

7S

**Employment Contracts
Involving Restrictive
Covenants and
Trade Secrets**

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II. Employment Contracts

- B. [7S.3] Employee Handbooks and Manuals

IV. Drafting Restrictive Covenants

- A. [7S.10] Overview of Requirements
- E. Reasonableness
 - 1. [7S.19] Geographic Reasonableness
 - 2. [7S.20] Temporal Reasonableness
 - 3. [7S.21] Reasonableness of Activity Restrained

V. Enforcing Restrictive Covenants

- B. [7S.25] Termination Without Cause and Employer Breach
- C. [7S.26] Judicial Modification: “Blue Pencil” Doctrine
- D. Attorney- and Physician-Specific Covenants
 - 1. [7S.28] Covenants Restricting Attorneys
 - 2. [7S.29] Covenants Restricting Doctors

VI. [7S.30] Confidentiality Agreements and Trade Secrets

- A. What Is a “Trade Secret”?
 - 1. [7S.31] Definition Under Illinois Trade Secrets Act
 - 3. [7S.33] Cases Regarding Existence of Trade Secret
- B. What Is “Misappropriation”?
 - 4. [7S.37] “Inevitable Disclosure” Doctrine
- C. [7S.38] Remedial Scheme of Illinois Trade Secrets Act

VII. [7S.39] Emergency Injunctive Relief and Appeals Therefrom**VIII. Possible Related Claims**

- D. [7S.44] Tortious Interference with Prospective Economic Advantage
- J. [7S.50] Defamation
- L. [7S.52] Conspiracy

II. EMPLOYMENT CONTRACTS

B. [7S.3] Employee Handbooks and Manuals

Add at the end of the last paragraph:

Moss v. Martin, 473 F.3d 694 (7th Cir. 2007) (employee handbook with unambiguous disclaimer does not create property right); *Flaningam v. County of Winnebago*, 243 Fed.Appx. 171 (7th Cir. 2007) (language in ordinance creating job position failed to rebut presumption of employment at will); *McFerren v. Village of Dolton*, No. 06 C 2362, 2007 U.S. Dist. LEXIS 11674 (N.D.Ill. Feb. 16, 2007) (employee manual not contract when disclaimer negated offer); *Cook v. United Parcel Service*, No. 06-CV-954-JPG, 2007 U.S. Dist. LEXIS 31616 (S.D.Ill. Apr. 30, 2007) (language of employee manual failed to constitute offer and any offer perceived by employee negated by disclaimer); *Akinbode v. Motorola, Inc.*, No. 05 C 4600, 2007 U.S. Dist. LEXIS 58909 (N.D.Ill. Aug. 13, 2007) (same).

IV. DRAFTING RESTRICTIVE COVENANTS

A. [7S.10] Overview of Requirements

Add after the Kempner Mobile Electronics, Inc. citation:

H&M Commercial Driver Leasing, Inc. v. Fox Valley Containers, Inc., 209 Ill.2d 52, 805 N.E.2d 1177, 282 Ill.Dec. 160 (2004) (finding provision that restricted one employer's ability to hire former employees of another company to be restraint on trade rather than covenant not to compete or restrictive covenant).

Add after the Advent Electronics, Inc. citation:

See also Grand Vehicle Works Holdings Corp. v. Frey, No. 03 C 7948, 2005 U.S. Dist. LEXIS 9509 (N.D.Ill. May 11, 2005) (refusing to enforce noncompetition agreement for lack of protectable interest and narrow tailoring even when parties agreed that it was enforceable).

E. Reasonableness

1. [7S.19] Geographic Reasonableness

Add at the end of the last paragraph:

YCA, LLC v. Berry, No. 03 C 3116, 2004 U.S. Dist. LEXIS 8129 (N.D.Ill. May 6, 2004) (upholding activity restraint with no geographical restriction that prohibited only solicitation of customers with whom employee had material contact); *RTC Industries, Inc. v. Haddon*, No. 06 C 5734, 2007 U.S. Dist. LEXIS 67008 (N.D.Ill. Sept. 10, 2007) (upholding restrictive covenant characterized as "activity restraint" with no geographical restriction that prohibited employee from providing services to competitor when it would involve actual or threatened unauthorized use of employer's confidential information).

2. [7S.20] Temporal Reasonableness

Add at the end of the first paragraph:

See also Hay Group, Inc. v. Bassick, No. 02 C 8194, 2005 U.S. Dist. LEXIS 22095 (N.D.Ill. Sept. 29, 2005) (finding noncompete agreement that prohibited employee from engaging in any type of competition with employer for two-year period unreasonable as matter of law).

3. [7S.21] Reasonableness of Activity Restrained

Add at the end of the paragraph:

RTC Industries, Inc. v. Haddon, No. 06 C 5734, 2007 U.S. Dist. LEXIS 67008 (N.D.Ill. Sept. 10, 2007) (upholding restrictive covenant characterized as “activity restraint” with no geographical restriction that prohibited employee from providing services to competitor when it would involve actual or threatened unauthorized use of employer’s confidential information).

V. ENFORCING RESTRICTIVE COVENANTS

B. [7S.25] Termination Without Cause and Employer Breach

Add after the third sentence in the partial paragraph at the bottom of p. 7-16:

See Diamond Blade Warehouse, Inc. v. Paramount Diamond Tools, Inc., 420 F.Supp.2d 866, 870 – 871 (N.D.Ill. 2006) (enforcing restrictive covenant when employee terminated for cause).

C. [7S.26] Judicial Modification: “Blue Pencil” Doctrine

Add at the end of the last paragraph:

See also Hay Group, Inc. v. Bassick, No. 02 C 8194, 2005 U.S. Dist. LEXIS 22095 (N.D.Ill. Sept. 29, 2005) (refusing to modify agreement, even in presence of severability clause, when restraint was sufficiently overbroad that any modification would amount to court rewriting agreement).

D. Attorney- and Physician-Specific Covenants

1. [7S.28] Covenants Restricting Attorneys

Add at the end of the second paragraph:

But see Hoffman v. Levstik, 369 Ill.App.3d 144, 860 N.E.2d 551, 307 Ill.Dec. 897 (1st Dist. 2006) (refusing to invalidate partnership agreement as against public policy despite financial disincentives for leaving).

2. [7S.29] Covenants Restricting Doctors

The section is revised:

Unlike in the practice of law, the Illinois Supreme Court recently decided that public policy does not prohibit the use of restrictive covenants in the practice of medicine. *Mohanty v. St. John Heart Clinic, S.C.*, 225 Ill.2d 52, 866 N.E.2d 85, 310 Ill.Dec. 274 (2006). Resolving a split among the Illinois district courts, the Supreme Court in *Mohanty* held that restrictive covenants in physician employment contracts are not void as a matter of public policy. In that case, an employer sought to enforce restrictive covenants against two doctors after they left the practice. 866 N.E.2d at 88. In opposition, the doctors asked the court to declare all restrictive covenants in medical practice cases void as against public policy. *Id.* The court rejected the doctors' position and affirmed the preliminary injunction.

Initially, the court distinguished *Dowd & Dowd, Ltd. v. Gleason*, 181 Ill.2d 460, 693 N.E.2d 358, 230 Ill.Dec. 229 (1998), which invalidated restrictive covenants in the practice of law based on Rule 5.6 of the Illinois Rules of Professional Conduct, finding there to be "no similar expressions of public policy" in the practice of medicine. 866 N.E.2d at 93. The court refused to find that expressions by the American Medical Association's Council on Ethical and Judicial Affairs provided a clear expression of Illinois public policy. 866 N.E.2d at 94. According to the court, these standards are not equivalent to an Illinois statute or rule of professional conduct. In any event, the court interpreted the American Medical Association standards as merely discouraging, rather than prohibiting, restrictive covenants. *Id.*

The court commented that "[h]istorically, covenants restricting the performance of medical professional services have been held valid and enforceable in Illinois as long as their durational and geographic scope are not unreasonable, taking into consideration the effect on the public and any undue hardship on the parties to the agreement." *Id.* The court further noted that, although some jurisdictions prohibit restrictive covenants in the practice of medicine on public policy grounds, it could not locate "any case in which a court has altogether outlawed restrictive covenants in physician employment contracts in the absence of some legislative enactment." *Id.* Thus, the court concluded that "prohibiting restrictive covenants in medical practice contracts is a decision better left to the legislature, where the competing interests can be fully aired." 866 N.E.2d at 95. Until the General Assembly legislates otherwise, therefore, *Mohanty* instructs that restrictive covenants in the practice of medicine be evaluated under the same reasonableness standard as all other noncompete agreements.

VI. [7S.30] CONFIDENTIALITY AGREEMENTS AND TRADE SECRETS

Items b and c are revised:

- b. "misappropriation" of the trade secret ("[M]isappropriation means stolen 'rather than developed independently or obtained from a third source.'" *Kim v. Dawn Food Products, Inc.*, No. 04 C 8141, 2006 U.S. Dist. LEXIS 11033 at *7 (N.D.Ill. Mar. 17, 2006), *aff'd* 206 Fed.Appx. 558 (7th Cir. 2006).); and

- c. the defendant's use of or anticipated use of the trade secret in its business (While "use" is a broad concept, it still involves an element of damage to the plaintiff. As one court stated, "[t]he idea of 'use' as embodied in this language indicates that the third party's actions have to be improper and damage the owner of the secret to some extent." *Cognis Corp. v. CHEMCENTRAL Corp.*, 430 F.Supp.2d 806, 812 (N.D.Ill. 2006).)

Add at the end of the partial paragraph following the list:

Stenstrom Petroleum Services Group, Inc. v. Mesch, 375 Ill.App.3d 1077, 874 N.E.2d 959, 314 Ill.Dec. 594 (2d Dist. 2007) (applying elements); *RRK Holding Co. v. Sears, Roebuck & Co.*, No. 04 C 3944, 2007 U.S.Dist. LEXIS 10484 (N.D.Ill. Feb. 14, 2007) (same); *QSRSoft, Inc. v. Restaurant Technology, Inc.*, No. 06 C 2734, 2006 U.S.Dist. LEXIS 76120 (N.D.Ill. Oct. 19, 2006) (same).

A. What Is a "Trade Secret"?

1. [7S.31] Definition Under Illinois Trade Secrets Act

Add after the Compuware citation in the second paragraph following the bold quotation on p. 7-21:

withdrawn, No. 01 C 0873, 2002 U.S.Dist. LEXIS 25684 (N.D.Ill. Oct. 30, 2002) (district court withdrew previous opinion following settlement). *See also United States Gypsum Co. v. LaFarge North America, Inc.*, 508 F.Supp.2d 601, 635 (N.D.Ill. 2007) ("In opposing summary judgment, the party asserting a trade secret must identify the trade secret with sufficient specificity.").

3. [7S.33] Cases Regarding Existence of Trade Secret

Add before the Lucini Italia citation in item f on p. 7-24:

Fisher Investments, Inc. v. Carlson, 04 C 6619, 2004 U.S.Dist. LEXIS 22060 (N.D.Ill. Nov. 1, 2004) (list of clients and potential clients does not constitute trade secret without showing of great time and expense spent compiling list and reasonable efforts to maintain secrecy of list once compiled);

Add at the end of the section:

A recent line of cases from the First and Second Districts gives substantial weight to two factors in determining the existence of trade secrets: (a) whether an employer protected its customer information by limiting access to both printed and computer-stored copies; and (b) whether the employer required employees to sign confidentiality agreements. *See Liebert Corp. v. Mazur*, 357 Ill.App.3d 265, 827 N.E.2d 909, 293 Ill.Dec. 28 (1st Dist. 2005) (customer information did not constitute trade secret when employer failed to take steps to restrict physical copies of information and employees did not sign confidentiality agreements); *Multiut Corp. v. Draiman*, 359 Ill.App.3d 527, 834 N.E.2d 43, 295 Ill.Dec. 818 (1st Dist. 2005) (customer information constituted trade secret when employer safeguarded electronic and printed copies of

information and required confidentiality agreements); *Arcor, Inc. v. Haas*, 363 Ill.App.3d 396, 842 N.E.2d 265, 299 Ill.Dec. 526 (1st Dist. 2005) (customer information did not constitute trade secret when only security measure employer took was to have employees sign confidentiality agreements); *The Agency, Inc. v. Grove*, 362 Ill.App.3d 206, 839 N.E.2d 606, 298 Ill.Dec. 283 (2d Dist. 2005) (customer information constituted trade secret when employees signed confidentiality agreements and employer protected electronic information with password and kept physical copies in file cabinet with limited access); *Stafford Trading, Inc. v. Lovely*, No. 05 C 4868, 2007 U.S. Dist. LEXIS 37140 (N.D.Ill. May 21, 2007) (information may still constitute trade secret after being shared with employees when employees were required to sign confidentiality agreements). *But see Computer Associates International v. Quest Software, Inc.*, 333 F.Supp.2d 688, 696 (N.D.Ill. 2004) (“the ITSA requires only reasonable measures, not perfection”).

B. What Is “Misappropriation”?

4. [7S.37] “Inevitable Disclosure” Doctrine

Add at the end of the section:

For further discussion on the doctrine of inevitable disclosure see Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 Tul.J.Tech. & Intell. Prop. 167 (2005).

C. [7S.38] Remedial Scheme of Illinois Trade Secrets Act

The last paragraph is replaced:

Finally, the ITSA states that it “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). *Hecny Transportation, Inc. v. Chu*, No. 98 C 7335, 2004 U.S. Dist. LEXIS 5417 at *6 (N.D.Ill. Mar. 30, 2004) (“ITSA abolished all common law causes of action for misuse of trade secrets except for breach of contract claims”), *aff’d in part*, 430 F.3d 402, 404 (7th Cir. 2005) (“This statute abolishes claims other than those based on contract *arising from misappropriated trade secrets*, replacing them with claims under the Act itself.” [Emphasis added.]). According to the Seventh Circuit, “[t]he dominant view is that claims are foreclosed only when they rest on the conduct that is said to misappropriate trade secrets.” 430 F.3d at 404 – 405. This narrow construction of the ITSA’s preemptive effect bars only claims dependent on the misappropriation of a trade secret. (“An assertion of trade secret in a customer list does not wipe out claims of theft, fraud, and breach of the duty of loyalty that would be sound even if the customer list were a public record.” 430 F.3d at 405.) *See also Dominion Nutrition, Inc. v. Cesca*, No. 04 C 4902, 2006 U.S. Dist. LEXIS 15515 (N.D.Ill. Mar. 2, 2006) (refusing to bar breach of fiduciary duty and interference with business expectancy claims).

The *Hecny* court relied on a comment to the Uniform Trade Secrets Act of 1985, on which the ITSA is based, that “[t]he provision 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.” 430 F.3d at 405. Following *Hecny*, courts have concluded that “breach of fiduciary duty claims cannot possibly be preempted just as any breach of loyalty or stealing of a business opportunity would not be. Similarly, the interference with a business expectancy claim is based on defendant taking away a business opportunity of plaintiff. It need not be proven that [defendant] relied on any confidential information.” *Dominion Nutrition, supra*, 2006 U.S. Dist. LEXIS 15515 at *14. See *RTC Industries, Inc. v. Haddon*, No. 06 C 5734, 2007 U.S. Dist. LEXIS 67008 (N.D. Ill. Sept. 10, 2007). See also *Systems America, Inc. v. Providential Bancorp, Ltd.*, No. 05 C 2161, 2006 U.S. Dist. LEXIS 6996 (N.D. Ill. Feb. 24, 2006); *C.H. Robinson Worldwide, Inc. v. Command Transportation, LLC*, No. 05 C 3401, 2005 U.S. Dist. LEXIS 28063 (N.D. Ill. Nov. 16, 2005).

Based on *Hecny*, a complaint in federal court will survive a motion to dismiss when the claims are not based solely on the misappropriation of trade secret information. See *FAIP North America, Inc. v. Sistema s.r.l.*, No. 05 C 4002, 2005 U.S. Dist. LEXIS 32798 (N.D. Ill. Dec. 14, 2005) (in order to assess motion to dismiss, court considers only whether allegations claim that each count is based solely on misappropriation of trade secrets or on wrongdoing of different sort). Compare *Systems America, Inc., supra* (dismissing conversion claim based solely on defendants’ alleged misappropriation of trade secret). Illinois courts have provided minimum comment on the preemptive effect of the ITSA. Pre-*Hecny* cases, therefore, may still provide persuasive authority for claims pending in Illinois state court. See *Fox Controls, Inc. v. Honeywell Inc.*, No. 02 C 346, 2002 U.S. Dist. LEXIS 15663 at *5 (N.D. Ill. Aug. 21, 2002) (claims based on misuse of confidential and proprietary information are preempted by ITSA); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp.2d 968, 972 (N.D. Ill. 2000) (to extent claims based on misappropriation of trade secrets, they are preempted by ITSA); *J.H. Chapman Group, Ltd. v. Chapman*, No. 95 C 7716, 1996 U.S. Dist. LEXIS 2256 (N.D. Ill. Feb. 26, 1996) (common-law breach of confidential relationship claim preempted); *Nilssen v. Motorola, Inc.*, 963 F. Supp. 664 (N.D. Ill. 1997) (common-law claims for breach of confidential relationship, unjust enrichment, and quantum meruit preempted); *Pope v. Alberto-Culver Co.*, 296 Ill. App.3d 512, 694 N.E.2d 615, 230 Ill. Dec. 646 (1st Dist. 1998) (unjust enrichment claim preempted). See also *Labor Ready, Inc. v. Williams Staffing, LLC*, 149 F. Supp.2d 398, 415 (N.D. Ill. 2001) (no preemption under ITSA when breach of fiduciary duty claim arises from facts different from trade secret misappropriation claim); *Combined Metals of Chicago Limited Partnership v. Airtek, Inc.*, 985 F. Supp. 827 (N.D. Ill. 1997) (refusing to dismiss breach of fiduciary duty claim as preempted under ITSA at motion to dismiss stage).

VII. [7S.39] EMERGENCY INJUNCTIVE RELIEF AND APPEALS THEREFROM

Add at the end of the section:

During a preliminary injunction hearing seeking to enforce a restrictive covenant in federal court, defendants should be wary of making a Federal Rule of Civil Procedure 52(c) motion for judgment on partial findings at the close of a plaintiff’s case-in-chief without presenting any evidence in defense of the claim. In *CertainTeed Corp. v. Williams*, 481 F.3d 528 (7th Cir. 2007), a case seeking to enforce an activity restraint governed by Pennsylvania law, the district court

granted the defendant's oral motion for judgment as a matter of law pursuant to Rule 52(c) at the close of the plaintiff's case-in-chief and denied the plaintiff's motion for preliminary injunction. Given the district court's ruling, the defendant did not present any evidence in his defense. On appeal, the Seventh Circuit vacated the district court's decision and remanded the case "for the prompt entry of an appropriate preliminary injunction" without further evidence. 481 F.3d at 530. The district court reluctantly issued the preliminary injunction, but noted that the Seventh Circuit's mandate denied the defendant the right to "[earn] a living in his chosen occupation without due process of law." *CertainTeed Corp. v. Williams*, 507 F.Supp.2d 847 (N.D.Ill. 2007).

VIII. POSSIBLE RELATED CLAIMS

D. [7S.44] Tortious Interference with Prospective Economic Advantage

The Doherty citation is revised:

Doherty v. Kahn, 289 Ill.App.3d 544, 682 N.E.2d 163, 224 Ill.Dec. 602 (1st Dist. 1997), abrogated on other grounds by *Byung Moo Soh v. Target Marketing Systems, Inc.*, 353 Ill.App.3d 126, 817 N.E.2d 1105, 288 Ill.Dec. 455 (1st Dist. 2004);

J. [7S.50] Defamation

The Doherty citation is revised:

Doherty v. Kahn, 289 Ill.App.3d 544, 682 N.E.2d 163, 224 Ill.Dec. 602 (1st Dist. 1997), abrogated on other grounds by *Byung Moo Soh v. Target Marketing Systems, Inc.*, 353 Ill.App.3d 126, 817 N.E.2d 1105, 288 Ill.Dec. 455 (1st Dist. 2004);

L. [7S.52] Conspiracy

Add at the end of the paragraph:

Do It Best Corp. v. Passport Software, Inc., No. 01 C 7674, 2005 U.S.Dist. LEXIS 7213 (N.D.Ill. Mar. 31, 2005) (finding civil conspiracy claim preempted by federal copyright law).

