to limit the use of the trade secrets, which would have weighed against inevitable disclosure, because the complaint was "unlikely to convey any allegations about what the competitor did [to minimize use of trade secrets]."

**Molon Motor & Coil Corp. v. Nidec Motor Corp., No. 16 C 03545, 2017 WL 1954531, at \*5-7 (N.D. Ill. May 11, 2017).** The court denied a motion to dismiss, holding that the plaintiff company sufficiently alleged that the former employee (a quality control engineer) would inevitably disclose trade secrets in his new employment. The court reasoned that the plaintiff had sufficiently pled that the new employer was a serious competitor in the custom motor market. Moreover, the plaintiff had adequately pled that the former employee's position with the new employer was similar to his prior position with the company, and that, because of his role as a quality control engineer, it was plausible that he would use design secrets to perform quality control duties for his new employer. As a result, the court held that these allegations were sufficient to plead the inevitable disclosure doctrine to satisfy the use element of an ITSA claim.

**Covenant Aviation Sec., LLC v. Berry, 15 F. Supp. 3d 813, 819 (N.D. Ill. 2014).** The court denied a motion to dismiss, holding that the plaintiff company had sufficiently alleged that its former president had access to the plaintiff's confidential financial and bidding information and that once he became affiliated with the plaintiff's competitor, he would necessarily use and rely on those trade secrets. The court highlighted that the former president had communicated directly with one or more of the company's competitors and had "provided, or offered to provide, confidential and proprietary information that would be useful in competing for" future business with some of the plaintiff's customers.

**Luminate Techs., LP v. Integrated Data Storage, LLC, No. 13 C 3767, 2013 WL 5974731, at \*6-7 (N.D. Ill. Nov. 11, 2013).** The court denied a motion to dismiss, holding that the plaintiff company sufficiently alleged that its former employees could not help but use their knowledge of the plaintiff's client-specific information and market strategies to help their new employer target the plaintiff's customers and undercut its pricing and business strategies. The court highlighted allegations that: the former employees held the same positions at their new employer as they had held when they worked for the plaintiff, the new employer took few precautions to prevent the employees from disclosing the plaintiff's trade secrets, the former employees downloaded confidential information before leaving the plaintiff's employ (and tried to conceal what they had done), and the former employees began poaching the plaintiff's clients once they began their new employment.

**Mobile Mark, Inc. v. Pakosz, No. 11 C 2983, 2011 WL 3898032, at \*1-2 (N.D. Ill. Sept. 6, 2011).** The court denied a motion to dismiss because the plaintiff stated a claim that relied on the inevitable disclosure doctrine. The court explained that the plaintiff's complaint alleged that the defendant copied its proprietary information, went to work for the plaintiff's competitor, and held a position with the plaintiff's competitor that was "comparable to his former position" with the plaintiff. Additionally, the court pointed out that the defendant's new employer "made no effort to prevent [the defendant] from disclosing [the plaintiff]'s proprietary information" and instead "actively encouraged" the plaintiff to disclose the confidential information.

**Kempner Mobile Elecs., Inc. v. Sw. Bell Mobile Sys., LLC, No. 02 C 5403, 2003 WL 105729, at \*22 (N.D. Ill. Mar. 10, 2003).** The court 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."

Nevertheless, plaintiffs are often unsuccessful in asserting ITSA claims that rely on the inevitable disclosure doctrine. For example:

**State Court:**

**Archer Daniels Midland Co. v. Sinele, 2019 IL App (4th) 180714, ¶ 36.** The Appellate Court reversed the trial court's entry of a preliminary injunction, concluding that the plaintiff failed to show a likelihood of success on the merits based on the inevitable disclosure doctrine. The court held that the former employee, who had retired as the national accounts manager for a production-side company and subsequently opened a consultancy focused on assisting buyers, was not in a substantially similar position to his prior role. The court noted that even if the employee remembered the break-even points of every product, his knowledge would help customers rather than a competitor. The court posited that if the defendant had taken a job with a competitor "instead of becoming a broker for buyers, the case "might have been more comparable to PepsiCo." Id. ¶ 38.

**Destiny Health, Inc. v. Conn. Gen. Life Ins. Co., 2015 IL App (1st) 142530, ¶¶ 35-44, 39 N.E. 3d 275, 284-86 (1st Dist. 2015).** The appellate court affirmed summary judgment in favor of the defendant, concluding that the plaintiff's disclosure of specialized knowledge to the defendant during negotiations, which eventually fell through, was insufficient to show inevitable disclosure after the defendant partnered with a different company to produce a somewhat similar product. The court explained that the products were broadly in the same category but "philosophically and operationally different," and there was no evidence that the plaintiff's purported trade secrets were used in its creation. In so holding, the court distinguished both PepsiCo and Strata, holding that while the information at issue was sensitive and confidential, parties that have previously shared confidential information during contract negotiations are not in the same position as employers whose employees have left for a competitor and taken confidential information with them. The court also noted that there was no evidence in the record that the

defendant company would have been unable to develop its own product without the information.

**Federal Court:**

**Indus. Packaging Supplies, Inc. v. Channell, No. 18 CV 165, 2018 WL 2560993, at \*3 (N.D. Ill. June 4, 2018).** The court dismissed a claim for threatened misappropriation of trade secrets because the plaintiff company did not allege that the defendant employee or his new employer threatened to use its trade secrets. Moreover, the plaintiff did not allege facts that would support a claim based on inevitable disclosure. The court reasoned that nothing in the complaint regarding the nature of the trade secrets or the level of competition between the two companies indicated that the new employment would lead to the disclosure of trade secrets. The court pointed out that the former employee could avoid using the plaintiff's trade secrets by "simply not targeting the [plaintiff's clients] and not using its proprietary designs, products, or processes."

**Opus Fund Servs. (USA) LLC v. Theorem Fund Servs., LLC, No. 17 C 923, 2018 WL 1156246, at \*4 (N.D. Ill. Mar. 5, 2018).** The court granted a motion to dismiss an ITSA claim, holding the plaintiff company's allegations of misappropriation were "too conclusory." The court determined that the plaintiff did not allege "any factual support" from which it could infer the use of trade secrets. The court noted that the movement of a former employee to a competitor was not enough to conclude that the former employee would necessarily use trade secrets in the new position.

**PrimeSource Bldg. Prods., Inc. v. Huttig Bldg. Prods., Inc., Nos. 16 CV 11390 and 16 CV 11468, 2017 WL 7795125, at \*16-17 (N.D. Ill. Dec. 9, 2017), supplemented sub nom. PrimeSource Bldg. Prods., Inc. v. Felten, No. 16 CV 11468, 2018 WL 10425603 (N.D. Ill. Feb. 1, 2018), on reconsideration, No. 16 CV 11468, 2018 WL 10425921 (N.D. Ill. Mar. 8, 2018).** The plaintiff, a building supply company, sued four former executives who had started working for the plaintiff's competitor, as well as the competitor itself. The plaintiff also sought a preliminary injunction to shut down one of the competitor's divisions until a full trial on the merits could be completed. The court denied the injunction and held that the plaintiff had not carried its burden to show that the former-employee defendants would inevitably disclose trade secrets in their new positions. The court reasoned that the plaintiff company had not identified with any particularity what trade secret information it thought its former employees would inevitably disclose at the competitor. Likewise, the court noted that the plaintiff failed to explain sufficiently why the inevitable disclosure doctrine should apply to the former employees, beyond pointing to their similar positions at the competitor.

**Cortz, Inc. v. Doheny Enters., Inc., No. 17 C 2187, 2017 WL 2958071, at \*11-12 (N.D. Ill. July 11, 2017).** The court denied a motion for a preliminary injunction, holding that the plaintiff had not shown that its former employee would inevitably disclose the plaintiff's vendor pricing information. The court explained that the plaintiff had failed to set forth evidence of any "past violations" in relation to its alleged trade secrets and that there was credible testimony that the defendant former employee did not negotiate vendor pricing as part of his duties at defendant corporation. All that remained, according to the court, was the plaintiff's conjecture that the defendant former employee "might use" alleged trade secrets in his new position. In reaching its decision, the court noted that it was well-established that an "employer's



fear that its former employee will use the trade secrets in his new position is insufficient to justify the application of the inevitable disclosure doctrine.”

**Triumph Packaging Grp. v. Ward, 834 F. Supp. 2d 796, 808-13 (N.D. Ill. 2011).** Distinguishing PepsiCo, the court denied an injunction against the alleged inevitable disclosure of trade secrets. As to the first inevitable disclosure factor, the court reasoned that the plaintiff and the former employee’s new employer were not “‘fierce,’ or even direct, competitors,” even though both manufactured folding carton packaging. The court also noted that the two companies did not share any customers. Additionally, the court rejected the plaintiff’s argument that the two companies had the potential to compete because that potential was only “minimal.” As to the second factor, the court reasoned that the defendant’s new job was “not comparable” to his former role with the plaintiff because his new position involved only operational quality control issues and not “marketing, business promotion, pricing, or purchasing.” As to the third factor, even though the new employer did nothing “to prevent [the defendant] from using or disclosing Triumph’s trade secrets,” there was “no reasonable danger of him using or disclosing that information such that [the new employer] would need to take preventative action.”

**Saban v. Caremark Rx, L.L.C., 780 F. Supp. 2d 700, 735 (N.D. Ill. 2011).** The court denied a preliminary injunction and held that disclosure was not inevitable because the former employee “may have retained some trade secret information by memory.” The court explained that there was no evidence the defendant had access to trade secrets or gave them to his new employer. The court also pointed out that the new employer did not compete with the plaintiff, the former employee’s duties at the new employer were “sufficiently different from those” at the plaintiff company to avoid an inference of inevitable disclosure, and both companies had taken measures to ensure secrecy.

**Oce N. Am., Inc. v. Brazeau, No. 09 C 2381, 2010 WL 5033310, at \*7-8 (N.D. Ill. Mar. 18, 2010).** The court denied a preliminary injunction against the alleged inevitable disclosure of trade secrets. While working for the plaintiff, the defendant former employee allegedly had access to confidential customer contacts, pricing, and business strategy information. In rejecting the request for a preliminary injunction, the court reasoned that (1) there was “virtually no evidence that [the defendant] has used or will use plaintiff’s confidential information for his new employer,” and (2) the defendant was able to work for the competitor without divulging the confidential information.

**Mintel Int’l Grp., Ltd. v. Neergheen, No. 08-cv-3939, 2010 WL 145786, at \*11 (N.D. Ill. Jan. 12, 2010).** After a bench trial, the court concluded that the plaintiff company failed to provide sufficient evidence showing that disclosure was inevitable, even though the defendant’s new employer hired him “to fill a role that [was] somewhat similar to his former role” at the plaintiff company. The court found that when working for the plaintiff, the defendant’s work focused on consumer packaged goods and retail sectors, while at the new company he worked primarily in the pharmaceuticals and technology sectors. Accordingly, the court explained that “although the basic knowledge and experience [the defendant] gained while working at [the plaintiff]—e.g., marketing techniques, negotiating partnerships, how to approach and/or deal with trade associations, etc.—is being utilized by [the new employer], [the defendant’s] specific experience related to consumer

packaged goods and retail, as well as his connections in those sectors and the particular insight to be gleaned from the trade secrets at issue, has been shelved.” Additionally, the court noted that the new company took several steps to guard against the defendant using or disclosing the plaintiff’s trade secrets. Those steps included “requiring him to sign an agreement prohibiting him from disclosing any confidential information or trade secrets . . . and prohibiting him from discussing his former employment with [the plaintiff], forbidding him [from] contact[ing] any customers with whom he was in contact while employed at [the plaintiff].”

**Complete Bus. Solutions, Inc. v. Mauro, No. 01 C 0363, 2001 WL 290196, at \*5-6 (N.D. Ill. Mar. 16, 2001).** The court granted a motion to dismiss an inevitable disclosure claim without prejudice because the plaintiff failed to adequately allege that the defendant would inevitably disclose trade secret information. Distinguishing Strata, the court explained that the inevitable disclosure doctrine applied to cases where “the employee had agreed that he would not compete with his former employer for a fixed period of time, and the court found that the defendant could not operate or function without relying on [the plaintiff’s] alleged trade secrets.” In contrast, here, the employee was admittedly allowed to directly compete with his former employer. Given these facts, the court found it unlikely that inevitable disclosure would apply.

Some Illinois state and federal courts have relied in part on bad faith when analyzing the applicability of the inevitable disclosure doctrine. For example:

**Liebert Corp. v. Mazur, 357 Ill. App. 3d 265, 285-86, 827 N.E.2d 909, 928-29 (1st Dist. 2005).** The appellate court overturned the district court’s denial of a preliminary injunction, concluding inevitable disclosure applied. The court relied in part on what it perceived to be bad-faith actions by the defendant-former employee, including founding a company to compete with his former employer two months prior to resigning, lying about his reason for downloading the purported trade secrets, and eventually spoliating evidence.

**Triumph Packaging Grp. v. Ward, 834 F. Supp. 2d 796 (N.D. Ill. 2011).** While denying the plaintiff’s motion for preliminary injunction, the court analyzed the defendant’s lack of candor with Plaintiff during the employment relationship. The court acknowledged that the defendant was “less than honest with [plaintiff] regarding his self-dealing during the time he was employed” but concluded his testimony about whether his new position would require use of trade secrets was trustworthy. Further, the court noted that the defendant’s lack of candor could not overcome the fact that the plaintiff and the defendant were not direct competitors, and the defendant’s new position was substantially different from his previous position with the plaintiff.

**Rotec Indus., Inc. v. Mitsubishi Corp., 179 F. Supp. 2d 885 (C.D. Ill. 2002).** The court granted the defendant’s motion for summary judgment. When distinguishing the case from PepsiCo, the court noted that in the latter case, “[t]he district court found that the manager would inevitably use PepsiCo’s trade secrets in his new position. That finding was based upon both the nature of the new position and the manager’s lack of candor.” In the present case, however, the court found a lack of evidence that the data in question was a trade secret, and without a trade secret, the inevitable disclosure doctrine did not apply.

Indeed, several courts have declined to enter injunctions based on the inevitable disclosure doctrine absent bad faith or improper acts on the part of the former employee or the new employer. For example:

**SKF USA, Inc. v. Bjerkness, No. 08 C 4709, 2009 WL 1108494, at \*13 (N.D. Ill. Apr. 24, 2009).** The court refused 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).** The court refused to enjoin a former employee with extensive knowledge of the counterclaim plaintiff's business and customer information, product design, and manufacturing techniques, holding that ITSA "should not prevent workers from pursuing their livelihoods" after leaving their current positions.

**Zellweger Analytics, Inc. v. Milgram, No. 95 C 5998, 1997 WL 667778, at \*3 (N.D. Ill. Oct. 21, 1997).** The court held that former employees would not inevitably disclose the plaintiff's trade secrets because the new employer "already ha[d] an independently derived, functioning" product and the plaintiff presented no evidence that trade secrets would be utilized.

**Abbott Labs. v. Chiron Corp., No. 97 C 0519, 1997 WL 208369, at \*3 (N.D. Ill. Apr. 23, 1997).** The court rejected a claim of inevitable disclosure and held that "[e]ven when the position assumed by a former employee with a competitor is similar to his or her previous position, disclosure of trade secret information is not inevitable."

For a 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 Section 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:** One common question confronting trade secret plaintiffs is who 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. Additionally, in that situation, it is often advisable for the employer to seek a waiver from the employee such that, in the event of a conflict, the employee agrees that counsel will continue to represent the employer. In certain instances, however, it may be appropriate for the former employee to have separate counsel; for example, separate counsel may be desirable depending on the specific allegations against the former employee or the former employee’s prominence or position. In that situation, the parties should consider executing a joint defense agreement in order to maintain privilege over their communications.

**PRACTICE TIP:** Before initiating a lawsuit for trade secrets misappropriation, a plaintiff should consider sending a “cease and desist” letter demanding that the offending party or parties (for example, a former employee and his or her new employer) cease 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, cease and desist letters can help a plaintiff establish its need for emergency injunctive relief, among other benefits. 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.**

The purpose of a preliminary injunction is to preserve the status quo “until a hearing” on the merits. N.Y. Life Ins. Co. v. Sogol, 311 Ill. App. 3d 156, 158, 724 N.E.2d 105, 107 (1st Dist. 1999); Audio Props., Inc. v. Kovach, 275 Ill. App. 3d 145, 148, 655 N.E.2d 1034, 1036 (1st Dist. 1995); see also Passon v. TCR, Inc., 242 Ill. App. 3d 259, 264, 608 N.E.2d 1346, 1350 (2d Dist. 1993). “Status quo” is defined as the “last, actual, peaceable, uncontested status which preceded the pending controversy.” Postma v. Jack Brown Buick, Inc., 157 Ill. 2d 391, 397, 626 N.E.2d 199, 202 (1993) (citation omitted).

“[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).

Federal and state courts apply similar tests when evaluating whether to grant preliminary injunctive relief, although the factors that apply in each court system are organized differently. In Illinois state court, the applicable rules for preliminary injunctions are set out in 735 ILCS 5/11-101 *et seq.* (West 2022), while Rule 65 of the Federal Rules of Civil Procedure governs the procedure in federal district courts. Curtis 1000, Inc. v. Youngblade, 878 F. Supp. 1224, 1243 (N.D. Iowa 1995).

### **a) Standards in Illinois state court.**

In Illinois, a party seeking preliminary injunctive relief must establish:

- 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 exists; and

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

See, e.g., Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 772 N.E.2d 768, 779 (1st Dist. 2002). In addition to these four factors, the court will consider the balance of hardships to the parties in determining whether to grant or deny injunctive relief. See id.; Limestone Dev. Corp. v. Vill. of Lemont, 284 Ill. App. 3d 848, 853, 672 N.E.2d 763, 767 (1st Dist. 1996). The court may further consider the interests of public policy and the public interest in determining whether to grant injunctive relief. See Prairie Eye Ctr., Ltd. v. Butler, 305 Ill. App. 3d 442, 448-49, 713 N.E.2d 610, 615 (4th Dist. 1999) (holding contract did not violate public policy).

**b) Standards in federal court.**

As a threshold matter, the party seeking the injunction must show that “(1) absent a preliminary injunction, it will suffer irreparable harm in the interim period prior to final resolution of its claims; (2) traditional legal remedies would be inadequate; and (3) its claim has some likelihood of succeeding on the merits.” Vendavo, Inc. v. Long, 397 F. Supp. 3d 1115, 1128 (N.D. Ill. 2019). If the moving party satisfies this burden, then the court moves to the “balancing phase,” weighing the possible irreparable harm to the moving party of not granting the preliminary injunction against the irreparable harm inflicted on the non-moving party by granting it. Id.

In determining whether to grant a preliminary injunction, courts typically use a “sliding scale” approach, in which they “weigh” all four factors. Id. As the court explained in Abbott Laboratories v. Mead Johnson & Co., “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.” 971 F.2d 6, 13 (7th Cir. 1992); see also Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*5 (N.D. Ill. Dec. 22, 2021) (granting in part the plaintiff’s motion for preliminary injunction based on whether it made a “sufficiently strong” showing that it will succeed on the merits of its various claims, and noting that the prior “better than negligible” standard has been retired by the Seventh Circuit). When weighing the above factors, courts also consider the impact of the preliminary injunction on the public interest. See Abbott Labs., 971 F.2d at 13; Vendavo, 397 F. Supp. 3d at 1128.

**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. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 788, 772 N.E.2d 768, 779 (1st Dist. 2002). 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 protectable interest. See Delta, 331 Ill. App. 3d at 788-89, 772 N.E.2d at 779-80. A protectable interest is the first element of the test in state court, and it is subsumed into the likelihood of success analysis in federal court. See Balmoral Racing Club, Inc. v. Churchill Downs, Inc., No. 11 C 1028, 2011 WL 3020776, at \*6 (N.D. Ill. July 21, 2011) (denying injunction where the plaintiffs failed to allege any protectable right in the customer lists at issue); Noddings Inv. Grp., Inc. v. Kelley, No. 93 C 1458, 1994 WL 91932, at \*1 (N.D. Ill. Mar. 18, 1994) (granting preliminary injunction where the plaintiff employer alleged that the defendant employee left with the employer's investment strategy for use in his own business).

**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 obtaining injunctive relief, courts often consider both factors together in a trade secrets case. See Mazak Optonics Corp. v. Marlette, No. 17 C 1023, 2017 WL 3394727, at \*2 (N.D. Ill. Aug. 8, 2017); Lawter Int'l, Inc. v. Carroll, 116 Ill. App. 3d 717, 731, 451 N.E.2d 1338, 1348 (1st Dist. 1983).

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 continuing, constant and/or frequent in nature, 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) (citations omitted).

Whenever trade secrets are involved, there is a significant risk that misappropriation or misuse will cause irreparable harm. E.g., Huawei Techs. Co., Ltd. v. Motorola, Inc., No. 11-cv-497, 2011 WL 612722, at \*10 (N.D. Ill. Feb. 22, 2011); IDS Fin. Servs., Inc. 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 customer 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); see also UTStarcom, Inc. v. Starent Networks, Corp., 675 F. Supp. 2d 854, 864 (N.D. Ill. 2009) (stating that there is a “rebuttable presumption of irreparable harm” in trade secret cases that can be overcome by showing a plaintiff will not suffer harm in the absence of an injunction).

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:

***Irreparable Harm Found:***

**State Court:**

**Prentice Med. Corp. v. Todd**, 145 Ill. App. 3d 692, 700-01, 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. The court explained that “[i]t is well settled that prolonged interruptions in the continuity of business relationships can cause irremedial damages for which no compensation would be adequate.” On the facts, the court underscored that “approximately 20 percent of [the plaintiff’s] preferred customers appeared on [the defendant’s] ‘prime list’ which was prepared by [the defendant] for solicitation purposes.”

**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 harm. The court noted that “the factual situation present here gives rise to the conclusion that the plaintiff will be subject to transgressions of a continuing nature, constant and frequent, such that no meaningful redress can be had at law.”

**Federal Court:**

**Mazak Optonics Corp. v. Marlette**, No. 17 C 1023, 2017 WL 3394727, at \*2 (N.D. Ill. Aug. 8, 2017). The court found irreparable harm where the defendant had misappropriated confidential and proprietary information without authorization for an extensive amount of time and was using it with a competitor. The court noted the continuing risk of irreparable harm to the plaintiff’s good will and customer base, as well as “the difficulty of quantifying the precise monetary losses that might continue to be suffered.”

**Union Fid. Life Ins. Co. v. Wells Fargo Ins., Inc.**, No. 10-cv-5836, 2011 WL 2173755, at \*7 (N.D. Ill. June 1, 2011). The court held that soliciting customers in violation of a contractual prohibition constituted irreparable harm. The court explained that potential damage to goodwill is “not readily measured by the mere loss of customers in the short term, and that this difficulty in assessing damages makes that remedy less than adequate compensation for any harm suffered.”

**Optionmonster Holdings, Inc. v. Tavant Techs., Inc.**, No. 10 C 2792, 2010 WL 2639809, at \*9 (N.D. Ill. June 29, 2010). The court granted an injunction and found irreparable harm where the defendant had already delivered and was scheduled to deliver more of its products to competitors, allowing the defendant to “unfairly compete” with the plaintiff in the future. The court also noted that agreements between the parties specified that any breach would constitute irreparable harm that could not be compensated with monetary damages.

**YourNetDating, Inc. v. Mitchell**, 88 F. Supp. 2d 870, 872 (N.D. Ill. 2000). The court granted a temporary restraining order against a former employee of YourNetDating who allegedly used his knowledge of the YourNetDating’s technology to divert visitors from the dating website to a pornographic website. In granting the temporary restraining order, the court explained that the damage the former employee’s conduct caused to YourNetDating’s goodwill constituted irreparable harm.



**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).** The court granted the plaintiffs' motion for a preliminary injunction after finding that the defendants were systematically raiding the plaintiff's customers, agents, customer assets, and trade secrets and that the plaintiffs were vulnerable to continued infliction of irreparable harm. The court explained that "because of the nature of the injury—loss of clients' goodwill and future business—damages will be difficult, if not impossible, to measure fully."

**IDS Fin. Servs., Inc. 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. The court explained that "[c]lients may begin to question the wisdom of remaining with a company involved in litigation with a former representative over their confidential information."

***No Irreparable Harm Found:***

**Chicagoland Aviation, LLC v. Todd, No. 12-cv-1139, 2012 WL 5948960, at \*6 (N.D. Ill. June 8, 2012), report and recommendation accepted by 2012 WL 5949358, at \*7 (N.D. Ill. Nov. 27, 2012).** The court declined to find irreparable harm where the defendant allegedly stole nine customers "represent[ing] only a fraction of plaintiff's customer base" of 2,000 customers, and the plaintiff had 40 to 50 other customers at the same dollar value level. The court also pointed out that the plaintiff was able to quantify the losses that these customers represented. The court reasoned that the plaintiff's "ability to quantify his losses alone defeats his motion" because it necessarily made the losses repairable. The district court accepted the magistrate judge's recommendation.

**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). 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). However, there must be some "non-speculative basis from which the Court could conclude that [the claim] has some likelihood of success on the merits." LKQ Corp. v. Fengler, No. 12-cv-2741, 2012 WL 1405774, at \*6 (N.D. Ill. Apr. 23, 2012); see also Cortz, Inc. v. Doheny Enters., Inc., No. 17 C 2187, 2017 WL 2958071, at \*8-13 (N.D. Ill. July 11, 2017) (denying a preliminary injunction where the plaintiff had not met its burden of establishing the likelihood of success on its merits on its claims under ITSA and the federal Defend Trade Secrets Act).

Under ITSA, a "[c]ourt may issue an injunction if there is actual or threatened misappropriation of a trade secret." UTStarcom, Inc. v. Starent Networks, Corp., 675 F. Supp. 2d 854, 864 (N.D. Ill. 2009). Thus, determining whether the plaintiff is likely to succeed on the merits requires a consideration of ITSA's elements. Id. Mere "suspicions" of misappropriation are insufficient. LKQ, 2012 WL 1405774, at \*6; see also Mazak Optonics Corp. v. Marlette, No. 17 C 1023, 2017 WL 3394727, at \*2-3 (N.D. Ill. Aug. 8, 2017)

(explaining that sufficient evidence must be shown that the defendant possesses and is using misappropriated information). In federal court, a plaintiff must make a strong showing that its claim has at least some likelihood of success on the merits. Illinois Republican Party v. Pritzker, 973 F.3d 760, 762 (7th Cir. 2020).

Although it may be “easy and tempting to expand the [injunction] hearing into the merits of the ultimate question as to whether a permanent injunction should be issued,” the court should resist that temptation. Buzz Barton, 108 Ill. 2d at 385-86, 483 N.E.2d 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 “[it] will be entitled to the prayed-for relief if the proof presented at trial should sustain its allegations [of trade secret misappropriation].” TIE Systems, 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) Balancing of hardships.**

Courts balance conflicting social and economic concerns in protecting trade secrets. See Ultraviolet Devices, Inc. v. Kubitz, No. 09-cv-5697, 2009 WL 3824724, \*7 (N.D. Ill. Nov. 13, 2009); ILG Indus., Inc. v. Scott, 49 Ill. 2d 88, 273 N.E.2d 393 (1971). As discussed above, whether the injunction is in the “public interest” is a factor in the Seventh Circuit’s “sliding scale” approach to the balancing of hardships. ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310, 1335 (N.D. Ill. 1990); see also IDS Life, 958 F. Supp. at 1272 (court must consider effect of injunction on non-parties in second stage of analysis); Optionmonster Holdings, Inc. v. Tavant Techs., Inc., No. 10 C 2792, 2010 WL 2639809, at \*10 (N.D. Ill. June 29, 2010) (rejecting the defendant’s argument that an injunction would hurt third parties relying on the defendant’s products and explaining that “the public interest is well-served by enforcing valid contracts and protecting trade secrets”).

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 necessary to award 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); see Delta Medical, 331 Ill. App. 3d at 788, 772 N.E.2d at 779 (referring to balancing as an additional inquiry after the four-part test).

When balancing the hardships, courts will consider the cost of developing the trade secrets. In ISC-Bunker, 765 F. Supp. at 1335, the court, citing ITSA, held that an injunction was in the public interest, because the Uniform Trade Secrets Act was intended to protect the investment made by 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, 958 F. Supp. at 1282; see also Mazak, 2017 WL 3394727, at \*3 (“The public interest is supported by upholding the sanctity of confidential information such as trade secrets and preventing others from the unauthorized use of such confidential information for their own benefit. There is little incentive in our capitalist system for business to strive to develop trade secrets in order to excel if such secrets can be stolen at will without repercussions and without the protection of the legal system.”).

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 developing 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 her employment. Serv. Ctrs. of Chi., Inc. v. Minogue, 180 Ill. App. 3d 447, 452, 535 N.E.2d 1132, 1135 (1st Dist. 1989).

### **3. Temporary restraining orders.**

A trade secret action seeking injunctive relief typically begins with the request for a temporary restraining order (“TRO”), which is intended to maintain the status quo until a hearing on the motion for preliminary injunction. See, e.g., Prudential Ins. Co. of Am. v. Hosto, No. 08-CV-0674, 2008 WL 4482882, at \*3-5 (S.D. Ill. Oct. 2, 2008) (granting motion for TRO where party showed likelihood of success on trade secret claims); Dulisse v. Park Int’l Corp., No. 97 C 8018, 1998 WL 25158, at \*3 (N.D. Ill. Jan. 9, 1998) (same). Courts will narrowly tailor TROs to try to avoid inflicting more harm than necessary. See Aon Risk Servs., Inc. v. Alliant Ins. Servs. Co., 415 F. Supp. 3d 843, 852-53 (N.D. Ill. 2019) (issuing a TRO preventing defendant-former employees from soliciting former clients, but not from accepting business if the clients decided to change to the defendants’ new businesses of their own free will, because otherwise the court would “den[y] such clients their free choice of who to work with and as such, [would be] an overly burdensome restraint on trade”).

The standards for granting a TRO 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); accord Murges v. Bowman, 254 Ill. App. 3d 1071, 1080-1081, 627 N.E.2d 330, 336-37 (1st Dist. 1993); 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 2022).

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); TIMOTHY J. STORM, 4A ILLINOIS CIVIL LITIGATION GUIDE § 7:9 (2020).

**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. Many plaintiffs seek such relief, based on the need to prevent harm from the misappropriation. 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 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 2022).

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 protectable 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.

**PRACTICE TIP:** Motions for emergency injunctive relief are usually supported by affidavit testimony. Such affidavits are prepared early in the case and often before counsel have fully investigated all of the issues. Care should therefore be taken to make sure that the affidavits do not expose the affiant and the company to impeachment or other credibility attacks later in the litigation. It is a good idea to limit the subject matter of the affidavit to the essential factual issues and not attempt to "gild the lily."

### **1. Monetary damages.**

There are three basic types of monetary damages potentially available under ITSA: compensatory damages, unjust enrichment or restitution damages, and "reasonable royalty" damages. Specifically, 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 2022). In other words, under 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, 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 monetary damages by a preponderance of the evidence. See 765 ILCS 1065/4(a) (West 2022). 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. v. IBP, Inc., 224 F.3d 1296, 1304 (Fed. Cir. 2000) (applying Illinois law); see also Schiller & Schmidt, Inc., 969 F.2d 410, 415 (7th Cir. 1992) (stating that “people who want damages have to prove them, using methodologies that need not be intellectually sophisticated but must not insult the intelligence”).

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. As a result, 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 (1) accounts for the losses due to factors besides the defendant’s misappropriation and (2) 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, reasoning that 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 ITSA.**

**(1) “Actual loss.”**

Actual loss damages under 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 showing that the third party never would have possessed the trade secret and made the sales of the resulting product 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). While traditional lost profits can be difficult to calculate and prove, damages based on price erosion are more easily quantifiable. See Stanacard, LLC v. Rubard LLC, No. 12 Civ. 5176, 2016 WL 6820741, at \*2. (S.D.N.Y. Nov. 10, 2016) (crediting the clear methodology employed by the plaintiff's expert in calculating the price erosion damages caused by plaintiff's price reduction in response to defendant's entry into the market); Lucini Italia Co. v. Grappolini, No. 01 C 6405, 2003 WL 1989605, at \*19 (N.D. Ill. Apr. 28, 2003) (noting that price erosion is a form of actual damages while "lost profits are necessarily uncertain").

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 ITSA. Id. There, the trade secret owner had reduced its prices in response to the defendant's entry into the market. Id. The court noted that the defendant likely would not have entered the market had it not been in possession of the plaintiff's trade secret information. 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, which may be analogous on this damages issue, 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. (quotations 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, in addition to lost profits and price erosion: (1) a decline in the value of the business, (2) the costs of researching and developing the trade secret, and (3) 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 with a variety of types 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.

**(2) “Unjust enrichment.”**

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 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. v. IBP, Inc., 224 F.3d 1296, 1304 (Fed. Cir. 2000) (applying Illinois law) (affirming the jury’s \$10.9 million damages award for unjust enrichment as not manifestly erroneous or unreasonable in light of evidence presented to the jury that all of the profit from the defendant’s \$70 million in sales was attributable to the use of the plaintiff’s trade secrets).
- 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 that used the trade secret. See Minn. Mining & Mfg. Co. v. Pribyl, 259 F.3d 587, 607 (7th Cir. 2001) (applying Wisconsin law) (explaining that cost of development damages are a form of the defendant's unjust enrichment).

### (3) "Reasonable royalty."

When the trade secret plaintiff fails to prove actual losses or unjust enrichment damages by a preponderance of the evidence, ITSA allows a court to award damages in the form of a "reasonable royalty." 765 ILCS 1065/4(a) (West 2022).

Although there does not appear to be any 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 addressed trade secret misappropriation under Florida law and applied the reasonable royalty calculation that applies in patent infringement cases). 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 applied 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 before 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 before the misappropriation of the trade secret or signed an agreement containing a liquidated damages clause that applies when one party misappropriates the other’s trade secret. In those situations, calculating 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); see also Ajaxo, Inc. v. E\*Trade Fin. Corp., 48 Cal. App. 5th 129, 166-67 (Cal. App. 6th Dist. 2020) (holding that the royalty rate under the California Uniform Trade Secrets Act is determined by modeling hypothetical negotiations between the trade secret owner and use, and that the “offer to license should be the starting point of any hypothetical negotiations”) (quoting Georgia-Pac. v. U.S. Plywood Corp., 318 F.Supp. 1116, 1121 (S.D.N.Y. 1970)).

**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 the most difficult for the plaintiff 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 has not destroyed secrecy by disclosing the secret to the public, there may have 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.”) (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 the defendant caused to the plaintiff by misappropriating its trade secrets. 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 Bourns, Inc. v. Raychem Corp., 331 F.3d 704, 709-10 (9th Cir. 2003) (affirming award of damages, under a theory of unjust enrichment, for three years of development costs that the defendant was able to avoid as a result of its misappropriation); Salsbury Labs., Inc. v. Merieux Labs., Inc., 908 F.2d 706, 714-15 (11th Cir. 1990) (modifying damages award 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); CardioVention, Inc. v. Medtronic, Inc., 483 F. Supp. 2d 830, 845 (D. Minn. 2007) ("Although unjust enrichment is typically measured by profits gained from the sale of the product containing the trade secret, courts have considered cost savings and increased productivity resulting from use of the trade secret.").

Where the defendant has profited from its use of 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 University Computing, 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 may provide 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 University Computing, 504 F.2d at 536-37 (5th Cir. 1974); Taufest, supra, at 137. And in some situations, 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. BALT. L. REV. 181, 218 (2002) (analyzing strategic considerations for reasonable royalty awards under the Maryland Trade Secrets Act).

## **2. Injunctive relief.**

Injunctive relief under 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). In many trade secrets cases, injunctive relief may be of more value to the plaintiff than monetary damages.

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

When determining the scope of injunctive relief to award to the plaintiff, Illinois state courts balance 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.**

Traditionally, “[a]n 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). In the trade secrets context, 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).

In issuing an injunction, a court must “state the reasons why the injunction issued; state the injunction’s terms specifically; and describe the acts restrained in reasonable detail.” Delphi Automotive PLC v. Absmeier, No. 15-cv-13966, 2016 WL 1156741 at \*5 (E.D. Mich. Mar. 24, 2016) (citing Fed. R. Civ. P. 65(d)). This does not mean that the court need “identify every conceivable act that would be covered.” Id. There is an expectation that the parties will interpret the injunction with common sense and that it will be as specific as possible in light of the circumstances. Id. As such, in Delphi Automotive, the court rejected the defendant’s contention that the court’s order was unlawfully vague, but exercised its discretion under Rule 65(c) to modify the injunction to protect the rights of the defendant. Id. Finding that clarification of the acts restricted by the injunction would aid in “protecting Defendant’s rights, such that it may prevent any potential injury” the court further specified the scope of activities prohibited by the injunction. Id. Conversely, in Mayfield Engineering, Inc. v. Ohio Turnpike Commission, the court held that because previous agreements between the parties defined the parties’ mutual understanding of trade secrets, Rule 65(d) did not require the court to specifically identify the trade secrets covered by the injunction. 173 F.3d 855 (unpublished table decision), 1999 WL 196562 at \*3 (6th Cir. Mar. 31, 1999). As such, the court denied the motion to modify the injunction and determined that the injunction was not unlawfully vague. Id.

#### **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., 142 F.3d 439, 1998 WL 231101, at \*3 n.2 (7th Cir. 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).

Generally, the enjoined party may petition the court “for a modification or construction” of the injunction if the party has doubts as to its applicability to certain conduct. Regal Knitwear Co. v. N.L.R.B., 324 U.S. 9, 15 (1945). The Supreme Court has held that, though completely within the discretion of the district court petitioned, it would be wise to provide clarity to the enjoined party. Id.

#### **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/or (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) Trade secrets that are customer lists.**

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. The duration of injunctive relief and the timeframe for calculating damages awards.**

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 also* RRK Holding Co. v. Sears, Roebuck & Co., 563 F. Supp. 2d 832, 836 (N.D. Ill. 2008) (“Illinois case law requires damages be limited to a head start period for injunctive relief...”); 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 would result if 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 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 calculating monetary damages.**

Although support exists in Illinois case law for limiting the duration of an injunction to a “head start” period, it is unclear whether a similar rationale applies in the context of monetary damages. As a result, it is uncertain under 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 “head start” rationale applied to injunctions would seem to translate to the awarding of monetary damages under ITSA. In fact, the Seventh Circuit, applying similar damages provisions under the Wisconsin Uniform Trade Secrets Act, adopted that rationale in holding that monetary damages should be limited to the timeframe of the defendant’s “head start” period. In Sokol Crystal Prods., Inc. v. DSC Communications Corp., 15 F.3d 1427, 1433 (7th Cir. 1994), the Seventh Circuit explained that “[t]he 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.” Courts in several other states also have limited monetary damages to the “head start” period. See, e.g., Ajaxo, Inc. v. E\*Trade Fin. Corp., 48 Cal. App. 5th 129, 193-94 (Cal. App. 6th Dist. 2020) (affirming the trial court’s decision to award no reasonable royalty in part due to the head start limitation under California law); Reinforced Molding Corp. v. Gen. Elec. Co., 592 F. Supp. 1083, 1088 (W.D. Penn. 1984) (applying Pennsylvania law); Structural Dynamics Rsch. Corp. v. Eng’g Mechs. Rsch. Corp., 401 F. Supp. 1102, 1120 (E.D. Mich. 1975) (applying Michigan law); Carboline Co. v. Jarboe, 454 S.W.2d 540, 553 (Mo. 1970).

Similarly, the Restatement (Third) of Unfair Competition supports limiting monetary damages to the “head start” period:

Monetary remedies, whether measured by the loss to the plaintiff or the gain to the defendant, are appropriate only for the period of time that the information would have remained unavailable to the defendant in the absence of the appropriation. This period may be measured by the time it would have taken the defendant to obtain the information by proper means such as reverse engineering or independent development. Similarly, the issuance of a patent or other public disclosure of the information by the plaintiff or a third person terminates the secrecy necessary to the protection of a trade secret. Monetary relief based on the defendant’s use of the information after the loss of secrecy is therefore appropriate only to the extent necessary to remedy a head start or other unfair advantage attributable to the defendant’s prior access to the information. The limitations on the appropriate duration of injunctive relief as stated in § 44, Comment *f*, are thus also generally applicable to the calculation of monetary relief.

RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45, cmt. h (1995).



The Official Commentary to UTSA also supports limiting monetary damages to the “head start” period:

Like injunctive relief, a monetary recovery for trade secret misappropriation is appropriate only for the period in which information is entitled to protection as a trade secret, plus the additional period, if any, in which a misappropriator retains an advantage over good faith competitors because of misappropriation. Actual damage to a complainant and unjust benefit to a misappropriator are caused by misappropriation during this time alone.

UNIF. TRADE SECRETS ACT § 3, cmt. (1990).<sup>1</sup>

However, some Illinois courts have held that the head start period limits only injunctions, not monetary damages. In RRK Holding Co. v. Sears, Roebuck, & Co., No. 04 C 3944, 2007 WL 7046890, at \*2 (N.D. Ill. Sept. 10, 2007), the Northern District of Illinois evaluated a claim that the defendant had misappropriated the design of a power tool after signing a confidentiality agreement. The court rejected the defendant’s motion in limine to exclude all evidence of sales after the conclusion of the “head start” period because “[d]amages calculations may take into account evidence outside the ‘head start’ period.” Id. (emphasis added). The court underscored that Illinois case law had used the “head start” period only to limit injunctions, not monetary damages. Id.; see also RRK Holding Co. v. Sears, Roebuck & Co., 563 F. Supp. 2d 832, 836 (N.D. Ill. 2008) (rejecting the defendant’s motion for judgment as a matter of law because “[w]hile Illinois case law requires damages be limited to a head start period for injunctive relief, it has not made such a requirement for monetary damages”) (citations omitted).

Some courts in other states also have refused to limit damages to a “head start” period. See, e.g., Premier Lab Supply, Inc. v. Chemplex Indus., Inc., 94 So.3d 640, 645 (Fla. Dist. Ct. App. 2012) (citing RRK Holding and refusing to apply the “head start” limitation outside the injunction context and stating that “a plaintiff’s actual damages can be measured by the value of the loss of the secret to the plaintiff under the circumstances”) (citation and quotation omitted); Agilent Techs., Inc. v. Kirkland, No. 3512-VCS, 2010 WL 610725, at \*27 (Del. Ch. Feb. 18, 2010) (holding that the plaintiff was entitled to damages beyond the three year head start period because the defendant would continue to benefit from its misappropriation); Jet Spray Cooler, Inc. v. Crampton, 385 N.E.2d 1349, 1357 n.11 (Mass. 1979) (noting that “applying a ‘head start rule’ in assessing damages in this action . . . is improper”); cf. Progressive Prods. v. Swartz, No. 109,978, 2014 WL 4080157, at \*3-5 (Kan. Ct. App. Aug. 15, 2014) (affirming the reasonably royalty award limited by a three-year head start period and rejecting the plaintiff’s argument that damages should have included a 30-year royalty period to reflect the decades the plaintiff spent building the business).

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<sup>1</sup> Illinois courts often look to the Official Commentary when analyzing Illinois’ adoption of a uniform act. See, e.g., Listeman, Bandy & Hamilton Ass’n v. Wilson, 94 Ill. 2d 60, 64, 445 N.E.2d 323, 325 (1983) (relying on Official Commentary to Uniform Commercial Code).

#### **4. Awarding both injunctive relief and monetary damages.**

Under 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 2022) (stating that damages for misappropriation are recoverable in addition to injunctive relief provided under 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); 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); RKI, Inc. v. Grimes, 200 F. Supp. 2d 916, 926 (N.D. Ill. 2002) (granting such relief).

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 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, ITSA's preemption provision eliminates the prospect of double recovery. 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 2022). Because 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.

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 preemption issue until after trial; at that point, the court can determine how damages should be allocated among the claims to comply with 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 ITSA—were “inextricably linked” to the trade secret claim and therefore awarding all damages based solely on the plaintiff's claim under ITSA). For additional discussion about preemption, see infra Section VI.E.

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

Besides a claim for misappropriation of trade secrets under 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 generally 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 copyrighted and subject to trade secret protection—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 for “defendants' separate [trade secret] misappropriation activities”).

**C. Punitive Damages.**

Another area of relative uncertainty in Illinois trade secret law concerns the circumstances in which an award of punitive damages for trade secret misappropriation is

justified. 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 2022). Although several federal courts have attempted to provide contours to the notion of what constitutes “willful and malicious” misappropriation, ITSA does not explicitly define such behavior. Several courts have adopted a somewhat vague definition first articulated by the Seventh Circuit under which a plaintiff may prove willful and malicious misappropriation by showing “intentional misappropriation” or “a misappropriation resulting from the conscious disregard of the rights of another.” Mangren Rsch. & Dev. Corp. v. Nat’l Chem. Co., Inc., 87 F.3d 937, 946 (7th Cir. 1996)). This definition has been applied in subsequent federal cases and one unpublished state case. See IPOX Schuster, LLC v. Nikko Asset Mgmt. Co., Ltd., 304 F.Supp.3d 746, 759 (N.D. Ill. 2018) (denying the defendant’s motion for summary judgment as to damages because a jury could reasonably infer that the defendants had intentionally misappropriated or consciously disregarded the plaintiff’s rights, thus satisfying the Mangren standard); Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 730 (7th Cir. 2003) (stating that the Mangren definition of willful and malicious misappropriation under ITSA is the prevailing definition and remanding to the district court for a jury trial on exemplary damages); Aurora Internal Med., Ltd. v. Moore, 2011 IL App (2nd) 101042-U at \*18 (unpublished) (explaining that the Mangren definition of willful and malicious was appropriate in light of Illinois case law).

### **1. Intentional misappropriation.**

Demonstrating intentional misappropriation is one of two ways that plaintiffs can prove that a defendant’s misappropriation was “willful and malicious.” See Mangren, 87 F.3d at 946. In Mangren, 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).

Similarly, in denying a motion for summary judgment on damages stemming from an ITSA claim, the court in IPOX Schuster, LLC v. Nikko Asset Management Co. held that a jury could reasonably infer from the evidence that the defendants intentionally misappropriated or consciously disregarded the plaintiff’s rights. 304 F. Supp. 3d 746, 759 (N.D. Ill. 2018). The court did not define the phrase “willful and malicious,” but held that the defendants’ actions of obtaining and communicating the plaintiffs’ sensitive information to each other could be construed as such. Id.

## **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, 177 F. Supp. 2d 859, 879-80 (N.D. Ill. 2001), the court found such a knowing misappropriation and awarded exemplary damages. In that case, the defendant had engaged in a "calculated risk" by (1) viewing the trade secrets it knew an employee had taken from his previous employer and (2) having the employee sign an agreement stating he would indemnify the defendant should the trade secret owner sue. Id.; see MG Cap. LLC v. Sullivan, No. 01 C 5815, 2001 WL 1609382, at \*2, 6 (N.D. Ill. Dec. 13, 2001) (holding that 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, 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 under ITSA. See Roton Barrier v. Stanley Works, 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 (refusing to award punitive damages under 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.**

ITSA outlines several circumstances under which a party, including a defendant, may be awarded attorneys' fees. See 765 ILCS 1065/5 (West 2022).

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

Under 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) (West 2022). 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. Compare Lucini Italia Co., 2003 WL 1989605 at \*13, 20 (awarding attorneys' fees under 765 ILCS 1065/5 because the defendants "acted in a willful and malicious manner to misappropriate Lucini's trade secrets"), with Chemetall GmbH v. ZR Energy, Inc., No. 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); see also Glob. Material Techs., Inc. v. Dahzeng Metal Fibre Co., Ltd., No. 12 CV 1851, 2018 WL 10321387, at \*5 (N.D. Ill. Mar. 28, 2018) (declining to award attorney's fees after a default judgment against the defendant absent more briefing because a finding of willful and malicious conduct "might not be implicit in the default judgment on liability—willful and malicious misappropriation is not an element of the claim").

**2. Awarded to the defendant where a claim of misappropriation is made in bad faith.**

Under 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 2022). A claim under ITSA can be found to be "made" in bad faith if it is "initiated in bad faith, maintained in bad faith, or both." Tradesmen Int'l, Inc. v. Black, 724 F. 3d 1004, 1016 (7th Cir. 2013) (reversing and remanding the district court's denial of motion for attorney's fees because the court erred by considering only whether the case was initiated in bad faith); see also Peerless Indus., Inc. v. Crimson AV, LLC, No. 11 C 1768, 2018 WL 11346888 (N.D. Ill. Nov. 27, 2018) ("The Illinois Trade Secrets Act affords the court discretion to award reasonable attorneys' fees if ... the claim is either filed or maintained in bad faith") (internal citations omitted). To pursue attorneys' fees for an action made in bad faith, a defendant must demonstrate objective or subjective bad faith on the part of the plaintiff. See Hecny Transp., Inc. v. Chu, No. 98 C 7335, 2005 WL 2347228, at \*1 (N.D. Ill. Sept. 23, 2005). Without a showing of frivolity or demonstrable vindictiveness, the fact that the plaintiff was wrong about its claims is not evidence of bad faith. Id. 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.

In 2016, the Illinois Appellate Court set forth, in a "special concurrence," the standard for determining whether a claim has been made in bad faith. In Conxall Corp. v. Iconn Systems, LLC, the Appellate Court vacated the trial court's denial of the prevailing defendant's motion for attorneys' fees, instructing that on remand the trial court "be guided" by the special concurrence in considering the award of attorneys' fees. 2016 IL App (1st) 140158, ¶ 84, 61

N.E.2d 1081, 1099 (1st Dist. 2016). With no relevant precedent under ITSA, the special concurrence (for the majority of the court) looked to the Illinois Supreme Court’s definition of bad faith used to evaluate awards of attorneys’ fees to prevailing defendants under the Consumer Fraud and Deceptive Business Practices Act, as articulated in Krautsack v. Anderson, 223 Ill. 2d 541, 559, 861 N.E.2d 633, 647 (2006), which in turn relied on Illinois Supreme Court Rule 137 (the state corollary to Federal Rule of Civil Procedure 11). Conxall Corp., 2016 IL App (1st) 140158, ¶¶ 93, 96, 61 N.E.2d at 1099. The special concurrence explained that Illinois Supreme Court Rule 137, which is designed to prevent abuse of the judicial process by penalizing claimants who bring vexatious and harassing actions, also should serve as a guide when evaluating bad faith under ITSA. According to the special concurrence, determining whether a litigant asserted an ITSA claim in bad faith requires the court to ask whether the litigant’s filings or other conduct ran afoul of Rule 137, but made clear, as did the court in Krautsack, that “the trial court may consider and be guided by the body of case law construing Rule 137, but is not constrained by Rule 137.” Id. at ¶ 99.

The Northern District of Illinois has followed the definition of bad faith set out in Conxall. For instance, in Molon Motor and Coil Corp. v. Nidec Motor Corp., the court described Conxall as the “most pertinent Illinois decision on what bad faith means under” ITSA. No. 1:16-cv-03545, 2020 WL 7027577 at \*2 (N.D. Ill. Nov. 30, 2020). In Cornerstone Assurance Group, Inc. v. Harrison, the court denied the defendant’s motion for attorney’s fees after failing to find conduct that would violate Rule 137 and thus the standard set by Conxall. No. 17-cv-04718, 2018 WL 10126746, at \*1 (N.D. Ill. Oct. 18, 2018). Likewise, in Multimedia Sales & Marketing, Inc. v. Marzullo, the court held that the trial court properly awarded attorney’s fees after applying Rule 137 per Conxall. 2020 IL App (1st) 191790, ¶¶ 29-34.

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

Under 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 2022).

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

The decision to award attorneys’ fees under ITSA is a matter within the court’s discretion, but ITSA itself 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”). The Chemetall court affirmed the discretionary nature of attorneys’ fees, explaining that requiring fees whenever a defendant acted willfully or maliciously “would convert the permissive attorneys’ fees provision... into a mandatory one.” Id. at \*6. This discretionary standard has been adopted by other states that have adopted the Uniform Trade Secrets Act or a similar version. Chetu, Inc. v. Salihu, No. 09-60588-CIV, 2010 WL 2680088, at \*2 (S.D. Fla. Jul. 6, 2010) (citing Chemetall, 2002 WL 23826, at \*6)

(“Accordingly, the Court has ultimate discretion regarding whether to award Plaintiff attorney’s fees based on the circumstances of this case.”).

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 Chemetall, 2002 WL 23826, at \*2-4. In adopting these factors, the court reasoned that the factors 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 (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. (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.; see also Smith v. Rosebud Farm, Inc., No. 11-cv-9147, 2018 WL 4030591, at \*14 (N.D. Ill. Aug. 23, 2018) (citing Chemetall in support of the proposition that the word “may” in a fee-shifting statute means an award of fees to the prevailing party is discretionary, not mandatory); Organ Recovery Sys., Inc. v. Pres. Sols., Inc., No. 11 C 4041, 2012 WL 2577500, at \*15 (N.D. Ill. July 4, 2012) (rejecting the defendant’s claim for attorney’s fees because it failed to show that the “ITSA permits a defendant to recover damages as a prevailing party when a plaintiff has dismissed its own claim”).

## **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).



## 6. Choice of law.

ITSA's attorneys' fees provision will apply to cases governed by 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, ITSA's attorneys' fees provision may not apply, even though the availability of attorneys' fees is usually considered procedural in nature. Because ITSA is a comprehensive statutory scheme creating a substantive right in Illinois, most of 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 ITSA).

## 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.

### A. Personal Jurisdiction in Trade Secret Cases.

#### 1. Applicable facts and law.

The burden of establishing a prima facie case for personal jurisdiction lies with the plaintiff. R.W. Sawant & Co. v. Allied Programs Corp., 111 Ill. 2d 304, 310, 489 N.E.2d 1360, 1363 (1986) (stating general rule<sup>2</sup>); see also Kennelsource, Inc. v. Barking Hound Vill., LLC, No. 05 C 1788, 2006 WL 2578975, at \*2 (N.D. Ill. Sept. 5, 2006); Faith Freight Forwarding Corp. v. Ruiz, No. 95 C 7560, 1997 WL 159207, at \*1 (N.D. Ill. Mar. 24, 1997); Reliance Elevator Co. v. Miller, No. 92 C 3703, 1993 WL 34718, at \*2 (N.D. Ill. Feb. 8, 1993). In deciding a motion to dismiss for lack of personal jurisdiction, the court may consider affidavits from both parties but must resolve all factual conflicts in favor of the party seeking to establish jurisdiction. Kutner v. DeMassa, 96 Ill. App. 3d 243, 247-48, 421 N.E.2d 231, 235 (1st Dist. 1981) (stating general rule); see also Kennelsource, 2006 WL 2578975, at \*2; Hexacomb Corp. v. GTW Enters., Inc., No. 93 C 3107, 1994 WL 174114, at \*2 (N.D. Ill. May 5, 1994).

Federal courts in diversity cases, including cases involving claims under 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, 2005); BAB Sys., Inc. v. Pilatus Inv. Grp., Inc., No. 05 C 3038, 2005 WL 2850119, at \*3 (N.D. Ill. Oct. 27, 2005). Where a federal court has subject matter jurisdiction due to the existence of a federal question, personal jurisdiction may be exercised "if either federal law or the law of the state in which the court sits authorizes service of process to that defendant." Mobile Anesthesiologists Chi., LLC v. Anesthesia Assocs. of Hons. Metroplex, P.A., 623 F.3d 440,

<sup>2</sup> 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.

443 (7th Cir. 2010). Claims under the federal DTSA proceed in federal court based on federal-question jurisdiction, but DTSA does not itself authorize nationwide service of process. As a result, personal jurisdiction in a DTSA case turns on the same inquiry that applies in a diversity case—*i.e.*, evaluating whether the state in which the court sits would authorize jurisdiction. *E.g.*, Tower Commc’ns Expert, LLC v. TSC Constr., LLC, No. 18 C 2903, 2018 WL 5624268, at \*5 (N.D. Ill. Oct. 30, 2018). For a further discussion of personal jurisdiction in relation to DTSA cases, see Appendix B, section D.4.

## **2. Standards for personal jurisdiction in Illinois.**

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).

To acquire personal jurisdiction over a non-resident defendant, a court must assert either general jurisdiction or specific jurisdiction. *See* Lakeview Tech., Inc. v. Vision Solutions, Inc., No. 05 C 7209, 2007 WL 79246, at \*3-5 (N.D. Ill. Jan. 9, 2007); Commercial Coin Laundry Sys. v. Loon Invs., LLC, 375 Ill. App. 3d 26, 29, 871 N.E.2d 898, 901 (1st Dist. 2007).

### **a) General jurisdiction.**

Courts may exercise general personal jurisdiction over any individual domiciled in Illinois. 735 ILCS 5/2-209(b)(2) (West 2022). Likewise, any corporation “organized under the laws” of Illinois is subject to general personal jurisdiction. *Id.* § 209(b)(3). Further, a court may exercise general personal jurisdiction over a non-resident corporate defendant if that corporation’s affiliations with the state are “so continuous and systematic as to render them essentially at home” in the state. Daimler AG v. Bauman, 571 U.S. 117, 127 (2014). The Daimler court identified three instances in which a corporation is “at home” in the forum state: (1) the corporation is incorporated in the state; (2) the corporation’s principal place of business is in the state; and (3) in “exceptional cases” when a corporation’s operations in the state are “so substantial and of such a nature as to render the corporation at home in that State.” *Id.* at 137, 139, n.19. This third category is “incredibly difficult” to establish. *See* Aspen Am. Ins. Co. v. Interstate Warehousing, Inc., 2017 IL 121281, ¶ 19, 90 N.E.3d 440, 446 (Ill. 2017). In Ford Motor Co. v. Montana Eighth Judicial District Court, the U.S. Supreme Court called the first two options—place of incorporation and the principal place of business—the corporate “equivalent” of an individual’s domicile, but continued to cite Daimler for the “possibility” that, in an “exceptional case,” a corporation could be “at home” in another location. 141 S. Ct. 1017, 1024 (2021) (citing Daimler, 571 U.S. at 139 n.19).

While Illinois’ general personal jurisdiction statute purports to broaden the reach of its courts to any corporation “doing business within the state,” 735 ILCS 5/2-209(b)(4), the Illinois Supreme Court held that this statute cannot be applied to corporations whose activities in Illinois do not rise to the level required by Daimler. *See* Aspen Am. Ins. Co., 2017 IL 121281, ¶ 21, 90 N.E.3d at 446. Accordingly, Illinois state courts follow the Daimler standard. *See* Buron v. Lignar, 2020 IL App (1st) 192152, ¶ 18 (upholding Aspen and applying Daimler).

Unlike specific jurisdiction, general jurisdiction can be established without regard to the connection between the cause of action and the defendant's contacts with the forum. Siswanto v. Airbus, 153 F. Supp. 3d 1024, 1028 (N.D. Ill. 2015). As noted above, general jurisdiction is difficult to establish when the corporation is not incorporated in the state or does not maintain its principal place of business there. For example, in Campbell v. Acme Insulations, Inc., the court held that General Electric ("GE") could not be considered "at home" in Illinois despite its significant presence in the state. 2018 IL App (1st) 173051, ¶ 15, 105 N.E.2d 984, 992 (1st Dist. 2018). GE maintained approximately 3,000 employees across 30 facilities in the state, but the court held that this was not sufficient when it looked at the context of GE's nationwide and worldwide operations. Id. Therefore, in determining whether general jurisdiction exists, courts compare the portion of the corporation's total business activities that are conducted in the state to those conducted across the nation, rather than looking at the volume of the activities in isolation. See, e.g., id.; BNSF Ry. Co. v. Tyrrell, 137 S. Ct. 1549, 1559 (2017) ("[T]he general jurisdiction inquiry does not focus solely on the magnitude of the defendant's in-state contacts . . . Rather, the inquiry "calls for an appraisal of a corporation's activities in their entirety.").

#### **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 Chemicals, 312 Ill. App. 3d at 41-42, 726 N.E.2d at 79; see also Perfect Brow Art, Inc. v. Ramzy, No. 18 C 4594, 2018 WL 5994973, at \*2 (N.D. Ill. Nov. 15, 2018) (internal citations omitted). The Illinois long-arm statute, 735 ILCS 5/2-209(a) (West 2022), 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., Inc. v. Pilatus Inv. Grp., Inc., No. 05 C 3038, 2005 WL 2850119, at \*3 (N.D. Ill. Oct. 27, 2005).

Notwithstanding the enumerated provisions in the long-arm statute, the statute expressly allows the exercise of personal jurisdiction "on any other basis now or hereafter permitted by the Illinois Constitution and the Constitution of the United States." 735 ILCS 5/2-209(c) (West 2022). In other words, "the Illinois Long Arm Statute provides that courts may exercise jurisdiction on any basis allowed by the due process provisions of the Illinois and federal constitutions." Matlin v. Spin Master Corp., 921 F.3d 701, 705 (7th Cir. 2019) (emphasis added). However, the Seventh Circuit has held that "although the Illinois Constitution may theoretically provide greater due process protections for nonresident defendants, no Illinois case has provided a definitive explanation of the differences between federal and Illinois due process." Id. As a result, federal courts typically conclude that the Illinois long-arm statute permits courts to exercise jurisdiction "to the full extent permitted by the Due Process Clause of the Fourteenth Amendment," meaning "the state statutory and federal constitutional requirements merge." Brook v. McCormley, 873 F.3d 549, 552 (7th Cir. 2017). Nonetheless, this section begins by analyzing how courts have interpreted two

provisions of Illinois’ long-arm statute that may be of relevant in trade secret cases, before moving on to address due process considerations.

**(1) Long-arm jurisdiction for the transaction of business within Illinois.**

Business transactions create long-arm jurisdiction in Illinois under 735 ILCS 5/2-209(a)(1) (West 2022) only if the transactions 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 (internal 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 (internal 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 held the defendant manufacturers’ business transactions were not sufficient to confer personal jurisdiction under section 2-209(a)(1). The 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) Long-arm jurisdiction for a tortious act committed within Illinois.**

Cases interpreting 735 ILCS 5/2-209(a)(2) (West 2022)—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). “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) (citations omitted). Thus, in addition to the location of the injury, Illinois courts assessing section 2-209(a)(2) of the long-arm statute consider whether a defendant’s actions relating to the misappropriation occurred in Illinois. 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:

**AbbVie, Inc. v. Alvotech HF, No. 21 C 1530, 2021 WL 4593490, at \*1-2 (N.D. Ill. Oct. 6, 2021).** The court, relying on J.S.T. Corp. v. Foxconn Interconnect Tech. Ltd., 965 F.3d 571 (7th Cir. 2020), granted the defendant's motion to dismiss for lack of personal jurisdiction. The plaintiff, an Illinois pharmaceutical company, sued an Icelandic company for misappropriation of trade secrets related to the commercial manufacturing of a medication. The trade secret was allegedly stolen from the plaintiff's Singapore manufacturing facility and taken to Iceland. The court held that the defendant did not have sufficient ties to the forum, explaining that the facts that the "misappropriated trade secrets were developed in Illinois under the direction of its management in Illinois, and that Defendant intends to sell its competing products in Illinois" were insufficient. The court reasoned that the "illegal acquisition of trade secrets from [the plaintiff's] Singapore facility through the thievery of [the plaintiff's] Singapore employee for [the defendant's] use in Iceland [wa]s far too attenuated to allow personal jurisdiction."

**Aon plc v. Infinite Equity, Inc., No. 19-cv-07504, 2021 WL 4034068, at \*5-9 (N.D. Ill. Sept. 3, 2021).** The case dealt with multiple defendants—both a corporation and its agents. The court denied the defendant-corporation's motion to dismiss ITSA and DTSA claims on personal jurisdiction grounds where the defendant-corporation's agent allegedly misappropriated plaintiff's trade secret formulas, reasoning that, "[a]s a partner and agent of [the defendant-corporation], [his] activities c[ould] be imputed" to the defendant. The agent, a resident of Illinois and a former employee of the plaintiff, printed out confidential and trade secret information shortly before leaving employment with the plaintiff to work for the defendant-corporation.

**Perfect Brow Art, Inc. v. Ramzy, No. 18 C 4594, 2018 WL 5994973, at \*4 (N.D. Ill. Nov. 15, 2018).** The plaintiff alleged that its former employee misappropriated trade secrets under ITSA, including client lists and client contact information, and used that information to solicit customers for a competitor. The court dismissed this action for lack of personal jurisdiction because the defendants' alleged misconduct occurred entirely in Tennessee. Moreover, the court noted that the plaintiff did not engage in a separate analysis of personal jurisdiction over the competitor.

**Zep, Inc. v. First Aid Corp., No. 09 CV 1973, 2010 WL 1195094, at \*5 (N.D. Ill. Mar. 19, 2010).** The plaintiff filed a trade secret misappropriation claim against its former employees for allegedly providing trade secrets and confidential information to a competitor after the former employees stopped working for the plaintiff. The court dismissed the claim for lack of personal jurisdiction because the plaintiff failed to allege that either the misappropriation or the use of the trade secrets occurred in Illinois. The court rejected the plaintiff's argument that tortious conduct occurred in Illinois because the defendant conspired with an Illinois-based company. The court also noted that the plaintiff did not allege that the defendant had communicated in Illinois with an intent to harm the plaintiff's "Illinois interests."

**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).** The plaintiff brought claims arising out of defendants' actions including the misappropriation of trade secrets such as customer lists and preferences. The defendant company and individuals were employees of the plaintiff company when they hacked into

the plaintiff's Illinois accounting system computer database and changed the address in the billing software to their new company. The defendants also sent a message to the 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 the plaintiff, an Illinois corporation, experienced economic loss in Illinois. In addition, the defendants' actions demonstrated an intent to affect an Illinois interest because the defendants hacked into the plaintiff's computer system and redirected accounts receivable from Illinois to Florida and directly contacted and instructed the plaintiff's customers (including customers in Illinois) to send payments to Florida instead of Illinois. Because the plaintiff experienced economic injury in Illinois, and the defendants intentionally affected an Illinois interest, jurisdiction was proper.

**Seaga Mfg. Inc. v. Fortune Metal, Inc., No. 99 C 50332, 2001 WL 1196184 (N.D. Ill. Oct. 10, 2001).** The plaintiff sued under 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 hauled 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) Constitutional considerations related to specific jurisdiction.**

As noted above, an Illinois court also may acquire jurisdiction over a trade secret defendant through the "catch-all" provision in Illinois' long-arm statute, 735 ILCS 5/2-209(c) (West 2022). Commerce Trust Co. v. Air 1st Aviation Cos., 366 Ill. App. 3d 135, 141, 851 N.E.2d 131, 136 (1st Dist. 2006) (stating general rule). Under that provision, "[a] court may also exercise jurisdiction on any other basis now or hereafter permitted by the Illinois Constitution and the Constitution of the United States." Great Frame Up Sys., Inc. v. Rosch, No. 90 C 6360, 1991 WL 18423, at \*4 (N.D. Ill. Feb. 4, 1991). Courts have interpreted this

provision to “authorize[] personal jurisdiction to the maximum extent allowed by the Illinois and federal constitutions.” Lakeview Tech., Inc. v. Vision Solutions, Inc., No. 05 C 7209, 2007 WL 79246, at \*4 (N.D. Ill. Jan. 9, 2007); see also U.S. Gypsum Co. v. LaFarge N. Am., Inc., 508 F. Supp. 2d 601, 642 (N.D. Ill. 2007) (“Illinois’s long-arm statute . . . reaches the full limits of the Illinois and United States Constitutions.”).

For this reason, courts typically no longer first analyze whether a defendant’s actions fall within the Illinois 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, 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). While 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 appears to have encountered a situation where jurisdiction existed under only state or federal law, but not under both, 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) (identifying no case where the court had found due process was satisfied under one constitution but not the other); see also Matlin v. Spin Master Corp., 921 F.3d 701, 705 (7th Cir. 2019) (stating that no Illinois case has held that the requirements for due process are different between the Illinois and Federal constitutions).

Under federal due process jurisprudence, specific jurisdiction, as compared to general jurisdiction, “covers defendants less intimately connected with a State, but only as to a narrower class of claims.” Ford Motor Co. v. Montana Eighth Jud. Dist. Ct., 141 S. Ct. 1017, 1024 (2021). “The contacts needed for this kind of jurisdiction often go by the name ‘purposeful availment’” because the defendant “must take some act by which it purposefully avails itself of the privilege of conducting activities within the forum State,” and such contacts “must be the defendant’s own choice and not random, isolated, or fortuitous.” Id. at 1024-25 (quotations and citations omitted). The contacts “must show that the defendant deliberately reached out beyond its home—by, for example, exploiting a market in the forum State or entering a contractual relationship centered there.” Id. at 1025 (quotations and citations omitted). In addition, the plaintiff’s claims against the defendant “must arise out of or relate to the defendant’s contacts with the forum.” Id. (quotations and citations omitted). In other words, “there must be an affiliation between the forum and the underlying controversy, principally, an activity or an occurrence that takes place in the forum State and is therefore subject to the State’s regulation.” Id. (quotations and citations omitted).

However, specific jurisdiction does not require “proof of causation—*i.e.*, proof that the plaintiff’s claim came about because of the defendant’s in-state conduct.” Id. at 1026 (emphasis added). In Ford, the Supreme Court held that Ford’s extensive actions in marketing, selling, and servicing the markets in Montana and Minnesota, coupled with the harms occurring in those jurisdictions, were sufficient for Montana and Minnesota courts to exercise personal jurisdiction in connection with product liability, negligence, and related claims. Id. at 1027-28. It did not matter that the cars at the heart of the plaintiffs’ claims were initially sold

outside of the forum states and only re-sold by consumers inside each state. Id. This was because Ford “ha[d] systematically served a market in Montana and Minnesota for the very vehicles the plaintiffs allege [caused the harm in question].” Id. at 1028. Thus, Ford’s activities had created sufficient minimum contacts related to the cause of action in the case, even though Ford’s contacts in the states were not the direct cause of the harm. Id.

**(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 availment 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, No. 04 C 4437, 2004 WL 2643459, at \*1 (N.D. Ill. Nov. 19, 2004), the trade secrets defendant had a consulting agreement with the plaintiff corporation, an Illinois resident. 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, 2006 WL 2494748, at \*7-8 (N.D. Ill. Aug. 23, 2006).** The plaintiff brought a declaratory judgment action involving a trade secrets claim, among other



claims. Although the Illinois plaintiff had two contracts with the defendant, the court held that it lacked specific personal 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."

"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).

However, the key inquiry is whether the defendant's acts were aimed at the forum rather than at the injured party. See Walden v. Fiore, 571 U.S. 277, 285 (2014). "[T]he plaintiff cannot be the only link between the defendant and the forum. Rather, it is the defendant's conduct that must form the necessary connection with the forum State that is the basis for its jurisdiction over him." Id. In other words, "mere injury to a forum resident is not a sufficient connection to the forum. Regardless of where a plaintiff lives or works, an injury is jurisdictionally relevant only insofar as it shows that the defendant has formed a contact with the forum State." Id. at 278. Although injury in the forum state is a relevant consideration, that alone does not authorize jurisdiction. See id.; see also Advanced Tactical Ordnance Sys., LLC v. Real Action Paintball, Inc., 751 F.3d 796, 801 (7th Cir. 2014) (applying Walden and calling into question prior precedent that implied the contrary).

Before Walden, Illinois courts in trade secret cases regularly held that the effects doctrine allowed a court to assert jurisdiction over virtually any defendant who allegedly misappropriated trade secrets owned by an Illinois business. For instance, in International Molding Machine Co. v. St. Louis Conveyor Co., No. 01 C 8305, 2002 WL 1838130, at \*4 (N.D. Ill. Aug. 12, 2002), 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. In addition, the defendant knew, before the misappropriation, that the trade secret owner was an Illinois corporation. Id. The district court held that jurisdiction was proper under these circumstances. Id.; see also UTStarcom, Inc. v. Starent Networks, Corp., No. 07 C 2582, 2009 WL 799486, at \*3 (N.D. Ill. Mar. 25, 2009) (finding personal jurisdiction where the alleged trade secret misappropriation was “purposeful conduct [that] harmed plaintiff in Illinois” because the conduct allegedly harmed a unit of the plaintiff that was located in Illinois); U.S. Gypsum Co. v. LaFarge N. Am., Inc., 508 F. Supp. 2d 601, 645 (N.D. Ill. 2007) (finding personal jurisdiction because the defendants had been aware that the plaintiff trade secret owner was an Illinois-based company and thus committed “intentional conduct aimed to appropriate property of a plaintiff located in Illinois”); 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). But see Consol. Commercial Controls, Inc. v. 5 Star Supply, LLC, No. 08 C 4388, 2008 WL 5094402, at \*4 (N.D. Ill. Nov. 26, 2008) (granting motion to dismiss for lack of personal jurisdiction because the plaintiff had failed to allege any contact between the defendant and Illinois other than causing harm to the Illinois trade secret owner).

After Walden, courts have been more focused on the defendant’s conduct and not merely the fact that the defendant allegedly misappropriated trade secrets owned by a company at home in the forum state. For example:

**Concluding Personal Jurisdiction Existed:**

**20/20 Foresight, Inc. v. McGuffin, No. 20 C 6915, 2021 WL 619718, at \*2 (N.D. Ill. Feb. 17, 2021).** The court concluded the defendant had sufficient ties to the forum for the court to exercise personal jurisdiction where the “plaintiff assert[ed] that [the] defendant's former work relationship was directed towards Illinois, the source of confidential information stem[med] from Illinois activity, and the causes of action [we]re predicated on defendant's continued [remote] employment [with a competitor] in the state.”

**Liqui-Box Corp. v. Scholle IPN Corp., No. 19 C 4069, 2020 WL 5593755, at \*6-7 (N.D. Ill. Sept. 18, 2020).** The court denied the counterclaim-defendant’s motion to dismiss for lack of personal jurisdiction after concluding the counterclaim-defendant’s “remote employment was closely tied to Illinois and [] he obtained the information at the heart of this dispute from his Illinois-based employment.”

**Optimas OE Solutions, LLC v. Grimes, No. 20 C 251, 2020 WL 4365917, at \*8 (N.D. Ill. July 30, 2020).** The court held that the individual defendants had sufficient ties to the forum where they signed contracts with Illinois choice of law provisions, interacted regularly with Illinois-based personnel, traveled to Illinois in connection with their work, and allegedly committed tortious acts within the State.

**Wedi Corp. v. Seattle Glass Block Window, Inc.**, No. 17-CV-06368, 2018 WL 1794771, at \*4 (N.D. Ill. April 16, 2018). The court held the defendant had sufficient contacts for the court to exercise personal jurisdiction based on allegations that the defendant had called and emailed the plaintiff in Illinois in order to learn confidential information the defendant intended to misappropriate.

**Concluding Personal Jurisdiction Did Not Exist:**

**Perfect Brow Art, Inc. v. Ramzy**, No. 18 C 4594, 2018 WL 5994973, at \*4 (N.D. Ill. Nov. 15, 2018). The court dismissed the action for lack of personal jurisdiction after concluding that the “plaintiff [did] not point to any activities by [the] defendants (for example, the solicitation of clients or the transaction of business) that occurred in Illinois or were connected to Illinois” beyond the defendant’s “receipt of confidential information from [the plaintiff’s] Illinois headquarters.”

**Tower Commc’ns Expert, LLC v. TSC Constr., LLC**, No. 18 C 2903, 2018 WL 5624268, at \*7 (N.D. Ill. Oct. 30, 2018). The court rejected personal jurisdiction after concluding it was insufficient for the plaintiff to allege only “that it was foreseeable that an injury would occur in Illinois because Plaintiff is an Illinois company.”

Nor is it likely that a court can exercise personal jurisdiction based merely on the fact that the trade secrets end up in products that are sold or purchased in the forum state, if the defendant’s conduct was not otherwise connected to the forum. In J.S.T. Corp. v. Foxconn Interconnect Tech. Ltd., 965 F.3d 571, 576-77 (7th Cir. 2020), the Seventh Circuit rejected personal jurisdiction in an ITSA case after concluding the defendant lacked the needed minimum contacts with Illinois. In that case, the trade secrets were designs for an electrical component called a connector. The plaintiff alleged that that it supplied these connectors to Bosch, an engineering company, but Bosch later allegedly took the plaintiff’s designs, provided them to the plaintiff’s competitors, and then purchased the competitor’s connectors for use in General Motors cars and parts that were sold in Illinois. Id. at 573-74. The plaintiff sue Bosch separately, so the lawsuit before the Seventh Circuit involved only the plaintiff’s competitors as defendants. Id. at 574. The plaintiff alleged that the competitors sold the connectors to Bosch with knowledge that the connectors would end up in cars sold in Illinois and that such sales supported personal jurisdiction in Illinois. Id. The Seventh Circuit rejected the argument, holding “there must be a causal relationship between the competitors’ dealings in Illinois and the claims that [the plaintiff] has asserted against them.” Id. The Seventh Circuit explained that “the tort of trade secret misappropriation is not intrinsically linked to interactions with a consumer” and “[t]he knowing acquisition, disclosure, and use of a secret are all actions that can be completed long before an offending product ever comes into contact with a consumer.” Id. at 576-77. The Seventh Circuit held that there was no personal jurisdiction because there was no assertion that the defendants acquired, disclosed, or used the trade secrets in Illinois, nor had they even sold the products at issue in Illinois. Id. at 577-78. Moreover, the fact that the plaintiff was damaged in Illinois was not enough, since the focus of a jurisdictional analysis is on the defendant’s conduct, not the plaintiff’s injury. Id. at 577-78 (citing Walden, 571 U.S. at 285). Relying on J.S.T. Corp., the court in AbbVie Inc. v. Alvotech HF, held that the defendant—a foreign corporation headquartered in Iceland—did not fall under the personal jurisdiction of Illinois when it stole an Illinois-headquartered

company's trade secrets from a Singapore facility. No. 21 C 1530, 2021 WL 4593490, at \*3 (N.D. Ill. Oct. 6, 2021). This was the case even though a domestic affiliate of the Icelandic company was planning, eventually, to sell the product created from the stolen trade secrets, as the court reasoned that the defendant's "illegal acquisition of trade secrets from AbbVie's Singapore facility through the thievery of AbbVie's Singapore employee for Alvotech's use in Iceland is far too attenuated to allow personal jurisdiction over the Icelandic corporation Alvotech HF." Id.

### 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 Sols., 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. 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 in determining whether fiduciary shield doctrine was applicable). A related consideration is whether the agent was following a supervisor's orders or, rather, acting under the agent's own discretion. Clearclad 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). The 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 2022). "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 . . . [if] 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., 54 Ill. 2d 511, 514, 301 N.E.2d 729, 730 (1973)).

## **C. Choice of Law in Trade Secrets Cases.**

### **1. Where there is no conflict.**

Generally, where there is no conflict between the laws of two states, a court may apply the law of the forum state. Tradesmen Int'l, Inc. v. Black, No. 10-2098, 2011 WL 5330589, at \*4 (C.D. Ill. Nov. 7, 2011) (citing Sphere Drake Ins. Ltd v. Am. Gen. Life Ins. Co., 376 F.3d 664, 671 (7th Cir. 2004)). Because Illinois has adopted a version of UTSA, in many cases, there will be no conflict between Illinois and the laws of other states that have adopted UTSA. See, e.g., Tradesmen, 2011 WL 5330589, at \*4 (no conflict between Illinois, Indiana, and

Ohio); Jano Justice Sys., Inc. v. Burton, No. 08-cv-3209, 2010 WL 2012941, at \*6 n.2 (C.D. Ill. May 20, 2010) (no conflict between Illinois and Mississippi).<sup>3</sup>

## 2. The “most significant contacts” approach.

However, where a conflict of law exists, 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.

Flavorchem Corp. v. Mission Flavors & Fragrances, Inc., 939 F. Supp. 593, 596 (N.D. Ill. 1996) (citing Ingersoll v. Klein, 46 Ill. 2d 42, 45, 262 N.E.2d 593, 595 (1970) (quoting RESTATEMENT (SECOND) OF CONFLICTS OF LAW § 145(2))).

### 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); 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

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<sup>3</sup> The only two states that have not enacted some form of UTSA are New York and Massachusetts. See Trade Secrets Act, UNIFORM LAW COMMISSION, <https://www.uniformlaws.org/acts/catalog/current> (Browse for Trade Secrets Act) (last visited Feb. 7, 2022). Note that while North Carolina has not officially adopted the UTSA, its trade secret statute borrows heavily from UTSA. SCR-Tech LLC v. Evonik Energy Servs. LLC, No. 08 CVS 16632, 2011 WL 3209080, at \*11 n. 106 (S. Ct. N.C. July 22, 2011).

the misappropriation. See, e.g., Mergenthaler Linotype, 66 Ill. App. 3d at 803, 383 N.E.2d at 1389-90. Consequently, this contact may be of less use in trade secrets cases than other tort cases in determining which state's law should apply.

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

Because of difficulties that often arise in trying to pinpoint 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 [sic] place of business or the law of the state where the misappropriation took place.”).

Courts typically select the defendant’s principal place of business 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, Inc. v. Philips Domestic Appliances & Pers. Care B.V., 391 F.3d 871, 879 (7th Cir. 2004) (“[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 Machs., Inc. v. Elexon, Inc., No. 95 C 1730, 1996 WL 495564, at \*3 (N.D. Ill. Aug. 28, 1996) (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 greetings 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); Goldberg v. Medtronic, Inc., 686 F.2d 1219, 1225 (7th Cir. 1982) (same); C.H. Robinson Worldwide, Inc. v. Command Transp., LLC, No. 05 C 3401, 2005 WL 3077998, at \*5 (N.D. Ill. Nov. 16, 2005) (same); Mergenthaler Linotype Co., 66 Ill. App. 3d at 803, 383 N.E.2d at 1389-90 (1st Dist. 1978) (simply quoting the Restatement and stating the law of the defendant's principal place of business applied).

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. 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).

### **3. 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 analyses 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 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 governing 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.**

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 2022). 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 United States 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 the 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, 142 F.3d 439 (7th Cir. 1998).** The plaintiff brought suit for misappropriation of its trade secrets when the defendant allegedly took its customer information. 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. At trial, the jury found in favor of the plaintiff, awarding both compensatory and punitive damages. Subsequently, the court granted a permanent injunction barring the defendants from further use or disclosure of the plaintiff’s trade secrets until they became publically known.

Because Illinois courts consider statutes of limitations to be procedural rather than substantive, a court sitting in Illinois will apply ITSA’s 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, ITSA’s statute of limitations still would apply).

## 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 allege enough facts to give defendants fair notice of the basis of a claim that is plausible on its face, although conclusory allegations that mirror ITSA's statutory language are insufficient. In contrast, Illinois state courts require fact pleading, a standard that requires the plaintiff to allege facts giving 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 may be 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. A verified complaint also means the defendant is required to provide a verified answer.

### 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. Iqbal, 556 U.S. 662, 681 (2009), the Supreme Court further clarified that courts should not accept as true on a motion to dismiss either a conclusory recitation of the elements of a cause of action or legal conclusions. 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, 520 F.3d 797, 803 (7th Cir. 2008) (quoting Twombly, 550 U.S. at 555, 570). Regardless of the type of case, a pleading must “set forth a claim that is plausible on its face . . . [and] contain enough facts to draw the reasonable inference that the defendant is liable.” Nelson v. City of Chicago, No. 20-1279, 2021 WL 1133201, \*2 (7th Cir. Mar. 25, 2021) (internal quotations omitted). Thus, determining whether a complaint states a plausible claim for relief is “context-specific.” Iqbal, 556 U.S. at 663.

To state a trade secrets claim in federal court, 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 also Mission Measurement Corp. v. Blackbaud, Inc., No. 16 C 60003, 2019 WL 4958236, at \*9 (N.D. Ill. Oct. 08, 2019) (denying trade secret protection where the plaintiff failed to indicate why its benchmarking methodology was a trade secret, and different from the general concept of benchmarking progress); Chamberlain Grp., Inc. v. Techtronic Indus. N. Am., Inc., No. 16 CV 06113, 2017 WL 4269005, at \*5-7 (N.D. Ill. Sept. 26, 2017)

(holding that complaint asserting DTSA and ITSA claims sufficiently alleged misappropriation where the plaintiff adequately described the trade secrets misappropriated, alleged that it had taken a variety of steps to ensure the confidentiality of its information, and adequately pled that its secrecy provided it with value); Molon Motor and Coil Corp. v. Nidec Motor Corp., No. 16 C 03545, 2017 WL 1954531, at \*5-6 (N.D. Ill. May 11, 2017) (holding that complaint asserting DTSA and ITSA claims sufficiently alleged misappropriations where it alleged “enough to trigger the circumstantial inference that the trade secrets inevitably would be disclosed by” defendant to his new employer); 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 the trade secrets in a general fashion and explained how the defendants were using the trade secrets); BAB Sys., Inc. v. Pilatus Inv. Grp., 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 the plaintiff’s trade secrets, that the defendant acquired the trade secrets, and that the defendant used the trade secrets in a competing business).

**a) General allegations may be sufficient to identify the claimed trade secrets.**

In Illinois federal courts, “trade secret allegations are adequate in instances where the information and the efforts to maintain its confidentiality are described in general terms.” Mission Measurement Corp. v. Blackburn, Inc., 216 F. Supp. 3d 915, 921 (N.D. Ill. 2016).

Even after Twombly and Iqbal, federal courts have held that trade secrets can be described in general terms because a more onerous pleading requirement “would result in public disclosure of the purported trade secrets.” Covenant Aviation Security, LLC v. Berry, 15 F. Supp. 3d 813, 819 (N.D. Ill. 2014) (quotation marks and citations omitted). For example, in Covenant Aviation Security, the plaintiff’s allegations were sufficient because it identified specific types of business information and proprietary information, including “profit and loss information, internal costs and overhead, operational information as related to San Francisco and other facilities throughout the country, and specific bid and proposal information related to San Francisco and other airports.” Similarly, in Mission Measurement, the court held the plaintiff sufficiently identified the alleged trade secrets by describing specialized methods, design specifications, business plans, and product development plans. 216 F. Supp. 3d at 921; see also Troya Int’l, Ltd. v. Bird-X, Inc., No. 15 C 9785, 2017 WL 6059804, at \*12 (N.D. Ill. Dec. 7, 2017) (“Courts in this district [] consistently find trade secret allegations to be adequate in instances where the information and the efforts to maintain its confidentiality are described in general terms.”) (internal quotations omitted, emphasis omitted); GoHealth, LLC v. Simpson, No. 13-cv-2334, 2013 WL 6183024, at \*12 (N.D. Ill. Nov. 26, 2013) (denying motion to dismiss where the trade secret was described as “valuable and proprietary trade secret processes, systems, and technology” that allowed a call center “to generate more and quicker responses”). In Sentry Pool v. Wavetec Pools, Inc., 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.” No. 07-4082, 2008 WL 3200837, at \*2 (C.D. Ill. Aug. 6, 2008). 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 the need for the defendants to take discovery just “to discern which trade secrets were misappropriated.” *Id.* at \*3; see also Lawson Prods., Inc. v. Chromate Industrial Corp., 158 F. Supp. 2d 860, 864 (N.D. Ill. 2001) (denying motion to dismiss where the complaint referred to customer and price lists as its trade secrets and described efforts to limit disclosure to specific individuals within the company).

Broad, overly generalized allegations are not enough to identify the claimed trade secret, however. For example, the court dismissed the defendant’s counterclaim in Carpenter v. Aspen Search Advisers, LLC because there were no specific allegations about the nature of the confidential data for which the defendant asserted trade secret protection. No. 10 C 6823, 2011 WL 1297733, at \*3 (N.D. Ill. Apr. 5, 2011). Likewise, the court in Thermal Zone Prod. Corp. v. Echo Eng’g, Ltd., found the alleged trade secrets lacked sufficient specificity because the plaintiffs “made blanket generalizations regarding the information and documentation of their cooking ovens, [but] they have failed to specify with any exactitude which pieces of information actually constitute trade secrets.” No. 93 C 0556, 1993 WL 358148, at \*5 (N.D. Ill. Sept. 14, 1993); see also Composite Marine Propellers, Inc. v. Van Der Woude, 962 F.2d 1263, 1266 (7th Cir. 1992) (“It is not enough to point to broad areas of [trade secrets] and assert that something there must have been secret and misappropriated. The plaintiff must show concrete secrets”). But 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).

Illinois federal courts use this same standard when analyzing a DTSA claim. See e.g., Segerdahl Corp. v. Ferruzza, No. 17 CV 3015, 2018 WL 828062, at \*3 (N.D. Ill. Feb. 10, 2018) (applying the pleading standards from Mission Measurement and Covenant Aviation); Mighty Deer Lick, Inc. v. Morton Salt, Inc., No. 17-cv-05875, 2020 WL 635904, \*5 (N.D. Ill. Feb. 11, 2020) (“At the pleading stage, [the plaintiffs] need not provide extensively-detailed descriptions of the nature of its trade secrets”). Therefore, while plaintiffs need not disclose their trade secrets in full, they at least must plead facts that are sufficient to put the defendant on notice of which trade secret is at issue. See Mighty Deer Lick, 2020 WL 635904, at \*5; accord Invado Pharm., Inc. v. Forward Sci. Distribution LLC, No. 18-cv-2515, 2018 WL 5013556, at \*3 (N.D. Ill. Oct. 16, 2018) (“[A] complaint need only identify the alleged trade secret in a general sense.”). For example, in Invado, the court denied a motion to dismiss where the complaint described the trade secrets as “manufacturing, distribution, pricing strategies, sales and industry relationships, and other business proprietary information not generally known to the public.” *Id.*

Illustrative trade secret cases addressing pleading standards in federal court after Twombly include:

***Denying Motion to Dismiss Trade Secret Claim:***

**Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*22 (N.D. Ill. Dec. 22, 2021).** The court denied the defendants’ combined motion to dismiss the plaintiff’s ITSA and DTSA claims, even though the court also

rejected a preliminary injunction after concluding the plaintiff had a low chance of successfully showing the categories of information at issue were protectable as trade secrets. The court explained that although the record raised questions as to the plaintiff's ultimate chance of success on the claims, the pleadings plausibly alleged that sufficient measures to maintain secrecy had been taken, and that the information could be secret. The court held that whether the plaintiff could prove its trade secrets claims involved questions of fact that were inappropriate to resolve on a motion to dismiss.

**PeopleFlo Mfg., Inc. v. Sundyne, LLC, No. 20-cv-3642, 2021 WL 3129264, at \*6 (N.D. Ill. July 23, 2021).** The court denied the defendant's motion to dismiss the plaintiff's ITSA claim where the plaintiff both identified broad categories of information—technical and financial information, design specifications, marketing strategies, pricing and cost strategies, and vendor lists—and “tie[d] them to specific aspects of its technology or marketing strategy.”

**Switchboard Apparatus, Inc. v. Wolfram, No. 20 C 1665, 2021 WL 2311969, at \*3 (N.D. Ill. June 7, 2021).** The court denied the defendant's motion to dismiss the plaintiff's ITSA claims. The court held that the plaintiff's descriptions of the trade secrets as “pricing and design information” which “gave [plaintiff's competitor] a competitive advantage in responding to the requests for proposals” was sufficiently specific to survive a motion to dismiss.

**Liion, LLC v. Vertiv Grp. Corp., NO. 18 C 6133, 2019 WL 1281977, at \*3 (N.D. Ill. Mar. 20, 2019).** The court denied defendant's motion to dismiss because the plaintiff's “allegations are sufficient to state a claim for unauthorized use” even though the “misappropriation allegations are, in large part, contradictory and confusing.” The plaintiff alleged both violations of an NDA pursuant to which the plaintiff gave the defendant samples of the trade secret materials and improper acquisition. However, because the plaintiff also alleged that the defendant was selling products using the plaintiff's trade secrets without permission or royalties, the court concluded the plaintiff's claim could be for unauthorized use or disclosure.

**Shield Techs. Corp. v. Paradigm Positioning, LLC, No. 11 C 6183, 2012 WL 4739263, at \*3 (N.D. Ill. Oct. 3, 2012).** The court denied a motion to dismiss an ITSA claim because the trade secret allegations were “sufficient to identify the alleged trade secrets at issue,” even though they were “not as specific as they could [have] be[en].”

**Dynamic Fluid Control (Pty) Ltd. v. Int'l Valve Mfg., LLC, 790 F. Supp. 2d 732, 741 (N.D. Ill. 2011).** The court denied a motion to dismiss an ITSA claim and holding that, at the pleading stage, identifying categories of information alleged to be at risk is sufficient to put defendants on notice of the claims.

**Fire 'Em Up, Inc. v. Technocarb Equip. (2004) Ltd., 799 F. Supp. 2d 846, 850 (N.D. Ill. 2011).** The court denied a motion to dismiss an ITSA claim and holding that the plaintiff sufficiently identified its alleged trade secrets. In so holding, the court explained: “While it is true that specificity of concrete trade secrets is required to support a finding of misappropriation, the alleged trade secrets need not be disclosed in detail in a complaint to survive a motion to dismiss. Courts only dismiss a claim for lack of specificity on the pleadings in the most extreme cases.”

**Mobile Mark, Inc. v. Pakosz, No. 11 C 2983, 2011 WL 3898032, at \*1 (N.D. Ill. Sept. 6, 2011).** The court denied a motion to dismiss an ITSA claim because even though the plaintiff did not identify “particular trade secrets,” the complaint “single[d] out several specific antennas that [the defendant’s new employer] allegedly developed based on its use of the proprietary information.” The court explained that “ITSA plaintiffs are not required to plead highly specific facts on improper trade secret use, because such facts often will not be available before discovery.”

**Mainline Info. Sys., Inc. v. Benkendorf, No. 10 C 1264, 2010 WL 2011618, at \*7 (N.D. Ill. May 20, 2010).** The court denied a motion to dismiss an ITSA claim where the plaintiff sufficiently identified its alleged trade secrets. The court rejected the defendant’s argument that the plaintiff failed to specify the misappropriated trade secrets, explaining that the defendant simply ignored information in the complaint that identified the trade secrets.

**Motorola, Inc. v. Lemko Corp., 609 F. Supp. 2d 760, 770 (N.D. Ill. 2009).** The court denied a motion to dismiss an ITSA claim, the court held that the plaintiff had sufficiently identified the trade secrets 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]hrough 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 that a trade secrets complaint was sufficient where it alleged that 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.

***Granting Motion to Dismiss Trade Secret Claim:***

**Carpenter v. Aspen Search Advisers, LLC, No. 10 C 6823, 2011 WL 1297733, at \*3 (N.D. Ill. Apr. 5, 2011).** The court granted a motion to dismiss an ITSA counterclaim without prejudice where the trade secret allegations, “while lengthy, provide[d] no specifics about the nature of the confidential data for which [the counter-plaintiff] claims trade secret protection.” The court explained: “A party seeking trade secret protection must do more than point to broad areas of [information] . . . and assert that something there must have been secret and misappropriated. The plaintiff must show concrete secrets.”

**b) The plaintiff must do more than repeat the statutory language in stating the elements of an ITSA claim.**

Merely repeating ITSA’s statutory language, however, will not satisfy the federal notice pleading standard. In Magellan International 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*:

***Denying Motion to Dismiss Trade Secret Claim:***

**Adams v. Pull’r Holding Co., LLC, No. 09 C 7170, 2010 WL 1611078 (N.D. Ill. Apr. 20, 2010).** Manufacturer alleged that its former employee accessed confidential customer and pricing information while still employed by the manufacturer, and then used that information to solicit the manufacturer’s customers, suppliers, and distributors and to market the manufacturer’s inventions to other companies for profit. In denying the former employee’s motion to dismiss, the court explained that a trade secret claim need not contain additional detail about the “what,” “where,” “when,” and “how” of the alleged misconduct.

***Granting Motion to Dismiss Trade Secret Claim:***

**Indus. Packaging Supplies, Inc. v. Channell, No. 18 CV 165, 2018 WL 2560993, at \*2–3 (N.D. Ill. June 4, 2018).** The court dismissed the plaintiff’s ITSA and DTSA claims without prejudice for failure to allege that the defendants improperly acquired its trade secrets or that they used or disclosed any of its trade secrets. The plaintiff had offered only conclusory allegations and assertions and had not alleged facts to support its contention of misappropriation. Allegations that its former employees had access to its trade secrets and that defendant corporation offered the same services and targeted the same clients as the plaintiff was “not enough to justify its otherwise unsupported suspicions that the defendants used or disclosed the information they had access to while working for [the plaintiff].” Moreover, the court concluded that the plaintiff failed to allege that defendants improperly acquired its trade secrets, where the complaint clearly alleged that the plaintiff intentionally provided access to its trade secrets because they were necessary for defendant employee to do his job.

**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 the 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 had or would do so.



**Abbott Labs. v. Chiron Corp., No. 97 C 0519, 1997 WL 208369 (N.D. Ill. Apr. 23, 1997).** Abbott claimed that 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 may be limited to the trade secrets pled in their complaints.**

The Northern District of Illinois has limited plaintiffs to the trade secrets pled in their complaints. *See, e.g., Combined Metals of Chi. Ltd. P’ship v. Airtek, Inc.*, 985 F. Supp. 827, 832 (N.D. Ill. 1997). The Combined Metals 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 complaints expanded the definition of its claimed trade secrets, and, therefore, they were caught 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. 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. Accordingly, the plaintiffs would not be allowed to change or narrow their allegations as the case progressed. *Id.* at 985. Note, however, that any application of this *dicta* from Combined Metals may be narrow given that Federal Rule of Civil Procedure 15(a) provides for liberal amendment of pleadings. Research has not revealed additional, more recent cases from the Northern District of Illinois that address this issue.

**d) Failing to identify trade secrets during discovery may prompt a court to preclude the plaintiff from amending its claims to add trade secrets.**

Some courts have refused to allow a trade secret plaintiff to introduce new or amended trade secrets after the close of discovery. *See, e.g., Fast Food Gourmet, Inc. v. Little Lady Foods, Inc.*, No. 05 C 6022, 2007 WL 3052944, at \*6 (N.D. Ill. Oct. 18, 2007) (stating that “plaintiff should not be permitted to amend its trade secret definition after the close of discovery”); Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., No. 84 C 6740, 1992 WL 162241, at \*3-5 (N.D. Ill. July 12, 1992) (excluding allegedly secret drawings raised after discovery closed). *See also:*

**Combined Metals of Chi. Ltd. P’ship. v. Airtek, Inc., 985 F. Supp. 827, 832 (N.D. Ill. 1997).** The court required a trade secret plaintiff to identify “specific, concrete secrets” in an amended claim, and, citing principles of fair notice, stated that the trade secret plaintiff would be prevented from later modifying its claim. In considering the defendant’s request for greater specificity at the pleading stage, the court referenced a trade secrets case where such an identification was not made until the summary judgment stage

and “the defendants were confused at the time of summary judgment as to the alleged trade secret.” Having learned from that experience, the court required the identification and noted that “[t]he court will not entertain such a dispute at such a late stage in the proceeding again.”

On the other hand, some courts have permitted late disclosure of trade secrets where the defendant was not prejudiced by the disclosure, such as, for example, where the “new” trade secrets had been addressed during discovery. See, e.g., Cacique, Inc. v. V&V Supremo Foods, Inc., No. 03 C 4230, 2004 WL 2222270, at \*5 (N.D. Ill. Sept. 30, 2004) (denying motion to strike parts of declaration submitted by the plaintiff in opposition to the defendant’s summary judgment motion, even though the declaration added trade secrets not specifically identified in discovery, because the trade secrets had been identified during a deposition and the defendant failed to “ask any follow-up questions”); see also World Kitchen, LLC v. Am. Ceramic Soc’y, No. 12-CV-8626, 2015 WL 7568369, at \*2-3 (N.D. Ill. Nov. 24, 2015) (denying a request to exclude evidence where there was little prejudice and any burden caused by the late disclosure could be cured); Berman v. Stryker Corp., No. 11 C 1309, 2013 WL 5348324, at \*2 (N.D. Ill. Sept. 24, 2013) (finding no prejudice to the defendant when the disclosure occurred well before trial and the defendant had the opportunity to address the disclosures in responses to its summary judgment motion). See also:

**Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., 542 F. Supp. 2d 849, 852 (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, the plaintiff’s vice president of operations testified that the listed trade secrets included 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 identified by the vice president were admissible. Even though the vice president appeared to deny that the information constituted trade secrets, the court held the vice president did not definitively state that these items were not trade secrets and thus the plaintiff could include them as trade secrets in the amended complaint.

## **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. Cas. 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 also 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. Amperelec 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. 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 ITSA’s 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 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 reasonable efforts of protection. See Strata, 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.

In what may be a unique case, 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 the document they alleged that the defendants created from the misappropriated trade secret, as required by 735 ILCS 5/2-606 (West 2022). That statute applies any time a plaintiff pleads a claim “founded upon a written instrument.” 735 ILCS 5/2-606 (West 2022). 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., 391 Ill. App. 3d at 743, 910 N.E.2d at 1154 (citations omitted).

### **3. The defendant’s options in obtaining early disclosure of the plaintiff’s trade secret, in federal or state court.**

As discussed above, 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, Federal Rule 12(b)(6) entitles the defendant to seek dismissal of 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 file a motion to compel greater disclosure of the alleged trade secret. Or, the defendant may move for a more definite statement if the plaintiff’s pleading is so ambiguous that the defendant cannot reasonably draft a responsive pleading. FED. R. CIV. P. 12(e). But at least one court has explained in a trade secrets case that “[m]otions for a more definite statement are generally disfavored, and are usually granted only when the pleading is so unintelligible that the movant cannot draft a response.” Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., No. 05 C 6022, 2006 WL 1460461, at \*1 (N.D. Ill. Apr. 6, 2006) (citation omitted). In the trade secrets context, courts may deny motions for a more definite statement. See, e.g., Dick Corp. v. SNC-Lavalin Constructors, Inc., No. 04 C 1043, 2004 WL 2967556, at \*12 (N.D. Ill. Nov. 24, 2004); Brown v. CitiCorp, No. 97 CV 6337, 1998 WL 341610, at \*6 (N.D. Ill. June 22, 1998); see also:

**Complete Bus. Sols. v. Mauro, No. 01 C 0363, 2001 WL 290196, at \*5 (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.”

It is important to note the distinction between the definiteness requirement under Rule 12(e) and ITSA's requirement that a plaintiff sufficiently identify its trade secrets. This distinction is illustrated by subsequent opinions issued in the Fast Food Gourmet case. There, the court first denied a defendant's Rule 12(e) motion seeking a more definite statement where the plaintiff had alleged that its "unique equipment, specifications, processes, formulations and techniques were trade secrets that made possible the mass production of the unique pizza crust." Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., No. 05 C 6022, 2006 WL 1460461 at \*1 (N.D. Ill. Apr. 6, 2006) (quotations and citations omitted). The court reasoned that the defendant could "reasonably be required to frame an answer" because the plaintiff's trade secret allegations were sufficiently clear. Id. But in a later opinion, the court explained that the denial of a motion for a more definite statement "did not mean that the trade secrets were sufficiently explicated for all purposes." Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., No. 05 C6022, 2007 WL 2156665, at \*6 (N.D. Ill. July 26, 2007), rev'd in part on other grounds, 2007 WL 3052944 (N.D. Ill. Oct. 18, 2007) (reversing in part based on the magistrate judge's assumption, which was incorrect, that the plaintiff had properly identified its trade secrets during discovery).

A plaintiff likely will have to identify its trade secrets 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 a 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); Uresil Corp. v. Cook Grp., Inc., 135 F.R.D. 168, 174 (N.D. Ill. 1991) (granting motion to compel more complete interrogatory answers where the plaintiff "ha[d] not identified the components and/or concepts incorporated in the products [the plaintiff] claims [the defendant] misappropriated" and had not "identif[ied] all information and documents alleged . . . to be confidential and to have been misappropriated by the defendant").

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 2022). The defendant may also request 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.

Finally, as in federal court, either party in Illinois state court 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 Hall v. Sprint Spectrum L.P., 368 Ill. App. 3d 820, 827, 858 N.E.3d 955, 961 (5th Dist. 2006) (discussing a trial court's discretion to enter protective orders during discovery); MBL (USA)

Corp. v. Diekman, 112 Ill. App. 3d 229, 240-41, 445 N.E.2d 418, 426-27 (1st Dist. 1983) (quoting from Illinois Supreme Court Rule 201 in affirming grant of defendant’s motion in limine that required the plaintiff to identify its alleged trade secrets before questioning defendant about defendant’s current methods, techniques, and processes).

**F. Failing to specifically identify trade secrets may lead to summary judgment for defendant in both federal and state court.**

It is becoming increasingly common for courts to address the propriety of trade secret identification at the summary judgment stage. See Charles Tait Graves & Brian D. Range, Identification of Trade Secret Claims in Litigation: Solutions for a Ubiquitous Dispute, 5 NW. J. TECH. & INTELL. PROP. 68, 87 (2006) (“A plaintiff’s failure to identify its alleged secrets during discovery can, and often does, lead to summary judgment. Courts have frequently granted summary judgment for the defense based on a failure to sufficiently identify the trade secret claims.”). For example, in IDX Systems Corp. v. Epic Systems Corp., 285 F.3d 581, 583-84 (7th Cir. 2002), the Seventh Circuit affirmed summary judgment for the defendant under Wisconsin’s version of UTSA where the trade secret plaintiffs’ 43-page description of its alleged trade secret was “both too vague and too inclusive.” See also:

***Granting Defendant’s Summary Judgment Motion on Trade Secret Claim:***

National Tractor Parts Inc. v. Caterpillar Logistics Inc., 2020 IL App (2d) 181056, ¶ 46. The court granted summary judgment when the plaintiff had several opportunities to specifically identify its trade secret, and the identification of a “process” was insufficient.

BI3, Inc. v. Hamor, No. 08 CV 2384, 2011 WL 1231156, at \*14-15 (N.D. Ill. Mar. 30, 2011). The court granted summary judgment on an ITSA counterclaim because the counter-plaintiff’s allegations were not supported by sufficient evidence showing that the technologies at issue were “secret rather than general knowledge.” The counterclaim alleged that the trade secrets consisted of “technologies and methodologies used to create huge numbers of relevant keywords, structure and manage campaigns and bidding, plus track and report on campaign performance for search engine marketing campaigns.” The court held that this was insufficient, highlighting the lack of “any evidence to identify the precise ‘URL tracking technology’ or ‘elements of that system’” that were alleged in the counterclaim.

Lynchval Sys., Inc. v. Chi. Consulting Actuaries, Inc., 95 C 1490, 1998 WL 151814, at \*5-6 (N.D. Ill. Mar. 27, 1998). The court granted summary judgment for a trade secret defendant where the plaintiff pointed only to the defendant’s technology instead of identifying alleged secrets in its own technology.

***Denying Defendant’s Summary Judgment Motion on Trade Secret Claim:***

Motorola, Inc. v. Lemko Corp., No. 08 C 5427, 2012 WL 74319, at \*17 (N.D. Ill. Jan. 10, 2012). The court denied the defendant’s summary judgment motion where the plaintiff “identified its alleged trade secrets by Bates number, file type, and/or location [and] ha[d] not simply described an area of its technology.”

**Charles Schwab & Co. v. Carter, No. 04 C 7071, 2005 WL 2369815, at \*12 (N.D. Ill. Sept. 27, 2005).** The court denied the defendants' summary judgment motion where the plaintiff identified its trade secrets "by Bates number and computer file type."

**Do it Best Corp. v. Passport Software, Inc., No. 01 C 7674, 2005 WL 743083, at \*13 (N.D. Ill. Mar. 31, 2005).** The court denied the defendant's motion for summary judgment even though the plaintiff identified "every line of code it developed . . . as a description of its trade secrets." In so holding, however, the court noted that the plaintiff came "dangerously close" to losing on the identification issue, but unlike other cases where trade secret plaintiffs failed to provide any specifics about their alleged secrets, the plaintiff here "did identify specific lines of code and specific software features for which it claim[ed] protection."

**Nilssen v. Motorola, Inc., 963 F. Supp. 664, 673-74 (N.D. Ill. 1997).** The court denied the defendant's summary judgment motion because the plaintiff sufficiently identified its trade secrets by "document[ing] each of those nontechnical items, at least to some extent, by referring to appropriate papers from the voluminous records," even though the trade secret was defined in discovery in an "amorphous" fashion.

**Thermodyne Food Serv. Prod., Inc. v. McDonald's Corp., 940 F. Supp. 1300, 1304-05 (N.D. Ill. 1996).** The court denied the defendants' summary judgment motion for insufficient identification where, among other things, the plaintiff attached to its amended complaint a disclosure that "identifie[d] each component" of the alleged secrets.

## **VI. THE 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 helps a trade secret owner to establish that it has taken reasonable steps to maintain secrecy. See supra Section I.A.1(c). This section provides a very general discussion of the basic issues of such agreements as they relate to trade secrets.

Courts in Illinois hold restrictive covenants to a "high standard" and generally disfavor them. HCC Cas. Ins. Servs., Inc. v. Day, No. 20 C 7620, 2021 WL 1165096, at \*5 (N.D. Ill. Mar. 26, 2021). However, courts also have recognized 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 Distr. 1991); see also Orthofix Inc. v. Gordon, No. 13-cv-1463, 2014 WL 12634898, at \*3 (C.D. Ill. Jan. 13, 2014). To ensure that restrictive covenants protect legitimate business interests rather than simply stifle competition, they must be ancillary to either the formation or sale of a business or an employment agreement. Reliable Fire Equip. Co. v. Arredondo, 2011 IL 111871, ¶¶ 17-18, 965 N.E.2d 393, 396-97; Hamer Holding Grp., Inc. v. Elmore, 202 Ill. App. 3d 994, 1007, 560 N.E.2d 907, 915 (1st Dist. 1990). When enforceable, a court may

enforce a restrictive covenant that protects a legitimate business interest through a preliminary injunction. See *Nw. Podiatry Ctr., Ltd. v. Ochwat*, 2013 IL App (1st) 120458, ¶ 35, 990 N.E.2d 347, 357; *PCx Corp. v. Ross*, 168 Ill. App. 3d 1047, 1056, 522 N.E.2d 1333, 1339 (1st Dist. 1988).

## **1. Recent Changes Limiting Restrictive Covenants in Illinois.**

There is a well-developed body of case law in Illinois concerning restrictive covenants and their relationship to trade secret claims. That body of case law is summarized below in Section VI.A.3. However, the landscape for enforcing restrictive covenants is changing, both in Illinois and nationally.

### **a) New Law in Illinois Limiting Restrictive Covenants Effective January 1, 2022.**

On May 31, 2021, the Illinois legislature unanimously passed Senate Bill 672 to amend the Illinois Freedom to Work Act, 820 ILCS 90, significantly expanding its scope. The prior Illinois Freedom to Work Act prohibited employers from entering into covenants not to compete with “low-wage employees,” defined as employees whose earnings are less than the greater of \$13 per hour or any applicable federal, state, or local minimum wage. The bill, which Illinois Governor J.B. Pritzker signed into law on August 13, 2021, makes some significant additions to the Freedom to Work Act, many of which apply to all agreements, regardless of employee pay. The new law took effect on January 1, 2022.

At the outset, the law increases the income threshold at which non-compete agreements are prohibited and unenforceable. Under the prior law, employers were prohibited from requiring their employees to enter into non-compete agreements if the employee made less than \$13 an hour (or the applicable minimum wage of their locality, if greater). The new law raises that threshold to any employee making \$75,000 or less annually. 820 ILCS 90/10(a) (West 2022). This threshold will increase to \$80,000, \$85,000, and \$90,000 in 2027, 2032, and 2037, respectively. Id.

In addition, the new law broadens the Freedom to Work Act’s prior definition of a “prohibited non-competition agreement” to include any agreement, entered into after January 1, 2022, that “by its terms imposes adverse financial consequences on the former employee” for “engag[ing] in competitive activities after termination of the employee’s employment with the employer.” 820 ILCS 90/5 (West 2022). While the new law does not define “competitive activities,” it does enumerate certain categories of agreements that are not prohibited, such as those that prevent the use or disclosure of trade secrets. Id.

The new law also expressly prohibits non-solicitation agreements for employees earning \$45,000 or less annually, increasing by \$2,500 every five years until it reaches \$52,500 in 2037. 820 ILCS 90/10(b) (West 2022). A non-solicitation agreement under the Act means one that is entered into after January 1, 2022 between an employer and an employee and that “(1) restricts the employee from soliciting for employment the employer’s employees or (2) restricts the employee from soliciting, for the purpose of selling products or services of any kind to, or from interfering with the employer’s relationships with, the employer’s clients,



prospective clients, vendors, prospective vendors, suppliers, prospective suppliers, or other business relationships.” 820 ILCS 90/5 (West 2022).

In addition to these the changes, the new law imposes changes in the context of COVID-19 or future similar conditions. Non-competes and non-solicitation agreements are now prohibited when an employer terminates an employee due to business circumstances or governmental orders related to COVID-19 or circumstances similar to COVID-19 going forward. 820 ILCS 90/10(c) (West 2022). This prohibition is not subject to any income threshold unless the employer compensates the employee with their base salary less any compensation from future employment. Id.

Otherwise, under the new law, a covenant not to compete or a covenant not to solicit is “illegal and void” unless the following five requirements are met:

- (1) the employee receives adequate consideration,
- (2) the covenant is ancillary to a valid employment relationship,
- (3) the covenant is no greater than is required for the protection of a legitimate business interest of the employer,
- (4) the covenant does not impose undue hardship on the employee, and
- (5) the covenant is not injurious to the public.

820 ILCS 90/15 (West 2022). The legitimate business interest requirement derives from the Illinois Supreme Court’s decision in Reliable Fire Equipment Co. v. Arredondo, 2011 IL 111871, 965 N.E.2d 393, and it is to be determined from “the totality of the facts and circumstances of the individual case,” such as “the employee’s exposure to the employer’s customer relationships or other employees, the near-permanence of customer relationships, the employee’s acquisition, use, or knowledge of confidential information through the employee’s employment, the time restrictions, the place restrictions, and the scope of the activity restrictions.” 820 ILCS 90/7 (West 2022). The law also codifies the definition of the “adequate consideration” required for noncompetition and non-solicitation agreements set forth in Fifield v. Premier Dealer Services, 2013 IL App (1st) 120327, 993 N.E.2d 938, defining such consideration as either two years of employment or “a period of employment plus additional professional or financial benefits or merely professional or financial benefits adequate by themselves.” 820 ILCS 90/5 (West 2022).

If employers seek non-compete or non-solicitation agreements despite these broad restrictions in the new law, they now must advise the affected employee in writing to consult with legal counsel before entering into the agreement. 820 ILCS 90/20 (West 2022). Employees must receive at least 14 days to review the agreement, though an employee may choose to sign the agreement before the 14-day period expires. Id.

Moreover, the new law changes aspects of the litigation of claims for breach of restrictive covenants. The law adds mandatory fee shifting to employees who prevail in a civil

action or arbitration brought by the employer to enforce an agreement. 820 ILCS 90/25 (West 2022). This applies regardless of whether the action was brought as a complaint or counterclaim. Id.

The new law also expressly codifies “blue-penciling,” which allows courts, in certain circumstances, to rewrite unenforceable provisions of non-compete agreements to make them reasonable and enforceable. To determine if “blue-penciling” is appropriate, courts may consider “the fairness of the restraints as originally written, whether the original restriction reflects a good-faith effort to protect a legitimate business interest of the employer, the extent of such reformation, and whether the parties included a clause authorizing such modifications in their agreement.” 820 ILCS 90/35 (West 2022). However, the new law also makes clear that “a court may refrain from wholly rewriting contracts” because “[e]xtensive judicial reformation of a covenant not to compete or a covenant not to solicit may be against the public policy of this State.” Id.

Finally, the new law also subjects employers to investigation and civil penalties by the Illinois Attorney General if they engage in a “pattern and practice” of conduct prohibited under the Freedom to Work Act. 820 ILCS 90/30 (West 2022). Employers face compensatory and equitable remedies, as well as civil penalties of \$5,000 per violation or \$10,000 per repeat violation within a five-year period following the initial violation. Id.

## **2. Recent Presidential Executive Order Limits the Use of Restrictive Covenants.**

President Biden issued an executive order on July 9, 2021, aimed at promoting economic competition in a broad range of areas. President Biden stated in the order that “a competitive marketplace creates more high-quality jobs and the economic freedom to switch jobs or negotiate a higher wage.” Exec. Order No. 14,036, 86 FED. REG. 36,987 (July 9, 2021). One of the more than 70 initiatives in the Order targets the use of non-compete agreements. Id. Notably, President Biden instructed the Chair of the Federal Trade Commission to consider enacting rules to “curtail the unfair use of non-compete clauses and other clauses or agreements that may unfairly limit worker mobility.” Id. President Biden identified non-competes as tools that “powerful companies” use to “restrict [workers in] their ability to change jobs.” Id. According to the order, this has come as part of increased consolidation among corporate employers that has made it more difficult for workers to “bargain for higher wages and better work conditions.” Id. The Federal Trade Commission has not yet indicated what specific actions it may take to implement this provision of the Order.

The broad reach of the Executive Order signals a continued focus on what the federal government views to be anti-competitive actions in the labor market; this focus began during the Obama administration and continued during the Trump presidency with prior policies addressing anti-poaching and anti-solicitation agreements among competitors. For example, in 2016, the Department of Justice Antitrust Division announced a new initiative to aggressively investigate and target employers entering into anti-poaching agreements for civil and criminal violations of federal antitrust laws. Department of Justice & Federal Trade Commission, DOJ’s Antitrust Guidance for Human Resource Professionals (Oct. 2016), <https://www.justice.gov/atr/file/903511/download>. The Department of Justice has taken the

position that any agreement between employers or potential employers not to hire each other's workers or particular workers is a per se violation of federal antitrust laws. In April 2020, the Department of Justice renewed its position in a joint statement with the Federal Trade Commission and stated that it intended to “criminally prosecute companies and individuals who enter into naked wage fixing and no-poach agreements. . . . Companies and individuals involved in the hiring, recruiting, retention, or placement of workers should be aware that anticompetitive conduct runs the risk of civil and/or criminal liability.” Department of Justice & Federal Trade Commission, Joint Antitrust Statement Regarding COVID-19 and Competition in Labor Markets (Apr. 2020), [https://www.ftc.gov/system/files/documents/advocacy\\_documents/joint-statement-bureau-competition-federal-trade-commission-antitrust-division-department-justice/statement\\_on\\_coronavirus\\_and\\_labor\\_competition\\_04132020\\_final.pdf](https://www.ftc.gov/system/files/documents/advocacy_documents/joint-statement-bureau-competition-federal-trade-commission-antitrust-division-department-justice/statement_on_coronavirus_and_labor_competition_04132020_final.pdf).

To date, the Department of Justice has filed two criminal proceedings directed to non-compete agreements—one filed in January 2021 in the U.S. District Court for the Northern District of Texas against a healthcare company, Surgical Care Affiliates LLC, and the other filed in March 2021 in the U.S. District Court of Nevada against health care staffing company VDA OC LLC and its former regional manager. At issue in the VDA prosecution is an alleged agreement between two competitors not to raise wages or hire nurses from each other. At issue in the Surgical Care Affiliates proceeding are alleged agreements with other health care companies not to solicit each other's senior-level employees. The DOJ's theory is that such agreements are price-fixing agreements that are per se illegal under antitrust laws. Both matters remained pending as of the date of publication of this Outline.

The FTC, too, has signaled support for regulating non-compete agreements. In January 2020, FTC Commissioner Rebecca Slaughter expressed support for the FTC considering ways to curtail employers' use and enforcement of non-compete clauses in employment agreements that limit employees' abilities to change jobs within the same industry. New Decade, New Resolve to Protect and Promote Competitive Markets for Workers Remarks of Commissioner Rebecca Kelly Slaughter, As Prepared for Delivery at FTC Workshop on Non-Compete Clauses in the Workplace Washington, DC, January 9, 2020, *available at* [https://www.ftc.gov/system/files/documents/public\\_statements/1561475/slaughter\\_-\\_noncompete\\_clauses\\_workshop\\_remarks\\_1-9-20.pdf](https://www.ftc.gov/system/files/documents/public_statements/1561475/slaughter_-_noncompete_clauses_workshop_remarks_1-9-20.pdf). Commissioner Slaughter's comments followed a July 2019 comment letter from the attorneys general of 18 states to the FTC requesting that the FTC increase antitrust scrutiny of non-compete agreements. In her January 2020 remarks, Commissioner Slaughter expressed her support for FTC rule-making as to non-compete agreements, explaining that the use of non-compete agreements not only affects worker mobility, but also impacts wages and prevents some employers from competing for qualified employees. Id. Commissioner Slaughter also indicated that the FTC should, in the context of reviewing mergers, review the use of non-compete agreements. Id.

There has also been some initial movement on non-compete agreements in the current Congress. On February 25, 2021, a bipartisan group of senators introduced the Workforce Mobility Act. See Workforce Mobility Act of 2021, S. 483, 117th Cong. (2021). Similar to the language used in President Biden's executive order, the bill labels non-compete agreements as “blunt instruments that crudely protect employer interests” while forcing “workers to either idle for long periods of time or leave the industries where they honed their skills altogether.”

Id. at § 2(2). The bill would prohibit non-compete agreements with only a few exceptions. Id. § 3(a)(1). First, the seller of the goodwill of a business or the entirety of their ownership interest in the business can enter into a non-compete with the buyer prohibiting them from carrying on a similar business within specified geographic limits. Id. § 3(b)(1)(A). Employers would also still be permitted to enter into non-compete agreements with senior executive officials who have a severance agreement that is equal to or greater than one year of compensation. Id. § 3(b)(1)(D). Importantly, this bill would not preclude agreements that prohibit the disclosure of trade secrets. Id. § 4. The bill is currently in the Senate Committee on Health, Education, Labor, and Pensions. A similar also has been introduced in the House. Workforce Mobility Act of 2021, H.R. 1367, 117th Cong. (2021).

### c) **Overview of Existing Case Law in Illinois Governing the Enforcement of Restrictive Covenants.**

Notwithstanding the new Freedom to Work Act that took effect on January 1, 2022, current Illinois case law on restrictive covenants remains relevant (a) for restrictive covenants that were executed before January 1, 2022, and (b) in some instances, to give color to the new law’s requirements, particularly where the law codifies principles developed through case law. This section summarizes the existing body of case law on restrictive covenants and does not make specific predictions about concepts that may or may not evolve in light of the new law.

In general, if the new Freedom to Work Act does not apply, a restrictive covenant that is ancillary to a valid employment agreement will be enforceable if it is reasonable under the totality of the circumstances. Reliable Fire, 2011 IL 111871, ¶¶ 17-18, 965 N.E.2d at 396; Act II Jewelry, LLC v. Wooten, 318 F. Supp. 3d 1073, 1092 (N.D. Ill. 2018) (citing the same). The Illinois Supreme Court articulated a three-part test to evaluate reasonableness. Reliable Fire, 2011 IL 111871, ¶ 17, 965 N.E.2d at 396. Under that test, a covenant is reasonable and enforceable if it “(1) is no greater than is required for the protection of a legitimate business interest of the employer-promisee; (2) does not impose undue hardship on the employee-promisor, and (3) is not injurious to the public.” Id. (citations omitted). The Supreme Court characterized this test as the “three-dimensional rule of reason.” Id. ¶ 18, 965 N.E.2d at 397. Importantly, the Supreme Court held that “[e]ach case must be determined on its own particular facts. Reasonableness is gauged not just by some but by all of the circumstances.” Id. ¶ 42, 965 N.E.2d at 403 (quotations and citations omitted).

Before Reliable Fire, Illinois appellate courts commonly used a two-factor legitimate business interest test to evaluate the enforceability of restrictive covenants. Under that test, a restrictive covenant was deemed to protect a legitimate business interest and was thus enforceable in two situations: “(1) where the [employee’s] customer relationships are near permanent and, but for his association with [the employer, the former employee] would not have had contact with the customers; [or] (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 Grp. v. Swick, 181 Ill. App. 3d 988, 993, 537 N.E.2d 1378, 1382 (1989) (quotation marks and citation omitted).

Although the Illinois Supreme Court in Reliable Fire rejected the legitimate business interest test as “rigid and preclusive” and not determinative of the issue of enforceability, the

court made clear that it is “still a viable test to be employed [in evaluating the legitimate business interest prong] as part of the three-prong rule of reason to determine the enforceability of a restrictive covenant not to compete.” 2011 IL 111871, ¶ 43, 965 N.E.2d at 403. The court explained that “whether a legitimate business interest exists is based on the totality of the facts and circumstances of the individual case. Factors to be considered in this analysis include, but are not limited to . . . the employee’s acquisition of confidential information through his employment, and time and place restrictions.” *Id.* Careful to avoid overruling the well-developed body of case law, the court “expressly observe[d] that appellate court precedent for the past three decades remains intact . . . as nonconclusive examples of applying the promisee’s legitimate business interest, as a component of the three-prong rule of reason, and not as establishing inflexible rules beyond the general and established three-prong rule of reason.” *Id.* Nonetheless, Reliable Fire became the prevailing standard.

Courts accordingly have considered the pre-Reliable Fire body of case law when applying the three-prong Reliable Fire framework. *See, e.g., Cumulus Radio Corp. v. Olson*, 80 F. Supp. 3d 900, 909-10 (C.D. Ill. 2015) (relying on pre-Reliable Fire precedent in evaluating the near permanence of plaintiff’s customer relationships, and enforcing restrictive covenant); *Instant Tech., LLC v. DeFazio*, 40 F. Supp. 3d 989, 1013-14 (N.D. Ill. 2014) (acknowledging that pre-Reliable Fire cases established that businesses may have a legitimate interest in maintaining stability in their workforces, but that the plaintiff had failed to demonstrate that it had such a legitimate interest in light of its historically high rates of employee turnover despite presence of restrictive covenant); *see also Novamed, Inc. v. Universal Quality Solutions, Inc.*, 2016 IL App (1st) 152673-U, ¶¶ 35-44 (unpublished) (relying on pre-Reliable Fire precedent in evaluating whether employee’s acquisition of confidential information through his employment relationship, the relative permanence of employer’s customer relationships, and the skill level required of employees to perform job duties supported the employer’s contention it had a protectable business interest).

Following Reliable Fire, courts have recognized a variety of ways that an employer can demonstrate that it has a protectable legitimate business interest that may support the use of a restrictive covenant. For instance, in *Gastroenterology Consultants of North Shore., S.C. v. Meiselman*, 2013 IL App (1st) 123692, ¶¶ 3-5, 989 N.E.2d 1126, 1128, the Appellate Court affirmed the trial court’s denial of the medical clinic’s motion for a preliminary injunction, which sought to enjoin a departing physician from treating the medical clinic’s patients. On appeal, the medical clinic argued that the trial court failed to consider the totality of the circumstances in determining that the medical clinic lacked a legitimate business interest sufficient to enforce the restrictive covenant. *Id.* ¶ 10-11, 989 N.E.2d at 1129-30. The Appellate Court disagreed, concluding that the trial court had properly followed Reliable Fire’s broad legitimate business-interest test. *Id.* While the trial court considered whether the medical clinic’s patient relationships were near-permanent, the Appellate Court also emphasized that the trial court considered a broader range of factors, including: (i) whether the defendant misappropriated any confidential information; (ii) the level of the medical clinic’s investment of resources in the development of defendant’s relationship with his patients; (iii) the defendant’s patient-referral sources; (iv) whether the medical clinic assisted defendant in the development of his professional practice through advertising or marketing; (v) the defendant’s maintenance of a separate office; and (vi) whether the defendant would not have developed his relationship with his patients and referral sources but for his affiliation with the

plaintiff. Id. ¶ 11, 989 N.E.2d at 1130. Accordingly, the Appellate Court concluded: “it is clear from the [trial court’s] memorandum opinion that it made the determination of whether the plaintiff established a legitimate business interest in need of protection based upon the totality of the circumstances in this case.” Id.; see also Guaranteed Rate, Inc. v. Thomas, No. 20 CV 3288, 2020 WL 6446947, at \*2 (N.D. Ill. Nov. 3, 2020) (“The court must evaluate the totality of the circumstances to determine reasonableness”); Maximum Indep. Brokerage, LLC v. Smith, 218 F. Supp. 3d 630, 637 (N.D. Ill. 2016) (holding that the covenant was not overbroad despite the absence of a geographical restraint when it also included an activity restraint, explaining that “the reasonableness of a restrictive covenant is determined based on the totality of the facts and circumstances of the individual case”) (internal quotation marks omitted); InsureOne Indep. Ins. Agency, LLC v. Hallberg, 2012 IL App (1st) 092385, ¶ 67, 976 N.E.2d 1014, 1031 (affirming enforcement of restrictive covenant under Reliable Fire because former employee had “played a pivotal role in [the] defendants’ concerted and conscious game plan to identify and hire top producers from [the] plaintiff”) (internal quotation marks omitted); TLS Mgmt. Mktg. Servs., LLC v. Mardis Fin Servs., Inc., No. 14-CV-00881-CWR-LRA, 2016 WL 6999480, at \*7 n.8 (S.D. Miss. Nov. 30, 2016) (holding, under Illinois law, that an employer had demonstrated that it had a legitimate interest in maintaining a stable workforce and preventing former employees from soliciting current employees).

Additionally, Reliable Fire’s admonition that courts apply the fact-intensive “three-dimensional rule of reason” to restrictive covenants appears to have led courts to deny motions to dismiss premised on whether the restrictive covenant at issue was reasonably limited to protecting an employer’s legitimate business interests. See, e.g., Thomas, 2020 WL 6446947, at \*2 (denying motion to dismiss and stating that courts should dismiss only in extreme cases); Traffic Tech, Inc. v. Kreiter, 14-cv-7528, 2015 WL 9259544, at \*21-22 (N.D. Ill. Dec. 18, 2015) (denying motion to dismiss because “reasonableness depends on the specific facts and circumstances of the individual case, and the specific facts of this case have yet to be developed,” and noting that a restrictive covenant preventing a former Vice President of Business Development from soliciting customers with whom he had close relationships was not “categorically unreasonable” to protect plaintiff’s business interest in protecting its customer relationships); Bankers Life & Cas. Co. v. Miller, No. 14-cv-3165, 2015 WL 515965, at \*5 (N.D. Ill. Feb. 6, 2015) (denying motion to dismiss because “reasonableness cannot be determined at the motion-to-dismiss stage” and defendants can “challenge the enforceability of the restrictive covenants” by developing facts demonstrating that the restrictive covenants were not reasonably limited to protecting former employer’s legitimate business interest); see also TLS Mgmt. Mktg. Servs., LLC v. Mardis Fin. Servs., Inc., No. 14-CV-00881, 2016 WL 6999480, at \*7 (S.D. Miss. Nov. 30, 2016) (applying Illinois law and denying defendant’s Rule 12(c) motion for judgment on the pleadings because “Defendants are urging the Court . . . to invalidat[e] the confidentiality provisions for lack of durational and geographic limitations without considering the nature of the Plaintiff’s legitimate business interests”).

Consistent with the Reliable Fire framework, this section discusses two of the legitimate business interest factors—first, the employee’s acquisition of confidential information through his employment, and second, time and place restrictions—and briefly reviews each of these factors as they apply to the protection of trade secrets through restrictive covenants. These factors also remain important for the enforceability of restrictive covenants

under the Freedom to Work Act that took effect in January 2022. See 820 ILCS 90/7 (West 2022) (defining “legitimate business interest”).

**a) Trade secrets as a “legitimate protectable interest.”**

An employee’s acquisition of trade secrets or confidential information through his employment is a factor to be considered when evaluating the legitimate business interest prong of the totality test for the reasonableness of a restrictive covenant. Reliable Fire, 965 N.E.2d at 399. To enforce a restrictive covenant where the legitimate business interest is the protection of an employer’s trade secrets or confidential information, it is important to show that the employee acquired the trade secret through their employment. See, e.g., Call One Inc. v. Anzine, No. 18 C 124, 2018 WL 2735089, at \*6 (N.D. Ill. June 7, 2018); Lawrence & Allen, Inc. v. Cambridge Human Res. Grp., Inc., 292 Ill. App. 3d 131, 141-42, 685 N.E.2d 434, 443 (2d Dist. 1997) (citing Capsonic, 181 Ill. App. 3d at 993, 537 N.E.2d at 1382).

In some cases, however, the employer can satisfy this element by showing that the employee had “extensive and intimate knowledge” of the employer’s strategies and other confidential information, and that 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 supra Section III. Other courts have adopted the PepsiCo standard in concluding that mere knowledge of the trade secrets is not enough to show a legitimate business interest that justifies enforcement of a restrictive covenant. See, e.g., Modern Controls, Inc. v. Andreadakis, 578 F.2d 1264, 1268 (8th Cir. 1978); Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 633 (E.D.N.Y. 1996) (enforcing restrictive covenant where high-level employee had access to trade secrets) (applying New York Law); Proctor & 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:

**State Court:**

**AssuredPartners, Inc. v. Schmitt, 2015 IL App (1st) 141863, 44 N.E.3d 463 (1st Dist. 2015).** The Appellate Court affirmed the trial court’s conclusion that certain non-solicitation, non-competition, and confidentiality provisions were not enforceable. The court, in granting partial summary judgment in favor of the former employee, rejected the former employer’s argument that the confidentiality provision “merely precluded the disclosure of non-public, confidential information and was therefore narrowly drawn to protect” its legitimate business interests. The court determined that the confidentiality provision was overbroad because it protected from disclosure “virtually every fact, plan, proposal, data, and opinion that he became aware of during the time he was employed.” Moreover, the court commented that over-broad confidentiality provisions are not enforceable merely because they apply only to information unlikely to be known to the general public, because “[t]here is a great deal of information that is not generally known to the public; not all of it merits protection under a confidentiality provision.”

**George S. May Int'l Co. v. Int'l Profit Assocs., 256 Ill. App. 3d 779, 628 N.E.2d 647 (1st Dist. 1994).** The Appellate Court affirmed the trial court's decision to deny the plaintiff's motion for a preliminary injunction enjoining its former employees from using the employer's alleged trade secret materials in violation of their employment agreements. The court held that the information at issue was not sufficiently secret because it was routinely disseminated to thousands of incoming trainees and the alleged trade secrets were never identified among other material the plaintiff admitted was commonly-known. The court also noted that, even if the information had been confidential, the restrictive covenants in the defendants' contracts would still have been unenforceable because the geographic scope was too broad.

**Rapp Ins. Agency, Inc. v. Baldree, 231 Ill. App. 3d 1038, 597 N.E.2d 936 (5th Dist. 1992).** The Appellate Court affirmed the trial court's decision to deny the plaintiff insurance company's motion for a preliminary injunction. The plaintiff sought to enjoin its former employee from using customer files copied before leaving the company pursuant to restrictive covenants in the defendant's employment contract. The court held that the covenant not to compete was unenforceable because the files were not trade secrets or confidential information, as the defendant easily could have contacted his former customers to obtain most, if not all, of the information at issue.

**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.

#### **Federal Court:**

**PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).** The Seventh Circuit 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]."

**Maximum Indep. Brokerage, LLC v. Smith, 218 F. Supp. 3d 630 (N.D. Ill. 2016).** The court denied a motion to dismiss a former employer's lawsuit to enforce a restrictive covenant protecting, among other things, customer lists, mailing lists, general non-public information concerning customers, and employee training materials. Relying on Reliable Fire, the court concluded that it could be "reasonably inferred that the information is proprietary, non-public, and confidential," because the defendants had downloaded the materials from the employer's network before leaving their jobs with the company.

**Fisher/Unitech, Inc. v. Comp. Aided Tech., Inc., No. 13-cv-2090, 2013 WL 1446425 (N.D. Ill. Apr. 9, 2013).** A company that designed and sold design software and three-dimensional printing equipment sued a former employee for breaching noncompete and confidentiality provisions in his employment agreement, after the former employee transferred the plaintiff's trade secrets concerning sales figures and strategies from his work computer to a personal thumb drive. The court converted portions of a temporary restraining order into a preliminary injunction, holding that the former employer had a "legitimate interest in protecting its confidential information, including but not limited to actual trade secrets." Nevertheless, the court



concluded that the former employer had failed to establish that it had a legitimate business interest in imposing restrictions on the former employee's activities beyond protecting confidential information. It therefore refused to enforce the restrictive covenants, except as to the protection of confidential and trade secret information.

**Harris v. Cent. Garden & Pet Co., No. 09 C 2354, 2011 WL 3290334 (N.D. Ill. Aug. 1, 2011).** The court granted summary judgment to invalidate a restrictive covenant where the employer failed to take sufficient steps to keep the information confidential. The employer provided no guidance as to what information it considered confidential, only one employee was required to sign the covenant protecting the information, and other employees were not even required to keep the information confidential.

**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 that the information constituted trade secrets and that 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 an 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.

**b) Temporal and geographic scope limitations in the context of trade secrets.**

In Reliable Fire, the Illinois Supreme Court noted that an employer's legitimate business interest may be limited by the type of activity being protected, the geographical area of the activity, and the time in which it is conducted. 965 N.E.2d at 396-67. This is an important factor when considering if the scope of the restrictive covenant is reasonable. Id.

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 void or unenforceable solely for lack of durational or geographic limitation on the duty." 765 ILCS 1065/8(b)(1) (West 2022); see also ExactLogix, Inc. v. JobProgress, LLC,

No. 3:18-cv-50213, 2020 WL 7490233, at \*16 (N.D. Ill. Dec. 21, 2020) (“[C]ourts should not hold confidentiality agreements unenforceable solely due to a lack of durational or geographic limitations”); 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); RTC Indus., Inc. v. Haddon, No. 06 C 5734, 2007 WL 2743583, at \*4 (N.D. Ill. Sept. 10, 2007) (“[A] geographical limitation is not necessary if the restrictive covenant only prohibits the employee from engaging in certain activities.”).

Accordingly, at least one court has held that a non-competition 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, the 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-competition 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.

On the other hand, courts have invalidated non-compete agreements where they are “overly broad.” Rubloff Dev. Grp., Inc. v. SuperValu, Inc., 863 F. Supp. 2d 732, 749 (N.D. Ill. 2012). For example, in Rubloff, the court held that a covenant requiring a former employee to “‘treat as strictly confidential any and all information’ [obtained during his employment] . . . forever” was unenforceable under Reliable Fire because it “was clearly greater than required.” Id. (emphasis supplied by court). The court explained that if the employee were “held to the literal words of the contract . . . [he] would not be able to hold another job in the same field, which would clearly be an undue hardship.” Id. Following Reliable Fire, courts have held that the absence of a reasonable geographic limitation does not necessarily render a non-competition agreement overbroad because a customer limitation may be appropriate as long as it is tailored to prevent the former employee from working in a specific type, class, or field of business, or from soliciting customers with whom the employee worked while employed by the former employer. Likewise, courts have found that the presence of a geographic limitation may not save a non-competition covenant where the covenant restrains the former employee from working in an entire field. See AssuredPartners, Inc. v. Schmitt, 2015 IL App (1st) 141863, ¶ 35. 44 N.E.3d 463, 472 (holding noncompetition agreement overbroad under Reliable Fire, despite presence of geographical limitation, because the noncompetition agreement prevented former employee from engaging in the professional liability insurance business altogether); Zabaneh Franchises, LLC v. Walker, 2012 IL App (4th) 110215, ¶ 22, 972 N.E.2d 344, 351 (“There does not seem to be a restriction on the geographical scope of the covenants in the Agreement; however, we find such a restriction unnecessary due to the restriction regarding the limited prohibited customer base. Because the Agreement identifies which customers are considered off-limits to defendant for two years, a prohibited geographical area is unnecessary.”); Traffic Tech, Inc. v. Kreiter, Cas No. 14-cv-7528, 2015 WL 9259544, at \*6-7 (N.D. Ill. Dec. 18, 2015) (concluding that scope of restrictive covenant was not categorically unreasonable, even where it lacked a geographic limitation, because it appeared to prohibit only solicitation of the plaintiff’s customer base as of the time the defendant quit).

## 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.” *Id.* While a patent application is pending, the patent is kept confidential until eighteen months after the application is filed. 35 U.S.C. § 122 (West 2022). If the applicant abandons the application during that period, the patent remains confidential. Sears v. Gottschalk, 502 F. 2d 122 (4th Cir. 1974).

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.

In a recent case, the Seventh Circuit upheld a district court’s injunction against trade secret misappropriation even though the product containing the trade secrets had been patented. Life Spine, Inc. v. Aegis Spine, Inc., 8 F.4th 531, 535 (7th Cir. 2021). The court explained that although the plaintiff had patented the product—a spinal cage used in surgery—certain information, such as “the precise dimensions and measurements of the [] components and subcomponents and their interconnectivity,” was still sufficiently secret that they could receive trade secret protection. Id. at 536. This was because the product’s “granular measurements [we]re not available from patent materials, which include[d] only pictures of the part and d[id] not go into detail, provide dimensions, or tell anyone how the features connect, [or] how [the product was] assembled.” Id. at 541 (internal quotations omitted). The court went on to explain that “limited disclosure does not destroy all trade secret protection in a product . . . [A] company can maintain trade secret protection in the undisclosed aspects of a product, even if it has publicly disclosed other aspects of the same product.” Id. at 540 (internal citations omitted).

After concluding that the patent did not inherently destroy all trade secret protection, the court engaged in a normal trade secret analysis. It held that the plaintiff took “reasonable measures” to protect the measurement information, including by allowing distributors access only to examples of the product after signing nondisclosure agreements, selling only to specialized users (surgeons) for specific purposes (scheduled surgeries), only ever delivering one product at a time, and making sure their distributors acted as fiduciaries to the plaintiff, requiring them to be present in the operating room when the products were used. Id. at 542. Further, while the company did display the product at trade shows, “it supervise[d] anyone who handle[d] the device” and did not allow handlers to take measurements of the product. Id. at 536.

### **C. Copyright Law.**

As discussed in more detail above in Section IV.B.5(c), a plaintiff may assert claims for copyright infringement and trade secret misappropriation, even where the two claims allege misuse of the same information—*i.e.*, that the information is subject to both copyright and trade secret protection—so long as the damages awarded under each claim concern different losses. Where a plaintiff asserts claims for trade secret misappropriation and copyright infringement based on misuse of the same information, two issues that may arise are: (1) whether the submission of a copyright deposit affects secrecy of the deposited information; and (2) whether the Copyright Act preempts the trade secret claim.

**1. Information in copyright deposit may not be sufficiently secret to qualify for trade secret protection.**

Registration of a copyright ordinarily requires that the claimant deposit with the Copyright Office a complete copy of the work, 17 U.S.C. § 408(b)(1), which is then open to public inspection, 17 U.S.C. § 705. This poses a significant risk of destroying the secrecy of information in the copyright deposit.

As a general matter, submitting a deposit as part of the copyright registration process does not per se destroy trade secret protection for information included in any such deposit. 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 1.15[H] (2021) (noting that this “general matter can still be considered open”); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. c (1995) (“A claim of copyright in a work of authorship does not preclude a simultaneous claim of trade secret protection for information embodied in the work if sufficient secrecy has been maintained.”).

However, the prevailing view seems to be that submitting a deposit for copyright registration precludes trade secret protection in the deposited work. For example:

**Phillips v. Avis, Inc., No. 95 C 1566, 1996 WL 288782, at \*3 (N.D. Ill. May 29, 1996).** Granting the defendant’s summary judgment motion on a trade secret claim under New York common law because the information at issue “was not a secret; it was readily available through the Copyright Office.”

**Am. Sign & Indicator Corp. v. Schulenburg, 167 F. Supp. 20, 26-27 (E.D. Ill. 1958).** Holding that by registering a copyright, the plaintiff’s concept was “placed in the public domain and” thus could not “still be retained as a ‘secret.’”

**Tedder Boat Ramp Sys., Inc. v. Hillsborough County, 54 F. Supp. 2d 1300, 1303 (M.D. Fla. 1999).** Holding that “since it is always possible, even if not certain, that copyrighted materials are available to the public, the element of secrecy is not established [for such materials].”

**Weygand v. CBS, No. CV 96-4540, 1997 WL 377980, at \*10 (C.D. Cal. May 21, 1997).** Holding that the plaintiff’s “deposit of his script with the Copyright Office destroyed any possible ‘confidential’ status.”

On the other hand, at least some courts have held that submitting information for copyright registration does not necessarily destroy trade secret protection. Those cases, however, do not seem to address a situation where the entirety of a trade secret is disclosed as part of a copyright deposit. For example:

**ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310, 1320, 1322-23 (N.D. Ill. 1990).** Granting preliminary injunction where the plaintiff took reasonable efforts to protect the secrecy of its computer programs, such as making all employees sign confidentiality agreements, even though the plaintiff had applied for copyright registration for the programs.

**Bishop v. Wick, No. 88 C 6369, 1988 WL 166652, at \*3 (N.D. Ill. Dec. 29, 1988).** Holding the defendant liable following a bench trial where the plaintiff “maintained” a reconfiguration program as a trade secret by

restricting availability “to third-parties who: (a) license[d] the Program; and (b) agree[d] not to copy, use or reproduce the software programs comprising the Program,” even though the plaintiff already had a registered copyright for the program.

**Warrington Assocs., Inc. v. Real-Time Eng’g Sys., Inc.**, 522 F. Supp. 367, 368-69 (N.D. Ill. 1981). Denying the defendant’s motion for summary judgment and rejecting its argument that software programs’ copyright registration destroyed the plaintiff’s trade secret claim because “the mere fact that an expression is copyrighted does not, in and of itself . . . eliminate its mantle of confidentiality.”

**Compuware Corp. v. Serena Software Int’l, Inc.**, 77 F. Supp. 2d 816 (E.D. Mich. 1999). Applying Michigan law and denying the defendant’s summary judgment motion on secrecy grounds even though the plaintiff submitted to the Copyright Office largely unredacted copies of its alleged trade secrets.

**Cinebase Software, Inc. v. Media Guar. Trust, Inc.**, No. C98-1100 FMS, 1998 WL 661465 (N.D. Cal. Sept. 21, 1998). Applying California law and preserving trade secret protection only for redacted material in copyright deposit.

Federal regulations also permit a copyright claimant to submit a limited sample of the copyrighted work in order to protect trade secrets in the work. See, e.g., 37 C.F.R. §§ 202.19(e)(1), 202.20(c)-(d); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. c (1995) (“The regulations of the Copyright Office permit the deletion of material constituting trade secrets from deposits made in connection with computer programs and also authorize the granting of special relief from the normal deposit requirements in other cases.”).

Although Illinois courts do not appear to have addressed these regulations, other courts have recognized that information redacted in a copyright deposit that is submitted pursuant to the special relief provisions preserves the secrecy of the underlying information. For instance, in Computer Associates International v. American Fundware, 831 F. Supp. 1516, 1529 (D. Colo. 1993), the court explained:

[The Plaintiff]’s assertion that the SPO programs are trade secrets is not necessarily inconsistent with their registration under the copyright laws. Copyrighting intellectual property does not automatically vitiate its trade secret status. . . . [The plaintiff] copyrighted the SPO programs under a procedure permitting the registration of a copyright by limited deposit to protect trade secrets. Under this procedure, only a portion of the copyrighted code is actually on file with the Copyright Office . . . . To prove that [the plaintiff] could no longer claim that the SPO programs were trade secrets, [the defendant] would have to show that it or someone in the industry actually learned of [the plaintiff’s] trade secrets by reviewing the limited information on file with the Copyright Office.

See also, e.g., CMAX/Cleveland, Inc. v. UCR, Inc., 804 F. Supp. 337, 357 (M.D. Ga. 1992) (ruling in plaintiff’s favor on trade secret claim where one of plaintiff’s reasonable efforts to “maintain the secrecy” of the alleged trade secret was “register[ing] [its trade secret] as an unpublished work containing trade secrets under special provisions of the Copyright Act”).

## 2. The Copyright Act does not preempt ITSA claims.

In general, the Copyright Act preempts state law claims that: (1) fall within the subject matter of federal copyright law; and (2) are based on rights that are “equivalent” to the exclusive rights granted to copyright owners under 17 U.S.C. § 106 (West 2022). See Ho v. Taflove, 648 F.3d 489, 500 (7th Cir. 2011); 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 1.15 (2021). Though there is limited Illinois case law addressing whether copyright law preempts ITSA claims, the prevailing view in other jurisdictions is that copyright law does not preempt trade secret claims because the Uniform Trade Secrets Act protects rights that are qualitatively different from rights protected under the Copyright Act. See, e.g., Higher Gear Grp., Inc. v. Rockenback Chevrolet Sales, Inc., 223 F. Supp. 2d 953, 958 (N.D. Ill. 2002) (holding that copyright law does not preempt the ITSA, relying on California courts finding the same regarding California’s version of the UTSA). Gates Rubber Co. v. Bando Chem. Indus., Ltd., 9 F.3d 823, 847-48 (10th Cir. 1993) (holding that copyright law did not preempt trade secret claim under Colorado UTSA); Computer Assocs. Int’l, Inc. v. Altai, Inc., 982 F.2d 693, 719 (2d Cir. 1992) (same under Texas trade secret law, which had not adopted UTSA at that time); S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1090 (9th Cir. 1989) (same under California UTSA).

As to the first preemption requirement, the subject matter of copyright is “original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.” 17 U.S.C. § 102(a) (West 2022). Because trade secrets commonly involve information that can be fixed in a tangible form, claims for trade secret misappropriation generally fall within the protection of the Copyright Act, thus establishing the first element necessary for preemption. See, e.g., Ho, 648 F.3d at 500-01 (first element satisfied because a “[m]odel and its manifestations in equations, figures and text—are expressions in a tangible form”); Higher Gear, 223 F. Supp. 2d at 957 (first element satisfied because “computer software is fixed in a tangible medium of expression and within the subject matter of copyright”).

However, trade secret claims generally do not satisfy the “equivalent right” requirement, and thus avoid copyright preemption. To avoid preemption, “a state law must regulate conduct that is qualitatively distinguishable from that governed by federal copyright law . . .” Ho, 648 F.3d at 501 (quotations omitted); see also Computer Assocs. Int’l, Inc. v. Atali, Inc., 982 F.2d 693, 716 (2d Cir. 1992) (“A state law claim is not preempted if the ‘extra element’ changes the ‘nature of the action so that it is qualitatively different from a copyright infringement claim.”). In most cases, trade secret claims avoid preemption because they require both secrecy and confidentiality—elements that the Copyright Act does not require. Ho, 648 F.3d at 503; see also 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 1.15[H] (2021) (trade secrets claims often not preempted because they “require a status of secrecy not required for copyright”).

The Seventh Circuit reached this conclusion in determining that the Copyright Act does not preempt ITSA claims because the “equivalent” rights requirement is not satisfied. Ho, 648 F.3d at 501. The court noted first that the Copyright Act protects the exclusive rights of “reproduction, adaptation, publication, performance, and display of the copyrighted work.” Id. at 501 (citing 17 U.S.C. § 106). It then explained that ITSA, on the other hand, “requires that the information [sought to be protected as a trade secret] have a status of secrecy and that a confidential relationship be breached. Both of these elements go beyond the rights regulated under the Copyright Act. The act of publishing the allegedly copied materials [which could give rise to a copyright claim] would not itself establish a trade secrets misappropriation claim.” Id. at 503. Thus, the court concluded that “[b]ecause a claim for trade secrets misappropriation regulates conduct beyond the rights under the Copyright Act, it is not preempted.” Id.; see also:

***No Preemption of Trade Secret Claim:***

**Higher Gear Grp., Inc. v. Rockenbach Chevrolet Sales, Inc.**, 223 F. Supp. 2d 953, 957-58 (N.D. Ill. 2002). Refusing to hold an ITSA claim preempted because “breach of a confidential relationship is an additional element that changes the nature of the action so that it qualitatively differs from the rights protected by federal copyright law.”

**Warrington Assocs., Inc. v. Real-time Eng’g Sys., Inc.**, 522 F. Supp. 367, 369 (N.D. Ill. 1981). Holding that the Copyright Act did not preempt a trade secret claim, “whether [brought under] Wisconsin or Minnesota law,” because “[t]he common law of each of these forums stresses that the trade secrets tort is premised on concepts of breach of trust and confidentiality, and not copying.”

**Trandes v. Guy F. Atkinson Co.**, 996 F.2d 655, 660 (4th Cir. 1993). Holding that federal copyright law did not preempt a trade secret claim under Maryland’s version of the Uniform Trade Secrets Act because “the breach of a duty of trust or confidentiality comprises the core of actions for trade secret misappropriation, and supplies the ‘extra element’ that qualitatively distinguishes such trade secret causes of action from claims for copyright infringement that are based solely upon copying.”

***Trade Secret Claim Preempted:***

**Relational Design & Tech., Inc. v. Data Team Corp.**, CIV. A. No. 91-2452, 1992 WL 97799, at \*2 (D. Kan. Apr. 16, 1992). Holding that federal copyright law preempted a trade secret claim under Kansas law because “the alleged facts supporting plaintiff’s misappropriation and infringement claims [were] identical: [i.e.] defendants [had] allegedly reproduced and/or sold, without authorization, copies of plaintiff’s software programs.”

**Videotronics, Inc. v. Bend Elecs.**, 564 F. Supp. 1471, 1476 (D. Nev. 1983). Holding that federal copyright law preempted a Nevada common law trade secret claim because it involved the same subject matter as copyright law. The court stated: “Because the court has found that the plaintiff’s property interest in the computer programs . . . is covered by the Copyright Act, relief under the state common law doctrines of misappropriation and trade secret cannot be obtained here.”



**PRACTICE TIP:** To try to avoid copyright preemption, identify for the court at least one element that a parallel copyright claim lacks.

**D. 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 ITSA, are listed and discussed briefly below. However, 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 2022); see also ExactLogix, Inc. v. JobProgress, LLC, No. 3:18-cv-50213, 2020 WL 7490233, at \*9-12 (N.D. Ill. Dec. 21, 2020); Mazak Optonics Corp. v. Marlette, No. 17 C 1023, 2017 WL 3394728, at \*2 (N.D. Ill. Aug. 8, 2017); Montel Aetnastak, Inc. v. Miessen, 998 F. Supp. 2d 694, 719-20 (N.D. Ill. 2014); Miller UK Ltd. v. Caterpillar Inc., 859 F. Supp. 2d 941, 946-47 (N.D. Ill. 2012); Delta Med. Sys., Inc. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 796, 772 N.E.2d 768, 784 (1st Dist. 2002). Section 8 of 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 2022). 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 2022). Moreover, ITSA’s preemption provision is limited to non-contractual civil remedies. 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 2022). Thus, causes of action based on contractual remedies, such as a cause of action to enforce a restrictive covenant or to recover for a breach, are not preempted by ITSA.

Courts interpreting ITSA’s preemption provision have held a variety of claims predicated on misappropriation of trade secrets to be preempted. Historically, courts were in some disagreement, however, over whether 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. v. Vijuk Equipment, Inc., No. 90 C 3116, 1990 WL 129510, at \*4 (N.D. Ill. Aug. 31, 1990), was the first court to address the issue. 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 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 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 interpreted the Seventh Circuit’s decision in Composite Marine Propellers to mean that 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., 108 F. Supp. 2d 968, 970 (N.D. Ill. 2000), 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.” Based on this basic set of facts, the plaintiff alleged seventeen causes of action, including a claim under ITSA. Id. In analyzing whether 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 [were] based on a misappropriation of trade secrets, or on something more.” Id. at 972. Those claims that were based solely on the defendants’ misappropriation of confidential information 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 [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 ExactLogix, Inc. v. JobProgress, LLC, No. 3:18-cv-50213, 2020 WL 7490233, at \*9-12 (N.D. Ill. Dec. 21, 2020) (holding common-law claims for fraud, unjust enrichment, civil conspiracy, and unfair competition were preempted because they were based on the misappropriation of confidential information); Segerdahl Corp., 2018 WL 828062, at \*5 (holding that the plaintiff adequately stated claims for breach of fiduciary duty and aiding and abetting breach of fiduciary duty and that ITSA did not preempt the claims because these claims did not solely depend on the misappropriation of trade secrets); 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).

Other courts declined to follow this reasoning, adopting an alternative view, namely, that 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, No. 05 C

4002, 2005 WL 3436398, at \*6 (N.D. Ill. Dec. 14, 2005), 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.” 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. Airtex, Inc., 985 F. Supp. 827, 830 (N.D. Ill. 1997), the court held that if the plaintiff’s confidential information was not a trade secret, ITSA’s preemption provision did not apply. 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. 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 sought 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. But the court held that the mere existence of a trade secret claim does not automatically wipe out other non-trade secrets claims. Id. at 405. In other words, ITSA’s preemption provision is narrow and does not preempt claims that “are not dependent upon the existence of competitively significant secret information.” Id. Rather, ITSA preempts claims that are based solely on conduct that also could be considered misappropriation. Id. Accordingly, the Seventh Circuit held that ITSA did not preempt the plaintiff’s fraud, breach of fiduciary duty, and theft claims because they were not based on trade secret misappropriation. Id. at 405. Later, in Spitz v. Proven Winners North America, LLC, 759 F.3d 724, 733 (7th Cir. 2014), the Seventh Circuit explained, cited Pope v. Alberto-Culver Co., 296 Ill. App. 3d 512, 694 N.E.2d 615, 619 (1998), but not Hecny, to affirm the grant of summary judgment against quasi-contract claims, reasoning that “Illinois courts have read the preemptive language in the ITSA to cover claims that are essentially claims of trade secret misappropriation, even when the alleged ‘trade secret’ does not fall within the Act’s definition.”

Lower courts are largely united in their reading of Hecny. The majority view among lower courts is that, under Hecny, ITSA preempts a claim if it is based solely on conduct that would otherwise constitute misappropriation of a trade secret under ITSA. See, e.g., Symbria, Inc. v. Callen, No. 20-CV-4084, 2022 WL 60530, at \*17 (N.D. Ill. Jan. 6, 2022) (denying a motion to dismiss a breach of fiduciary duty claim where some of the acts underlying the claim involved the defendants allegedly taking “non-confidential information in violation of their employment agreements and company policies, to help [the other defendants] compete” with the plaintiffs); PolyOne Corp. v. Lu, No. 14 CV 10369, 2018 WL 4679577, at \*4 (N.D. Ill. Sept. 28, 2018) (denying a motion to dismiss the plaintiff’s tortious interference with contract claim because the claim did not rely on the misappropriation of trade secrets; however, the court noted that if claims were based, even in part, on trade secret misappropriation, ITSA

would preempt those portions); Mazak Optonics Corp. v. Marlette, No. 17 C 1023, 2017 WL 3394728, at \*1–3 (N.D. Ill. Aug. 8, 2017) (dismissing claims of conversion and tortious interference with contract claims as preempted by ITSA because they were premised on the misappropriation of documents containing confidential information, but declining to dismiss on preemption grounds a tortious interference with prospective economic advantage claim because that claim was not predicated solely on misappropriation of trade secrets); Montel Aetnastak, Inc. v. Miessen, 998 F. Supp. 2d 694, 719-21 (N.D. Ill. 2014) (dismissing claims of wrongful interference and conspiracy to misappropriate trade secrets as preempted by ITSA because the claims were based entirely on the defendant’s alleged disclosure of confidential information, but refusing to dismiss on preemption grounds claims of breach of fiduciary duty and conspiracy to interfere with present and future economic relations because those claims were not predicated on misappropriation of trade secrets); Carpenter v. Aspen Search Advisers, LLC, No. 10 C 6823, 2011 WL 1297733, at \*2 (N.D. Ill. Apr. 5, 2011) (dismissing claim for breach of fiduciary duty that involved access to confidential data). If the claim is based on conduct that is something other than trade secret misappropriation, ITSA does not preempt the claim. See id.

In contrast to the majority reading of Hecny, a minority of courts appear to interpret Hecny as allowing ITSA to cast a wider net as to the claims it preempts. In RTC Industries, Inc. v. Haddon, No. 06 C 5734, 2007 WL 2743583, at \*3 (N.D. Ill. Sept. 10, 2007), for example, the court stated, in dicta, that the post-Hecny “test is whether the plaintiff’s claim would lie if the information at issue were non-confidential.” See also Integrated Genomics, Inc. v. Kyrpides, No. 06 C 6706, 2008 WL 630605 (N.D. Ill. Mar. 4, 2008) (same). The RTC court also observed that Hecny was not adjudicating claims that were similar to trade secret claims. RTC, 2007 WL 2743583, at \*3 (“Hecny’s [sic] other claims were so far afield of trade secrets that it is unclear how broadly to apply the Seventh Circuit’s decision”). The RTC court went on to hold that ITSA did not preempt a fiduciary duty claim, even though the claim was based on the inevitable disclosure doctrine, because the claim did not allege the misappropriation of a trade secret—the key factor under Hecny. Because the RTC court’s description of the Hecny rule was only dicta, the precedential effects of RTC are unclear. See also Westrock Co. v. Dillon, No. 21-CV-05388, 2021 WL 6064038, at \*18 (N.D. Ill. Dec. 22, 2021) (not citing RTC but interpreting Hecny to hold that the ITSA did not preempt a breach of fiduciary duty claim based on the solicitation of clients for a competitor, explaining that while “the ITSA preempts claims for misappropriation of confidential information (whether a trade secret or not), it does not preempt claims that do not hinge on whether the information at issue is confidential”).

Even before Hecny, courts regularly applied a Hecny-type analysis to conclude that ITSA did not preempt certain claims. 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 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).

For further discussion of ITSA preemption of specific causes of action, see Section VI.F below.

#### **E. Potential Related Causes of Action Under State Law.**

Notwithstanding the preemptive effect of ITSA, other causes of action may be viable instead of or in addition to an ITSA claim, 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 sue to enforce the restrictive covenant and to recover for its breach. In general, 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 ITSA. See 765 ILCS 1065/8(b) (West 2022) (stating that ITSA preemption “does not affect . . . contractual remedies, whether or not based upon misappropriation of a trade secret”). See also supra Section VI.E (discussing how courts determine whether ITSA preempts a particular cause of action).

As discussed above in Section VI.A.1, a new law taking effect in Illinois on January 1, 2022 has narrowed the circumstances in which employers may enter into restrictive covenants and imposed specific requirements before such covenants may be enforceable. This section discusses the body of case law pre-dating this new law, which remains applicable to restrictive covenants that were executed before January 1, 2022 and which may be informative as courts interpret and apply the new law.

Illinois courts have limited the circumstances in which restrictive covenants can be enforced. In Fifield v. Premier Dealer Services, Inc., 2013 IL App (1st) 120327, ¶ 19, 993 N.E.2d 938, 943, the Appellate Court recognized the long-standing rule requiring adequate consideration to the employee before a restrictive covenant incident to an at-will employment relationship can be held valid. While many courts had previously held that continued employment constituted an acceptable form of adequate consideration, the Fifield court drew a bright line and declared that where continued employment served as the putative consideration supporting the restrictive covenant, “there must be at least two years or more of continued employment to constitute adequate consideration in support of a restrictive covenant.” Id.

Illinois trial and appellate courts generally have applied Fifield in adhering to the requirement of two years or more of continued employment, but the Illinois Supreme Court has not yet addressed it. See, e.g., McInnis v. OAG Motorcycle Ventures, Inc., 2015 IL App (1st) 142644, ¶ 40, 35 N.E.3d 1076, 1085-86; Prairie Rheumatology Assocs., S.C. v. Francis, 2014 IL App (3d) 140338, at ¶ 16, 24 N.E.3d 58, 62. That said, the Appellate Court has noted that there may be limits to Fifield’s bright-line rule, explaining that “Fifield did not abolish a fact-specific approach to determining the adequacy of consideration,” and that “courts are not limited to a numerical formulation.” McInnis, 2015 IL App (1st) 142644, ¶¶ 36-37, 35 N.E.2d

at 1085. That court nevertheless applied the two-year rule enunciated in Fifield, holding that the defendant's 18-month employment term was not adequate consideration to support enforcement of the restrictive covenant. Id.

Decisions from federal courts in Illinois are somewhat mixed after Fifield. Several have refused to apply the bright-line rule, speculating that the Illinois Supreme Court is unlikely to adopt it. See, e.g., Stericycle, Inc. v. Simota, No. 16 C 4782, 2017 WL 4742197, at \*4 (N.D. Ill. Oct. 20, 2017) (noting that “[f]or several reasons, the Court is convinced that the Illinois Supreme Court would reject a bright-line two-year rule and apply a fact-specific approach in assessing consideration,” ultimately holding that thirteen months of employment was a “substantial period” under Illinois law); Avison Young-Chicago, LLC v. Puritz, No. 17 C 0844, 2017 WL 5896887, at \*6 (N.D. Ill. Nov. 29, 2017) (applying the flexible, fact-specific test in lieu of the strict, two-year rule to find that 17-months was sufficient to plead “substantial period.”); Allied Waste Servs. of N. Am., LLC v. Tibble, 177 F. Supp. 3d 1103, 1108 (N.D. Ill. 2016) (holding that 15 months of employment constituted adequate consideration for enforceability of restrictive covenant, and noting that “[t]his Court is . . . not convinced that the Illinois Supreme Court would adopt the state appellate courts’ bright-line approach”); Cumulus Radio Corp. v. Olson, 80 F. Supp. 3d 900, 909 (C.D. Ill. 2015) (holding that 21 months of continuous employment constituted adequate consideration, and noting that the court “does not believe that the Illinois Supreme Court would adopt the bright-line test announced in Fifield”); Bankers Life and Cas. Co. v. Miller, No. 14-cv-3165, 2015 WL 515965, at \*3-4 (N.D. Ill. Feb. 6, 2015) (rejecting bright-line rule requiring at least 24 months of continuous employment as contrary to Reliable Fire’s statement that “each case must be determined on its own particular facts,” and noting that the court believed “[t]he Illinois Supreme Court would similarly reject a rigid approach to determining whether a restrictive covenant was supported by adequate consideration; it would not adopt a bright-line rule requiring continued employment for at least two years in all cases”) (internal quotation marks omitted). On the other hand, at least one Illinois federal court has held to the contrary and applied Fifield, predicting that the Illinois Supreme Court “would not alter the doctrine established by the recent Illinois appellate opinions, which clearly define a ‘substantial period’ as two years or more of continued employment.” Instant Tech., LLC v. DeFazio, 40 F. Supp. 3d 989, 1010 (N.D. Ill. 2014).

Thus, under Illinois law, whether a restrictive covenant provides the basis of a cause of action in addition to a trade secrets claim will turn, in part, on whether the employee against whom it is asserted was continuously employed for at least two years by the employer, or, possibly (at least in federal court) received other adequate consideration for executing the restrictive covenant. Courts have not, however, clearly articulated what might constitute sufficient “other” consideration. See Cumulus Radio Corp., 80 F. Supp. 3d at 909 (rejecting application of Fifield’s two-year rule, and noting that the court “need not consider whether [employee’s] contract was supported by additional consideration such as compensation, training, and client entertainment benefits”); Montel Aetnastak, Inc. v. Miessen, 998 F. Supp. 2d 694, 716 (N.D. Ill. 2014) (holding that 15 months of continuous employment and employee’s voluntary employment constituted adequate consideration); cf. Prairie Rheumatology Assocs., 2014 IL App (3d) 140338, ¶¶ 17-18, 24 N.E.3d 58, 63 (considering but ultimately rejecting argument that, in the absence of two years of continuous employment, employer’s provision of “assistance in obtaining hospital membership and staff privileges,

access to previously unknown referral sources and opportunities for expedited advancement” constituted sufficient “additional consideration” to support restrictive covenant).

## 2. Breach of fiduciary duty.

Under Illinois law, the elements of a breach of fiduciary duty claim are: “(1) that a fiduciary duty exists; (2) that the fiduciary duty was breached; and (3) that such breach proximately caused the injury of which the party complains.” Lawlor v. N. Am. Corp. of Illinois, 2012 IL 112530, ¶ 69, 983 N.E.2d 414, 433; see also Prime Leasing, Inc. v. Kendig, 332 Ill. App. 3d 300, 313, 773 N.E.2d 84, 96 (1st Dist. 2002). 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., Dames & Moore v. Baxter & Woodman, Inc., 21 F. Supp. 2d 817, 823 (N.D. Ill. 1998); 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).

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). Under 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. Sempetean, 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 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 ITSA, 765 ILCS 1065/8(a) (West 2022), preempted breach of fiduciary duty claims. See, e.g., Fox Controls, Inc. v. Honeywell, Inc., No. 02 C 346, 2002 WL 1949723, at \*2-3 (N.D. Ill. Aug. 22, 2002) (holding breach of fiduciary duty claim preempted); see also:

**Delta Med. Sys. v. Mid-Am. Med. Sys., Inc., 331 Ill. App. 3d 777, 796, 772 N.E.2d 768, 784 (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. In addition to suing the defendant, the plaintiff sued the former employee for breach of fiduciary duty. But the court refused to address the claim for breach of fiduciary duty, explaining that it was preempted by ITSA to the extent that it involved allegations of trade secret misappropriation.

**Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968, 972 n.1 (N.D. Ill. 2000).** On the defendant's motion for summary judgment, the court ruled that ITSA preempted a separate claim for breach of fiduciary duty based on misappropriation of trade secrets, and distinguished 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."

**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 the defendant. Plaintiffs claimed that the former employee breached his fiduciary duty. On a motion for partial summary judgment, the court held that ITSA preempted only those claims based on the misappropriation of a trade secret: "To the extent that the breach of fiduciary duty is premised on conduct other than the misappropriation of [a trade secret], the claim survives." Because the complaint did not "specify how [the defendant] engaged in self-dealing" or "inform the Court of the underlying factual basis" for the fiduciary duty claim, the court assumed the claim was based on trade secret misappropriation "and not on any additional conduct." The court thus held that ITSA preempted the fiduciary duty claim and granted summary judgment.

On the other hand, some pre-Hecny decisions held that breach of fiduciary claims were not preempted. See, e.g., Charles Schwab & Co. v. Carter, No. 04 C 7071, 2005 WL 2369815, at \*4-5 (N.D. Ill. Sept. 27, 2005) (holding that ITSA did not preempt breach of fiduciary duty and conversion claims 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); see also:

**RKI, Inc. v. Grimes, 177 F. Supp. 2d 859, 867-68, 880 (N.D. Ill. 2001).** The plaintiff, Roll-Kraft, sued 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 and copied Roll-Kraft's confidential customer lists. Without specifically addressing preemption, the court held that the former employee violated ITSA and also breached his fiduciary duty to his employer by "improperly" copying and downloading confidential information during his employment.

**AutoMed Tech., Inc. v. Eller, 160 F. Supp. 2d 915, 922, 925 (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 ITSA preempted the fiduciary duty claims and moved to dismiss. The court denied the motions to dismiss because the "ITSA only preempts actions predicated on misuse of secret information" and does not automatically preempt fiduciary duty claims. As to a third fiduciary duty claim that failed to specify how the employees acted adversely to the employer, the court merely dismissed the claim without prejudice because the plaintiff "could still state a claim for disloyalty without implicating trade secrets."

After Hecny, courts have been unwilling to hold that 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 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 was not preempted by 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); U.S. Gypsum Co. v. Lafarge N. Am., Inc., No. 03 C 6027, 2009 WL 3871823, at \*3 (N.D. Ill. Nov. 17, 2009) (citing Hecny and explaining that "ITSA preemption does not apply to duties imposed by law that are not dependent upon the existence of competitively significant secret information, like an agent's duty of loyalty to his or her principal") (quotations omitted); 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:

**State Court:**

**Alpha Sch. Bus Co., Inc. v. Wagner, 391 Ill. App. 3d 722, 736-37, 910 N.E.2d 1134, 1149-51 (1st Dist. 2009).** The Appellate Court applied a Hecny-type preemption analysis to conclude that ITSA did not preempt a breach of fiduciary duty claim, although the court did not cite Hecny. The court reasoned that ITSA did not preempt the fiduciary duty claim because, although it included allegations that 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.” However, ITSA preempted a claim against another defendant to the extent that it was based on trade secret misappropriation.

**Federal Court:**

**Walgreens Co. v. Peters, No. 21 C 2522, 2021 WL 4502125, at \*3 (N.D. Ill. Oct. 1, 2021).** The court refused to dismiss the plaintiff’s breach of fiduciary duty claim based on preemption. The court held that ITSA preempted only common law tort claims that were based on the misappropriation of trade secrets and did not preempt the plaintiff’s claim because “it [was] not premised entirely on misappropriating trade secrets. [The plaintiff] alleges that at least some of the information [the defendant] took did not constitute trade secrets,” and thus the claim could survive a motion to dismiss.

**Switchboard Apparatus, Inc. v. Wolfram, No. 20 C 1665, 2021 WL 2311969, at \*5 (N.D. Ill. Jun 7, 2021).** The court denied the defendant’s motion to dismiss, rejecting the argument that ITSA preempted the plaintiff’s claim for breach of fiduciary duties. The court explained that the common law claim is preempted if it is “based on the misappropriation of an alleged trade secret.” The plaintiff had alleged that even if the information the defendant shared with a competitor was not a trade secret, the defendant breached a fiduciary duty by sharing the information with the competitor while still employed with the plaintiff. The court agreed that these allegations supported a separate claim not preempted by ITSA.

**Tradesmen Int’l, Inc. v. Black, No. 10-2098, No. 10-2098, 2011 WL 5330589, at \*5 (C.D. Ill. Nov. 7, 2011).** The court relied on Hecny and held that multiple claims, including one for breach of the duty of loyalty, were preempted “only to the extent they rely on the misappropriation of trade secrets.” The court explained that ITSA does not preempt claims arising from “duties imposed by law that are not dependent upon the existence of competitively significant secret information, such as an agent’s duty of loyalty.”

**Dominion Nutrition, Inc. v. Cesca, No. 04 C 4902, 2006 WL 560580, at \*4 (N.D. Ill. Mar. 2, 2006).** The court relied on Hecny and held 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.”

**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 Corp. v. Pandiut Corp., 108 F. Supp. 2d 968 (N.D. Ill. 2000) and Thermodyne Food Service Products, 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.”

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 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 ITSA does not automatically preempt breach of fiduciary duty claims 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. Kyrrpides, 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 Grp., 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 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.

For additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

### 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 S. 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; Reuter v. MasterCard Int’l, Inc., 397 Ill. App. 3d 915, 927, 921 N.E.2d 1205, 1216 (5th Dist. 2010).

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 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. McAlister, No. 06 C 2597, 2008 WL 5046055, at \*16 (N.D. Ill. Nov. 20, 2008) (granting summary judgment on civil conspiracy claim); see also XPO Logistics, Inc v. Best Dedicated Solutions, LLC, No. 17 C 196, 2017 WL 4150779, at \*3 (N.D. Ill. Sept. 18, 2017) (holding a civil conspiracy claim was preempted for claims related to misappropriation of trade secrets, but “because the claim also involves allegations that [defendant] conspired with the Individual Defendants to breach the non-competition and non-solicitation provisions of their employment agreements . . . ITSA does not preempt these aspects”); Tradesmen Int’l, Inc. v. Black, No. 10-2098, No. 10-2098, 2011 WL 5330589, at \*5 (C.D. Ill. Nov. 7, 2011) (holding civil conspiracy claim was preempted “only to the extent that it relied on the misappropriation of trade secrets”); Higher Gear Grp., Inc. v. Rockenbach Chevrolet Sales, Inc., 223 F. Supp. 2d 953, 960 (N.D. Ill. 2002) (holding civil conspiracy claim preempted to the extent it was “based on trade secret misappropriation”).

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, ITSA will not preempt the claim. See EBI Holdings, 2009 WL 400634, at \*5 (holding that ITSA did not preempt a claim of civil

conspiracy that was “not dependent 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); 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 claim that was independent of trade secret misappropriation claim). 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”). See also:

**Mobile Mark, Inc. v. Pakosz, No. 11 C 2983, 2011 WL 3898032, at \*1 (N.D. Ill. Sept. 6, 2011).** The court held that ITSA did not preempt a claim for conspiracy, but did preempt a claim for conspiracy to breach a trade secrets agreement. The court reasoned that the claim that the defendants “conspired to breach the Trade Secrets Agreement [was] inextricably bound up with the complaint’s trade secret misappropriation allegations.”

For an additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

#### **4. Conversion.**

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, Son & 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 Cirrincone v. Johnson, 184 Ill. 2d 109, 114, 703 N.E.2d 67, 70 (1998); Howard v. Chi. Transit Auth., 402 Ill. App. 3d 455, 461, 931 N.E.2d 292, 298 (1st Dist. 2010). 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).

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 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 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:

**Millard Grp. v. Stutesman, No. 17 CV 8520, 2019 WL 3003148, at \*4, 7 (N.D. Ill. July 10, 2019).** The court granted summary judgment to the defendant because ITSA preempted the plaintiff’s conversion claims. With respect to both defendants, the court explained that the claim that the defendants emailed themselves confidential files was “essentially” a claim “that [the defendant had] misappropriated trade secrets.” The court also denied the plaintiffs’ request to substitute ITSA claims for the two conversion claims, concluding that “there [was] no evidence from which a jury could reasonably find that [either defendant] used, threatened to use, or inevitably would use against [the plaintiffs] the confidential files that [the defendant] had emailed himself.”

**Tradesmen Int’l, Inc. v. Black, No. 10-2098, 2011 WL 5330589, at \*5 (C.D. Ill. Nov. 7, 2011).** The court relied on Hecny and held that ITSA preempted a conversion claim because it was “entirely based on the same conduct as the alleged misappropriation of trade secrets.” But the court held that ITSA preempted claims for misappropriation of confidential information, breach of duty of loyalty, and civil conspiracy “only to the extent they rel[ied] on the misappropriation of trade secrets.” The court explained that ITSA does not preempt claims based on “duties imposed by law that are not dependent upon the existence of competitively significant secret information, such as an agent’s duty of loyalty.”

**Charles Schwab & Co. v. Carter, No. 04 C 7071, 2005 WL 2369815, at \*\*4-5 (N.D. Ill. Sept. 27, 2005).** Plaintiff sued former employee for violations of ITSA and for conversion 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 ITSA did not preempt the conversion claims because the defendant could be liable on those claims regardless of whether the plaintiff’s confidential and proprietary information constituted trade secrets.

**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 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 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, 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:

**U.S. Gypsum Co. v. Lafarge N. Am., Inc., No. 03 C 6027, 2009 WL 3871823, at \*3 (N.D. Ill. Nov. 17, 2009).** The court allowed plaintiff to introduce evidence relevant to multiple claims, including for conversion, but “caution[ed] that any such claims that are indeed wholly ‘dependent upon the existence of competitively significant secret information’ are preempted, even post-Hecny.”

**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 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.”

For an additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## **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 Section VI.F.2. 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); see also Von Holdt v. A-1 Tool Corp., No. 04 C 04123, 2013 WL 53986, at \*13 (N.D. Ill. Jan. 3, 2013).

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 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 ITSA. See AutoMed Tech., Inc. v. Eller, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001) (striking as preempted under 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). For additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

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 Sections VI.F.6-7.

## **6. Tortious interference with contract.**

Section 8 of 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 ITSA. Id. at 971, 974. See supra Section VI.E for an additional discussion of ITSA preemption.

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 Seip v. Rogers Raw Materials Fund, L.P., 408 Ill. App. 3d 434, 444, 948 N.E.2d 628, 638 (1st Dist. 2011); 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 ITSA, claims based on “conduct independent of the misuse of trade secrets” are not. Compare Dick Corp. v. SNC-Lavalin Constrs., 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, 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 cease doing business with him); BAB Sys., Inc. v. Pilatus Inv. Grp. Inc., No. 05 C 3038, 2005 WL 2850119, at \*5 (N.D. Ill. Oct. 27,



2005) (no preemption where although plaintiffs' complaint concerned the breach of a licensing agreement and the misappropriation of trade secrets, misappropriation was "not the focus" of the tortious interference with contract claim, which involved inducement to sell a franchise and loss of proceeds resulting from sale).

Where the claim involves interference with a confidentiality agreement, plaintiffs will need to plead carefully to avoid preemption under ITSA, which defines "improper means" to include "inducement of a breach of a confidential relationship or other duty to maintain secrecy." 765 ILCS 1065/2(a) (West 2022). See Thomas & Betts, 108 F. Supp. 2d at 971 (dismissing plaintiff's claim of tortious interference with a confidentiality agreement as preempted by ITSA, where the defendant induced plaintiff's ex-employee to disclose secret sales data and other confidential information, in breach of his confidentiality agreement); see also Labor Ready, Inc. v. Williams Staffing, LLC, 149 F. Supp. 2d 398, 409-10 (N.D. Ill. 2001) (holding tortious interference with contract claim preempted).

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).** The plaintiff and the defendant each manufactured, distributed, and sold electronic pressure washers and hoses. A disgruntled employee left the plaintiff and went to work for the defendant. The plaintiff sued the defendant on multiple claims, including violation of ITSA and tortious interference with contract. On the defendant's motion to dismiss, the court held that ITSA did not preempt the tortious interference claim. "[W]e believe confidential information encompasses a broader amount of information than merely trade secrets . . . [The defendant] could have committed the alleged harm by enticing [plaintiff's former employee] to breach his confidentiality agreement by providing them 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).** The plaintiff lumber distributor sought a declaratory judgment that it did not breach a licensing agreement with defendant software owners and resellers. On the defendants' counterclaims, which alleged that the plaintiff misappropriated trade secrets and also tortiously interfered with the distribution contract between the defendants, the court held 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 the [defendants'] counterclaim is not preempted by the ITSA."

For additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## 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); see also Atanus v. Am. Airlines, Inc., 403 Ill. App. 3d 549, 554, 932 N.E.2d 1044, 1048 (1st Dist. 2010).

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., Inc. 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 ITSA because it “rest[ed] on conduct other than the misappropriation of trade secrets”); Dominion Nutrition, Inc. v. Cesca, No. 04 C 4902, 2006 WL 560580, at \*4 (N.D. Ill. Mar. 2, 2006) (holding that ITSA did not preempt claim for interference with a business expectancy because the claim did not require plaintiff to prove that defendant relied on any confidential information); Dick Corp. v. SNC-Lavalin Constrs., Inc., No. 04 C 1043, 2004 WL 2967556, at \*10-11 (N.D. Ill. Nov. 24, 2004) (dismissing tortious interference with prospective business relations claim as preempted by ITSA only to the extent the claim was 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); 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 claim for tortious interference with prospective economic advantage that was independent of misappropriation of trade secrets claims). But 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) (finding tortious interference with contract claim preempted).

For additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## 8. Fraud.

“Fraud is a generic term, which embraces all the multifarious means which human ingenuity can devise and which are resorted to by one individual to gain an advantage over another by false suggestions or by the suppression of truth.” McClellan v. Cantrell, 217 F.3d 890, 893 (7th Cir. 2000) (quotations omitted). “To state a claim for common law fraud in Illinois, a plaintiff must allege: (1) a false statement of material fact; (2) defendants’ knowledge that the statement was false; (3) defendants’ intent that the statement induce the plaintiff to act; (4) plaintiff’s reliance on the truth of the statement; and (5) plaintiff’s damages resulting from reliance on the statement.” Id. (citing Connick v. Suzuki Motor Co., 174 Ill. 2d 482, 675 N.E.2d 584 (1996)).

Where a fraud claim is claimed in conjunction with trade secrets misappropriation, the fraud claim is preempted if it “merely restates [the] trade secret misappropriation claim.” Do It Best Corp. v. Passport Software, Inc., No. 01 C 7674, 2004 WL 1660814, at \*9-10 (N.D. Ill. July 23, 2004) (holding fraud claim preempted).

For additional examples of cases addressing ITSA preemption of fraud claims, see:

**ExactLogix, Inc. v. JobProgress, LLC, No. 3:18-cv-50213, 2020 WL 7490233, at \*9-12 (N.D. Ill. Dec. 21, 2020).** The court granted summary judgment on the plaintiff’s fraud claims because they were preempted by ITSA. The plaintiffs argued that the defendants’ unauthorized sharing of computer login information was fraud independent of an ITSA claim because it cost the defendants thousands in lost licensing fees associated with creating new login credentials. However, the court held that the “login credentials are confidential information to protect trade secrets. If they were not confidential, then there would be no point to their existence.” Further, the court saw “no claim for fraud that could be brought independent of the existence of any confidential information.”

**Fire ‘Em Up, Inc. v. Technocarb Equip. (2004) Ltd., 799 F. Supp. 2d 846, 852 (N.D. Ill. 2011).** The manufacturer of a propane injection control system alleged that its distributor and competitor committed fraud when they used the manufacturer’s trade secret, proprietary, and confidential information to develop, manufacture, and sell competitive products. Citing Hecny, the court held that ITSA did not preempt a claim for fraud based on contractual obligations. The court explained that “an enforceable restrictive covenant may protect material not properly characterized as a trade secret and thus affords broader protection than trade secret law does.”

**CardioNet, Inc. v. LifeWatch Corp., No. 07 C 6625, 2008 WL 567223, at \*4 (N.D. Ill. Feb. 27, 2008).** The court reached opposing conclusions in addressing whether a fraud claim was preempted where the claim alleged two different types of harm. The court first held that the fraud claim was not preempted where the alleged harm was the defendants’ improper acquisition

of the plaintiff's "MCOT kits" "[b]ecause the harm of fraudulently obtaining the kits is separate and independent from the harm of obtaining trade secrets." The court reached the opposite conclusion, however, in holding the fraud claim preempted to the extent it was based on allegations that the "defendants fraudulently appropriated trade secret information contained in the MCOT kits" because those "allegations rest on the same conduct that is essentially misappropriation of trade secrets."

For additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## 9. Illinois Deceptive Trade Practices Act.

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.

815 ILCS 510/2 (West 2022). The IDTPA codifies the common-law tort of commercial disparagement. See Crinkley v. Dow Jones & Co., 67 Ill. App. 3d 869, 875, 385 N.E.2d 714, 718-19 (1st Dist. 1978). "The [IDTPA] does not provide a cause of action for damages, but it does permit private suits for injunctive relief . . ." Greenberg v. United Airlines, 206 Ill. App. 3d 40, 47, 563 N.E.2d 1031, 1036-37 (1st Dist. 1990) (citation omitted). To state a cause of action for injunctive relief, a plaintiff must minimally allege that he or she is likely to be harmed by another's deceptive trade practice. See id.

Although the preemption provision of ITSA states that it is intended to "displace conflicting tort, restitutionary, unfair competition, and other laws . . .," 765 ILCS 1065/8(a) (West 2022), plaintiffs bringing claims under 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), aff'd, 320 F.3d 714 (7th Cir. 2003) (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:

**Organ Recovery Sys., Inc. v. Pres. Solutions, Inc., No. 11 C 4041, 2012 WL 116041 (N.D. Ill. Jan. 16, 2012).** The court held that ITSA did not preempt a claim for deceptive trade practices, even though the claim involved allegations of taking confidential information. The plaintiff alleged that the defendants "disparaged its products and lied about their own." The court explained that such an allegation "is not based on the misappropriation of any trade secrets or confidential information." The court further noted that

“[e]ven if [the plaintiff] did not allege that [the defendants] took confidential information, its claim that the defendants engaged in deceptive trade practices could still stand.”

**Combined Metals of Chi. Ltd. P’ship v. Airtek, Inc., 985 F. Supp. 827, 832-33 (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.

For an additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## **10. Illinois Consumer Fraud and Deceptive Business Practices Act.**

The Illinois Consumer Fraud and Deceptive Business Practices Act prohibits “[u]nfair methods of competition and 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 2022). “To establish a claim under the Consumer Fraud Act, a plaintiff must prove: (1) a deceptive act or practice by the defendant, (2) the defendant’s intent that the plaintiff rely on the deception, (3) the occurrence of the deception in a course of conduct involving trade or commerce, and (4) actual damage to the plaintiff that is (5) a result of the deception.” Martinez v. River Park Place, LLC, 2012 IL App (1st) 111478, at ¶ 34 (citing De Bouse v. Bayer AG, 235 Ill. 2d 544, 551, 922 N.E.2d 309 (2009)); see also Sys. Am. Inc. v. Providential Bancorp., Ltd., No. 05 C 2161, 2006 WL 463314, at \*7 (N.D. Ill. Feb. 24, 2006). To be entitled to relief, the plaintiff must demonstrate that the defendant’s conduct implicates consumer protection concerns. See Sys. Am., 2006 WL 463314, at \*8; Stereo Optical, 2008 WL 4185689, at \*5; Learning Curve Toys, L.P. v. PlayWood Toys, Inc., No. 94 C 6884, 1999 WL 529572, at \*4-5 (N.D. Ill. July 20, 1999).

Several courts have concluded that the ITSA preempts Consumer Fraud Act claims 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 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 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).

For an additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## 11. Unfair competition.

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 2022). 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 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").

Unfair competition is an independent common law tort recognized under Illinois law, but its nature and scope remain undeveloped. See A-1 Packaging Solutions, Inc. v. RFID Resolution Team, Inc., No. 17-CV-2205, 2019 WL 958359, at \*4 (N.D. Ill. Feb. 27, 2019) ("Although the common law tort of unfair competition encompasses a broad spectrum of law, Illinois courts have not specifically identified the elements of a common law unfair competition claim"). 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); see also Persis Int'l, Inc. v. Burgett, Inc., No. 09 C 7451, 2011 WL 4496031, at \*3 (N.D. Ill. Sept. 26, 2011). 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." Wilson, 915 F.2d at 1118. "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 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:

**Optimas OE Solutions, LLC v. Grimes, No. 20 C 251, 2020 WL 4365917, \*12 (N.D. Ill. July 30, 2020).** The court denied a motion to dismiss an unfair competition claim. The court held that ITSA did not preempt the claims when the alleged unfair conduct did not rely upon the occurrence of trade secret misappropriation.

**Gen. Electric Co. v. Uptake Techs., Inc., 394 F. Supp. 3d 815, 835 (N.D. Ill. 2019).** The court allowed the unfair competition claim to survive a motion to dismiss when it was unable to determine which parts of the claim were based on trade secret misappropriation and which were independent.

**XPO Logistics, Inc. v. Best Dedicated Solutions, LLC, No. 17 C 1946, 2017 WL 4150779, \*3 (N.D. Ill. Sept. 18, 2017).** The court dismissed the portions of the plaintiff’s unfair competition and tortious interference claims that relied on misappropriation and allowed the rest of the claims to proceed.

**U.S. Gypsum Co. v. Lafarge N. Am., Inc., No. 03 C 6027, 2009 WL 3871823, at \*3 (N.D. Ill. Nov. 17, 2009).** The court allowed the plaintiff to introduce evidence relevant to an unfair competition claim, among others, but “caution[ed] that any such claims that are indeed wholly ‘dependent upon the existence of competitively significant secret information’ are preempted, even post-Hecny.”

**FAIP N. Am., Inc. v. Sistema S.R.L., No. 05 C 4002, 2005 WL 3436398, at \*18 (N.D. Ill. Dec. 14, 2005).** The plaintiff and the defendant each manufactured, distributed, and sold electronic pressure washers and hoses. A disgruntled employee left the plaintiff and went to work for the defendant. The plaintiff sued the defendant for multiple claims, including violation of ITSA and unfair competition. On the defendants’ motion to dismiss, the court held that 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.”

**Bagley v. Lumbermens Mut. Cas. Co., 100 F. Supp. 2d 879, 883-84 (N.D. Ill. 2000).** The plaintiff brought suit against the 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.

However, some courts have held that ITSA preempts unfair competition claims. For example:

**Composite Marine Propellers, Inc. v. Van der Woude, 962 F.2d 1263, 1265 (7th Cir. 1992).** Before its decision in Hecny, the Seventh Circuit held that ITSA preempted an unfair competition claim because “Illinois has abolished all common law theories of misuse of such information.”

**Facility Wizard Software, Inc. v. Se. Tech. Servs., LLC, No. 08 C 5382, 2009 WL 2059934, at \*6 (N.D. Ill. July 9, 2009).** The court dismissed the plaintiff’s unfair competition claim “because it [was] premised on [the defendant’s] alleged misappropriation of trade secrets.”

**C.H. Robinson Worldwide, Inc. v. Command Transp., LLC, No. 05 C 3401, 2005 WL 3077998, at \*6-7 (N.D. Ill. Nov. 16, 2005).** Citing Hecny, the court held that ITSA preempted an unfair competition claim that was “premiered on [the plaintiff’s] confidential information and proprietary software” and therefore was “dependent upon the existence of competitively significant secret information.”

**Labor Ready, Inc. v. Williams Staffing, LLC, 149 F. Supp. 2d 398, 412-13 (N.D. Ill. 2001).** In a case decided before Hecny, the court dismissed without prejudice an unfair competition claim that was based on allegations that the defendants used the plaintiff’s confidential information to solicit the plaintiff’s customers and also sought to recruit the 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.”

**C&F Packing Co. v. IBP, Inc., No. 93 C 1601, 1998 WL 1147139, at \*10 (N.D. Ill. Mar. 16, 1998).** The court held that ITSA preempted an unfair competition claim based on “the Seventh Circuit’s straightforward admonishment that ITSA ‘has abolished all common law theories of misuse of [trade secret] information[.]’”

For additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## **12. 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 (1st Dist. 1998). 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); CNA Int’l, Inc. v. Baer, 2012 IL App (1st) 112174, at ¶ 51.

As with claims of unfair competition, however, 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, ITSA preempted an unjust enrichment claim “for restitution for the alleged misrepresentation of the purportedly secret information”); Web Comm’cns Grp., 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”). See also:

**State Court:**

**Fabricare Equip. Credit Corp. v. Bell, Boyd & Lloyd, 328 Ill. App. 3d 784, 789, 767 N.E.2d 470, 475 (1st Dist. 2002).** Holding that, if brought, claim for unjust enrichment would be preempted.

**Pope v. Alberto-Culver Co., 296 Ill. App. 3d 512, 519, 694 N.E.2d 615, 619 (1st Dist. 1998).** Holding unjust enrichment claim preempted.

**Federal Court:**

**Learning Curve Toys, L.P. v. PlayWood Toys, Inc., No. 94 C 6884, 1999 WL 529572, at \*2-3 (N.D. Ill. July 20, 1999).** Holding unjust enrichment and common law misappropriation claims preempted.

**Nilssen v. Motorola, Inc., 963 F. Supp. 664, 683-84 (N.D. Ill. 1997).** Holding unjust enrichment and quantum meruit claims preempted.

However, ITSA may not preempt common law claims of unjust enrichment that are “related to, but not in conflict with” claims of trade secrets misappropriation, 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:

**Miller UK Ltd. v. Caterpillar Inc., 859 F. Supp. 2d 941, 946-47 (N.D. Ill. 2012).** A supplier of machine parts sued a machine manufacturer for unjust enrichment and fraudulent inducement, alleging that the manufacturer improperly used the supplier’s trade secrets and other confidential information to design its own version of the supplier’s parts. The manufacturer allegedly accessed the information when the plaintiff supplied parts to the manufacturer. The manufacturer moved for summary judgment, arguing that ITSA preempted claims of unjust enrichment and fraudulent inducement. The court denied the defendant’s motion because the claims were for misappropriation of “non-trade-secret information,” holding that the claims were not preempted where the confidential information at issue does not rise to the level of a trade secret.

**EBI Holdings, Inc. v. Butler, No. 07-3259, 2009 WL 400634, at \*5 (C.D. Ill. Feb. 17, 2009).** The 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, the plaintiffs alleged an unjust enrichment claim and a claim under ITSA. The court held that 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 [fell] 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.”

**Fast Food Gourmet, Inc. v. Little Lady Foods, Inc., No. 05 C 6022, 2006 WL 1460461, at \*2 (N.D. Ill. Apr. 6, 2006).** The plaintiff and the defendant formed a contract under which defendant housed the plaintiff’s pizza-making equipment and manufactured pizzas for the plaintiff. The plaintiff alleged that defendant disclosed to a competitor plaintiff’s confidential information relating to specifications and instructions for making pizza crusts. The defendant filed a motion to dismiss the plaintiff’s claim for unjust enrichment. The court held that ITSA did not preempt the claim 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. v. Carter, No. 04 C 7071, 2005 WL 2369815, at \*5 (N.D. Ill. Sept. 27, 2005).** The plaintiff sued former employee for violations of 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 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.”

For an additional discussion of ITSA preemption of related causes of action, see supra Section VI.E.

## **F. Related Causes of Action Under Federal Law.**

ITSA preempts only Illinois common law and statutory causes of action that are predicated on trade secret misappropriation. Several federal laws provide additional avenues for plaintiffs to pursue causes of action against such trade secret theft, including (i) the Defend Trade Secrets Act (see Appendix B), (ii) the Computer Fraud and Abuse Act; (iii) the Racketeer Influenced and Corrupt Organizations Act; and (iv) the Economic Espionage Act.

### **1. The Defend Trade Secrets Act of 2016.**

Congress passed the Defend Trade Secrets Act (“DTSA”) on May 11, 2016, creating a federal private cause of action for trade secret misappropriation. See 18 U.S.C. § 1831 et seq. DTSA draws heavily from the UTSA, and it is becoming commonplace for DTSA claims to be asserted alongside trade secret misappropriation claims brought under state law, so long as DTSA’s jurisdictional requirements are satisfied.

Given DTSA’s importance to trade secrets law, this outline explores DTSA and its growing body of interpretive case law in Appendix B.

## 2. Computer Fraud and Abuse Act.

### a) History and Application to Trade Secrets Cases.

Today, nearly all organizations store their data—including trade secrets and confidential information—on computers or virtual networks. Whether such storage systems are simple or sophisticated, a potential misappropriator with access can easily transfer large amounts of data to a physical or cloud-based storage device with just a few clicks. In an increasingly digital marketplace, the Computer Fraud and Abuse Act (“CFAA”), 18 U.S.C. § 1030 (2012), became an important additional tool for victims of trade secret misappropriation that occurs by use of a computer. However in June 2021, the U.S. Supreme Court issued an opinion interpreting the CFAA in a manner that significantly limits its potential applicability to trade secrets cases. Van Buren v. United States, 141 S. Ct. 1648 (2021).

Originally enacted as a criminal statute, the Computer Abuse Amendments Act of 1994 added a civil cause of action to the CFAA 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) (2012).

There are three provisions of the CFAA that might 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[ing] authorized access, and thereby obtain[ing] . . . 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, caus[ing] 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). In effect, the CFAA applies broadly to any computer that connects to the Internet. Id. at § 1030(a)(2)(C), (e)(2)(B).

### b) Narrowed Scope of the Statute Under Van Buren v. United States.

Generally, a person may be liable under the CFAA when she accesses a computer “without authorization” or when she “exceeds authorized access.” 18 U.S.C. § 1030(a). As more civil litigation arose under the CFAA in the 2000s and 2010s, courts split on how to interpret the term “exceeds authorized access.”

In Van Buren v. United States, the Supreme Court adopted the narrow interpretation of “exceeds authorized access” that had developed in the Second, Fourth, Sixth, and Ninth Circuits. 141 S. Ct. 1648 (2021). The Court, in a 6-3 decision, reversed the Eleventh Circuit’s decision to uphold the criminal conviction under the CFAA of Nathan Van Buren, a former police sergeant who was accused of exceeding his authorized access to a police database when he accepted roughly \$5,000 from an acquaintance to look up whether a person was an undercover police officer. Id. Honing in on the statutory definition of “exceeds authorized access,”<sup>4</sup> the Court held that the disputed clause “is not entitled so to obtain” should be interpreted narrowly. Id. at 1655. The Court explained that liability attaches where a person uses a computer to access a folder or database to which he did not have access, but liability does not attach in instances in which the user violates a company policy by using his authorized access for an improper purpose. Id. at 1655-62.

The Supreme Court interpretation of “exceeds authorized access” limits the CFAA’s applicability to trade secrets cases where the misappropriation is akin to traditional hacking. Rather, in light of Van Buren, victims of trade secret misappropriation will need to show that the misappropriating employee accessed a location—defined by the Court to include “files, folders, or databases”—that the employee was not permitted to access for any purpose (“exceeds authorized access”) or that the employee accessed only after authorization had been terminated or revoked (“without authorization”). The Court declined to state whether it would be sufficient, for either clause, that contract or policy barred the user’s access to a location or if “technological (or ‘code-based’) limitations” must bar the access. Id. at 1659 n.8.

**PRACTICE TIP:** With the Supreme Court’s narrowing of the “exceeds authorized access” clause under the CFAA in Van Buren, employers can no longer assert civil claims under the CFAA by relying solely on the fact that an employee had an improper motive or acted against the employer’s interests in misappropriating trade secrets by use of a computer. Further, given the question left open by footnote eight in Van Buren, employers may be prudent not to rely solely on policies or employment contracts to define the bounds of an employee’s authorized access to computer systems. Rather, employers should consider restricting access to folders and databases via password protection or other code-based mechanisms.

### c) Damages.

To bring a civil cause of action under the CFAA, a plaintiff must show that the violation caused damage or loss of one of four types. 18 U.S.C. § 1030(g) (2012). 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

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<sup>4</sup> “[T]o access a computer with authorization and to use such access to obtain or alter information in the computer that the accesser is not entitled so to obtain or alter.” 18 U.S.C. § 1030(e)(6).

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 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).

Before Van Buren, there was a split among district courts within the Seventh Circuit about how to interpret the CFAA’s “loss” requirement. See Farmers Ins. Exch. v. Auto Club Group, 823 F. Supp. 2d 847, 854 (N.D. Ill. 2011) (“District courts within this circuit have interpreted this language in different ways.”). Courts on one side of the issue held that “a plaintiff [could] satisfy the CFAA’s definition of loss by alleging costs reasonably incurred in responding to an alleged CFAA offense, even if the alleged offense ultimately [was] found to have caused no damage as defined by the CFAA.” Id. at 854-55. Courts on the other side of the issue required the loss to be more directly connected to damage to a computer or computer system itself. See Inmar, Inc. v. Murphy, No. 18-CV-2306, 2018 WL 6716701, at \*10 (N.D. Ill. Dec. 21, 2018) (finding no loss because the plaintiffs did not claim that the conduct caused any impairment to the system, disrupted plaintiffs’ services, or rendered any of plaintiffs’ data even momentarily unavailable); Von TriTeq Lock & Sec. LLC v. Innovative Secured Sols., LLC, No. 10 CV 1304, 2012 WL 394229, at \*1, \*7 (N.D. Ill. Feb. 1, 2012) (“[T]o permit a plaintiff to state a CFAA claim by simply alleging costs incurred in responding to an alleged offense or conducting a damage assessment without alleging that the offense caused damage would impermissibly broaden the applicability of the CFAA to provide seemingly unfettered access to federal courts to adjudicate state law issues incidental to computer use.”); Holdt v. A-1 Tool Corp., 714 F. Supp. 2d 863, 875-76 (N.D. Ill. 2010) (requiring “damage to the computer or computer system” before a plaintiff can prove “loss” under the CFAA); Cassetica Software, Inc. v. Computer Scis. Corp., No. 09 C 0003, 2009 WL 1703015, at \*4 (N.D. Ill. June 18, 2009) (“The CFAA only permits the recovery of costs incurred for damage assessment or recovery when the costs are related to an interruption of service.”); see also Am. Family Mut. Ins. Co. v. Rickman, 554 F. Supp. 2d 766, 772 (N.D. Ohio 2008) (requiring the loss to “be related to the misuse of the computer—something more than misuse of information obtained from the computer”).

The Seventh Circuit has not yet weighed in on this issue. However, in dicta, the Supreme Court in Van Buren lent more credence to the position that loss must be tied to damage done to the computer or computer system. Reviewing the definitions of “damage” and “loss” as part of its assessment of the meaning of the CFAA’s “exceeds authorized access” provision, the Supreme Court stated that the terms “damage” and “loss” “focus on technological harms—such as the corruption of files—of the type unauthorized uses cause to computer systems and data” and are “ill fitted . . . to remediating ‘misuse’ of sensitive information that employees may permissibly access using their computers.” Van Buren, 141 S. Ct. at 1660. Though dicta, the Supreme Court’s interpretation may become the standard for loss.

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). The Northern District of Illinois has held that allegations under ITSA do not alone provide the level of “damage” under the CFAA sufficient to withstand a motion to dismiss. See, e.g., U.S. Gypsum Co. v. Lafarge N. Am. Inc., 670 F. Supp. 2d 737, 744 (N.D. Ill. 2009) (stating that “the CFAA is not intended to expansively apply to all cases where a trade secret has been misappropriated by use of a computer”); 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 Navistar, Inc. v. New Baltimore Garage, Inc., No. 11-cv-6269, 2012 WL 4338816, at \*7 (N.D. Ill. Sept. 20, 2012) (“Plaintiffs have not pleaded that Defendant actually impaired their databases or data as those terms have been interpreted and therefore have not satisfied the ‘damage’ requirement of the CFAA.”); 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.”). Similarly, no damage is found in instances where deleted emails or data can be easily found in the system’s trash folder or otherwise recovered from the plaintiff’s server. Instant Technology, LLC v. Defazio, 40 F. Supp. 3d 989, 1019 (N.D. Ill. 2014), aff’d, 793 F.3d 748 7th Cir. 2015).

These cases can be distinguished from International Airport Centers, LLC 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.

The Northern District of Illinois has referenced congressional intent in 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, 616 F. Supp. 2d at 813.

Though interrelated, damage and loss under the CFAA are distinct concepts. The CFAA requires that a plaintiff allege damage or loss. 18 U.S.C. § 1030(g). A CFAA claim that sufficiently pleads loss, does not need to show damage. See ExactLogix, Inc. v. JobProgress, LLC, --- F.Supp.3d ---, 2020 WL 7490233, at \*8 (N.D. Ill. Dec. 21, 2020) (“To the extent [prior N.D. Illinois cases] require damage . . . the Court respectfully parts company. ‘Loss’ and ‘damage’ are distinct in the CFAA . . . ‘Loss’ is broadly defined. So, the scope of ‘loss’ cannot

be limited by engrafting either the CFAA's statutory definition of 'damage' or the common-law definition of 'damage' onto the term.”).

#### **d) Jurisdiction.**

While the CFAA allows access to federal courts based on federal question jurisdiction, a plaintiff also may 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, the plaintiff filed a complaint in state court, alleging violations of ITSA. Id. Subsequently, the plaintiff filed a one-count complaint in federal court, alleging that the defendants violated the CFAA. Id. The defendants moved to stay the federal case based on the Colorado River doctrine. Id. In granting the 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 the plaintiffs could amend their state court complaint to add a cause of action under the CFAA. Id. at \*2.

### **3. Racketeer Influenced and Corrupt Organizations Act.**

The Racketeer Influenced and Corrupt Organizations Act (“RICO”), 18 U.S.C. § 1961 et seq. (2012), offers a potentially powerful claim for victims of trade secret misappropriation. See Thomas P. Heed, Misappropriation of Trade Secrets: The Last Civil RICO Cause of Action that Works, 30 J. MARSHALL L. REV. 207, 210 (1996). A RICO claim offers a plaintiff the potential for treble damages and attorneys’ fees. 18 U.S.C. § 1964(c). For a more extensive discussion of RICO, see Reid J. Schar, E.K. McWilliams, & Philip B. Sailer, RICO: A Guide to Civil RICO Litigation in Federal Court, Jenner & Block Practice Series (2021).

While there are three substantive bases for a RICO prosecution or civil action (18 U.S.C. § 1962(a)-(c)), § 1962(c) is the most commonly brought and the most relevant potential basis for trade secrets litigation. See Charles Doyle, RICO: A Brief Sketch, CONG. RESEARCH SERV. (May 18, 2016). Though RICO claims were commonly brought alongside other causes of action, victims of trade secret misappropriation historically struggled to meet the pleading requirements of RICO. To allege a substantive RICO claim under 18 U.S.C. § 1962(c), a plaintiff must plead (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); Rubloff Dev. Grp., Inc. v. SuperValu, Inc., 863 F. Supp. 2d 732, 745 (N.D. Ill. 2012); Sears, Roebuck & Co. v. Emerson Elec. Co., No. 02 C 5771, 2003 WL 60573, at \*3 (N.D. Ill. Jan. 7, 2003). The enactment of the DTSA, however, has ushered in changes that make mounting claims of trade secret misappropriation under RICO easier for plaintiffs. Specifically, the DTSA theoretically makes it easier for victims of trade secret misappropriation to allege the requisite pattern of racketeering activity, for reasons discussed in more detail below. While this change

appears promising, it remains to be seen whether RICO will become a prominent avenue for relief from trade secrets misappropriation.

**a) Before the DTSA, traditional RICO pleading requirements were challenging to satisfy in a trade secrets case.**

To allege the requisite pattern of 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. RICO establishes a list of offenses that qualify as predicate acts at 18 U.S.C. § 1961. The predicate acts listed in RICO are serious offenses such as money laundering, threats of murder and kidnapping, human trafficking, and extortion that evoke the law’s main purpose of thwarting organized crime as well as more common fraud offenses. See 18 U.S.C. §1961.

Once plaintiffs have identified at least two predicate acts, they must establish that the acts are part of a “pattern of racketeering.” 18 U.S.C. § 1962. In other words, plaintiffs must establish continuity between two predicate acts that are “related” and “amount to,” or “pose a threat of,” continued criminal activity. H.J. Inc. v. Nw. Bell Tel. Co., 492 U.S. 229, 239 (1989). The pattern and continuity requirements historically posed challenges to plaintiffs bringing RICO claims related to misappropriation of trade secrets. In Brake Parts Inc. v. Lewis, the court held that the continuity requirement was not met because once the trade secrets were stolen, the scheme ended and the defendants’ continued use of stolen information did not show the continuity of the criminal activity. No. 5:09-cv-001342, 2010 WL 3470198, at \*7 (E.D. Ky. Aug. 31, 2010). Likewise in Bro-Tech Corp v. Thermax, Inc., the court declined to find continuity and distinguished between “similar fraudulent misappropriation, or predicate act[s] incidental to the same,” and “subsequent business use” of the misappropriated trade secrets. 651 F. Supp. 2d 378, 404 (E.D. Pa. 2009). See also Thermodyn Corp. v. 3M Co., 593 F. Supp. 2d 972, 981-82 (N.D. Ohio 2008) (“Misappropriating trade secrets is not a RICO predicate act. Thus, the relevant question here is whether there is an ongoing threat of wire fraud, mail fraud, or theft.”); U.S. Mkts., 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); Gotham Print, Inc. v. American Speedy Printing Center, Inc., 863 F.Supp. 447, 460 (E.D. Mich. 1994) (explaining that the “key element in the ‘continuity’ test is the element of repetition of the past racketeering acts in the future.”).

In addition, § 1962(c) requires the existence of an enterprise. The Supreme Court established that “‘an enterprise includes any union or group of individuals associated in fact’ and that RICO reaches ‘a group of persons associated together for a common purpose of engaging in a course of conduct.’” Boyle v. United States, 556 U.S. 938, 944 (2009) (quoting United States v. Turkette, 452 U.S. 576, 580, 583 (1981)). The Court further explained that an enterprise must have “at least three structural features: a purpose, relationships among those associated with the enterprise, and longevity sufficient to permit those associates to pursue the enterprise’s purpose.” Id. at 946. The enterprise requirement has posed a challenge for those bringing RICO claims based on trade secret misappropriation. See Sears, 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).

**b) The DTSA transformed pleading for trade secret-based RICO cases.**

The Defend Trades Secrets Act (“DTSA”), which is discussed in depth in Appendix B, establishes trade secret theft as a predicate act sufficient to show racketeering under RICO. 18 U.S.C. § 1961(1) (citing 18 U.S.C. §1832). DTSA names several specific acts of trade secret theft—including stealing, copying, and buying or receiving information without authorization—that can be considered RICO predicates. 18 U.S.C. § 1832. By establishing a laundry list of actions related to trade secret theft, as well as the use of stolen trade secrets, as predicate acts, the DTSA helps circumvent the continuity problem discussed above and gives plaintiffs more opportunity to plead trade secret misappropriation under RICO.

Despite the increased ease, questions about the specifics of trade secret pleading under RICO remain. For example, courts have not yet established a clear rule on whether each instance of conduct listed in 18 U.S.C. § 1832, such as stealing, copying, buying, or receiving information, will be considered a separate predicate act sufficient to establish the necessary pattern of racketeering—or whether such conduct will be considered a single scheme of misappropriation that is itself a single predicate act. See Michael T. Renaud and Nicholas W. Armington, Criminal Statute for Organized Crime Now Available to Combat Trade Secret Theft – But What is an Act of Trade Secret Theft under Civil RICO?, NAT’L L. REV. (Jun. 18, 2019), <https://www.natlawreview.com/article/criminal-statute-organized-crime-now-available-to-combat-trade-secret-theft-what-act>).

For instance, in Magnesita Refractories Co. v. Tianjin New Century Refractories Co., the court analyzed the sufficiency of a RICO claim based on a scheme of trade secret misappropriation as part of a broader order denying the defendant’s motion to dismiss. No. 1:17-CV-1587, 2019 U.S. Dist. LEXIS 32559 (E.D. Pa. Feb. 28, 2019). The plaintiff alleged a scheme of trade secret theft that began in 2014. Id. at \*31. Instead of dismissing the RICO claim, the court granted the plaintiff leave to amend in order to explain what acts took place after the passage of the DTSA and were thus predicate acts under federal law at the time they occurred. Id. at \*31-33. However, the court also expressed views on how individual instances of conduct should be delineated into predicate acts. The court disagreed with the defendant’s view that an entire scheme of trade secret misappropriation constituted a single predicate act, stating: “This interpretation severely limits the reach of the DTSA, which sets forth multiple, distinct ways one can commit theft of trade secrets...” Id. Yet the court also explained that the plaintiff’s view that every single instance of copying, downloading, uploading, sending, communicating, etc. should be considered a predicate act “would transform nearly every DTSA case into a RICO matter, often involving an infinite number of predicate acts...” Id.

More definitively, in Brand Energy & Infrastructure Services v. Irex Control Group, the court denied the defendant’s motion to dismiss the plaintiff’s RICO claim. No. 16-2499,

2017 U.S. Dist. LEXIS 43497, at \*31 (E.D. Pa. Mar. 23, 2017). In response to the defendant’s assertion that the plaintiff had not sufficiently alleged a pattern of racketeering activity, the court held that the plaintiff, in alleging that the defendant stole its trade secrets in violation of the DTSA, had “alleged dozens of DTSA violations” and therefore a “series of alleged ‘predicate acts’” that were “sufficient to constitute a ‘pattern of racketeering activity’ under RICO.” *Id.* at \*27-28.

Importantly, because DTSA does not apply retroactively (*see* Pub. L. No. 114-153, § 2(e)), acts of trade secret misappropriation that occurred before its 2016 enactment cannot constitute predicate acts for a RICO action. However, the Ninth Circuit has held that “misappropriation of a trade secret prior to the enactment of the DTSA does not preclude a claim arising from post-enactment misappropriation or continued use of the same trade secret.” *Attia v. Google LLC*, 983 F.3d 420, 425 (9th Cir. 2020). The continued use of a trade secret that was misappropriated before 2016 will count as a predicate act unless, as was the case in *Attia*, a subsequent published patent application “placed the information in the public domain and necessarily extinguished its trade secret status.” *Id.* at 426.

#### **4. 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 2022). Since its enactment, the Act has enabled the federal government to pursue the theft of trade secrets as either a criminal or civil cause of action. The DTSA is an amendment to the Economic Espionage Act that creates a federal private right of action for the misappropriation of trade secrets. 18 U.S.C. § 1831 *et seq.* The DTSA is best thought of as a separate statute and is discussed at length in Appendix B of this outline.

The Economic Espionage Act’s definition of a trade secret is similar to the definitions in the UTSA and ITSA. It includes “all forms and types of financial, business, scientific, technical, economic, or engineering information” that “the owner thereof has taken reasonable measures to keep . . . secret” and that “derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.” 18 U.S.C. § 1839(3). Unlike ITSA, the Economic Espionage Act is extraterritorial and reaches conduct occurring outside the United States by a defendant who is a U.S. citizen, permanent resident, or a U.S.-based corporation, or where “an act in furtherance of the [misappropriation] was committed in the United States.” 18 U.S.C. § 1837. In *Motorola Solutions v. Hytera Communs. Corp.*, the court held that the DTSA, as an amendment to the Economic Espionage Act, also has extraterritorial reach. 436 F. Supp. 3d. 1150 (N.D. Ill. 2020).

In 2013, Congress substantially increased the maximum penalties under the Economic Espionage Act, allowing for a penalty of 15 years in prison and a fine of \$5,000,000 for individuals, and a corporate fine of “the greater of \$10,000,000 or 3 times the value of the stolen trade secret to the organization.” *See* 18 U.S.C. § 1831 (amended 2013). Previously, the fines for all offenders stood at no more than \$500,000 with a maximum prison sentence of 15 years. 18 U.S.C. § 1831 (2012).

Garden-variety acts of trade secret theft are not typically criminally prosecuted under the Economic Espionage Act due to guidance from the Department of Justice. See U.S. Dep’t of Justice, Justice Manual § 9059.100 (2020), <https://www.justice.gov/jm/jm-9-59000-economic-espionage#9-59.100> (“The EEA is not intended to criminalize every theft of trade secrets for which civil remedies may exist under state law.”). Rather, the Department of Justice sets forth discretionary factors that are to be considered before charges under the EEA are filed. These factors include “the scope of the criminal activity, including evidence of involvement by a foreign government,” “the degree of economic injury to the trade secret owner,” “the type of trade secret misappropriated,” “the effectiveness of available civil remedies,” and “the potential deterrent value of the prosecution.” Id.

However, criminal prosecutions for stealing confidential trade secrets do occur. For instance, in 2012, a court in Illinois, after a bench trial, found an individual guilty under Section 1832(a)(3) of the Economic Espionage Act for stealing confidential documents from Motorola. United States v. Hanjuan Jin, 833 F. Supp. 2d 977, 1020 (N.D. Ill. 2012). However, the court found the defendant not guilty of conspiring with the Chinese government in violation of Section 1831(a)(3). Id. The court ultimately sentenced the defendant to four years in prison. United States v. Hanjuan Jin, No. 08 CR 192-1, at 2 (N.D. Ill. Aug. 29, 2012). And, 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. See also United States v. Sing, 736 F. App’x 184 (9th Cir. 2018) (affirming convictions under the Economic Espionage Act for four counts of transmission and one count of possession of trade secrets belonging to a former employer); United States v. Liew, Nos. 14-10367 and 14-10384, 2017 WL 1753269 (9th Cir. 2017) (affirming convictions under the Economic Espionage Act of a company and its owner for conspiracy to commit economic espionage and theft of trade secrets); United States v. Nosal, 844 F.3d 1024 (9th Cir. 2016) (affirming conviction for trade secret theft under the Economic Espionage Act).

The federal government also has used the Economic Espionage Act from time to time to support broader foreign policy goals. For example, between 2018 and 2020, prosecutions under the Act increased significantly as part of the Department of Justice’s “China Initiative.” See Information About the Department of Justice’s China Initiative and a Compilation of China-Related Prosecutions Since 2018, U.S. DEP’T. OF JUSTICE (last updated Nov. 12, 2020). The initiative focused on investigating and prosecuting trade secret theft committed by the Chinese government and Chinese Nationals, with a goal of interrupting China’s “rob, replicate, and replace” strategy involving stolen technology that is recreated in China and then introduced into the global marketplace to undercut American business interests. See id.; Press Release, U.S. DEP’T OF JUSTICE, The China Initiative: Year-in-Review (2019-20) (Nov. 16, 2020). During the two-year initiative, the federal government brought charges in 61 cases under the China Initiative, of which nearly a quarter included charges under the Economic Espionage Act. Information About the Department of Justice’s China Initiative and a Compilation of China-Related Prosecutions Since 2018, U.S. DEP’T. OF JUSTICE (last updated Nov. 12, 2020).

Criminal prosecution under the Economic Espionage Act avoids one of the more challenging aspects of civil trade secrets litigation: proving that the misappropriated information is actually a trade secret. For instance, in United States v. O’Rourke, the defendant was found guilty of seven counts of trade secret theft under the Act by a jury that was instructed

to find guilt if the defendant simply “knew or believed that the information constituting the trade secret was proprietary information, meaning belonging to someone else who had an exclusive right to it.” 417 F. Supp. 3d 996, 1004 (N.D. Ill. 2019). The defendant, an engineer who attempted to take nearly 2,000 surreptitiously downloaded documents from his former employer to a new job in China, did not deny stealing information, but rather asserted that none of the documents he took contained trade secrets and that he did not believe that the stolen information contained trade secrets. *Id.* at 1001. In denying the defendant’s motion for a new trial, the court noted that the jury found that the defendant believed at least some of the information to be trade secrets, explaining: “An attempt charge thus allows the government to charge not only individuals who are unsuccessful in stealing actual trade secrets, but also those who successfully steal information that they believe to contain trade secrets but in fact do not.” *Id.* at 1003.

Criminal prosecution of trade secret misappropriation can raise serious issues for the corporations and individuals involved. In addition to the potential for a large damages award on the civil side, trade secret misappropriation may also result in criminal penalties, including stiff fines, debarment from federal contracts, and prison sentences.

**PRACTICE TIP:** Because criminal investigations require different procedural and strategic considerations, and can significantly raise the stakes in a case, it is important to consider the potential for a criminal investigation when evaluating the defense of a trade secrets case. Conversely, organizations that have been the victim of extraterritorial trade secret theft should contact law enforcement early.

## 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 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). While CGLs cover property damage, bodily injury, and personal or advertising injury, only the latter two are relevant in the context of trade secrets. CGLs ordinarily have no category explicitly encompassing loss due to misappropriation of trade secrets, but there may be limited instances where coverage exists 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). There has been significant litigation over whether advertising injury coverage includes coverage of intellectual property claims, including trade secrets claims. See Winklevoss Consultants, Inc. v. Fed. Ins. Co., 991 F. Supp. 1024, 1026

(N.D. Ill. 1998). Illinois courts, which have often followed California on this subject, have found insurance coverage for trade secrets only in narrow 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). By contrast, the duty to indemnify applies only at the conclusion of litigation once it is known what amount of relief, if any, has been obtained by the other party. *See Capitol Indem. Corp. v. Elston Self Service Wholesale Groceries, Inc.*, 551 F. Supp. 2d 711, 729 (N.D. Ill. 2008). Moreover, courts have held that when there is no duty to defend, there is necessarily no duty to indemnify. *See AU Electronics, Inc. v. Harleysville Group, Inc.*, 82 F. Supp. 3d 805 (N.D. Ill. 2015). 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 law 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.*, 327 Ill. App. 3d 128, 138, 761 N.E.2d 1214, 1223 (1st Dist. 2001) (citations omitted). This statement has remained true as the law has developed since *Lexmark*, but Illinois courts have again followed California in carving out narrow, but important exceptions, namely for situations in which the trade secret concerns an advertising idea (*See* Part VII.A.3, below).

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 (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 found significance in the difference between the 1973 language and the 1986 language. *See* GAUNTLETT, *supra*, at § 1.02[B].

In 1997, the standard CGL language changed in two notable areas. First, the ISO deleted reference to “coverage for misappropriation of advertising ideas or style of doing

business” and replaced it with “the use of another’s advertising idea *in your advertisement.*” This revision reflects the narrow approach courts have taken in determining if coverage applies when the trade secret concerns advertising ideas. Second, the 1997 version deleted reference to “infringement of title” from the definition of “advertising injury” and replaced it with “infringement of trade dress.” ALLAN D. WINDT, *INSURANCE CLAIMS AND DISPUTES: REPRESENTATION OF INSURANCE COMPANIES AND INSURED*S, § 11:29 (6th ed. 2020).

The most recent CGL update occurred in 2013. The 2013 revision amended the standard language by parsing out the definition of an advertising injury into two categories. First, it retained the earlier version that defines an advertising injury as “the use of another’s advertising in your ‘advertisement.’” 4 JEFFREY E. THOMAS, *NEW APPLEMAN ON INSURANCE LAW* § 30.2[2][a][vii] (2020). Second, it states that an advertising injury can result from “[i]nfringing upon another’s copyright, trade dress or slogan in your ‘advertisement.’” *Id.*

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. 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” but then went on (apparently) to decide the coverage 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 was traditionally uncertain on the definition in this context. *Lexmark*, 327 Ill. App. at 138 (citing *Winklevoss*, 991 F. Supp. at 1032, n.9). However, more recent caselaw suggests that one-on-one solicitation remains outside of the definition of advertising. *See Grinnell Mut. Reinsurance Co. v. S.B.C. Flood Waste Solutions, Inc.*, No. 18 C 4922, 2020 WL 6940980, at \*8 (N.D. Ill. Nov. 25, 2020) (noting that the plaintiff did not commit an advertising injury when it promoted itself using another’s trade dress only through conversations with existing customers); *see also Santa’s Best Craft, L.L.C. v. Zurich American Inc. Co.*, 408 Ill. App. 3d 173, 185-86 (Ill. App. Ct. 2010) (finding that the dissemination of marketing materials to a specific market segment was still more akin to

solicitation of business than advertising). Moreover, one commentator suggests that the holding in Lexmark evidenced Illinois' adoption of the "narrow" approach followed by California and eight other jurisdictions. See THOMAS, supra, at § 30.2[2][b][i]. Under the narrow approach articulated in Hameid v. National Fire Ins. Of Hartford, 71 P. 3d 761, 765-66 (Cal. 2003), advertising is defined as "widespread promotional activities usually directed to the public at large." The holdings in Grinnell Mutual and Santa's Best Craft suggest that Illinois adheres to this narrow definition.

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 Lexmark, 327 Ill. App. at 138.

**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. Courts have generally held that it is not. At least three courts in California have concluded that the third element, causal connection, was missing. Illinois courts have relied on precedent in California to establish their own jurisprudence in this area, so it is helpful to begin with a review of those cases.

**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. The court explained that 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 (quotation and citation omitted). The court held 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—involved 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 suggests a reasonable insured should not believe that advertising injury insurance covers almost everything a business does. Id.

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

In Microtec Research, Inc. v. Nationwide Mutual Insurance Co., 40 F.3d 968 (9<sup>th</sup> 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. Id. at 970. 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 Ninth Circuit 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 (9<sup>th</sup> Cir. 1996), the Ninth Circuit 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 was true, under Microtec Research there was 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 for misappropriation of trade secrets under advertising injury policies.**

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, Simply Fresh, 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 argument 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 were not covered by the policy either. Id.

The court in Lemko Corp. v. Federal Insurance Co., 70 F. Supp. 3d 905, 917-19 (N.D. Ill. 2014), faced similar circumstances and reached the same conclusion. There, Motorola sued Lemko, a cellular technology company and a direct competitor of Motorola’s, alleging, among other things, that Motorola employees who were simultaneously working for Lemko had misappropriated trade secret and other confidential information from Motorola for use in Lemko’s competitive products. Id. at 909-10. Lemko turned to its insurers, Cincinnati and Federal, for coverage, but both denied Lemko’s claims. Id. at 910.

The court examined the policies at issue and determined that both covered advertising injury. Id. at 917. Lemko argued that the complaint filed by Motorola alleged an advertising injury because it averred that Lemko advertised and attempted to sell products that used Motorola’s copyrighted material, proprietary trade secrets, and other confidential information. Id. The court rejected this argument, noting that the complaint did not allege that Lemko infringed Motorola’s intellectual property in any advertisements. Id. at 918. The court acknowledged that Motorola alleged that Lemko used proprietary information it misappropriated from Motorola in products that it marketed, but that the allegations in the complaint pertained to the theft and use of Motorola’s trade secrets in Lemko’s products, not Lemko’s use of such information in its advertising. Id. Relying on Winklevoss, the court held that “[a]dvertising a product that, in turn, incorporates misappropriated or infringing content, is not the same as an advertisement that itself infringes a copyright by disclosing the copyrighted content.” Id. (emphasis in original). The court concluded that, although Lemko may have misrepresented the provenance of the products it sold (by suggesting that it alone had developed them), Lemko did not actually advertise or publish any intellectual property, and accordingly had no claim against its insurers for advertising injury liability. Id.

In McDonald’s Corp. v. American Motorists Insurance Co., 321 Ill. App. 3d 972 (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 had promoted the oven to its franchisees and to others. Id. at 976. 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 under the standard CGL policy: (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. 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 the promotion. Id. at 977. Citing Simply Fresh and Winklevoss, the appellate court agreed that McDonald's promotional activities must have caused the offense, and McDonald's misappropriation did not arise out of its promotion of the oven. Id. at 981, 985.

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. 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. The court concluded that the McDonald's policies "d[id] 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. 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 (7<sup>th</sup> Cir. 1999), insurers sought a declaratory judgment that they had no duty to defend a complaint alleging that their insured had misappropriated trade secrets by taking a customer list and using it to solicit business. The Seventh Circuit held that under Wisconsin and Illinois law, with respect to the insurer who provided advertising injury coverage, the theft of the trade secrets was not an advertising injury. Id. at 702. The district court had applied Illinois law to the advertising injury coverage, but in the relevant part of its appellate brief the insured ignored that fact and cited only Wisconsin cases. Id. The Seventh Circuit thus discussed Wisconsin law, but held that the result would be the same under Illinois law. Id.

The court began its analysis 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, the Seventh Circuit held that even if the insured did advertise in the Yellow Pages or elsewhere, 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 Seventh Circuit 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 Sentinel Insurance Company, Ltd. V. Yorktown Industries, Inc., No. 14-cv-4212, 2017 WL 446044, \*1 (N.D. Ill. Feb. 2, 2017), the insurer sought a declaratory judgment stating it had no duty to defend or indemnify when the insured allegedly misappropriated trade secrets by using another's customer lists to solicit business. The court applied Illinois law and held that no advertising injury occurred when the underlying complaint alleged theft of customer lists that were used to solicit customers *individually*. Id. In this case, the underlying complaint was a California action in which the plaintiff, Imaging Technologies Direct ("ITD"), filed suit against Yorktown Industries after it allegedly hired ITD employees and stole confidential business information, including ITD's customer list and sales data. Id. at \*1. Sentinel then filed a separate lawsuit against Yorktown in the Northern District of Illinois seeking a declaratory judgment that it owed no coverage to Yorktown because the ITD suit did not allege an advertising injury and the insurance policy barred coverage. Id. at \*2. The district court granted summary judgment in favor of Sentinel on both grounds. Id. at \*4. Citing Lemko, the court noted that ITD did not allege that Yorktown "publicly disseminated ITD's customer list . . . in order to promote its goods . . . or to attract customers." Id. at \*3. Instead, the customer lists were used to contact customers individually, and thus was not misappropriated in an advertisement. Id. Accordingly, the misappropriation did not constitute an advertising injury because the customer lists were not used in an advertisement. Id.

This prong has been narrowly construed to deny coverage even in scenarios that are factually adjacent to advertising. For example, in Pekin Ins. Co. v. Precision Dose, Inc., 2012 IL App (2d) 110195, 968 N.E.2d 664, the court found no duty to defend when the alleged misappropriation did not occur in the course of advertising. Id. ¶¶ 62-63, 968 N.E.2d at 680. The defendants in Precision Dose were directors of a company that manufactured generic liquid medications; when the company dissolved, the directors secretly formed a new company and operations of the dissolved company. Id. ¶¶ 9-10, 968 N.E.2d at 669. The new company manufactured the same type of product, used the same packaging, used a name similar to the dissolved company, and attempted to negotiate contracts with the dissolved company's former clients. Id. ¶ 62, 968 N.E.2d at 680. Despite all of this, the court held that these actions did constitute misappropriation of an advertising idea because these activities were not done in the course of advertising. Id. ¶ 63, 968 N.E.2d at 680. This, in addition to the cases cited above in this subsection, shows that the causation element can be difficult to establish in a misappropriation case.

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 as having occurred in the course of advertising.

**d) Illinois courts have adopted an exception to the general exclusion for misappropriation of advertising ideas**

Illinois courts have adopted an exception to the general rule: misappropriation of trade secrets that concern advertising ideas can be 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. Illinois courts have likewise followed California law and determined that misappropriation of trade secrets, where the trade secret itself is about advertising or solicitation of business, can constitute an advertising injury. See Sentinel, 2017 WL 446044, at \*3 (citing Sentex Systems, Inc. v. Hartford Accident & Indemnity Co., 93 F. 3d 578, 580 (9<sup>th</sup> Cir. 1996)). Indeed, the court in Sentinel noted that several other circuits follow the same principle. See id.

In Sentex, 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 was, 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 argument, 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 have been misappropriated, there is a duty to defend under the 1986 standard advertising injury provision. Illinois courts have agreed with Sentex in finding that misappropriation of customer lists alone does not trigger coverage unless the information is then used in an advertisement. Sentinel, 2017 WL 446044 at \*3.

While the court in Sentinel held that the use of customer lists alone does not constitute an advertising injury because customer lists are not advertising ideas, it also affirmed there that a court will find coverage when the trade secret itself is an advertising idea. See id. (finding no advertising injury in part because the plaintiff did not allege use of its advertising plans to solicit its customers).

**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 (1<sup>st</sup> 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 Lexmark had taken its trade secrets 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. But, those cases do not state that trade secret misappropriation can never 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, 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 misappropriation of 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. The allegations also did not suggest misappropriation of a style of doing business, which, the court explained, has to do with the “outward appearance or signature of a business.” Id. at 1039 (citation and 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 under an advertising injury policy.

In John Deere Insurance Co. v. Shamrock Industries, Inc., 696 F. Supp. 434 (D. Minn. 1988), aff’d, 929 F.2d 413 (8<sup>th</sup> 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. 696 F. Supp. at 440, aff’d, 929 F. 2d at 419. 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. 696 F. Supp. at 440, aff’d, 929 F. Supp. 2d at 419. Therefore the claim arose out of the advertising activity. 696 F. Supp. at 440. Moreover, only “but for” causation, not proximate causation, was 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 2012). 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.

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). While these policies generally cover Wrongful Acts, they are still subject to any exclusions that might be written into a policy, including the common exclusion for trade secrets.

### **C. Generally No Coverage for Victims of Misappropriation**

While specialized policies exist to cover intellectual property-related claims, the prevailing trend for insurance companies is to specifically exclude coverage for misappropriation of trade secret or other intellectual property rights. MELVIN F. JAGER, *TRADE SECRETS LAW*, § 7:29 (2020). Thus, the victim of trade secret misappropriation must seek compensation directly from the wrongdoer by threatening or pursuing litigation. Although far less common compared to the defense insurance market, some insurers offer “infringement abatement” policies that pay all or part of the plaintiff’s costs in litigating intellectual property disputes. KATHRYN M. GUINN, 1 *INSURANCE COVERAGE FOR INTELLECTUAL PROPERTY CLAIMS* § 4.02[2] (2018). While these policies do not explicitly reject trade secret misappropriation, the market trend for abatement insurance seems to be focused on patent infringement cases. *Id.* Moreover, these policies typically come with requirements for the insured to prove there is a viable claim for infringement, increasing the burden on potential plaintiffs who seek coverage under such a policy. *Id.*

# **APPENDIX A**



## **NATIONAL TRENDS REGARDING THE INEVITABLE DISCLOSURE DOCTRINE**

A number of states have adopted some version of the inevitable disclosure doctrine as part of their trade secrets law. This doctrine permits employers to enjoin former employees from performing certain post-employment activities even where no explicit threat of disclosure has been made if that employee will inevitably use or share the former employer's trade secrets in the performance of their new duties. However, the doctrine has not been universally accepted.

A majority of 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 federal courts in two more have refused to apply the doctrine because the judges believed those states *would reject* the doctrine. Two states have limited the concept to apply only where a valid non-competition agreement is present. This outline divides the states into three main categories: states that have adopted the doctrine, states where the law is unclear, and states that have rejected the doctrine.

In addition, the Defend Trade Secrets Act ("DTSA"), passed in 2016, creates a federal cause of action similar but not identical to state-level causes of action for trade secret misappropriation. Whether or not the inevitable disclosure doctrine is available in DTSA cases is unsettled. For a summary and explanation of how states applying DTSA apply the inevitable disclosure doctrine, see Appendix B.E of the outline.

### **A. States That Have Adopted the Doctrine in Some Way**

Within jurisdictions adopting the inevitable disclosure doctrine, the doctrine has been applied in various, 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 that have adopted the doctrine can be broken into three subcategories: states adopting a "pure" version of the doctrine, states conflating inevitable disclosure and threatened misappropriation, and those that use inevitable disclosure to interpret other employment contracts.

#### **1. 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. 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 performing their expected 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 adopting the pure version of the inevitable disclosure doctrine have granted injunctive relief in the absence of proof of actual misappropriation, the absence of proof of the traditional requirements for establishing

threatened misappropriation, absence of an express non-competition agreement, or when there is evidence that the employee acted in bad faith or inequitable conduct.

The states that apply a pure version of the inevitable disclosure doctrine are Arkansas, Delaware, Minnesota, New Jersey, and Pennsylvania, and potentially South Carolina, and Utah. 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* Box v. J.B. Hunt Transp., Inc., 533 S.W.3d 603, 615 (Ark. Ct. App. 2017) (recognizing that a preliminary injunction can be issued based on the inevitable disclosure doctrine, but concluding that there was an absence of evidence that confidential information would inevitably be disclosed); Pitts v. Fire Extinguisher Sales & Servs. Of Ark. LLC, No. 4:21-cv-00075-LPR, 2021 WL 4860812, at \*9-10 (E.D. Ark. June 11, 2021) (noting that Arkansas courts have recognized the inevitable disclosure doctrine and granting the defendant counter-claimant’s preliminary injunction where the evidence showed the counter-defendant’s activities would “more likely than not result in an inevitable disclosure of” the counter-plaintiff’s trade secrets); Sys. Spray-Cooled, Inc. v. FCH Tech, LLC, No. 1:16-CV-1085, 2017 WL 2124469, at \*11 (W.D. Ark. May 16, 2017) (explaining that covenants not to compete are disfavored in Arkansas, and that the inevitable disclosure doctrine would not provide grounds to extend the effective timeline of such a covenant that had already expired between an employer and employee); Welsco, Inc. v. Brace, No. 4:12-cv-00394-KGB, 2014 WL 4929453, at \*30 (E.D. Ark. Sept. 30, 2014) (invoking Cardinal in denying motion for summary judgment and holding that, even though “the inevitable disclosure doctrine normally is applied in the context of granting injunctive relief,” a plaintiff may rely on it as a form of circumstantial evidence to establish liability); NanoMech, Inc. v. Suresh, No. 5:13-cv-05094, 2013 WL 4805692, at \*6 (W.D. Ark. Sept. 9, 2013) (recognizing that the Arkansas Supreme Court “has expressed approval of” the inevitable disclosure doctrine, but noting that it has only applied the doctrine in cases where plaintiffs seek injunctive relief); 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). *But see* Bendinger v. Marshalltown Trowell Co., 994 S.W.2d 468, 475 (Ark. 1999) (holding that a former employee merely assuming a “similar position at a competitor does not, without more, make it inevitable that he will use or disclose trade secrets”).

**Delaware. W.L. Gore & Assocs., Inc. v. Wu, No. 263-N, 2006 WL 2692584, at \*17-18 (Del. Ch. Sept. 15, 2006)** (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.” The court noted the defendant’s demonstrated lack of trustworthiness and failure to comply with previous settlement agreements as part of the evidentiary record to justify extensive injunctions, but relied on cases in which no ill intent was shown but courts still fashioned broad injunctive relief), *aff’d*, 918 A.2d 1171 (Table) (Del. 2007); *see also* E. I. du Pont 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); UtiliSave, LLC v. Miele, C.A. No. 10729-VCP, 2015 WL 5458960, at \*9 (Del. Ch. Sept. 17, 2015) (relying on the comparatively “more egregious facts” in W.L. Gore in concluding that the plaintiff had “advance[d] a colorable inevitable disclosure argument” by alleging that the defendant had access to valuable confidential information while he was an employee that he would likely draw on in working for a competitor). But see Newell Rubbermaid Inc. v. Storm, No. 9398-VCN, 2014 WL 1266827, at \*10 (Del. Ch. Mar. 27, 2014) (citing W.L. Gore for the idea that injunctive relief is available where “evidence exists which casts doubt on the trustworthiness of a former employee” such that trade secret disclosure appears inevitable); Am. Hoechst Corp v. Nuodex, Inc., No. 7950, 1985 WL 11563, at \*3 (Del. Ch. Apr. 23, 1985) (“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.”).

**Minnesota. Katch, LLC v. Sweetster, 143 F. Supp. 3d 854, 869 (D. Minn. 2015)** (holding that a party seeking an injunction under Minnesota’s trade secret statute must show “a high degree of probability of inevitable disclosure” and that “mere knowledge of a trade secret is not enough” and denying a preliminary injunction because the plaintiff had “merely shown that [the defendant] may remember some of its Confidential Information and plans to take a comparable position with its competitor”); see also United Healthcare Servs., Inc. v. Luoro, No. 20-2696 (JRT/ECW), 2021 WL 533680, at \*5 (D. Minn. Feb. 12, 2021) (citing Minnesota cases recognizing the doctrine, but denying the plaintiff’s motion for injunctive relief where the plaintiff failed to “meet the high bar for inevitable disclosure” because the defendant-employee’s position at the competing company was different, and both the defendant-employer and defendant-employee made positive affirmations regarding procedures in place to prevent the sharing of trade secret information); Prime Therapeutics LLC v. Beatty, No. 18CV02715ECTKMM, 2018 WL 5669270, at \*7 (D. Minn. Nov. 1, 2018) (finding that the plaintiffs had presented enough evidence to survive a motion for summary judgment under both Minnesota’s version of the UTSA and DTSA, but finding it unsuitable for a preliminary injunction because the plaintiffs had not shown a high likelihood of success on the merits); Honeywell Int’l, Inc. v. Stacey, No. 13-cv-3056, 2013 WL 9851104 (D. Minn. Dec. 11, 2013) (dismissing claims of inevitable disclosure after discussing the differences in marketing and distribution capabilities of Honeywell and Nest thermostats by saying that Honeywell had not “shown a high probability that Stacey will inevitably use or disclose such [marketing or distribution] information in the course of his work for Nest”); Lexis-Nexis v. Beer, 41 F. Supp. 2d 950, 958 (D. Minn. 1999) (finding little likelihood of inevitable disclosure because “[t]here is little evidence that Beer now possesses confidential Lexis-Nexis information, apart from what he might retain in his memory”); Surgidev Corp. v. Eye Tech., Inc., 648 F. Supp. 661, 695 (D. Minn. 1986), aff’d, 828 F.2d 452 (8<sup>th</sup> Cir. 1987) (affirming trial court’s granting of an injunction in which the district court discussed, but did not rely on, the inevitable disclosure doctrine).

**New Jersey. Nat’l Starch & Chem. Corp. v. Parker Chem. Corp., 530 A.2d 31, 33 (N.J. Sup. Ct. App. Div. 1987)** (affirming trial court’s preliminary injunction preventing former employee from performing certain

duties for competitor on the basis that “under the circumstances there was sufficient likelihood of ‘inevitable disclosure’”); see also Acteon, Inc. v. Harms, No. 1:20-cv-14851-NLH-AMD, 2020 WL 6694411, at \*9-10 (D. N.J. Nov. 6, 2020) (granting plaintiff’s preliminary injunction motion to protect its trade secrets where the record demonstrated “that the above-described information readily meets the definition of ‘trade secret’” and that it was “likely that [the defendant] will inevitably disclose these trade secrets.”); Jackson Hewitt Inc. v. Cline, No. 14-6931, 2015 WL 6687545, at \*4 (D. N.J. Oct. 29, 2015) (citing Nat’l Starch with approval in concluding that moving party had sufficiently alleged irreparable harm); Fluoramics, Inc. v. Trueba, No. BER-C-408-05, 2005 WL 3455185, at \*8 (N.J. Super. Ct. Ch. Div. 2005) (citing Nat’l Starch with approval for the inevitable disclosure doctrine, but holding facts were insufficient to demonstrate the existence of a trade secret); E.R. Squibb & Sons, Inc. v. Hollister, Inc., No. 91-203, 1991 WL 15296 (D.N.J. Feb. 5, 1991), aff’d, 941 F.2d 1201 (3d Cir. 1991) (citing Nat’l Starch with approval for the inevitable disclosure doctrine, but holding the doctrine inapplicable to that case).

**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); Bimbo Bakeries USA, Inc. v. Botticella, 613 F.3d 102, 110 (3d Cir. 2010) (citing Air Prods. For Pennsylvania’s acceptance of the inevitable disclosure doctrine, and affirming an injunction against an employee where “there was ‘a substantial likelihood, if not an inevitability, that [the employee] will disclose or use [the employer’s] trade secrets in the course of his employment with [the competitor]’”); see also Jazz Pharm., Inc. v. Synchrony Grp., LLC, 343 F. Supp. 3d 434 (E.D. Pa. 2018) (“The Third Circuit has held that where an employee’s work for a new employer substantially overlaps with work for a former employer, based on the same role, industry, and geographic region, a district court may conclude that those employees would likely use confidential information to the former employer’s detriment. An employee’s additional failure to ensure an employer that it would refrain from using or disclosing the employer’s trade secrets, despite their written agreement, may also constitute threatened misappropriation.”); Freedom Med. Inc. v. Whitman, 343 F. Supp. 3d 509 (E.D. Pa. 2018) (recognizing the inevitable disclosure doctrine, but denying a preliminary injunction where the court found credible defendant’s testimony that he had no need for the alleged trade secrets in his new role with a competitor); CPG Int’l LLC v. Georgelis, No. 3:15-cv-176, 2015 WL 1786287, at \*11 (M.D. Pa. Apr. 20, 2015) (noting that “the inevitable disclosure doctrine establishes the element of irreparable harm”); WebMD Health Corp. v. Dale, 2012 WL 3263582 (E.D. Pa. Aug. 10, 2012) (finding that because the defendant was exposed to confidential information about his former employer’s sales, marketing, and pricing strategies, he “would be likely to use that information, either consciously or not, when competing against” his former employer at his new job).

The following states have not addressed the inevitable disclosure doctrine in a precedential state court. However, federal courts seated within the jurisdictions have interpreted state law and determined the states would *likely* recognize the doctrine.

**South Carolina.** Nucor Corp. v. Bell, No. 2:06-CV-02972-DCN, 2008 WL 9894350, at \*15-18 (D.S.C. Mar. 14, 2008) (determining that based on South

Carolina’s general acceptance on restrictions of employee movement, the Inevitable Disclosure Doctrine is likely to be adopted); Milliken & Co., Inc. v. Smith, No. 7:10-CV-00301-JMC, 2011 WL 939211, at \*3 (D.S.C. Mar. 16, 2011) (holding that while inevitable disclosure may be appropriate under South Carolina law, it was not pled sufficiently in this case).

**Utah. Novell, Inc. v. Timpanogos Research Grp., Inc., 46 U.S.P.Q.2d 1197, 1215-17 (D. Utah 1998)** (granting preliminary injunction, despite lack of non-competition agreement, that prevented former employees from working for competitor based on finding that former employees would inevitably disclose former employer’s trade secrets).

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 (1<sup>st</sup> Dist. 2000) appeared to adopt the “pure” version, other Illinois courts 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 (1<sup>st</sup> 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 Section III.D of this outline.

## **2. States that conflate the inevitable disclosure doctrine with threatened misappropriation.**

The second group of state’s accepting the inevitable disclosure doctrine 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. This is the approach taken by various federal courts applying Iowa law. These courts contend that inevitable disclosure is a form of threatened disclosure wherein the “threat” is not made maliciously, but is nevertheless present because of the defendant’s unavoidable usage of that trade secret in their new position.

**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”).

Other states, such as Colorado, Indiana, Michigan, and Missouri, do so by incorporating some of the traditional requirements for establishing threatened misappropriation, i.e., by requiring a showing of bad faith or questionable conduct on the part of the former employee.

**Colorado. Xantrex Tech. Inc. v. Advanced Energy Indus., Inc., No. 07-CV-02324-WYD-MEH, 2008 WL 2185882, at \*19 (D. Colo. May 23, 2008)** (holding that for a party to make a claim of threatened

misappropriation, whether by a theory of inevitable disclosure or otherwise, the plaintiff must establish more than the existence of generalized trade secrets and a competitor who employs the plaintiff's former employee who knows them); See also Sonoco Prod's Co. v. Johnson, No. 98-CV-4833, 2000 WL 35501037 (Colo. Dist. Ct. Jan. 31, 2000) (finding that the defendant had proven himself untrustworthy and likely to reveal his former employer's trade secrets and holding that, "[u]nder these circumstances, the Court may issue a permanent injunction to prevent inevitable disclosure of the trade secrets.").

**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.** Delphi Auto. PLC v. Absmeier, No. 2:15-cv-13966, 2016 WL 787137, at \*10-11 (E.D. Mich. Mar. 1, 2016) (noting that Michigan courts do not recognize the inevitable disclosure doctrine, but assuming that "threatened misappropriation encompasses a concept of inevitable disclosure" as long as an employee's right to change jobs is not "compromise[d]" and further holding that the plaintiff must establish the defendant's "duplicity"); see also CMI Int'l, Inc. v. Internet 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 as requiring more than the existence of generalized trade secrets and a former employee working for a competitor); 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). But see Gen-Wealth, Inc. v. Freckman, No. 353584, 2021 WL 1941752, at \*12-13 (Mich. Ct. App. May 13, 2021) (reading CMI Int'l, Inc. to stand for the proposition that the Michigan Court of Appeals "accepted [the inevitable disclosure] theory" but "for a party to make a claim of threatened misappropriation, whether under a theory of inevitable disclosure or otherwise, the party must establish more than the existence of generalized trade secrets and a competitor's employment of the party's former employee who has knowledge of trade secrets."); Allis-Chalmers Mfg. Co. v. Cont'l Aviation & Eng'g Corp., 255 F. Supp. 645, 654 (E.D. Mich. 1966) (granting an injunction against an employee from performing duties during his new employment at a competitor where there was a threat that he would inevitably use the former employer's trade secrets).

**Missouri.** H&R Block E. Tax Servs., Inc. v. Enchura, 122 F. Supp. 2d 1067, 1075 (W.D. Mo. 2000) (interpreting PepsiCo 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”); see also Express Scripts, Inc. v. Lavin, No. 17CV01423 HEA, 2017 WL 2903205, at \*7 (E.D. Mo. July 7, 2017) (holding that threatened misappropriation could be enjoined where (1) the nature of the former employee’s responsibilities with the new employer were akin to those held for the former employer and would require consideration of the former employer’s trade secrets in performing those responsibilities and (2) the former employee’s actions demonstrated “a lack of candor and an unwillingness to preserve confidentiality”); Perficiennt Inc. v. Gupta, No. 2021 WL 2805282, at \*4-5 (E.D. Mo. July 6, 2021) (granting the plaintiff’s preliminary injunction motion, citing Nettles, infra, that the logic behind the inevitable disclosure doctrine is useful in determining when an employee’s performance at their new role would “almost certainly” require the use of trade secret or confidential information from their previous employer); Panera, LLC v. Nettles, Case No. 4:16-cv-1181, 2016 WL 4124114, at \*4 (E.D. Mo. Aug. 4, 2016) (relying on H&R Block in noting that neither Missouri nor the Eighth Circuit have recognized the doctrine of inevitable disclosure, but concluding that the doctrine as recognized in H&R Block is useful in understanding why a former employee’s new role with plaintiff’s competitor would likely lead to inevitable disclosure of trade secrets); Experitex, Inc. v. Stachowski, Case No. 4:14-cv-00154, 2014 WL 11089362, at \*3 (E.D. Mo. Jan. 30, 2014) (citing H&R Block for the proposition that for an employer to prevail under theory of inevitable disclosure, “it must demonstrate inevitability exists with facts indicating that the nature of the secrets at issue and the nature of the employee’s past and future work justify an inference that the employee cannot help but consider secret information”).

### **3. States applying inevitable disclosure to determine the validity of a restrictive covenant.**

The third subgroup 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 UTSA and retains entirely common law rules regarding trade secrets), and potentially Ohio (discussed below in Section B).

A discussion regarding New York law is instructive. In Marietta Corp. v. Fairhurst, 301 A.D.2d 734, 737-38 (N.Y. App. Div. 2003), the court refused to apply the inevitable disclosure doctrine in the absence of a non-competition agreement, even though a non-disclosure agreement existed. The trial court had enjoined a former employee from working for the plaintiff-corporation’s competitor. Id. at 735-36. 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) (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 have refused to apply the inevitable disclosure doctrine unless a non-competition agreement exists. See Janus et Cie v. Kahnke, No. 12 Civ. 7201(WHP), 2013 WL 5405543, at \*2 (S.D.N.Y. Aug. 29, 2013) (“New York law does not appear to recognize inevitable disclosure of trade secrets as a stand-alone cause of action . . . But courts have resorted to the doctrine only in instances where there is evidence of the actual misappropriation of trade secrets, or where the plaintiff asserts a claim for breach of a non-compete agreement.”); 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:

**Connecticut.** Aetna, Inc. v. Fluegel, No. CV074033345S, 2008 WL 544504, at \*5-6 (Conn. Super. Ct. Feb. 7, 2008) (noting that Connecticut courts have, as yet, 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). But see Sunbelt Rentals, Inc. v. McAndrews, --- F. Supp. 3d ---, 2021 WL 3417958, at \*7-8 (D. Conn. Aug. 5, 2021) (noting that “Connecticut courts have rarely invoked” the inevitable disclosure doctrine but proceeding



to evaluate, without referring to the defendant's noncompete agreement, whether the plaintiff had a likelihood of succeeding in proving inevitable disclosure).

These cases, although recognizing the concept of inevitable disclosure, effectively reject the inevitable disclosure doctrine as an independent basis for enjoining competition under the Uniform Trade Secrets Act or, in the case of New York, under common law.

**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 to provide 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.

## **B. States Where Adherence to the Inevitable Disclosure Doctrine is Unclear**

The second major group includes states where the courts of highest review have not definitively addressed the inevitable disclosure doctrine. However, lower state courts or federal courts applying state law have given some guidance on how these states may approach the doctrine. These states include Florida, Idaho, Massachusetts, New Mexico, North Carolina, Ohio, South Dakota, Tennessee, Texas, Virginia, and Washington.

**Florida.** Del Monte Fresh Produce Co. v. Dole Food Co., 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 a threatened disclosure or misappropriation theory); see also Future Metals LLC v. Ruggiero, No. 21-CIV-60114-RUIZ/STRAUSS, 2021 WL 585896, at \*20 (S.D. Fla. Oct. 26, 2021) (noting that Florida courts have yet to recognize the inevitable disclosure doctrine). But see Boston Sci. Corp. v. Ruiz, No. 05-21270-CV, 20055 WL 8155080, at \*6 (S.D. Fla. July 20, 2005) (denying a motion for summary judgment and distinguishing Del Monte to its facts because the employee in Del Monte could not remember confidential information with precision, whereas defendant said he remembered the confidential information and there was “nothing he [could] do about that.”); Fountain v. Hudson Cush-N-Foam Corp., 122 So. 2d 232, 234 (Fla. Dist. Ct. App. 1960) (affirming an injunction against a former employee because “it would seem

logical to assume that his employment by a competitor . . . would eventually result in a disclosure of [his former employer's trade secrets]").

**Idaho. Nw. Bec-Corp v. Home Living Serv., 41 P.3d 263, 268 (Idaho 2002)** (affirming a dismissal and distinguishing the case from PepsiCo. By stating that this case was not about inevitable disclosure, but about whether disclosure had already occurred, and further holding that merely hiring an employee, without more affirmative evidence that disclosure would inevitably occur, could not be considered trade secret appropriation); see also Flsmidth Spokane, Inc. v. Emerson, No. 1:13-CV-00490-EJL, 2014 WL 2711790, at \*8 (D. Idaho June 16, 2014) (holding that the former employee taking a job with an "allegedly competing company" does not constitute misappropriation of trade secrets without more).

**Massachusetts. Corp. Techs., Inc. v. Harnett, 943 F. Supp. 2d 233, 241 (D. Mass. 2013)** (granting former employer's motion for preliminary injunction on grounds that former employee violated his non-disclosure and non-solicitation agreements when he began working for the plaintiff's competitor and finding that employee's disclosure of confidential information was inevitable "[g]iven the similarity of [his] position at both companies" and his connections to clients of former employer with whom he had already solicited and transacted business on behalf of his new employer); see also Lombard Med. Techs., Inc. v. Johannessen, 729 F. Supp. 2d 432, 442 (D. Mass. 2010) (granting preliminary injunction and enforcing non-competition agreement preventing employees from working for plaintiff's competitor, a medical device company, because the former employees did not begin their new jobs with a "tabula rasa with respect to" plaintiff's "customers and other significant business information," particularly because they were "intimately familiar with the weakness in" former employer's primary product, had "extensive contacts at medical centers through" the former employer, and were "knowledgeable about [former employer's] non-public clinical trial analyses"); 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); Unitrode Corp. v. Linear Tech. Corp., No. 985983, 2000 WL 281688, at \*5 (Mass. Super. Ct. Feb. 15, 2000) (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"). But see Bos. Sci. Corp. v. Lee, No CIV.A. 13-13156-DJC, 2014 WL 1946687, at \*8 (D. Mass. May 14, 2014) (holding that both Marcam Corp. and Corp. Techs. Dealt exclusively with inevitable disclosure where there was a non-competition agreement); U.S. Elec. Servs., Inc. v. Schmidt, No. 12-10845-DJC, 2012 WL 2317358, at \*8-9, 12 (D. Mass. June 19, 2012) (refusing to issue preliminary injunction and noting that the inevitable disclosure doctrine is not sufficient, by itself, "to establish a violation of either common law or statutory obligations regarding trade secrets," as the doctrine instead is relevant to the likelihood of irreparable harm); Architext, Inc. v. Kikuchi, No. 0500600, 2005 WL 2864244, at \*3 (Mass. Super. Ct. May 19, 2005) (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) (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).

**New Mexico. Insure New Mexico, LLC v. McGonigle, 995 P.2d 1053, 617 (Ct. App. N.M. 2000)** (holding that the inevitable disclosure doctrine did not apply because there were no true trade secrets at issue, but not rejecting the theory for other fact patterns).

**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 Se. Anesthesiology Consultants, PLLC v. Charlotte-Mecklenburg Hosp. Auth., No. 18 CVS 5899, 2018 WL 3304441, at \*19 (N.C. Super. June 22, 2018) (declining to adopt and apply the inevitable disclosure doctrine, particularly in light of the fact that plaintiffs had not sufficiently demonstrated that the information obtained by the defendants constituted protectable trade secrets or that the defendants would use it); Spirax Sarco, Inc. v. SSI Eng’g, Inc., No. 5:14-cv-519-F, 2015 WL 1810093, at \*5 (E.D.N.C. Apr. 17, 2015) (recognizing that the North Carolina Supreme Court has not adopted the doctrine, but that federal courts in the state had recognized it, and holding that the plaintiff had not made a sufficient showing to receive a preliminary injunction under the doctrine); Allegis Grp., Inc. v. Zachary Piper LLC, No. 12 CVS 2984, 2013 WL 709581, at \*11 (N.C. Sup. Ct. Feb. 25, 2013) (acknowledging Analog Devices but refusing to determine whether doctrine applied because movant demonstrated actual misappropriation); Merck & 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).

The state of the law regarding inevitable disclosure is unclear in Ohio due primarily to conflicting decisions in the Ohio Courts of Appeals. Some of these decisions appear to cabin the doctrine to interpretations of non-competition agreements, some appear to embrace the doctrine, and some have rejected the doctrine outright. The Ohio Supreme Court has yet to weigh in, so the doctrine remains in flux in the state.

**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.”); see also Hydrofarm, Inc. v. Orendorff, 905 N.E.2d 658, 663 (Ohio Ct. App. 2008) (stating “[n]either this court nor the Supreme Court of Ohio has applied the inevitable-disclosure doctrine in a case that did not involve an enforceable noncompetition agreement. An employee possessed of his former employer’s trade secrets has the right to take employment in a competitive business, and to use his knowledge (other than trade secrets) and experience, for the benefit of the new employer.” (internal citations omitted)); AK Steel Corp. v. Morris, No. CA2000-05-079, 2001 WL 32804, at \*1 (Ohio Ct. App. Jan. 16, 2001) (affirming trial court’s grant of a preliminary injunction to enforce non-competition agreement based on inevitable disclosure doctrine); Adams v. Stealthbits Techs., Inc., No. 2:19-CV-4970, 2022 WL 19238, at \*12 (S.D. Ohio Jan. 3, 2022) (denying the defendant-counterclaimant’s motion for summary judgment on trade secrets claims because while “the OUTSA and DTSA permit an injunction when misappropriation is threatened and the inevitable disclosure doctrine establishes a threat of harm,” the counterclaimant failed to present evidence that disclosure was inevitable); Total Quality Logistics, LLC v. Traffic Tech, Inc., No. 1:21-CV-714, 2021 WL 5834299, at \*6 (S.D. Ohio Dec. 8, 2021) (denying the plaintiff’s motion for preliminary injunction where it failed to show the defendant-employee had “comprehensive and detailed knowledge of trade secrets” which is required to show a likelihood of success on an inevitable disclosure claim, but recognizing the doctrine under Ohio law); Invacare Corp. v. Nordquist, No. 1:18-CV-62, 2018 WL 2454523, at \*6–8 (N.D. Ohio June 1, 2018), modified in part, No. 1:18-CV-62, 2018 WL 3768278 (N.D. Ohio Aug. 9, 2018) (holding that the inevitable disclosure doctrine established a threat of irreparable harm where the former employee’s role with competitor was “substantially similar” to that with his former employer after the employee had entered a non-competition agreement with the first employer); Exel Inc. v. Xpedient Mgmt. Grp., LLC, No. 2:17-CV-1076, 2018 WL 456315, at \*7 (S.D. Ohio Jan. 16, 2018) (recognizing inevitable disclosure under Ohio law but holding the plaintiff failed to show irreparable harm because the record contained no evidence that defendants utilized the alleged trade secrets); A&P Tech., Inc. v. Lariviere, No. 1:17-CV-534, 2017 WL 6606961, at \*3–6 (S.D. Ohio Dec. 27, 2017) (denying request for injunctive relief under the inevitable disclosure doctrine in part because the employee “honored a two year non-compete agreement”); Avery Dennison Corp. v. Juhasz, 924 F. Supp. 2d 893, 900-01 (N.D. Ohio 2013) (denying preliminary injunction sought under inevitable disclosure doctrine because former employee’s new position with plaintiff’s competitor was not sufficiently similar to constitute a violation of their non-compete agreement); PolyOne Corp. v. Kutka, No. 1:13-cv-2717, 2014 WL 7211692, at \*6 (N.D. Ohio Oct. 31, 2014) (recognizing doctrine while discussing non-competition agreements and trade secrets but determining it did not apply because the plaintiff had not demonstrated that employee’s new position was similar to his prior position, and that doctrine was accordingly inapplicable); Dayton Superior Corp. v. Yan, No. 3:12-cv-380, 2013 WL 1694838, at \*17-19 (S.D. Ohio Apr. 18, 2013) (recognizing inevitable disclosure doctrine under Ohio law and analyzing it alongside employment contracts, but refusing to issue preliminary injunction because, among other reasons, the alleged trade secrets were outdated and obsolete, and because employee had not used his knowledge of technical information to pose threat to employer).

However, some cases suggest Ohio may accept a purer version of the doctrine:

See Polymet Corp. v. Newman, No. 1:16-cv-734, 2016 WL 4449641, at \*4-6 (S.D. Ohio Aug. 24, 2016) (enjoining former employee even though he did not sign a non-disclosure agreement with his employer because he “was exposed to timely, sensitive, strategic, and/or technical information that, if disseminated, would pose a serious threat to” his employer); Fifth Third Processing Solutions, LLC. V. Elliot, No. 1:11-CV-247, 2011 WL 4946330, at \*7 (S.D. Ohio Oct. 18, 2011) (acknowledging that the Ohio Court of Appeals had “adopted the ‘inevitable disclosure’ rule which states that ‘a threat of harm warranting injunctive relief can be shown by facts establishing that an employee with detailed and comprehensive knowledge of an employer’s trade secrets and confidential information has begun employment with a competitor” in a substantially similar position, but holding it did not apply in that case); Devicor Med. Prods., Inc. v. Reed, No. 1:11-cv-645, 2013 WL 1315037, at \*18 (S.D. Ohio Mar. 29, 2013) (rejecting application of inevitable disclosure doctrine because employee did not have access to confidential information and was not working in similar position at competitor but giving it a definition outside just non-competes); Goken America, LLC. V. Bandepalya, 2014 WL 6673830 (S.D. Ohio Nov. 24, 2014) (acknowledging that there was no non-compete agreement in effect, but holding that the inevitable disclosure doctrine applied); B.F. Goodrich Co. v. Wohlgemuth, 192 N.E.2d 99, 105 (Ohio Ct. App. 1963) (affirming grant of injunctive relief, in absence of non-competition agreement, preventing a former employee from working for a competitor in the space-suit industry on grounds that former employee would inevitably disclose trade secrets to his new employer).

Other states similarly have unclear positions on the doctrine. These states have either not addressed the doctrine in a court of last resort, or else have discussed the doctrine in a court of last resort without deciding its adoption:

**South Dakota. Spiska Eng’g, Inc. v. SPM Thermo-Shield, Inc., 798 N.W.2d 683, 689 (S.D. 2011)** (overturning an injunction on jurisdictional grounds, one of which was that the Defendant in the case never had a chance to litigate whether “an injunction was warranted under the inevitable disclosure doctrine” or not).

**Tennessee. Williams-Sonoma Direct, Inc. v. Arhaus, LLC., 109 F. Supp. 3d 1009 (W.D. Tenn. June 18, 2015)** (holding that an injunction under inevitable discovery was inappropriate in the current case because the trade secrets in question were easy to keep from the new employer. The court compared the secrets at issue here, marketing minutiae the employee did not know off-hand to product or development secrets like the Coca-Cola formula).

**Texas. Cardoni v. Prosperity Bank, 805 F.3d 573, 589–90 (5<sup>th</sup> Cir. 2015)** (affirming trial court’s refusal to issue preliminary injunction, noting that “recent Texas case law has rejected the notion of a categorical [inevitable disclosure] rule”); Cooper Valves, LLC v. ValvTechnologies, Inc., 531 S.W.3d 254, 266 (Tex. App. 2017) (finding it unnecessary to decide whether the inevitable disclosure doctrine applied to the instant case); Cardinal Health Staffing Network, Inc. v. Bowen, 106 S.W.3d 230, 242 (Tex. App. 2003) (declining to explicitly adopt the doctrine as described in Rugen and Conley because it would not change the outcome of the case). **But see Conley v. D.S.C. Commc’ns Corp., No. 05-98-01051-CV, 1999 WL 89955, at \*3-4 (Tex. App. Feb. 24, 1999)** (stating that although “no Texas case A-14efer[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. App. 1998) (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); ; Rugen v. Interactive Business Systems, Inc., 864 S.W.2d 548, 552 (Tex. App. 1993) (holding that the district court correctly imposed a restraining order to protect the former employer’s trade secrets even though the noncompetition agreement was unenforceable because it was “probable” that trade secrets would be disclosed).

**Virginia. Gov’t Tech. Servs., Inc. v. IntelliSys Tech. Corp., No. 160265, 1999 WL 1499548, at \*1 (Va. Cir. Ct. Oct. 20, 1999)** (circuit court, without citing authority, stated “Virginia does not recognize the inevitable disclosure doctrine”). But see MeadWestVaco v. Bates, No. No. CL 13-1589, 2013 WL 12183821, at \*11-12 (Va. Cir. Ct. Aug. 1, 2013) (describing the holding in IntelliSys as informative, but not binding and finding that “under the present circumstances, in which the parties previously entered a non-compete agreement and . . . there is no concern about an after-the-fact creation of such a restriction, Virginia would likely apply the doctrine of inevitable disclosure to determine whether threatened misappropriation exists, assuming the non-compete is enforceable”).

**Washington. Moore v. Comm. Aircraft Interiors, LLC**, 278 P.3d 197, 201-02 (Wash. Ct. App. 2012) (“Washington courts have neither adopted nor rejected the inevitable disclosure doctrine, and we make no decision whether it should be adopted or rejected. This is a tortious interference case, not a trade secrets case or a suit for an injunction, so a ruling adopting or rejecting the doctrine is not required.”). See also Modumetal, Inc. v. Xtalic Corp., 425 P.3d 871, 881 (Wash. Ct. App. 2018) (“Washington has neither adopted nor rejected the inevitable disclosure doctrine...[W]e need not and do not address the applicability of the inevitable disclosure doctrine.”) (citations omitted). But see Solutec Corp., Inc. v. Agnew, No. 16105-6-III, 1997 WL 794496, at \*10 (Wash. Ct. App. Dec. 30, 1997) (relying on PepsiCo in enjoining former employees, in absence of non-competition agreements, from competing with former employer in the manufacture of wax products); see also Temco Metal Prods. V. GT Dev. Corp., No. CIV 99-755-KI, 2000 WL 556607 (D. Or. 2000) (same, applying Washington law).

### C. States Rejecting Inevitable Disclosure.

The final major group consists of four states that have explicitly rejected the inevitable disclosure doctrine, and two where federal courts sitting in the jurisdiction have rejected it while interpreting state law: California, Georgia, Louisiana, Maryland, Oklahoma, and Oregon. 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. Georgia, however, may allow the inevitability of trade secret disclosure to be considered as a factor in a broader misappropriation analysis. This means that while not an independent claim, it can play a factor in cases involving threatened misappropriation.

**California.** Cypress Semiconductor Corp. v. Maxim Integrated Prods., Inc., 186 Cal. Rptr. 3d 486, 504 (Cal. Ct. App. 2015) (holding that the inevitable disclosure doctrine “has been flatly rejected in this state as incompatible with the strong public policy in favor of employee mobility”); see also SPS Tech.’s, LLC v. Briles Aerospace, Inc., No. 18-956-MWF, 2021 WL 4913509, at \*10-11 (C.D. Cal. Sept. 8, 2021) (differentiating between “use of an ‘inevitable disclosure’ theory to enjoin a former employee from future disclosures of trade secrets, which is prohibited, and use of a company’s hiring decisions as circumstantial evidence of past or ongoing misappropriation, which is permitted.”); UCAR Tech. (USA) Inc. v. Yan Li, No. 5:17-CV-01704-EJD, 2017 WL 6405620, at \*3 (N.D. Cal. Dec. 15, 2017) (noting that California courts have resoundingly rejected claims based on the inevitable disclosure doctrine); Whyte v. Schlage Lock Co., 125 Cal. Rptr. 2d 277, 281 (Cal. Ct. App. 2002) (“[W]e reject the inevitable disclosure doctrine. We hold this doctrine is contrary to California law and policy because it creates an after-the-fact covenant not to compete restricting employee mobility.”); see also U.S. Legal Support, Inc. v. Hofioni, No. CIV. S-13-01770, 2013 WL 6844756, at \*7 n.8 (E.D. Cal. Dec. 20, 2013) (“The court ... is also guided by decisions holding that California law does not recognize the inevitable disclosure doctrine.”). But see Cent. Valley Gen. Hosp. v. Smith, 75 Cal. Rptr. 3d 771, 789 (Cal. Ct. App. 2008) (“[W]e do not equate the rejection of the inevitable disclosure doctrine with a rejection of the principle that threatened misappropriation may be enjoined.”).

**Georgia.** Holton v. Physician Oncology Servs. LP, 742 S.E.2d 702, 706 (Ga. 2013) (“[T]he inevitable disclosure doctrine is not an independent claim under which a trial court may enjoin an employee from working for an employer or disclosing trade secrets.”); see also Sci. Games Int’l, Inc. v. Cash, No. 2:16-CV-00142-WCO, 2017 WL 542034, at \*5 (N.D. Ga. Jan. 25, 2017) (“A court may not base a claim for relief under the [Georgia Trade Secrets Act] solely on the risk of future disclosures...[W]hile not an independent claim, evidence of defendant’s knowledge of [] trade secrets, coupled with his surreptitious downloading of trade secret files, [] weighs in support of granting an injunction.”).

**Louisiana.** Johnson Controls, Inc. v. Guidry, 724 F. Supp. 2d 612, 329-30 (W.D. La. 2010) (holding that use of trade secrets, including customer lists, by former employees could not be presumed, and that a showing of actual use is required to obtain an injunction for trade secret misappropriation) (citing Tubular Threading, Inc. v. Scandalato, 443 So.2d 712, 715 (La. Ct. App. 1983)).

**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]”); see also Premier Rides, Inc. v. Stepanian, No. CV MJG-17-3443, 2018 WL 1035771, at \*10 (D. Md. Feb. 23, 2018) (explaining that Maryland does not recognize the inevitable disclosure doctrine); Ameritox, Ltd. V. Savelich, 92 F. Supp. 3d 389, 404 (D. Md. 2015) (“Maryland does not recognize the doctrine of ‘inevitable disclosure’ that would support an injunction to prevent ‘threatened future disclosure or use of a trade secret.’”) (quoting LeJeune).

The following states have not addressed whether they accept or reject the inevitable disclosure doctrine in precedential courts. However, federal courts sitting in the jurisdiction have applied state law and found it unlikely that the States Supreme Courts' would adopt the doctrine.

**Oklahoma. AFGD, Inc. v. Tri-Star Glass, Inc., No. 05-CV-300-TCK-PJC, 2005 WL 8175945, at \*4 (N.D. Okla. June 7, 2005)** (citing Oklahoma's general public policy favoring free competition in refusing to adopt the inevitable disclosure doctrine); Cent. Plastics Co. v. Goodson, 537 P.2d 330, 334 (Okla. 1975) (not deciding an issue of inevitable disclosure, but holding that “[a]n employee has the right to engage in a competitive business for himself and to compete for the business of customers of his former employer provided such competition is fairly and legally conducted”).

**Oregon. Phoseon Technology, Inc. v. Heathcote, No. 3:19-CV-2081-SI, 2019 WL 7282497 (D. Or. Dec 27, 2019)** (declining to adopt the inevitable disclosure doctrine because “[i]f one evaluates the likelihood of the Oregon Supreme Court adopting the inevitable disclosure doctrine ... the result does not yield confidence that the doctrine will be adopted in Oregon”).



# **APPENDIX B**

## THE DEFEND TRADE SECRETS ACT OF 2016

Congress passed the Defend Trade Secrets Act (“DTSA”) on May 11, 2016, receiving strong bipartisan support in both houses. Among other things, the DTSA amends the Economic Espionage Act (“EEA”) to include a federal private cause of action for trade secret misappropriation. See 18 U.S.C. § 1831 et seq. The DTSA draws heavily from the Uniform Trade Secrets Act (“UTSA”), and as a consequence, the DTSA has much in common with the UTSA, especially in how trade secrets and misappropriation are defined. However, there are numerous differences between the two statutes on their face, including the DTSA’s exemption from trade secret liability for whistleblowers and the creation of a federal process to obtain an ex parte order to seize property related to trade secrets. Compare 18 U.S.C. § 1836(b)(2), with UNIF. TRADE SECRETS ACT § 1 et seq.

### A. Similarities with State Law.

When the DTSA was passed, it was thought that it would create a uniform body of federal law related to trade secret misappropriation. See Hearing on Protecting Trade Secrets: the Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm, 114<sup>th</sup> Cong. 5 (2015) (written statement of Thomas R. Beall, Vice President and Chief Intellectual Property Counsel of Corning, Inc. to the Senate Judiciary Comm.) (“The Defend trade Secrets Act ... will create a uniform standard for the protection of trade secrets nationwide, improving the efficiency and predictability of litigation and allowing companies to create one set of best practices to protect their intellectual property in every jurisdiction.”).

However, in practice, the DTSA has been interpreted by federal courts similarly to the jurisdiction’s state-level trade secret law. This is true of Illinois courts, e.g., Signal Fin. Holdings LLC v. Looking Glass Fin. LLC, No. 17 C 8816, 2018 WL 636769, at \*3 (N.D. Ill. Jan. 31, 2018) (“The definitions of ‘trade secret,’ ‘misappropriation,’ and ‘improper means’ are substantially similar” under the ITSA and the DTSA), as well as courts in other states. In other words, when both a DTSA and state trade secrets act claim are brought, the vast majority of courts evaluate these claims together. See, e.g., Prime Therapeutics LLC v. Beatty, 354 F. Supp. 3d 957, 967 (D. Minn. 2018) (denying the plaintiff’s motion for a TRO and preliminary injunction under the DTSA and the Minnesota UTSA, and analyzing the laws together because “the statutes share functionally equivalent definitions of ‘trade secret’”); Gen. Sec., Inc. v. Com. Fire & Sec., Inc., No. 17-CV-1194-DRHAYS, 2018 WL 3118274, at \*4 (E.D.N.Y. June 25, 2018) (using New York state law to deny a defendant’s motion to dismiss a plaintiff’s claim under the DTSA); Repat, Inc. v. IndieWhip, LLC, 281 F. Supp. 3d 221, 232 (D. Mass. 2017) (granting summary judgment for the defendants after using the First Circuit’s definition of trade secret misappropriation and evaluating the federal DTSA claim under the state’s trade secrets laws); Source Production & Equip. Co. v. Schehr, No. 16-17528, 2017 WL 3721543, at \*2 (E.D. La. Aug. 29, 2017) (explaining that “existing state law on trade secrets informs the Court’s application of the DTSA.”); Waymo LLC v. Uber Techs., Inc., No. C 17-00939 WHA, 2017 WL 2123560, at \*7 (N.D. Cal. May 15, 2017) (explaining that the DTSA and the California UTSA “offer essentially the same definitions” for misappropriation claims); Kuryakyn Holdings, LLC v. Ciro, LLC, 242 F. Supp. 3d 789, 797–98 (W.D. Wis. 2017) (using the Wisconsin UTSA to analyze both the DTSA and the state trade secret misappropriation

claims, explaining that the “UTSA and DTSA are essentially the same and that courts may look to the state UTSA when interpreting the DTSA”); Phyllis Schlafly Revocable Trust v. Cori, No. 16-cv-01631, 2016 WL 6611133, at \*2-3 (E.D. Mo. Nov. 9, 2016) (“The elements of Plaintiffs’ trade secret misappropriation claims under the DTSA and the Missouri UTSA are essentially the same.”); M.C. Dean, Inc. v. City of Miami Beach, Fla., No. 16-21731, 2016 WL 4179807, at \*7 (S.D. Fla. Aug. 8, 2016) (determining that the plaintiff failed to state a claim under either the DTSA or the Florida UTSA because it consented to the disclosure of the alleged trade secret).

The DTSA also seems to preclude the theory of inevitable disclosure because it does not allow injunctive relief that “prevent[s] a person from entering into an employment relationship” based “merely on the information the person knows” and requires courts to base injunctive relief on “evidence of threatened misappropriation.” 18 U.S.C. § 1836(b)(3)(A)(i)(I). However, in practice, federal courts tend to determine whether inevitable disclosure is available based on whether the theory is available under the UTSA of the state in which the court sits. Compare Packaging Corp. of Amer., Inc. v. Croner, 419 F. Supp. 3d 1059 (N.D. Ill. 2020), with Power Integrations, Inc. v. De Lara, No. 20-cv-410-MMA (MSB), 2020 WL 1467406 (S.D. Cal. Mar. 26, 2020). Inevitable disclosure under the DTSA is discussed further below in this appendix.

Nevertheless, at least two courts have explicitly analyzed claims under the DTSA and the UTSA separately. A New York court analyzed a trade secret misappropriation claim under the DTSA solely using the statutory language of the DTSA when it granted a defendants’ motion to amend its counterclaims. Syntel Sterling Best Shores Mauritius Ltd. V. Trizetto Grp., Inc., No. 15CV211LGSRL, 2016 WL 5338550, at \*6 (S.D.N.Y. Sept. 23, 2016). Likewise, a court in Washington analyzed a plaintiff’s state and federal trade secret misappropriation claims separately. Seattle Sperm Bank, LLC v. Cryobank Am., LLC, No. C17-1487 RAJ, 2018 WL 3769803, at \*5 (W.D. Wash. Aug. 9, 2018) (denying a motion to dismiss after concluded that the plaintiff adequately pled a claim under the DTSA and, separately, to the Washington’s Uniform Trade Secrets Act).

## **B. Definitions.**

### **1. Definition of a Trade Secret.**

The DTSA defines “trade secrets” as:

[A]ll forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

- (A) the owner thereof has taken reasonable measures to keep such information secret; and

- (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

18 U.S.C. § 1839(3). The definition is essentially the same as the definition provided by the EEA. See 18 U.S.C. § 1839 (2014) (the only substantive difference is the pre-DTSA EEA’s use of “the public” instead of “another person who can obtain economic value from the disclosure or use of the information,” discussed more fully in Section I.B, below). Because of these similarities, pre-DTSA cases applying the Economic Espionage Act’s definition of a “trade secret” are instructive to courts and parties in analyzing claims under the DTSA.

The DTSA’s definition of “trade secret” (18 U.S.C. § 1839(3)) also largely mirrors the definition of a trade secret under the UTSA. Thus, courts applying the DTSA typically define trade secrets as they do in cases involving the UTSA. See, e.g., Complete Logistical Servs., LLC v. Rulh, 350 F. Supp. 3d 512, 518 (E.D. La. 2018) (denying the defendant’s motion to dismiss and holding that “existing state law on trade secrets informs the Court’s application of the DTSA”) (citing Source Prod. & Equip. Co. v. Schehr, No. 16-17528, 2017 WL 3721543, at \*2 (E.D. La. Aug. 29, 2017)); Mickey’s Linen v. Fischer, No. 17-cv-2154, 2017 WL 3970593, at \*9 (N.D. Ill. Sept. 8, 2017) (granting the plaintiff’s preliminary injunction motion and stating that the “DTSA imposes the same requirements” as under the ITSA); Phyllis Schlafly Revocable Trust v. Cori, No. 16-cv-01631, 2016 WL 6611133, at \*2-3 (E.D. Mo. Nov. 9, 2016) (“The elements of Plaintiffs’ trade secret misappropriation claims under the DTSA and [the Missouri UTSA] are essentially the same.”); Chatterplug, Inc. v. Digital Intent, LLC, No. 16-cv-4056, 2016 WL 6395409, at \*3 (N.D. Ill. Oct. 28, 2016) (dismissing without prejudice a complaint alleging violations of both the DTSA and the ITSA, relying on ITSA precedent predating the DTSA to hold that the plaintiff failed “to provide Defendants with the general contours of the alleged trade secrets”); Mission Measurement Corp. v. Blackbaud, Inc., 216 F. Supp. 3d 915, 921-22 (N.D. Ill. 2016) (denying a motion to dismiss claims under the DTSA and the ITSA claims by relying on ITSA cases that pre-dated the DTSA); M.C. Dean, Inc. v. City of Miami Beach, Fla., 199 F. Supp. 3d 1349, 1353-54, 1356 (S.D. Fla. 2016) (comparing and finding the elements of trade secret misappropriation identical under the Florida UTSA and the DTSA before holding that Plaintiffs had not alleged proper steps to keep the alleged trade secrets confidential); Panera, LLC v. Nettles, No. 16-cv-1181-JAR, 2016 WL 4124114, at \*4 n. 2 (E.D. Mo. Aug. 3, 2016) (granting the plaintiff’s request for a TRO and stating that “[a]lthough the Court’s analysis has focused on [the plaintiff’s] Missouri trade secrets claim, an analysis under the DTSA would likely reach a similar conclusion.”); GTO Access Sys., LLC v. Ghost Controls, LLC, No. 16-cv-355-WS/CAS, 2016 WL 4059706, at \*1-2 (N.D. Fla. June 20, 2016), report and recommendation adopted, No. 4:16CV355-WS/CAS, 2016 WL 4059676 (N.D. Fla. July 27, 2016) (denying the plaintiff’s TRO motion but considering together alleged trade secret violations under the DTSA and the Florida UTSA).

However, at least one court has determined that the DTSA defines trade secrets more broadly than the UTSA. See Earthbound Corp. v. MiTek USA, Inc., No. C16-1150, 2016 WL 4418013, at \*10 (W.D. Wash. Aug. 19, 2016) (stating that the DTSA “defines trade secrets

similarly to but even more broadly than the UTSA”). Regardless, at this time, most courts addressing claims premised on the DTSA and state trade secrets laws have interpreted the definitions coextensively, and have not closely examined or highlighted discrepancies between them.

The following subsections highlight various fact patterns and issues that arise in defining trade secrets for purposes of claims under the DTSA.

**a) Types of trade secrets protected under the DTSA.**

In addition to the five categories of trade secrets identified in the UTSA (*i.e.*, formulas, patterns, compilations, programs, devices, methods, techniques, and processes), the DTSA enumerates an additional five categories of trade secrets: plans, designs, prototypes, procedures, and codes. Compare 18 U.S.C. § 1839(3), with UNIF. TRADE SECRETS ACT § 1.

The DTSA does not include customer or supplier lists in its definition of trade secrets. 18 U.S.C. § 1839(3). However, a number of courts explicitly recognize these two categories of information as trade secrets, including federal courts in Illinois. See Mickey’s Linen v. Fischer, No. 17 C 2154, 2017 WL 3970593, at \*9 n.2 (N.D. Ill. Sept. 8, 2017) (granting the plaintiff’s request for a preliminary injunction based on ITSA and DTSA claims and noting that “[a]lthough the DTSA does not expressly include customer lists within its definition of a trade secret, its definition... is applicable to customer lists”); Protection Techs., Inc. v. Ribler, No. 17-cv-144, 2017 WL 923912, at \*1-2 (D. Nev. Mar. 8, 2017) (granting the plaintiff’s TRO motion, finding it was likely to succeed on claims under the DTSA and Nevada UTSA for misappropriated customer lists). Courts in these states have interpreted the list of trade secret categories in the DTSA as non-exhaustive and as identifying some, but not all, of the potential types of trade secrets.

In particular, many courts applying the DTSA have expressly extended the DTSA’s coverage to customer lists, even though customer lists are not specifically enumerated in the statutory text. As one Illinois court reasoned, although the DTSA “does not expressly include customer lists within its definition of a trade secret, its definition includes any valuable business information for which reasonable measures are taken to maintain secrecy, and is therefore applicable to customer lists.” PrimeSource Bldg. Prods., Inc. v. Huttig Bldg. Prods., Inc., Nos. 16 CV 11390 and 16 CV 11468, 2017 WL 7795125, at \*16 (N.D. Ill. Dec. 9, 2017), supplemented sub nom. PrimeSource Bldg. Prods., Inc. v. Felten, No. 16 CV 11468, 2018 WL 10425603 (N.D. Ill. Feb. 1, 2018), on reconsideration, No. 16 CV 11468, 2018 WL 10425921 (N.D. Ill. Mar. 8, 2018); accord Gen. Sec., Inc. v. Com. Fire & Sec., Inc., No. 17CV1194DRHAYS, 2018 WL 3118274, at \*5 (E.D.N.Y. June 25, 2018). Similarly, a Louisiana federal court rejected the defendant’s argument that stolen customer lists were not trade secrets under the DTSA because “the definition of a trade secret under the DTSA is broad, and includes information that derives independent economic value from not being generally known to or ascertainable by other persons, that is the subject of reasonable efforts to maintain the information’s secrecy.” Complete Logistical Servs., LLC v. Rulh, 350 F. Supp. 3d 512, 518 (E.D. La. 2018) (internal quotations omitted). The court stated that “existing state law on trade secrets informs the Court’s application of the DTSA . . . [and] Louisiana courts have routinely held customer lists may constitute trade secrets [under the Louisiana UTSA].” Id.

**b) The trade secret information must be secret to those who can obtain value from it.**

Before it was modified by the DTSA, the EEA’s definition of “trade secret” required that the information be unknown to “the public.” 18 U.S.C. § 1839 (West 2022). In interpreting the element of secrecy before the EEA was amended, courts were split on the meaning of “the public.” United States v. Lange, 312 F.3d 263, 266 (7<sup>th</sup> Cir. 2002). The Third Circuit interpreted “the public” to mean “the general public, rather than simply those who can obtain economic value from the secret’s disclosure or use.” United States v. Hsu, 155 F.3d 189, 196 (3<sup>rd</sup> Cir. 1998). By contrast, the Seventh Circuit had reasoned that “the public” included only “potential users of the information, or proxies for them.” Lange, 312 F.3d at 268.

The DTSA replaces the phrase “the public” with the phrase “another person who can obtain economic value from the disclosure or use of the information.” 18 U.S.C. § 1839(3)(B). Thus, the statutory definition now generally tracks the definition set forth in the UTSA, and reflects the Seventh Circuit’s pre-DTSA interpretation. See Lange, 312 F.3d at 268; UNIF. TRADE SECRETS ACT § 1.

**c) The information must derive value from its secrecy.**

The DTSA retained the EEA’s requirement that information must derive independent economic value from its secrecy to qualify as a trade secret. Compare 18 U.S.C. § 1839(3)(B), with 18 U.S.C. § 1839(3)(B) (West 2022). Some pre-DTSA cases interpreting the EEA held that information is sufficiently valuable to merit trade secret protection where the information would allow a business to create a rival product or service if the information at issue were more widely known. See United States v. Hanjuan Jin, 833 F. Supp. 2d 977, 995 (N.D. Ill. 2012); Chung, 633 F. Supp. 2d at 1147-48. Additionally, cases both pre- and post-DTSA have addressed other types of information that may derive value from secrecy, such as technical data, customer lists or buying patterns, or other confidential files, as discussed in the cases that follow:

***Trade Secret Protection Granted:***

**Aon plc v. Infinite Equity, Inc., No. 19 C 7504, 2021 WL 4192072, at \*13-14, 16 (N.D. Ill. Sept. 15, 2021).** The court partially granted Aon’s requested preliminary injunction. The court held that the plaintiff was likely to succeed in proving its accounting metrics and valuation models were trade secrets because they provided economic value to those who used the plaintiff’s services. The plaintiff also successfully argued that client lists, including the identities of the highest revenue-producing clients, provided value because “a competitor with access to that information could target Aon’s largest equity clients just as [the defendant] has done here.”

**Life Spine, Inc. v. Aegis Spine, Inc., No. 19-cv-7092, 2021 WL 963811, at \*17 (N.D. Ill. Mar. 15, 2021), aff’d, 8 F. 4<sup>th</sup> 531 (7<sup>th</sup> Cir. 2021).** The court found that the plaintiff demonstrated that the components, construction, and dimensions of its product derived sufficient economic value from its secrecy because “allowing competitors to access that information would allow them to copy or give them a leg up in ... produc[ing] competing products.”

**Christie Clinic, LLC v. Youse, No 20-cv-2340, 2021 WL 1095332, at \*11 (C.D. Ill. Jan. 27, 2021).** While reserving judgment on the plaintiff’s motion for a preliminary injunction, the court held that information in a report including “pricing information, patient information, and insurance information” as well as productivity and cost information for employees, constituted protectable trade secrets. This information constituted “strategic business information that c[ould] be used to plan a competing” business.

**Moss Holding Co. v. Fuller, No. 20-cv-01043, 2020 WL 1081730, at \*6 (N.D. Ill. Mar. 6, 2020).** The court granted the plaintiff’s preliminary injunction in part. The court held that the plaintiff had successfully met its burden to show that the plaintiff’s client lists likely contained trade secret information where the plaintiff said they contained “some of its most valuable information, [which it] does not share ... with the public or individuals not involved in a client project.”

**Mighty Deer Lick, Inc. v. Morton Salt, Inc., No. 17-cv-05875, 2020 WL 635904, at \*5 (N.D. Ill. Feb. 11, 2020).** The court denied the defendant’s motion to dismiss. The court held that the plaintiff alleged sufficient value in its product formulas because the formulas included the “means for manufacturing the very [products] at issue in this case.”

**Xavian Insur. Co. v. Boeing Cap. Corp., No. 18 C 6222, 2019 WL 4750105, at \*7 (N.D. Ill. Sept. 30, 2019).** The court denied the defendant’s motion to dismiss. The defendant argued that the records it allegedly misappropriated had no economic value at the time they were misappropriated. The court rejected this argument, concluding that this was a factual dispute not suited for a motion to dismiss and that the complaint sufficiently alleged value.

**Aptargroup, Inc. v. Chamulak, No. 18 C 50328, 2019 WL 2425175, at \*5 (N.D. Ill. June 10, 2019).** The court denied the defendants’ motion to dismiss and held that the plaintiff sufficiently alleged that it derived “economic value from maintaining the confidentiality of [its technology, materials, and manufacturing methods] because the information is not known outside plaintiff, is not available through public sources and cannot be independently developed by its competitors.”

**Prominence Advisors, Inc. v. Dalton, No. 17 C 4369, 2017 WL 6988661 (N.D. Ill. Dec. 18, 2017).** The court dismissed the DTSA claims because of a failure to allege misappropriation, but it first held that the plaintiff had adequately alleged the existence of trade secrets including customer information, prospective customer information, employee agreements, personnel data, and other electronic data. This was because this information “gives [the plaintiff] a competitive advantage not enjoyed by those who do not possess that information.”

**Mickey’s Linen v. Fischer, No. 17 C 2154, 2017 WL 3970593, at \*9 (N.D. Ill. Sept. 8, 2017).** The court granted a preliminary injunction after concluding that customer lists, other customer information, and company financial information all derived economic value from their secrecy.

**Waymo LLC v. Uber Techs., Inc., No. C 17-00939 WHA, 2017 WL 2123560 (N.D. Cal. May 15, 2017).** The court entered a preliminary injunction prohibiting a former employee from working with a technology at his new employer after the plaintiff, his former employer, presented evidence

that the employee resigned immediately after downloading 14,000 confidential files related to developing self-driving technology. While the court noted that many of the plaintiff's claims for trade secret misappropriation were overbroad, it ruled that the plaintiff had supplied a compelling record that the new employer knew or should have known, when it brought the employees on board, that the employee had downloaded 14,000 files belonging to the plaintiff and that at least some of those files constituted trade secret material. The court held that the plaintiff had thus shown at least serious questions going to the merits concerning whether some information within the downloaded files had been used by the defendants and qualified for trade secret protection. Under that circumstance, a limited preliminary injunction was warranted to prevent the misuse of those downloaded files.

**Protection Techs., Inc. v. Ribler, No. 17-cv-144, 2017 WL 923912 (D. Nev. Mar. 8, 2017).** The plaintiff-former employer moved for a temporary restraining order to enjoin a former employee from using customer information that the employee secretly downloaded and emailed to himself, including customer information concerning the identities of the plaintiff's customers, products purchased by those customers, customer buying patterns, customer credit profiles, customer invoices and pricing, and other customer practices. The court issued the temporary restraining order, holding that these categories of information qualified for trade secret protection under the DTSA because the employer derived economic value from the secrecy of the information.

**United States v. Hanjuan Jin, 833 F. Supp. 2d 977, 1010 (N.D. Ill. 2012), aff'd, 733 F.3d 718 (7<sup>th</sup> Cir. 2013).** Following a bench trial in a pre-DTSA case, the court found that one of the documents taken by the defendant contained information "necessary to build a competing ... product." The court held that the document was a trade secret for purposes of the EEA, even though the document contained only information that the defendant argued would be useless unless the person receiving the information had experience with and knowledge of the underlying system.

**United States v. Shiah, No. SA CR 06-92, 2008 WL 11230384 (C.D. Cal. Feb. 19, 2008).** Following a criminal trial in a pre-DTSA case, the court found that information the defendant took from his former employer constituted a trade secret where others' knowledge of the information would destroy the former employer's "research and development advantage." The court also held that information that would harm customer relations by violating the customers' expectations of privacy if disseminated qualified as a trade secret, and that information about internal costs that "would allow competitors to compete more effectively with respect to price" was also a trade secret.

***Trade Secret Protection Denied:***

**Sirius Comput. Sol.'s, Inc. v. Sachs, No. 20-cv-1432, 2021 WL 1577798 (N.D. Ill. April 22, 2021).** The court granted the defendant's motion to dismiss the plaintiff's DTSA claim. The defendant compiled an Excel spreadsheet with the plaintiff's five key clients in a region along with contacts at those clients and their titles. The court held that the plaintiff "fail[ed] to adequately allege how this customer list has commercial value, especially because the information is generally known or readily ascertainable."



**ABC Acquisition Co. v. AIP Prod's Corp., NO. 18 cv 8420, 2021 WL 4607247, at \*9 (N.D. Ill. Aug. 11 2020).** The court granted two of the three defendants' motions for summary judgment. The court held that the plaintiff had failed to show that the technical drawings and other purported trade secrets were actually kept secret, and the plaintiff offered no evidence to indicate that there was actual or potential economic value from their secrecy.

**NEXT Payment Sol's, Inc. v. Clearesult Consulting, Inc., No. 1:17-cv-8829, 2020 WL 2836778, at \*11 (N.D. Ill. May 31, 2020).** The court granted the defendant's motion for summary judgment. The court had previously entered a motion to compel to force the plaintiff to describe the trade secrets and their economic value more completely. However, the plaintiff failed to give "evidence of a concrete secret or other information that would allow the Court or a fact finder to assess whether such information was kept secret or derives economic value."

**ATS Grp., LLC. V. Legacy Tank & Indus. Servs. LLC, 407 F. Supp. 3d 1186 (W.D. Okla. 2019).** The court dismissed claims under the DTSA and the Oklahoma UTSA without prejudice because the plaintiff failed to allege that its confidential financial statements, customer lists, and sales records had economic value because of their secrecy. Instead, the complaint "merely recite[d] the statutory definition of trade secrets" by stating that the trade secrets constituted information that derived independent economic value, actual or potential, from not being generally known. The complaint did not explain what in particular gave those records economic value. It did not, "for example, allege that the secrecy of the information provided [the plaintiff] with a competitive advantage."

**Signal Fin. Holdings LLC v. Looking Glass Fin. LLC, No. 17 C 8816, 2018 WL 636769, at \*5 (N.D. Ill. Jan. 31, 2018).** While granting a preliminary injunction on other claims, including against the use of a slide deck and financial information, the court denied an injunction to prevent the defendant from using draft employee agreements. The court held that such drafts were "not trade secrets[ because] they do not hold any independent economic value."

**d) The owner must take reasonable steps to maintain the information's secrecy.**

Much like under Illinois law, the owner of the information must take "reasonable measures" to maintain the information's secrecy in order for it to qualify as a trade secret. 18 U.S.C. § 1839(3)(A). Because the DTSA did not modify the EEA's requirement that the owner of a trade secret take "reasonable measures" to maintain secrecy, pre-DTSA cases applying the EEA remain instructive. In a pre-DTSA case interpreting EEA, the Northern District of Illinois held that "if the owner fails to attempt to safeguard his or her proprietary information, no one can be rightfully accused of misappropriating it." *United States v. Hanjuan Jin*, 833 F. Supp. 2d 997, 1008 (N.D. Ill. 2012) (quoting H.R. Rep. No. 104-788, at 7 (1996)), *aff'd*, 733 F.3d 718 (7<sup>th</sup> Cir. 2013).

However, the owner "need not take 'every conceivable step to protect the property from misappropriation'" but, rather, must utilize precautionary measures reasonable under the circumstances. *Id.*; see also *H.Q. Milton, Inc. v. Webster*, No. 17-CV-06598-PJH, 2017 WL 5625929, at \*4 (N.D. Cal. Nov. 22, 2017) (explaining that "reasonable measures" depends, in

part, on the size of a company and that the DTSA does not necessarily require “reasonable measures” that include encryptions, passwords, or confidentiality agreements, which “are not the exclusive measures a company might take to protect its information”). Reasonableness is assessed based on what was reasonable at the time of the defendant’s actions, not at the time of trial. Shiah, 2008 WL 11230384, at \*17. Below are cases describing measures that could be considered “reasonable” under the EEA and the DTSA:

**Scanz Tech., Inc. v. JewMon Ent., LLC, No. 20-22957-Civ-SCOLA, 2021 WL 65466 (S.D. Fla. Jan. 7, 2021).** The court denied a motion to dismiss the plaintiff’s claims under the Florida UTSA and the DTSA. In seeking dismissal, the defendants contended, among other things, that the owner of the trade secrets had not taken reasonable measures to keep the information confidential. In rejecting this argument, the court noted that the licensing agreement for the software prevented the defendants from copying the “look and feel” of the software. The licensing agreement also made clear that the plaintiff maintained ownership of all assets, technology, IP, or confidential information and that once the licensing agreement was terminated, the defendants were obligated to return or destroy all confidential information. The court held that these allegations were more than sufficient for the plaintiff to plausibly plead that it had taken reasonable steps to keep the trade secret information confidential.

**Brightview Group, LP v. Teeters, 441 F. Supp. 3d 115 (D. Md. 2020).** While granting the plaintiff’s motion for a preliminary injunction, the court found that the plaintiff was likely to succeed on the merits of its claim under the DTSA and the Maryland UTSA. The court found that limiting access to trade secret data to approximately 3% of the company’s total workforce was sufficient to show a likelihood of success in proving the plaintiff had taken “reasonable measures” to secure the information. The company also had a policy in its employee handbook regarding the handling of sensitive information. The court held that the fact that employees who had access to the trade secrets in question were allowed to save them to personal devices did not negate the company’s otherwise-reasonable methods to protect secrecy.

**Syntel Sterling Best Shores Mauritius Ltd. V. TriZetto Grp., Inc., No. 15-cv-211, 2016 WL 5338550 (S.D.N.Y. Sept. 23, 2016).** In a case filed before the DTSA that alleged claims of misappropriation of confidential information, the court granted the counterclaimants leave to amend their complaint to state a DTSA claim. The court reasoned that the counterclaimants had sufficiently alleged that “[t]he Intellectual Property at issue in the proposed amendments [fell] within the scope of trade secrets protected by [the DTSA]” because the counterclaimants alleged (1) “that they have taken reasonable measures to keep the information secret by making those who use it subject to confidentiality provisions and limitations, and only making it accessible through strictly controlled servers,” (2) “that the information is valuable and crucial to the business functions and competitive position of” counterclaimants, and (3) that the counter-defendant had downloaded the intellectual property without consent from counterclaimants’ servers and from “other repositories” and then used the information for its own purposes and financial gain.

**United States v. Hanjuan Jin, 833 F. Supp. 2d 977 (N.D. Ill. 2012), aff’d, 733 F.3d 718 (7<sup>th</sup> Cir. 2013).** After a bench trial, the court found the

defendant guilty of theft of trade secrets under the Economic Espionage Act. As part of that ruling, the court held that the plaintiff had taken reasonable measures to protect its trade secrets because it protected computers with passwords, encrypted at least some files, and secured its building with security cameras and a staff of security officers. The court held such efforts were sufficient, even though the defendant had been able to walk past a security guard and exit the building with “arms full of papers and binders” containing confidential information, and the owner did not monitor large downloads or USB drive usage.

**e) The trade secret must relate to interstate or foreign commerce.**

The DTSA allows a party to bring an action only “if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” 18 U.S.C. § 1836(b)(1). The criminal provision of the EEA contains similar language, creating criminal liability for the theft of only those trade secrets “that [are] related to a product or service used in or intended for use in interstate or foreign commerce.” See 18 U.S.C. § 1832. In interpreting this provision of the EEA, courts have broadly construed the phrase “related to,” reasoning that “[t]he use of so deliberately expansive a term as ‘related to’ hardly signals” congressional intent to “limit the EEA’s reach through a restrictive nexus provision.” United States v. Agrawal, 726 F.3d 235, 248 (2d Cir. 2013). However, courts also have held that Congress did not exercise its full Commerce Clause authority when crafting that requirement for criminal liability under the EEA. Id. at 247-48. Congress used that same “related to” language in creating civil liability under the DTSA, and courts have construed it similarly. Compare 18 U.S.C. § 1832(a), with 18 U.S.C. § 1836(a). Accordingly, to meet the jurisdictional nexus under the DTSA, a plaintiff should show a relationship between the confidential or secret information and a product or service used in, or intended for use in, interstate commerce. Islands Hospice, Inc. v. Duick, No. CV 19-00202-JMS-WRP, 2019 WL 4620369, at \*5 (D. Haw. Sept. 23, 2019). The following cases are examples of how courts evaluate whether that nexus has been satisfied:

**Mighty Deer Lick, Inc. v. Morton Salt, Inc., No. 17-cv-05875, 2020 WL 635904, at \*6 (N.D. Ill. Feb. 11, 2020).** The court held that the plaintiff had alleged enough of a relationship to interstate or foreign commerce for the court to infer such a relation and the DTSA claim to survive a motion to dismiss. The court relied upon a contract which “provided for the sale of ... products in Canada,” explaining that because “the parties explicitly amended the contract to allow for goods crossing state and international borders,” the court could “infer that they did so.”

**Island Hospice, Inc. v. Duick, No. CV 19-00202-JMS-WRP, 2019 WL 4620369 (D. Haw. Sept. 23, 2019).** The court granted the defendant’s motion to dismiss, without prejudice, concluding the plaintiff had not satisfied the jurisdictional nexus requirement under the DTSA because the trade secret in question was the business information regarding running a successful home-care program that was not related to interstate or foreign commerce. The plaintiff offered three reasons why it satisfied the jurisdictional nexus requirement, but none of them persuaded the court. First, the plaintiff argued that its in-home care service used products that moved through interstate commerce. The court held this was not enough because the plaintiff failed to explain how the products that moved through interstate

commerce related to the plaintiff's claimed trade secrets. Second, the plaintiff argued that the trade secrets at issue encompassed methods, formulas, processes, and procedures for procuring various products through interstate commerce. While the court noted that such a relationship with interstate commerce might be sufficient on some facts, the court found the argument inconsistent with the theory the plaintiff actually had pled, which alleged the trade secrets were the methods, formulas, techniques, processes, and procedures used to implement a supportive care program. Finally, the plaintiff argued that there was a sufficient relationship to interstate commerce because "a substantial portion of the services dependent on the trade secrets" relied on and were subject to Medicare regulation and funding. The court also rejected that argument, concluding that the service the plaintiff offered was not used in or intended for use in interstate commerce and that tangential relationships between the trade secret and interstate commerce were not enough.

**Complete Logistical Servs., LLC v. Rulh, 350 F. Supp. 3d 512 (E.D. La. 2018).** The court denied the defendant's motion to dismiss the plaintiff's claim under the DTSA, explaining that the plaintiff sufficiently pled facts to meet the DTSA's interstate commerce requirement because the alleged trade secrets included profit and loss statements, customer lists, and sales analyses involved in interstate commerce. The plaintiff was a Louisiana corporation but did business in other states via the Internet and over the phone, meaning the trade secret misappropriation included information regarding out-of-state clients.

**Gov't Employees Ins. Co. v. Nealey, 262 F. Supp. 3d 153 (E.D. Pa. 2017).** The court dismissed the plaintiff's claim under the DTSA without prejudice, explaining that the plaintiff did not adequately plead the required jurisdictional nexus. The plaintiff contended that its claims data for certain insurance customers were trade secrets, but the court rejected this argument, explaining that the data was related entirely to customers located within one state. Among other reasons for dismissal, the court explained that there was no subject-matter jurisdiction because the complaint "[did] not allege any nexus between interstate or foreign commerce and the alleged trade secrets" in question and thus did not state a claim under the DTSA.

## **2. Definition of misappropriation.**

The DTSA defines misappropriation as:

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

(B) disclosure or use of a trade secret of another without express or implied consent by a person who--

(i) used improper means to acquire knowledge of the trade secret;

(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was--

(I) derived from or through a person who had used improper means to acquire the trade secret;

(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(iii) before a material change of the position of the person, knew or had reason to know that--

(I) the trade secret was a trade secret; and

(II) knowledge of the trade secret had been acquired by accident or mistake.

18 U.S.C. § 1839(5). This definition is nearly identical to the definition found in the UTSA and the ITSA. Compare 18 U.S.C. § 1839(5), with UNIF. TRADE SECRETS ACT § 1(2), and 765 ILCS 1065/2(b) (West 2022). The DTSA further defines “improper means” to include “theft, bribery, misrepresentation or inducement of a breach of a duty to maintain secrecy, or espionage.” 18 U.S.C. § 1839(6). The definition specifically excludes “reverse engineering, independent derivation, or any other lawful means of acquisition.” Id.

**a) Courts often analyze misappropriation under the DTSA by relying on state-law misappropriation standards.**

Because of the similarities between the DTSA and ITSA definitions of misappropriation, the discussion of misappropriation in Section II, supra, should largely apply to misappropriation issues under the DTSA. Decisions from courts in Illinois have borne this out, with courts holding that “[t]he definitions of ‘trade secret,’ ‘misappropriation,’ and ‘improper means’ are substantially similar under the Illinois Trade Secrets Act” and under the DTSA. Signal Fin. Holdings LLC v. Looking Glass Fin. LLC, No. 17 C 8816, 2018 WL 636769, at \*3 (N.D. Ill. Jan. 31, 2018); see also Chamberlain Grp., Inc. v. Techtronic Indus. N. Am., Inc., No. 16 CV 06113, 2017 WL 4269005, at \*6 (N.D. Ill. Sept. 26, 2017); Molon Motor & Coil Corp. v. Nidec Motor Corp., No. 16 C 03545, 2017 WL 1954531, at \*2–3 (N.D. Ill. May 11, 2017). As a consequence, courts often analyze misappropriation under the DTSA by pointing to case law decided under the ITSA.

For example, in a case granting a preliminary injunction against the defendants, the Northern District of Illinois analyzed the DTSA and the ITSA claims together using the six

factors from the Seventh Circuit's ITSA decision, Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 722 (7th Cir. 2003), to determine whether misappropriation had occurred. PrimeSource Bldg. Prods., Inc. v. Huttig Bldg. Prods., Inc., Nos. 16 CV 11390 and 16 CV 11468, 2017 WL 7795125, at \*13 (N.D. Ill. Dec. 9, 2017), supplemented sub nom. PrimeSource Bldg. Prods., Inc. v. Felten, No. 16 CV 11468, 2018 WL 10425603 (N.D. Ill. Feb. 1, 2018), on reconsideration, No. 16 CV 11468, 2018 WL 10425921 (N.D. Ill. Mar. 8, 2018).

Likewise, in Signal Financial, the court granted a preliminary injunction after finding that the plaintiff's slide deck was a trade secret and that the defendant misappropriated that trade secret under both the ITSA and the DTSA. 2018 WL 636769, at \*3-5. The court explained the plaintiff was likely to succeed in showing the slide deck was a trade secret because the plaintiff created the information on the deck, took reasonable measures to keep the slide deck secret, and marked each copy as confidential. Id. at \*4-5. Moreover, the defendant misappropriated the deck when she emailed it to her personal email account after she resigned. Id. Despite analyzing the DTSA and ITSA claims together, the court did note that the ITSA is slightly more restrictive, explaining that in addition to showing that a trade secret was misappropriated, a plaintiff must also show that the trade secret was used in the defendant's business. Id. at \*3. Here, that requirement was satisfied. Id.

**b) Courts wrestle with the DTSA's specific exclusion for acquisition by "any other lawful means."**

Courts have not been consistent in determining when an employee's retention of trade secrets constitutes trade secret misappropriation. The DTSA and the UTSA definitions of misappropriation differ slightly because the DTSA contains a residual clause excluding "any other lawful means" from the definition of "improper means." Compare 18 U.S.C. § 1839(5), with UNIF. TRADE SECRETS ACT § 1(1).

Some courts have refused to find misappropriation under the DTSA where employees lawfully gained access and control over trade secrets during the course of their employment but failed to return them upon termination. Packaging Corp. of Am., Inc. v. Croner, 419 F. Supp. 3d 1059, 1066 (N.D. Ill. 2020) (holding that an employee did not misappropriate trade secrets when he failed to return the qualifying information because he acquired the information through the normal course of employment, and the plaintiff company had paid him to acquire, accumulate, and assemble it); Prominence Advisors, Inc. v. Dalton, No. 17-CV-04369, 2017 WL 6988661 at \*4 (N.D. Ill. Dec. 18, 2017) (rejecting the argument that an employee obtained information by improper means and engaged in "misappropriation" of trade secrets under the DTSA even though he continued to retain access to a Dropbox folder and external hard drive containing confidential information after departing the company because he initially acquired access to the information during the normal course of his employment).

Other courts, however, have held that failing to return trade secrets, or sending trade secret information to personal computers, is misappropriation. Molon Motor & Coil Corp. v. Nidec Motor Corp., No. 16 C 03545, 2017 WL 1954531, at \*2-3 (N.D. Ill. May 11, 2017) (holding that the plaintiff alleged misappropriation sufficient to survive a motion to dismiss where an employee used his regular log-in credentials to download files containing trade

secrets that he was allowed to access but did so in anticipation of quitting and taking the secrets with him to a would-be competitor); see also AUA Private Equity Partners, LLC v. Soto, No. 1:17-CV-8035-GHW, 2018 WL 1684339 (S.D.N.Y. Apr. 5, 2018) (holding that uploading trade secrets to a personal Google Drive account would qualify as an acquisition through improper means because the employee’s access to the trade secrets did not give her control over the secrets, and she violated the company’s confidentiality policies and her “duty to maintain the secrecy of [her employer’s] trade secrets.”); Yager v. Vignieri, No. 16-CV-9367(DLC), 2017 WL 4574487, at \*8 (S.D.N.Y. Oct. 12, 2017) (suggesting, in dicta, that sending work documents containing trade secrets to personal e-mail accounts could be considered an acquisition of trade secrets by improper means).

### **C. Distinctions between the DTSA and the UTSA.**

Despite courts typically treating the DTSA and the UTSA coextensively, there are notable differences in the statutory texts that may lead to different results under state and federal law in certain cases.

#### **1. The DTSA protects trade secrets regardless of methods of storage.**

The first notable difference between the DTSA and the UTSA is the DTSA’s extension of trade secret protection to information irrespective of “how [the information is] stored, compiled, or memorialized.” 18 U.S.C. § 1839(3). The UTSA does not contain a similar provision, and some courts interpreting their state’s version of the UTSA have held that information learned during the regular course of employment and maintained in the memory of an employee is not a trade secret. See, e.g., Amerigas Propane, L.P. v. Coffey, No. 14 CVS 376, 2015 WL 6093207, at \*12 (N.C. Super. Ct. Oct. 15, 2015). Because the DTSA, however, specifically provides that information can qualify as a trade secret “whether” or not it is stored, memorized information may qualify under DTSA. See First W. Cap. Mgmt. Co. v. Malamed, No. 16-cv-1961, 2016 WL 8358549, at \*8 (D. Colo. Sept. 30, 2016) (holding that former employee’s memory and knowledge of former employer’s client identities, fees his former employer charged clients, and client preferences qualified as trade secrets under the DTSA), rev’d on other grounds by, 874 F.3d 1136 (10th Cir. 2017). This difference could mean that the DTSA’s protections are broader than those offered under some state’s trade-secret laws.

#### **2. The DTSA enumerates six categories of protectable trade secrets.**

A second distinction between the DTSA and the UTSA is that the DTSA specifically enumerates six categories of information eligible for trade secret protection (financial, business, scientific, technical, economic or engineering information), while the UTSA refers to “information” generally. Compare 18 U.S.C. § 1839(3), with UNIF. TRADE SECRETS ACT § 1. However, the distinction may make little difference in how the laws are analyzed. The pre-DTSA EEA definition of trade secret similarly included the same six categories of information that the DTSA includes. 18 U.S.C. § 1839(3) (West 2022). Before the DTSA was enacted, courts determining whether information constituted a trade secret under the EEA consistently limited their analyses to the three elements of secrecy, value, and protection, without discussing whether the information was one of the six types of information enumerated in the definition section of the EEA. See, e.g., United States v. Chung, 633 F. Supp. 2d 1134,

1147 n.14 (C.D. Cal. 2009); United States v. Shiah, No. SA CR 06-92 DOC, 2008 WL 11230384, at \*16-21 (C.D. Cal. Feb. 19, 2008). After the DTSA was enacted, several courts have followed this approach when interpreting whether information qualifies as a trade secret by analyzing the same three elements of secrecy, value, and protection. *See, e.g., Syntel Sterling Best Shores Mauritius Ltd. v. TriZetto Grp., Inc.*, No. 15-cv-211, 2016 WL 5338550, at \*6 (S.D.N.Y. Sept. 23, 2016); Earthbound Corp., 2016 WL 4418013, at \*10. As discussed above, courts analyze DTSA and UTSA claims together in most cases. When interpreting both statutes, most courts find that the definitions and factors to consider are identical. *E.g., Molon Motor & Coil Corp. v. Nidec Motor Corp.*, No. 16 C 03545, 2017 WL 1954531, at \*2-3 (N.D. Ill. May 11, 2017).

#### **D. Inevitable Disclosure Under The DTSA.**

When DTSA was passed, many observers believed that the explicit language of the DTSA might restrict the inevitable disclosure doctrine because it does not allow injunctive relief that “prevent[s] a person from entering into an employment relationship” based “merely on the information the person knows,” and requires courts to base injunctive relief on “evidence of threatened misappropriation.” 18 U.S.C. § 1836(b)(3)(A)(i)(I).

That has not turned out to be the case for those federal courts that sit in states that recognize the inevitable disclosure doctrine. As a result, there is no uniform approach to analyzing the claims under the DTSA using the inevitable disclosure doctrine. For a full discussion of inevitable disclosure, see Section III.B of the Outline and Appendix A.

Here are cases where federal courts have recognized the inevitable disclosure doctrine when evaluating a DTSA claim. Notably, no Court of Appeals has rendered a decision on whether the inevitable disclosure doctrine is available under the DTSA. The Third Circuit’s decision in Fres-Co, discussed below, comes closest, as it alludes to the doctrine but does not explicitly endorse it.

##### **Federal District Courts in Illinois:**

**Packaging Corp. of Amer., Inc. v. Croner, 419 F. Supp. 3d 1059 (N.D. Ill. 2020).** The court granted the defendant’s motion to dismiss, with prejudice, the plaintiff’s claims under the ITSA and the DTSA. The court analyzed the plaintiff’s inevitable disclosure theory in evaluating the plaintiff’s effort to state a DTSA claim. The court noted that although the Seventh Circuit “has permitted inevitable disclosure claims under the ITSA, it has not explicitly allowed them under the DTSA. Other courts in this district, however, have analyzed inevitable disclosure under both laws, which suggests that the law is available in either context.”

**Gen. Elec. Co. v. Uptake Techs., Inc., 394 F. Supp. 3d 815 (N.D. Ill. 2019).** The court held that a plaintiff stated a claim under the DTSA based on an inevitable disclosure theory. The defendants had argued that the DTSA does not recognize the inevitable disclosure doctrine, but the court held “that a DTSA claim based on inevitable disclosure may survive a motion to dismiss.”

**AptarGroup, Inc. v. Chamaluk, No. 18 C 50328, 2019 WL 2425175, at \*5 (N.D. Ill. June 10, 2019).** The plaintiff, a developer and manufacturer of dispensing and sealing products used in consumer good packaging, sought a



preliminary injunction against a former executive who left to become the CEO of a competitor. The defendant also moved to dismiss. In evaluating the motions, the court noted that claims under the ITSA and DTSA are analyzed together, and determined that the plaintiff had alleged trade secret misappropriation using the inevitable disclosure doctrine. Specifically, the court determined that the defendant's new position involved overseeing a direct competitor's packaging business and thus was comparable to her prior position in which she supervised similar operations. Moreover, the plaintiff sought assurances from the defendant and her new employer that she "would not render services in connection with products that compete with [the] plaintiff's products or be employed in a position where she could use or disclose [the] plaintiff's confidential information," but the defendant and her new employer refused to provide those assurances. Accordingly, the court denied the motion to dismiss but delayed ruling on the motion for a preliminary injunction until the plaintiff provided "a much more clearly defined description of what information specifically plaintiff wants to keep defendant from using and why that information warrants protection."

**PrimeSource Bldg. Prods., Inc. v. Huttig Bldg. Prods., Inc., Nos. 16 CV 11390, 16 CV 11468, 2017 WL 7795125, at \*13 (N.D. Ill. Dec. 9, 2017), supplemented sub nom. PrimeSource Bldg. Prods., Inc. v. Felten, No. 16 CV 11468, 2018 WL 10425603 (N.D. Ill. Feb. 1, 2018), on reconsideration, No. 16 CV 11468, 2018 WL 10425921 (N.D. Ill. Mar. 8, 2018).** The court denied the plaintiff's request for injunctive relief against alleged trade secret misappropriation. In doing so, it decided that the inevitable disclosure doctrine was unlikely to apply in the case because the plaintiff's only facts to support an inevitable disclosure theory involved the former employee's similar position at a competitor. The court explained that, without more, "PrimeSource's likelihood of prevailing on its claims under the ITSA or the DTSA ... is low."

**Cortez, Inc. v. Doheny Enters., Inc., No. 17 C 2187, 2017 WL 2958071 (N.D. Ill. July 11, 2017).** The court denied the plaintiff's motion for a preliminary injunction on claims under the DTSA and ITSA. The court cited Illinois precedent to describe the inevitable disclosure doctrine, but held that the plaintiffs had not presented sufficient evidence that the doctrine applied. The court did not differentiate between the ITSA and the DTSA in determining whether the principle could apply.

**Molon Motor & Coil Corp., No. 16 C 03545, 2017 WL 1954531 (N.D. Ill. May 11, 2017).** The court denied the defendant's motion to dismiss. It held that the plaintiffs had alleged inevitable disclosure in a manner that was sufficient to proceed with their claims under the ITSA and the DTSA. The court discussed claims under the ITSA and the DTSA "together because the pertinent definitions of the two acts overlap." The court also refused to dismiss the DTSA claim on the basis of the defendant's argument that no misappropriation occurred after the effective date of the DTSA. The court disagreed and stated that for the purpose of a motion to dismiss, "[t]he key question is whether the inference of inevitable disclosure reasonably extends to continued use beyond [DTSA's] effective date." The court thought the plaintiffs' allegations plausibly addressed this timing consideration.

#### **Federal District Courts in Other States:**

**Jazz Pharms., Inc. v. Synchrony Group, LLC, 343 F. Supp. 3d 434 (E.D. Pa. 2018).** The court denied the defendant's motion to dismiss the plaintiff's

claims under the DTSA and the Pennsylvania UTSA. Analyzing the statutes together, the court held the plaintiff pled sufficient allegations to survive a motion to dismiss, reasoning in part that “[t]he Third Circuit has held that where an employee’s work for a new employer substantially overlaps with work for a former employer, based on the same role, industry, and geographic region, a district court may conclude that those employees would likely use confidential information to the former employer’s detriment.”

**Prime Therapeutics LLC v. Beatty, 354 F. Supp. 3d 957 (D. Minn. 2018).**

The court denied the plaintiff’s motion for a TRO and preliminary injunction based on a theory of inevitable disclosure under the DTSA and Minnesota UTSA. The court found that there was not sufficient evidence that the plaintiff’s trade secrets would be inevitably disclosed under either statute because “courts that have addressed the issue require the same showing of ‘inevitable disclosure’ of trade secrets under both statutes.” This was based on the court’s finding that the parties were not direct competitors and the fact that the plaintiff’s former employee’s new job seemed “purposefully designed and sufficiently distinct so that disclosure of [plaintiff’s] trade secrets [was] unlikely, and certainly not inevitable.”

**Panera LLC v. Nettles, No. 4:16-cv-1181, 2016 WL 4124114 (E.D. Mo.**

**Aug. 3, 2016).** The court granted a TRO under both the DTSA and the Missouri UTSA. While the court noted that Missouri had not formally adopted the inevitable disclosure doctrine and that the Eighth Circuit had not adopted the doctrine “with regard to federal trade secret claims,” it found that “the rationale underpinning such a theory [was] helpful to understand... why Nettles’ performance of his new role would almost certainly require him to draw upon and use trade secrets and the confidential strategic planning to which he was privy at [his former employer].” The court found that such inevitable disclosure would irreparably harm the plaintiff, which in consideration with the other balancing factors entitled the plaintiff to a TRO.

**Federal Circuit Courts of Appeal:**

**Fres-co Systems USA, Inc. v. Hawkins, 690 F. App’x 72 (3d Cir. 2017).**

The Third Circuit analyzed a trial court’s grant of injunctive relief and remanded for the district court to more directly analyze the plaintiff’s likelihood of success on the merits, the balance of equities, and the public interest. However, the court affirmed the district court’s analysis of irreparable harm. In its analysis, the Third Circuit used language alluding to the inevitable disclosure doctrine. The trial court issued an injunction barring the employee from disclosing the plaintiff’s confidential information and from soliciting clients whom he had serviced while he worked for the plaintiff. Although the Third Circuit did not mention the inevitable disclosure doctrine by name, it concluded that the district court was within its discretion to find that the plaintiff satisfied the irreparable harm element of the preliminary injunction inquiry because its former employee “would likely use his confidential knowledge [obtained during his former employment]” to his former employer’s detriment in his new job with a direct competitor. In reaching this conclusion, the court emphasized the “substantial overlap” between what the former employee had done while he worked for the plaintiff and what he planned to do during the course of employment at its direct competitor. The court noted that the former employee would be working in “the same role, same industry, [and] same geographic region.” In other words, the Third Circuit agreed with the plaintiff’s argument that its former employee would be unable to perform his new job duties without inevitably

using or disclosing its trade secrets, even though the plaintiff had not adduced any specific proof that the employee would do so.

In contrast, other federal courts situated in states where the inevitable disclosure doctrine has been rejected for state-law claims also have tended to reject the doctrine for claims under the DTSA:

**Power Integrations, Inc. v. De Lara, No. 20-cv-410-MMA (MSB), 2020 WL 1467406 (S.D. Cal. Mar. 26, 2020).** The court dismissed the plaintiff's breach of confidentiality and DTSA claims without prejudice. The court justified those dismissals on grounds that California courts have rejected the inevitable disclosure doctrine. The court noted that California law allows courts to enjoin employment only based on actual or threatened misappropriation, and mere possession of a trade secret by a former employee does not constitute such a threat.

**UCAR Tech. (USA) Inc. v. Yan Li, No. 17-cv-1704, 2017 WL 6405620 (N.D. Cal. Dec. 15, 2017).** The court granted the defendants-counterclaimants' motion to strike certain allegations from the complaint. The court dismissed the plaintiff's claims under the DTSA based on the defendants' inability to separate the plaintiff's trade secrets and confidential information from general knowledge when starting a competing company in the exact technology space that they worked in for the plaintiff. The court reached this conclusion by noting that "California courts have resoundingly rejected claims based on the 'inevitable disclosure' theory," but it did not consider separately whether the DTSA would support a claim based on the inevitable disclosure theory. While the court struck the claims that rested on the inevitable disclosure theory, it permitted other claims under the DTSA alleging misappropriation of trade secrets to stand because those claims rested on allegations that the defendants had retained proprietary computer data that belonged to the plaintiff.

#### **E. Pleading Requirements.**

To plausibly plead a cause of action under the DTSA, the plaintiff must allege three things: "(1) it owns a trade secret; (2) the trade secret was misappropriated; and (3) the trade secret implicates interstate or foreign commerce." Space Sys./Loral, LLC v. Orbitak ATK, Inc., 306 F. Supp. 3d 845, 853 (E.D. Va. 2018); see also 18 U.S.C. § 1836 (b)(1).

Plaintiffs must allege these claims with "sufficient specificity" to put defendants on notice of the general claims. Medidata Sol, Inc. v. Veeva Sys. Inc., No. 17 Civ. 589 (LGS), 2018 WL 6173349, at \*3 (S.D.N.Y. Nov. 26, 2018) (concluding that the plaintiff sufficiently identified the trade secrets at issue when it specified "numerous specific categories of information relating to its software, marketing and business plans... [giving] Defendants adequate notice as to what the misappropriation allegations concern"). However, that does not create a "heightened pleading requirement on actions brought under the DTSA." Tesla Wall Sys., LLC v. Related Cos., L.P., No. 17-cv-5966 (JSR), 2017 WL 6507110, at \*10 (S.D.N.Y. Dec. 18, 2017).

In addition, at least one court has held there is no requirement to plead damages to state a DTSA claim. Blue Star Land Servs., LLC. v. Coleman, No. CIV-17-931-R, 2017 WL 6210901 at \*4, n.2 (W.D. Okla. Dec. 8, 2017). For instance, in Blue Star Land Services, the

Western District of Oklahoma acknowledged that other courts had assumed that the DTSA contained a requirement to plead specific damages. *Id.* The court explained that “damages may come into play eventually pursuant to 18 U.S.C. § 1836(b)(3)(B),” but held that “pleading them is not required at [the motion to dismiss] stage for a federal misappropriation claim.” *Id.*

### 1. Pleading the existence of a trade secret.

To plead the existence of a trade secret for purposes of a DTSA claim, the plaintiff must identify “information that: (a) the owner has taken reasonable means to keep secret; (b) derives independent economic value, actual or potential, from being kept secret; (c) is not readily ascertainable by proper means; and (d) others who cannot readily access it would obtain economic value from its disclosure or use.” Franklin Interiors, Inc. v. Peter M. Wesolosky, Dirt Env’t Sols., Inc., No. 20CV1423, 2020 WL 8264115, at \*4 (W.D. Pa. Oct. 21, 2020).

The plaintiff generally must identify the trade secrets in question at the pleadings stage with sufficient particularity to inform the defendant of the relevant issues before discovery. This runs contrary to most types of claims, where discovery is wide-ranging to preserve the plaintiff’s rights. Some courts have held that permitting a claim to proceed into discovery without identification of the trade secret could result in impermissible “fishing expeditions” to uncover the trade secrets of competitors, could render mounting a defense “difficult, if not impossible,” and could allow plaintiffs to “mold [their] cause of action around the discovery” they receive. Kalencor Corp. v. Shulman, No. CV 17-5453, 2018 WL 1806037, at \*3 (E.D. La. Apr. 17, 2018). While a plaintiff does not have to explain trade secrets in detail during the pleading stage, the complaint must “allege facts sufficient to identify the information for which protection is claimed and sufficient information about its nature, value, and measures taken to safeguard it to support an inference that the information qualifies as a trade secret.” Lawrence v. NYC Med. Practice, P.C., No. 1:18-cv-8649-GHW, 2019 WL 4194576, at \*4 (S.D.N.Y. Sept. 3, 2019) (internal quotations omitted). Accordingly, the “growing consensus seems to be in favor of requiring those plaintiffs bringing claims of trade secret misappropriation to identify, with reasonable particularity, the alleged trade secrets at issue.” *Id.* at \*2. But see JJ Plank Co., LLC v. Bowman, No. 3:18-CV-00798, 2018 WL 3545319, at \*3 (W.D. La. July 23, 2018) (while “pre-discovery identification seems to be the predominate trend[,] . . . a mandat has not arisen,” as this “area of litigation is complex, contentious, and fact-intensive”). However, courts do not mandate that plaintiffs reveal the exact details of their purported trade secrets, as that would mean those secrets would be revealed through public disclosure. DFO Global Performance Commerce Ltd. v. Nirmel, No. 20-cv-6093 (JPO), 2021 WL 3475596, at \*4 (S.D.N.Y. Aug. 6, 2021) (“the plaintiff need not identify the precise trade secrets or otherwise reveal those secrets in the Complaint simply to prove they exist”) (internal citations and quotations omitted). The following cases are examples of how courts approach this issue:

#### *Plaintiff Adequately Pled the Existence of Trade Secrets:*

**In re Dealer Mgmt. Sys. Antitrust Litig., 362 F. Supp. 3d 558 (N.D. Ill. 2019).** The court held that the defendant/counter-plaintiff had plausibly pled a claim for trade secret misappropriation under the DTSA and denied the counter-defendant’s motion to dismiss. The court held that the counter-plaintiff plausibly pled the existence of trade secrets and stated them with sufficient particularity by identifying “[counter-plaintiff]-created forms,

accounting rules, tax tables, and proprietary tools and data compilations.” While the court recognized “that [the counter-plaintiff’s] allegations regarding the claimed trade secrets are not robust,” it concluded that the allegations “permit[ted] [the counter-defendants] to discern what trade secrets are at issue.” The court rejected the counter-defendant’s argument that the counter-plaintiff had to plead the trade secrets “with particularity,” reasoning that case law or pleadings standards did not support such a requirement.

**Vendavo, Inc. v. Long, 397 F. Supp. 3d 1115 (N.D. Ill. 2019).** The court partially granted the plaintiff’s motion for preliminary injunction, holding that the plaintiff had sufficiently identified the alleged trade secrets. The plaintiff alleged that the defendant, a former employee, had misappropriated five things: customer lists that also identified potential future customers and revenue projections, the plaintiff’s sales projections and “pipelines” that it cultivated for future growth, historical sales and revenue reports, up-to-date marketing plans including plans for future product and client development, and current and future pricing models along with the methods of determining pricing. The court found these allegations “sufficiently definite” for the court and parties to determine what information comprised the trade secrets, and whether that information was kept secret.

**Waymo LLC v. Uber Techs., Inc., No. C 17-00939 WHA, 2017 WL 2123560 (N.D. Cal. May 15, 2017).** The court granted a temporary restraining order in favor of the plaintiff against all defendants, including the plaintiff’s former employee and new employer. The former employee had downloaded 14,000 files from the company immediately before resigning, creating a competing company, and then selling that company to Uber. The court noted that the plaintiff posed serious questions regarding how the defendants made certain technical decisions if they had not misappropriated the plaintiff’s technical information. Thus, the court found “at least some of the information in the 14,000-plus downloads likely qualifies for trade secret protection.” While granting limited preliminary relief, the court noted that the plaintiff had tried to claim as trade secrets “broad swaths of [potential] solutions to general competing considerations and engineering trade-offs rather than the single, specific solution adopted by [the plaintiff].” This, the court held, was too broad and would allow “any company to leverage a single solution into a monopoly over broad swaths” of information related to general problems every industry actor faced.

***Plaintiff Did Not Adequately Plead the Existence of Trade Secrets:***

**Digital Mentor, Inc. v. Ovivo USA, LLC, No. C17-1935-RAJ, 2018 WL 993944 (W.D. Wash. Feb. 21, 2018).** The court denied the plaintiff’s motion for preliminary injunction, holding that the plaintiff failed to demonstrate the existence of a trade secret when it failed to identify what “innovative features” it considered to be a trade secret. The court also noted that the plaintiff failed to identify “what processes, what technology, and what system it was trying to protect” and therefore failed to show the required likelihood of success to warrant a preliminary injunction.

**Kalencom Corp. v. Shulman, No. 17-5453, 2018 WL 1806037 (E.D. La. April 17, 2018).** The court denied the plaintiff’s motion to compel because it held that plaintiff’s “vast and generic description” of its alleged trade secret made it “impossible to narrow its discovery request to relevant information.” The plaintiff, a manufacturer of jewelry boxes and other small goods, did not

limit its trade secret or confidentiality claims to jewelry box designs, or even designs in general. Instead, it claimed a “generic laundry list of confidential and proprietary information,” so the court held that amount of generality would lead to a fishing expedition instead of meaningful discovery. As a result, the court held that before it would consider another such motion, the plaintiff must identify the allegedly misappropriated information and/or trade secrets with reasonable particularity and “should only include information on the list if it can show that the information was confidential and proprietary, and if it has a reasonable basis to believe that [the defendant] has used or is using the information since leaving her work with [the plaintiff].”

**Waymo LLC v. Uber Techs., Inc., No. C 17-00939, 2017 WL 6887040 (N.D. Cal. Nov. 14, 2017).** In deciding cross-motions for summary judgment, the court granted defendant’s motion for summary judgment as to one of plaintiff’s claimed trade secrets. That purported trade secret related to design schematics for a circuit board containing hundreds of parts. The plaintiff argued that the trade secret was not just the entirety of the schematic, but also “strategies or concepts ‘reflected’ in the schematic.” The court acknowledged that what constitutes “reasonable particularity” will differ based on the individual case, but held that the plaintiff’s disclosure was unfair because “it placed [the] defendants in the untenable position of having to prove that hundreds of subparts of the design schematic-and innumerable other strategies and concepts arguably ‘reflected’ therein... either did not qualify as trade secret information or were not used in defendant’s technology.” The court further noted that it may have been possible to treat an entire schematic as a trade secret if the plaintiff had accused the defendants of copying the entire circuit board. However, because the plaintiff accused the defendants of misappropriating only a “seemingly-random subpart of a subpart” the plaintiff’s claim was inexcusably overbroad.

**Swarmify, Inc. v. Cloudflare, Inc., No. C 17-06957, 2018 WL 1142204 (N.D. Cal. Mar. 2, 2018).** The court denied the plaintiff’s motion for a preliminary injunction. The plaintiff claimed not only that its video streaming method and related technology were trade secrets, but also contended that “the research and information used to develop [it]” comprised trade secrets, a category that encompassed an aggregation of publicly-available information, knowledge of prior methods of video streaming, implementation methods, market applications, the costs and benefits of the product, and specific agreements with vendors. The court explicitly rejected the plaintiff’s “wholesale claim[s] to such nebulous, sweeping categories as ‘research and information,’ ‘methods for implementing,’ and ‘vendors.’” Its disclosure did “not even come close to identifying plausible trade secrets with ‘reasonable particularity.’” “Put simply,” the court concluded, such a disclosure was “a blatant abuse of the system.”

## **2. Pleading misappropriation.**

The plaintiff also must plead that the trade secret was misappropriated as defined in 18 U.S.C. § 1839(5). Specifically, the plaintiff must allege “the acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means or the disclosure or use of a trade secret of another without express or implied consent.” Jazz Pharms., Inc. v. Synchrony Grp., LLC, 343 F. Supp. 3d 434, 445 (E.D. Pa. 2018) (internal quotations omitted). A plaintiff may plead actual misappropriation or threatened misappropriation. Id. The term “improper means” includes “theft, bribery,

misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electronic or other means” but does not include “reverse engineering, independent derivation, or any other lawful means of acquisition.” 18 U.S.C. § 1839(6).

### **3. Pleading the trade secret implicates interstate or foreign commerce.**

The plaintiff must specify that the trade secret in question implicates interstate or foreign commerce. The interstate commerce requirement implicates whether the DTSA covers the alleged trade secret and misappropriation in question. Island Hospice, Inc. v. Duick, No. 19-00202-JMS-WRP, 2019 WL 4620369, at \*5 (D. Haw. Sept. 23, 2019). To plead the connection to interstate or foreign commerce, the plaintiff must identify a relationship tethering the trade secret to a product or service used in, or intended for use in interstate commerce. Id. For example, the court found a sufficient connection to interstate commerce to deny a motion to dismiss in Wells Lamont Indus. Grp., LLC v. Mendoza, where the plaintiff, an Illinois company, alleged that after he left to work for a competitor, the defendant met with a prior client in Texas. No. 17 C 1136, 2017 WL 3235682, at \*3 (N.D. Ill. July 31, 2017). Because the client was in Texas and the company was in Illinois, the court could “infer that its goods were intended to cross state lines and thus intended for use in interstate commerce.” Id.

### **4. Pleading Jurisdiction.**

DTSA creates federal question jurisdiction so federal courts have subject-matter jurisdiction over DTSA claims. Tower Commc’ns Expert, LLC v. TSC Constr., LLC, No. 18 C 2903, 2018 WL 5624268, at \*5 (N.D. Ill. Oct. 30, 2018).

A federal court has personal jurisdiction over a defendant if either “federal law or the law of the state in which the court sits authorizes service of process to that defendant.” Mobile Anesthesiologists Chi., LLC v. Anesthesia Assocs. Of Hous. Metroplex, P.A., 623 F.3d 440, 43 (7th Cir. 2010). DTSA does not create service of process rules for out of state defendants, so the plaintiff must adhere to the normal service of process rules required under Federal Rule of Civil Procedure 4. Tower Commc’ns, at \*5 (citing Mission Measurement Corp. v. Blackbaud, Inc., 287 F. Supp. 3d 691, 706 (N.D. Ill. 2017)). Thus, a federal court can only exercise jurisdiction over a defendant in a DTSA claim if the rules of the state in which it sits allow for jurisdiction. Tower Commc’ns, at \*5.

### **F. Remedies under the DTSA.**

Under the DTSA, trade secret owners have several remedies in law and equity for damages caused by misappropriation of their trade secrets. Similar to most state statutes, the DTSA provides avenues to receive injunctive relief and monetary damages. However, as discussed below, injunctions are limited in scope and cannot be used to completely prevent a person from working.

First, plaintiffs can seek injunctive relief to prevent any actual or threatened disclosure of their trade secrets. 18 U.S.C. § 1836(b)(3)(A)(i). This provision has two limitations: (1) plaintiffs typically cannot seek an injunction to completely prevent a person from employment, id. § 1836(b)(3)(A)(i)(I); and (2) injunctive relief can be granted only to the

extent it does not conflict with any applicable state laws prohibiting restraints on trade, id. § 1836(b)(3)(A)(i)(II).

Second, plaintiffs may recover several types of damages or other compensation, including actual damages caused by the misappropriation and exemplary damages when the defendant's conduct was willful. Id. § 1836(b)(3)(B).

Finally, plaintiffs can seek an ex parte seizure order in "extraordinary circumstances" in which the defendant likely would not comply with any other form of equitable relief, such as a temporary restraining order or preliminary injunction. Id. § 1836(b)(2)(A). The available remedy, and what remedy a party may prefer in a particular situation, depends entirely on the nature of the case.

### **1. The DTSA gives federal courts power to craft injunctive remedies for trade secret misappropriation.**

Similar to most state statutes and the UTSA, the DTSA authorizes courts to grant injunctive relief "to prevent any actual or threatened misappropriation . . . on such terms as the court deems reasonable." 18 U.S.C. § 1836(b)(3)(A). A court can award injunctive relief that requires "affirmative actions to be taken to protect the trade secrets." Id. However, the DTSA also provides the following prohibitions, including that a court (1) cannot "prevent a person from entering into an employment relationship" or place conditions on employment based "merely on the information the person knows" without "evidence of threatened misappropriation"; and (2) cannot issue an injunction that would "conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business." Id.

Pursuant to these requirements, courts must analyze whether it is prohibited from issuing an injunction after determining whether the requirements are met to issue in the first place. For instance, in Engility Corp. v. Daniels, the District Court of Colorado granted a preliminary injunction after it considered both restrictions. No. 16-cv-2473-WJM-MEH, 2016 WL 7034976, at \*10-11 (D. Colo. Dec. 2, 2016). There, the plaintiff asserted claims under both the DTSA and the Colorado Uniform Trade Secrets Act and sought a preliminary injunction to bar the defendants from entering into an outside contract relationship with, or otherwise accepting any work from, one of the plaintiff's clients. Id. at \*1. The court concluded that the first restriction on injunctions that prevent employment did not apply because there was no indication in the DTSA that the term "employment relationship" encompassed the role of an outside contractor. Id. at \*10. Instead, the court focused on the DTSA's prohibition against issuing an injunction that would "conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business," noting that Colorado law presumptively invalidates non-compete agreements, with an exception for those needed to protect trade secrets. Id. While neither defendant had entered into a non-compete agreement, the court held that the Colorado statute related to non-compete agreements was an "applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business" that, under the DTSA, had to be considered in the court's injunction analysis. Id. Nonetheless, the court concluded that the requested restrictions did not conflict with applicable state law because they pertained to protecting trade secrets. Id. at \*11.



**2. The DTSA allows the owner of a trade secret to obtain damages from an individual who misappropriates the secret.**

**a. Types of damages vary depending on the facts of the case.**

The DTSA allows a trade secret owner to recover several kinds of damages or compensation depending on the circumstances, including actual damages, attorneys' fees, unjust enrichment, and reasonable royalties for the defendants' use of the trade secret. First, the owner of a trade secret can recover damages for actual losses resulting from the misappropriation, as well as any unjust enrichment not factored into the actual loss calculation. 18 U.S.C. § 1836(b)(3)(B). If the defendant misappropriated the trade secret willfully and maliciously, the trade secret owner may receive exemplary damages in an amount up to two times the amount of damages awarded for actual loss and unjust enrichment. See e.g. id.; ResMan, LLC v. Karya Property Mgmt., LLC, No. 4:19-CV-00402, 2021 WL 3403935, at \*14 (E.D. Tex. Aug. 4, 2021) (finding evidence of willful and malicious misappropriation when the defendants hid project utilizing the plaintiff's trade secrets and secretly gave access to a fellow competitor); Trent P. Fisher Enters., LLC v. SAS Automation, LLC, No. 3:20-cv-216, 2021 WL 1209637, at \*6 (S.D. Ohio Mar. 31, 2021) (holding allegations of willful and malicious conduct were insufficient when the complaint alleged only that the defendants acted willfully and maliciously without any facts describing the conduct).

A plaintiff also may recover reasonable attorneys' fees if the defendant misappropriated the trade secret willfully and maliciously. 18 U.S.C. § 1836(b)(3)(D). Conversely, a defendant can recover attorneys' fees if the claim of misappropriation was made in bad faith, which may be established with circumstantial evidence. Id. Attorneys' fees also are recoverable from a party that acts in bad faith in either opposing termination of an injunction, or in seeking termination of an injunction. Id. However, an employer may recover attorneys' fees only if it provides notice of the whistleblower immunity set out in 18 U.S.C. § 1833(b). See also Appendix B.G.6, infra.

**b. It remains unclear how the DTSA's date of enactment affects the amount of recoverable damages.**

The DTSA is structured in a way that would in theory allow for high damages figures; however, in the roughly four-and-a-half years since the DTSA's enactment, few DTSA cases have reached jury verdicts on damages. Moreover, because the DTSA provides a cause of action only for events occurring on or after its May 11, 2016 enactment date, questions have arisen about whether damages stemming from an earlier misappropriation are available under the Act.

For example, in Dalmatia Import Group v. Foodmatch, Inc. et al., No. 16-cv-02767 (E.D. Pa. May 3, 2017), noted as the "first DTSA damages award," the jury awarded the plaintiff damages after concluding the defendants misappropriated its trade secret-protected fig jam recipe resulting in lost profits for the plaintiff. The plaintiff alleged that its former distributors stole its fig jam recipe and sold its own variation of the fig jam after the parties' business relationship deteriorated. Id. at Dkt. 25. The jury awarded \$500,000 for the trade secret misappropriation, plus \$1.5 million for trademark infringement, and concluded that the

trade secret damages should be trebled because the misappropriation was willful. Id. at Dkt. 280. The defendants challenged the verdict, arguing that damages should not be trebled because the plaintiff did not prove the defendants' misappropriation was willful and that the \$500,000 was improperly based on a damages period that included several months before the DTSA was enacted. Id. at Dkt. 310. The court ultimately rejected both arguments, finding that the jury had sufficient evidence to conclude the Defendants' misappropriation had been willful and that Dalmatia had shown it sustained damages in the period following the enactment of the DTSA. Id. at 321. Accordingly, the court entered judgment including treble damages, bringing the total awarded to \$5.2 million. Id.

A significant damage award under the DTSA came in Motorola Solutions, Inc. v. Hytera Communications Corp. Ltd., No. 17-cv-01973, 2020 WL 6554645 (N.D. Ill. Feb. 14, 2020). In Motorola Solutions, the jury awarded total damages of \$764,561,156 against Hytera for its misappropriation of Motorola's source code used to manufacture two-way radios in 2008. Id. at \*1. Hytera recruited three engineers from Motorola in 2007 who secretly downloaded thousands of technical documents from Motorola and shared them with Hytera. Id. at \*2. The jury found that Hytera continued to misappropriate the trade secrets by selling their own two-way radios for over a decade after the original theft. Id. The portion of the damages awarded under the DTSA equaled \$209.4 million, with \$135.8 million for actual losses and \$73.6 million for Hytera's unjust enrichment through its savings on research and development. Id. at \*12-14. Hytera made several arguments against the amount of damages, but none related to when the damages occurred in the underlying incident. See id. In another opinion from the same proceeding, the court specifically limited the recovery of damages under the DTSA to those occurring after its enactment on May 11, 2016. However, it is not clear from the jury verdict and subsequent order upholding the award whether damages included those accrued before the DTSA's enactment date. The court ultimately reduced the award on January 12, 2021 by eliminating the \$73.6 million in R&D savings and reducing punitive damages from \$418.8 million to \$271.6 million, for a new total award of \$543.7 million. Id. at Dkt. 1099. When determining the award reduction, the court found that it would constitute double-recovery to award both saved research costs and disgorged profits. Id. Instead, the court reduced the compensatory damages to only disgorged profits, finding that the R&D savings did not amount to a fully paid up royalty. Id.

**3. A trade secret owner can obtain an ex parte order authorizing seizure of property in an individual's possession "in extraordinary circumstances."**

Under DTSA, a court can order a civil seizure "only in extraordinary circumstances" where the party against whom the order is directed "would evade, avoid, or otherwise not comply" with any other form of equitable relief. 18 U.S.C. § 1836(b)(2)(A). The legislative history of the DTSA suggests that the civil seizure provision was designed for the specific case of stopping "thieves planning to flee the country with stolen American property." See Markup of: H.R. 5233, "The Trade Secrets Protection Act of 2014" Before the H. Comm. on the Judiciary, 113th Cong. ll. 415<sup>-29</sup> (2014) (statement of Rep. Nadler). The urgency presented by such a scenario is unlikely to be commonplace in most civil litigation. This ex parte civil seizure as a potential remedy for trade secret misappropriation is one of the most debated provisions of the DTSA. See Eric Goldman, Ex Parte Seizures and the Defend Trade Secrets

Act, 72 WASH. & LEE L. REV. ONLINE 284 (2015), <http://scholarlycommons.law.wlu.edu/wlulr-online/vol172/iss2/4>.

**a) The DTSA has extensive requirements for the contents of the seizure order.**

The DTSA further provides that, if a court does issue a seizure order, that order must: (1) set forth the findings of fact and conclusions of law needed to support the order; (2) provide for the narrowest seizure of property necessary and direct law enforcement to minimize interruptions to third parties and to the legitimate business operations of the party against whom seizure is ordered; (3) prohibit the applicant from accessing the seized property until after both parties have had an opportunity to be heard in court, as well as establish guidelines for allowing access; (4) provide guidance to law enforcement officers clearly delineating the scope of their authority and specifically including the hours during which a seizure may be executed and whether the officers may use force to access locked areas; (5) set a date for a hearing not later than seven days after the order has issued; and (6) require the applicant to provide security adequate to cover damages resulting from “wrongful or excessive seizure or attempted seizure.” 18 U.S.C. § 1836(b)(2)(B).

In light of these extensive requirements, seizure orders have been granted sparingly since the DTSA’s enactment. In the handful of instances where courts have granted seizure orders, courts have relied on clear proof that a defendant had (a) been dishonest in the past, (b) destroyed evidence, or (c) disobeyed prior court orders. See, e.g., Mission Cap. Advisors LLC v. Romaka, No. 16-5878, 2016 WL 11517104, at \*2-3 (S.D.N.Y. July 29, 2016) (ordering seizure of data where the court had previously issued a TRO and the defendant had evaded service of it five times and previously lied about deleting the trade secret data); see also Axis Steel Detailing, Inc. v. Prilex Detailing LLC, No. 2:17-cv-00428-JNP, 2017 WL 8947964 (D. Utah June 29, 2017) (ordering seizure where the defendants had previously attempted to delete information from computers and showed “a willingness to provide false and misleading information”).

In Solar Connect, LLC v. Endicott, the U.S. District Court for the District of Utah granted an ex parte seizure pursuant to the DTSA. No. 2:17-cv-1235, 2018 WL 2386066, at \*1 (D. Utah Apr. 6, 2018). In determining that the ex parte seizure was appropriate, the court elaborated on each of the above six requirements set forth in DTSA. Id. Specifically, the court’s order required the imaging of computers and computer devices, including copying of files from any associated networks, of the defendants. Id. However, as required under the second, third, and fourth prongs, the court laid out detailed limitations of what, when, and whose property can be seized. Id. at \*3-4. Additionally, pursuant to the court’s inherent authority and the All Writs Act, 28 U.S.C. § 1651, the court ordered two third parties, Dropbox and Google, to preserve and make digital copies of all files that were associated with the email addresses of the defendants. While the court limited this effort to all accounts held by defendants during the past eighteen months, it also required that these third parties provide no notice of the copying and reporting to defendants. Id. at \*1, \*5.

The DTSA enumerates specific procedures how the court must handle seized property. Once property has been seized, that property is to remain in the custody of the court. 18 U.S.C.

§ 1836(b)(2)(D). The court is required to protect the confidentiality of any seized materials that are unrelated to the trade secret information at issue and may appoint a “special master” to isolate relevant trade secret information and return unrelated property. *Id.* Without the consent of both parties, the court will prohibit relevant material from being connected to a network on the Internet and, on *ex parte* motion by either party, will encrypt the materials in the court’s custody. *Id.* At this time, it is not clear what resources a court possesses to accomplish the encryption especially given that the information cannot be connected to a network device. The court also must “take appropriate action” to prevent the applicant from creating publicity about the order, or any seizure resulting from it, as it relates to the other party. 18 U.S.C. § 1836(b)(2)(C).

In addition to the numerous requirements that must be met before a court can issue a civil seizure order, DTSA further discourages the use of civil seizures by creating a cause of action for anyone who suffers damages as a result of a wrongful seizure. *See id.* § 1836(b)(2)(G). Any person suffering damage from a wrongful seizure can recover the same relief as is available under § 34(d)(11) of the Lanham Act. That relief includes “damages for lost profits, cost of materials, loss of good will, and punitive damages in instances where the seizure was sought in bad faith, and, unless the court finds extenuating circumstances . . . a reasonable attorney’s fee.” 15 U.S.C. § 1116(d)(11). Since the DTSA went into effect, it appears that no federal courts have considered this issue.

To obtain an *ex parte* civil seizure order, a party must show that it “clearly appears from specific facts” that: (1) the adverse party would “evade, avoid, or otherwise not comply” with other equitable relief; (2) the adverse party would “destroy, move, hide, or otherwise make such matter inaccessible,” if the applicant proceeded on notice; (3) the applicant would suffer immediate and irreparable injury if the motion were denied; (4) the harm to the applicant caused by denying the motion outweighs the harm both to third parties and to the legitimate interests of the adverse party; (5) the applicant is likely to succeed in showing that the information was a trade secret and the adverse party misappropriated it; (6) the adverse party has actual possession of the property to be seized; (7) the application describes the matter to be seized with reasonable particularity, and identifies the location of the matter to the extent reasonable; and (8) the applicant has not publicized the requested seizure. 18 U.S.C. § 1836(b)(2)(A).

In light of these limitations, parties have rarely obtained *ex parte* seizure orders in the years since the DTSA was enacted. For example:

***Shumway v. Wright*, No. 4:19-cv-58-DN-PK, 2019 WL 8137119, at \*12-13 (D. Utah Aug. 26, 2019)** (granting an *ex parte* seizure request to (1) seize two specific employees’ computers and any external hard-drives immediately nearby, (2) change the passwords on all cloud-based storage locations housing Plaintiffs’ protected information, and (3) seize all customer and patient lists belonging to Plaintiff in the possession of the Defendants.).

***ARB Labs Inc. v. Woodard*, 2:19-cv-116-JAD-PAL, 2019 WL 332404, at \*3 (D. Nev. Jan. 25, 2019)** (denying request for seizure but ordering defendant to turn over laptop alleged to contain trade secrets to plaintiff’s counsel).

**Vice Cap., LLC v. CBD World, LLC, No. CIV-18-566-D, 2018 WL 8786293, at \*3 (W.D. Okla. June 20, 2018)** (granting motion for seizure under the DTSA and ordering the seizure of defendants’ computers, computer hard drives, or memory devices that may contain plaintiff’s customer lists that were protectable as trade secrets because the defendants’ improperly acquired plaintiffs’ customer list and “have shown a willingness to provide false and misleading information to said customers,” and “there is an extraordinary risk” that defendants’ might “delete, secure, move, copy, or obscure” plaintiff’s customer lists if a seizure was not granted pursuant to the DTSA).

**Blue Star Land Servs. V. Coleman, No. CIV-17-931-C, 2017 WL 11309528, at \*1 (W.D. Okla. Aug. 31, 2017)** (finding that defendants could “easily copy” the plaintiff’s trade secret information to another computer or storage media without the plaintiff’s knowledge, and ordering for the seizure of defendants’ computers, computer hard drives, or memory devices that may contain plaintiff’s trade secret information, because the defendants’ “prior actions demonstrate a willingness to evade or ignore the law,” and the potential harm to plaintiff “cannot be remedied by other means” if a seizure pursuant to the DTSA is not ordered).

**Magnestia Refractories Co. v. Mishra, 16-CV-524-PPS-JEM, 2017 WL 655860, at \*1-2 (N.D. Ind. Feb. 17, 2017)** (granting motion for seizure of laptop computer under the DTSA in conjunction with issuance of temporary restraining order where the moving party showed that “there was a strong likelihood that [defendant] was conspiring to steal [plaintiff’s] trade secrets contained on the laptop, and that the seizure was necessary to prevent the impending harm”).

**OOO Brunswick Rain Mgmt. v. Sulatnov, No. 17-cv-17-EJD, 2017 WL 67119, at \*2 (N.D. Cal. Jan. 6, 2017)** (denying motion for seizure of devices under DTSA and instead “order[ing] that [defendant] must deliver these devices to the Court at the time of the hearing . . . , and in the meantime, the devices may not be accessed or modified”).

**b) The DTSA’s similarities to the Lanham Act shed light on the scope of its seizure provision.**

While the seizure provision of the DTSA is narrower, it shares some similarities with the seizure provision of the Lanham Act. Compare 18 U.S.C. § 1836(b)(2), with 15 U.S.C. § 1116(d). For example, both the Lanham Act and the DTSA list the same set of acceptable reasons for finding that another form of equitable relief would be inadequate. Compare 18 U.S.C. § 1836(b)(2), with 15 U.S.C. § 1116(d)(4)(B)(vii). Differences do exist. For instance, the DTSA requires courts to consider the harm to third parties and requires the potential harm to the applicant to “substantially” outweigh the harm to third parties, while the Lanham Act focuses on balancing harm between the applicant and subject of the seizure order. 18 U.S.C. § 1836(b)(2). In addition, the DTSA also places limits on what can be seized, requiring the order to “provide for the narrowest seizure of property necessary” and seize only “property necessary to prevent the propagation or dissemination of the trade secret.” 18 U.S.C. § 1836(b)(2). In contrast, the Lanham Act enumerates a larger list of property that can be seized and does not direct the court to craft the narrowest order necessary. 15 U.S.C. § 1116(d)(1)(B). Finally, the DTSA provides safeguards to ensure that the seizure itself, “to

the extent possible, does not interrupt the legitimate business operations of the person accused,” and forbids the applicant, or the applicant’s agent, from accompanying the federal law enforcement officer conducting the seizure. 18 U.S.C. § 1836(b)(2). The DTSA’s inclusion of these safeguards deviates from the language of the Lanham Act and increases the burden on the party applying for the ex parte order. Civil seizure under DTSA may, as a result, be less common than under the Lanham Act.

In addition to the numerous requirements that must be met before a court can issue a civil seizure order, the DTSA further discourages the use of civil seizures by creating a cause of action for anyone who suffers damages as a result of a wrongful seizure. See id. § 1836(b)(2)(G). Any person suffering damage from a wrongful seizure can recover the same relief as is available under § 34(d)(11) of the Lanham Act. That relief includes “damages for lost profits, cost of materials, loss of good will, and punitive damages in instances where the seizure was sought in bad faith, and, unless the court finds extenuating circumstances . . . a reasonable attorney’s fee.” 15 U.S.C. § 1116(d)(11).

The DTSA does not specify a scienter requirement for a civil seizure to be considered “wrongful.” See 18 U.S.C. § 1836(b)(2)(G). However, the ex parte seizure provision of DTSA is modeled closely after a similar provision in the Lanham Act. Compare 18 U.S.C. § 1836(b)(2), with 15 U.S.C. § 1116(d). The Lanham Act allows a party to recover for wrongful seizure “even if the plaintiff acted in good faith.” Waco Int’l, Inc. v. KHK Scaffolding Houston, Inc., 278 F.3d 523, 530 (5<sup>th</sup> Cir. 2002); see also United Tactical Sys., LLC v. Real Action Paintball, Inc., 143 F. Supp. 3d 982, 1007 (N.D. Cal. 2015).

No more than seven days after the order is issued, the court must hold a hearing on the merits of the order. 18 U.S.C. § 1836(b)(2)(F). The applicant bears the burden of proof in this hearing, and must present evidence supporting the findings of fact and conclusion of law set forth in the seizure order. Id. Although the party against whom the seizure was ordered can oppose the order at this hearing, that party can also move the court to dissolve or modify the order at any time. Id.

**PRACTICE TIP:** Obtaining an ex parte seizure order will be difficult for an applicant, and if the seizure is later determined to be wrongful, the applicant will face civil liability—likely even if she acted in good faith. Even if the applicant’s motion is granted, the DTSA limits the extent to which such a seizure benefits the applicant. The applicant cannot participate in the seizure itself, any seized property remains in the custody of the court, and the court will not permit the applicant to publicize either the order or the seizure. In all but extraordinary cases, traditional injunctive relief will probably be a more effective route for an aggrieved party to defend its trade secret rights.

## **G. Procedural Contours of DTSA.**

### **1. The DTSA’s jurisdiction grant is limited by Section 1833(a).**

Under 18 U.S.C. § 1833(a)(1), trade secret owners cannot sue any governmental entity, state or federal, for the disclosure of their trade secrets. Courts have upheld this prohibition even when the disclosure resulted in damages to the trade secret owner. For instance, in Fast

Enterprises, LLC v. Pollack, No. 16-cv-12149-ADB, 2018 WL 4539685 (D. Mass Sept. 21, 2018), the District of Massachusetts dismissed a DTSA case filed against the Massachusetts Department of Transportation, explaining that the DTSA’s jurisdictional reach prohibited the claim, where the plaintiff sought to prevent the CEO of the department from disclosing to the public trade secrets that were included in bid proposals submitted by the plaintiff. Id. at \*4. The court concluded: “Although the Court fully sympathizes with [Fast Enterprises] and cannot help but wonder why the state would require the disclosure of proprietary bid information given the impact that it could have on future bid solicitations, it is constrained by the applicable statutes. Ultimately, as the federal statute does not provide for a cause of action in these circumstances, this issue must be resolved by the state courts or the state legislature.” Id.

Under 18 U.S.C. § 1833(a)(2), trade secret owners also cannot sue individuals who disclose a trade secret to attorneys or government officials for the purpose of reporting or investigating a crime. Such whistleblowing activity does not give rise to civil or criminal liability. Id. This is the only provision of the DTSA that preempts state and local law. Id. § 1838. An individual whistleblower is protected in two ways. First, any disclosures made in confidence to the government or a person’s attorney “solely for the purpose of reporting or investigating a suspected violation of law” will not give rise to liability. Id. § 1833(b)(1). Second, if the individual files a lawsuit against his or her employer alleging that the employer retaliated for the employee’s conduct in reporting a suspected violation of law, the individual may disclose the employer’s trade secrets to his or her attorney or use the trade secret information in court proceedings, provided that any document containing the trade secret is filed under seal. Id.

The DTSA requires an employer to provide its employees notice of the whistleblower immunity set out in § 1833. Id. § 1833(b)(3). Failure to comply will cause the employer to forgo the possibility of exemplary damages or attorneys’ fees under a DTSA action. Id. § 1833(b)(3)(C). Although the statute requires notice in “any contract or agreement” concerning trade secrets or confidential information, the DTSA allows the notice requirement to be satisfied by giving employees a policy document containing the notice, and cross-referencing to that document in all contracts. See id. § 1833(b)(3)(B). Moreover, the notice requirement does not apply to any contracts or agreements entered into before May 11, 2016. Id. § 1833(b)(3)(D).

Although courts have provided little guidance on the application of the whistleblower provision, several recent cases discuss the provision to varying degrees. One court refused to dismiss a DTSA action brought on the grounds that the defendant-employee’s invocation of the whistleblower protection as an affirmative defense lacked support in the record, but the court did not otherwise discuss or apply the whistleblower protections afforded by the DTSA. Unum Grp. V. Loftus, 220 F. Supp.3d 143, 149 (D. Mass. 2016). There, the court acknowledged that there is a “substantial public interest in facilitating whistleblower actions” but further noted that no whistleblower suit had been filed. Id. This ruling suggests that courts may be hesitant to dismiss DTSA suits on the grounds that the defendant is insulated from liability by the DTSA’s whistleblower provision. The facts of this case, however, do not lead to the conclusion that courts as a general matter will be hesitant to protect whistleblowers.

Here, the defendant had not laid out a substantial basis to justify the imposition of the whistleblower protections.

Courts have found immunity existed when a plaintiff disclosed the trade secret only to the plaintiff's attorney. For example, in Christian v. Lannett Co., Inc., No. 16-cv-963, 2018 WL 1532849, at \*7 (E.D. Pa. Mar. 29, 2018), the court held that the plaintiff did not violate the DTSA when she disclosed the defendant's trade secret to her attorney pursuant to a discovery order. The plaintiff employee brought suit against a defendant company under Title VII of the Civil Rights Act of 1964, 42 U.S.C. §§ 20001, et seq., the Americans with Disabilities Act, 42 U.S.C. §§ 12101, et seq., and the Family and Medical Leave Act, 42 U.S.C. §§ 2601, et seq. The defendant raised several counterclaims, including an allegation that the plaintiff violated the DTSA by acquiring and using the defendants' trade secrets and disclosing them to her attorney. Id. at \*3. The plaintiff moved to dismiss the claim, arguing she was immune from liability due to the DTSA's whistleblower immunity provision, because the only alleged disclosure of trade secrets occurred after the effective date of the DTSA and she provided the information to her attorney pursuant to federal discovery requirements in her case against the defendant. Id. at \*4. The court found that a portion of the plaintiff's disclosure of trade secrets fell "within the immunized disclosure parameters defined by the DTSA," because the plaintiff had disclosed the information to her counsel "pursuant to a discovery Order of this Court, within the context of a lawsuit regarding violations of Title VII, the ADA, and the FMLA." Id. Therefore, the court held that the disclosure to counsel did not constitute a violation of the DTSA. Id.

Courts have found immunity did not exist when a whistleblower disclosed the information to a government official, but did not do so in confidence. For example, in 1-800 Remodel, Inc. v. Bodor, No. CV 18-472-DMG (EX), 2018 WL 6340759, at \*6 (C.D. Cal. Oct. 17, 2018), the court rejected the defendant's argument that the DTSA's immunity provision barred the plaintiff's DTSA claims arising out of the defendant's anticipated and actual disclosure of confidential and proprietary information. In this case, the plaintiff alleged the defendant employee had disclosed some of the plaintiff's "sensitive" business information to the California Department of Consumer Affairs Contractor License Board ("CSLB") when she made a complaint against the plaintiff to the board, alleging discriminatory workplace behavior. Id. at \*2. The court explained that pursuant to 18 U.S.C. § 1833(b), the DTSA grants immunity to individuals who disclose trade secrets "in confidence" to federal, state or local government officials for the sole purpose of "reporting or investigating a suspected violation of law[.]" Id. at \*6. The court then found that the parties' filings did not reveal the precise nature of the complaints that the defendant filed with CSLB, or whether the complaints she filed were "made in confidence," as required under 18 U.S.C. § 1833(b). Therefore, the court held that at the pleading stage, it "could not assume" that the DTSA's immunity provision barred plaintiff's DTSA claims, and it allowed the plaintiff's claims to proceed. Id.

Similarly, the court rejected the immunity argument in Argos USA LLC v. Young, No. 1:18-CV-02797-ELR, 2019 WL 4125968, at \*2-\*6 (N.D. Ga. June 28, 2019), where the defendant argued that he was immune from liability for trade secret misappropriation under the DTSA because he had turned over the plaintiff's protectable information to his attorney to report and investigate allegations that the plaintiff was engaged in illegal price fixing. The court accepted the plaintiff's allegation that the defendant did not acquire the protectable



information for the sole purpose of investigating a violation of law. Id. at \*6. The plaintiff argued that much of the information the defendant had acquired had “nothing to do with” allegations that the plaintiff violated any law. Id. The court held that at the pleading stage, it had to take the plaintiff’s “non-conclusory allegations as true,” and make all reasonable inferences in favor of the plaintiff. Id. Accordingly, the court ruled that it would not dismiss the plaintiff’s trade secret misappropriation claims based on defendant’s immunity argument. Id.

Courts have continued to avoid dismissing claims based on whistleblower immunity due to concerns that ruling on the issue at such an early stage is premature. For instance, in Garcia v. Vertical Screen, Inc., No. CV 19-3184, 2020 WL 2615624, at \*5 (E.D. Pa. May 22, 2020), the court held that dismissing the claim based on immunity was premature after the plaintiff moved to dismiss counterclaims of misappropriation for his taking of protected information to give to his attorneys in order to prosecute suspected violations of the law. Id. The court did not determine the validity of the plaintiff’s whistleblower immunity argument because it was an affirmative defense. Id. The court noted that “affirmative defenses may only be decided at the motion to dismiss stage where the predicate establishing the defense is apparent from the face of the complaint.” Id. (internal quotations omitted). Because the court could not ascertain from the allegations in the counterclaim which documents the plaintiff took, what information they included, and which documents he gave to his attorney and for what purpose, the court could not yet analyze the whistleblower immunity issue. Id.

Courts also have dismissed claims of whistleblower retaliation on the grounds that the DTSA does not create a private cause of action for whistleblower retaliation. Specifically, in Ramirez Capital Services, LLC & Wilco Data, LLC v. McMahan, No. 4:21-CV-00241-ALM, 2021 WL 5907791, at \*4 (E.D. Tex. Dec. 14, 2021), the court dismissed the whistleblower retaliation claim explaining that nothing in the language of the DTSA or the caselaw to suggest the DTSA creates a private cause of action for retaliation. Id. The court further explained that the words of Section 1833(b)(2), stating “a disclosure to an attorney or in a court proceeding by an individual who files a lawsuit for retaliation by an employer for the individual’s reporting of a suspected violation of law as long as any court filings are made under seal and the individual does not otherwise disclose a trade secret except pursuant to a court order,” create an affirmative defense, not a cause of action. Id.

## **2. The DTSA does not abrogate a state’s Eleventh Amendment immunity.**

Under the Eleventh Amendment to the Constitution, state entities are immune from suit in federal court under the DTSA. MedSense, LLC v. Univ. Sys. Of Maryland, No. CV GLS-18-3262, 2019 WL 4735430, at \*5 (D. Md. Sept. 27, 2019). In MedSense, after the plaintiff brought an action against several defendants alleging, among other things, disclosure of trade secrets and confidential information. The court held that in enacting the DTSA, Congress did not intend to abrogate states’ Eleventh Amendment immunity. Id. at \*1. The Court explained that Congress abrogates a state’s sovereign immunity where it has: (1) unequivocally expressed its intent to abrogate the immunity; and (2) acted pursuant to a valid exercise of power. Id. (internal quotations omitted). Accordingly, it held that while the DTSA authorizes an owner of a trade secret to bring a civil action in federal court, this does not constitute “statutory

language sufficient to abrogate the Eleventh Amendment.” Id. (internal quotations and citations omitted).

**3. The DTSA requires the court to allow the owner of a trade secret to contest any order directing or authorizing disclosure of a trade secret.**

A court may not authorize disclosure of an alleged trade secret without first allowing the owner of the information to file a submission under seal contesting such disclosure. 18 U.S.C. § 1835(b). Unlike other provisions of the DTSA, this provision is not explicitly limited to a “prosecution or other proceeding under this chapter.” Compare 18 U.S.C. § 1835(b), with 18 U.S.C. § 1835(a). For this reason, § 1835(b) may apply to any civil proceeding in a federal court. See Dennis Crouch, The Economic Espionage Act as amended by the Defend Trade Secrets Act of 2016: Markup and Commentary, PATENTLYO, <http://patentlyo.com/media/2016/05/DTSA-Mark-UP-CROUCH-2.0.pdf> (last visited Oct. 27, 2021). However, other commentators have interpreted the provision to apply only to “the confidentiality of trade secrets that are the subject of a DTSA proceeding.” Eric Bensen, Defend Trade Secrets Act, 2016 Emerging Issues (LEXIS) 7433 (May 20, 2016). Moreover, the language prohibiting the use of submissions made under seal in “a prosecution under this chapter” might suggest that the provision only applies to the DTSA.

Regardless, parties making a claim under the DTSA will have a procedure available to contest disclosure that does not exist under UTSA. Compare 18 U.S.C. § 1835, with UNIF. TRADE SECRETS ACT § 5. Additionally, the provision clarifies that information provided or disclosed in connection with an Economic Espionage Act prosecution will not waive trade secret protection. 18 U.S.C. § 1835(b). This provision should allow trade secret owners to more freely cooperate in prosecutions of trade secret thieves.

It is still an open question as to whether the DTSA applies extraterritorially. Although no federal circuit court of appeals has weighed in on this issue, some district courts have found that plaintiffs can seek damages stemming from conduct that occurs outside of the United States when either (1) the offender is a natural person who is a citizen or permanent resident or is an entity organized under the laws of the United State, an individual state, or a municipality, or (2) an act in furtherance of the offense was committed in the United States. 18 U.S.C. § 1837. Courts have held that this section applies to the DTSA as well. See, e.g., Philips Med. Sys., Inc. v. Buan, No. 19-cv-02648, 2021 WL 3187709, at \*10 (N.D. Ill. July 28, 2021) (holding that the DTSA expressly rebuts the presumption against extraterritoriality by authorizing injunctive relief and damages for certain conduct occurring outside the United States if an act in furtherance of the offense was committed within the United States); Motorola Solutions, Inc. v. Hytera Communications Corp. Ltd., 436 F. Supp. 3d 1150, 1163 (N.D. Ill. 2020) (holding that the DTSA applies extraterritorially based on the language of 18 U.S.C. § 1837); MedImpact Healthcare Systems, Inc. v. IQVIA Inc., 19-cv-1865-GPC(LL), 2020 WL 5064253, at \*14 (S.D. Cal. Aug. 27, 2020) (stating that the DTSA applies to conduct occurring outside of the United States if the conditions of 18 U.S.C. § 1837 are met); Luminati Networks Ltd. V. BIScience Inc., No. 2:18-CV-00483-JRG, 2019 WL 2084426, at \*9-10 (E.D. Tex. May 13, 2019) (“The DTSA applies to conduct occurring outside the United States if ... an act in furtherance of the offense was committed in the United States.”). Although proving that the

defendant falls under the first subdivision of 18 U.S.C. § 1837 is a fairly straight-forward personal jurisdiction question, the second subdivision requires a fact-specific analysis on a case-by-case basis.

The court in Motorola Solutions has provided the most extensive discussion so far on how to satisfy the requirements of 18 U.S.C. § 1837(2) in a DTSA case. 436 F. Supp. 3d at 1154. In Motorola Solutions, the plaintiff brought suit for misappropriation under the DTSA when three of its former employees used the plaintiff's source code to help their new employer develop digital radios that were indistinguishable from the plaintiff's product. Id. The radios were then sold globally, including in the United States. Id. Because no parties were domiciled in the United States, the court analyzed the "act in furtherance of the offense" requirement under 18 U.S.C. § 1837(2). Id. at 1165-66. The court stated that the act need not be the offense itself, as long as it is an action that "manifests that the offense is at work." Id. at 1165 (citation omitted). At numerous trade shows in the United States, the defendants marketed, advertised, and promoted products that had been created as a result of the allegedly misappropriated trade secrets. Id. The court reasoned that, by promoting the products in the United States, the defendants committed an act in furtherance of the offense – the misappropriation itself – and thus their conduct fell under the language of 18 U.S.C. § 1837(2). Id. While this case would suggest that the DTSA applies extraterritorially, there is still no definitive guidance from any circuit court of appeals on this issue.

Moreover, the question of extraterritorial application also must be considered against the backdrop of the 2010 United States Supreme Court decision in Morrison v. National Australia Bank, Ltd., 561 U.S. 247 (2010). In that case, the Supreme Court held that the presumption against extraterritorial application of federal laws applies to all cases. Id. at 261. However, the Court in that case analyzed a statute that did not expressly extend the reach of the law extraterritorially and rejected other circuit courts' attempts to "divin[e] what Congress would have wanted if it had thought of the situation before the court." Id. By contrast, the DTSA expressly authorizes extraterritorial application if the conditions of § 1837 are satisfied. Nevertheless, the issue remains open until the circuit courts begin to weigh on how the DTSA interacts with the presumption established in Morrison.

**4. Claims under the DTSA can be brought within 3 years of discovery of misappropriation, and continuing misappropriation does not extend this period.**

The DTSA establishes a three-year statute of limitations, running from when the misappropriation "is discovered or by the exercise of reasonable diligence should have been discovered." 18 U.S.C. § 1836(d). In contrast, the ITSA provides for a five-year limitation period. 765 ILCS 1065/7 (West 2022).

For purposes of calculating the beginning of the three-year period, "continuing misappropriation constitutes a single claim of misappropriation." 18 U.S.C. § 1836(d). The ITSA contains nearly identical language. 765 ILCS 1065/7 (West 2022).

Plaintiffs have the burden of proving the DTSA's statute of limitations should be tolled up until the time they discover their trade secrets have been or are being misappropriated. CMI

Roadbuilding, Inc. v. Iowa Parts, Inc., 920 F.3d 560, 565 (8th Cir. 2019). The Eighth Circuit has held that the statute of limitations under the DTSA is tolled only until such time as the owner of a trade secret “knows or in the exercise of reasonable care should know, the fact and cause of the injury.” Id. (internal quotations omitted). Therefore, once a plaintiff is on inquiry notice of a potential claim under the DTSA, the plaintiff has a duty to investigate, regardless of the plaintiff’s exact knowledge. Id.; see also Alta Devices, Inc. v. LG Electronics, Inc., No. 18-CV-00404-LHK, 2019 WL 1924992, at \*12-13 (N.D. Cal. Apr. 30, 2019) (holding that the period of limitations started tolling when the plaintiff was put on inquiry notice of potential misappropriation by the defendant’s failure to return confidential information on the date set out in the parties’ nondisclosure agreement).

#### **5. The DTSA potentially applies to misappropriation preceding its enactment.**

The amendments to the Economic Espionage Act made by the DTSA apply to any misappropriation of a trade secret “for which any act occurs on or after the date of the enactment of [DTSA],” which was enacted on May 11, 2016. 18 U.S.C. § 1833. The DTSA does not specifically address whether it may be applied to cases of ongoing misappropriation where the misappropriation began before May 11, 2016. Courts, however, have interpreted the DTSA to apply to cases of ongoing misappropriation. See, e.g., Roeslein & Assocs., Inc. v. Elgin, No. 4:17-CV-13351-JMB, 2019 WL 195089, at \*10 (E.D. Mo. Jan. 15, 2019) (holding that Congress clearly intended to apply the DTSA to misappropriation that began prior to, but continued after, the DTSA’s enactment); Sonoma Pharms., Inc. v. Collidion, Inc., No. 17-cv-01459-EDL, 2018 WL 3398940, at \*5 (N.D. Cal. June 1, 2019) (holding that plaintiff showed continuing misappropriation through evidence of at least one instance where the defendant used plaintiff’s protected information after the enactment of the DTSA); Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Grp., No. 16-cv-2499, 2017 WL 1105648, at \*4 (E.D. Pa. Mar. 24, 2017) (holding that plaintiff sufficiently alleged continuing misappropriation under DTSA); Adams Arms, LLC v. Unified Weapon Sys., Inc., No. 8:16-cv-1503, 2016 WL 5391394, at \*6 (M.D. Fla. Sept. 27, 2016) (holding that the plaintiff “may state a plausible claim for relief if [it] sufficiently alleges a prohibited ‘act’ occurring after” the effective date of DTSA, and noting that unlike UTSA, DTSA does not explicitly exclude from its scope continuing violations occurring after the effective date of statute); Syntel Sterling Best Shores Mauritius Ltd. V. TriZetto Grp., Inc., No. 15-cv-211, 2016 WL 5338550, at \*6 (S.D.N.Y. Sept. 23, 2016) (holding that wrongful conduct that began before passage of the DTSA and continues to occur after the DTSA was passed is actionable under the DTSA).

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