

Trade Secrets: What Are You Protecting?

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ABOUT THIS WHITE PAPER:

In order to be entitled to protection as a trade secret, the information at issue must actually be a secret, and the business must derive economic value from that secrecy. This alert explains how businesses concerned about the prospect of unfair competition based on knowledge of trade secrets would be best protected by a reasonable, thorough and enforceable employment agreement.

Most businesses that take steps to guard against unfair competition do so by requiring employees to sign agreements containing some combination of restrictive covenants, including non-compete, non-disclosure, and non-solicitation clauses. Others rely – either instead of or as a complement to such agreements – on the protections provided by the Illinois Trade Secrets Act. That statute is intended to prevent, and provide remedies for, the unlawful use and disclosure of business information that is (1) “sufficiently secret to give the plaintiff a competitive advantage,” and (2) subject to “affirmative measures to prevent others from acquiring or using it.” See *System Development Services, Inc. v. Haarmann*, 389 Ill. App. 3d 561, 571, 907 N.E.2d 63, 73 (5th Dist. 2009). Many businesses that believe they have trade secrets to protect focus extensively on the efforts they expend to keep that information secret, including password protecting their computers, physically placing information under lock and key (or its information-age equivalent), and employing security guards. And, to be sure, trade secret protection often turns on the measures employed to maintain the confidentiality of information regarded as secret. But in some cases that might put the cart before the horse. In order to be entitled to protection as a trade secret, the information at issue **must actually be a secret**, and the business must derive economic value from that secrecy. As the Fifth District phrased in the issue last year in *Haarmann*, “[a]ll of the efforts in the world to preserve confidentiality of information will not suffice if the information is not secret in the first place.” *Id.* at 78. The appropriate starting point in a trade-secret analysis, then, is determining whether the information believed to be a trade secret is actually more generally known in the industry, and thus not subject to protection under the Illinois Trade Secrets Act.

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Several important caveats inform the question of whether information – even if regarded as confidential and proprietary to a particular business – actually qualifies as a trade secret. For example, employees are entitled to take their general skills and knowledge about a particular field or industry with them when they leave, even where such skills and knowledge were enhanced or improved upon as a result of their employment. See *Service Centers of Chicago, Inc. v. Minogue*, 180 Ill. App. 3d 447, 454-55, 535 N.E.2d 1132, 1136-37 (1st Dist. 1989) (“[I]t is recognized that an employee may derive some benefit from his access to the collective experience of his employer’s business.”). Moreover, the Illinois Trade Secret Act is intended “to preclude protection for information not generally known to the public but clearly understood in a particular industry.” *Id.* at 1136 (quoting Melvin F. Jaeger, Trade Secrets Law § 3.04 at 3-34 (1988)). Additionally, a business cannot claim trade secret protection in information belonging to its customer, such as the customer’s needs, preferences, and purchase history. See *Delta Medical Sys. v. Mid-America Medical Sys., Inc.*, 331 Ill. App. 3d 777, 795, 772 N.E.2d 768, 783 (stating that knowledge that a customer chose a particular level of service “cannot be a trade secret where it is the customer...that makes the choice regarding the level of service that best suits its needs at a particular time”). All of these concerns bear on the determination of whether a trade secret exists, but many business, unfortunately, do not engage in this self-critical analysis until embroiled in litigation, and struggle to protect claimed trade secrets where none exist.





One area where businesses are often found to have overstated their trade secret cases is customer lists. Businesses sometimes invest great effort and expense in compiling lists of customers – and may even take what would otherwise be sufficient steps to guard their secrecy – only to find that those lists cannot be protected as trade secrets. Under Illinois law, information cannot constitute a trade secret if it “can be readily duplicated without considerable time, effort, or expense.” Haarmann, 907 N.E.2d at 73 (quoting *Stenstrom Petroleum Serv. Group, Inc. v. Mesch*, 375 Ill. App. 3d 1077, 1091, 874 N.E.2d 959, 972 (2d Dist. 2007)). Parties that claim customer lists as trade secrets are frequently foiled by the fact that the names of the customers on those lists are available in trade journals, telephone books, and, of course, the internet. Courts routinely reject trade-secret protection for customer lists where anyone with the time and inclination could do research to determine potential customers for a new or competing businesses.

None of the above should be taken to mean that the Illinois Trade Secrets Act is not an effective means of protection against unfair competition. It certainly can be, where its elements are satisfied. But, as is almost always the case, efforts to implement additional precautions are rarely wasted. Businesses concerned about the prospect of unfair competition on the part of departing employees would be best protected by a reasonable, thorough, and enforceable employment agreement containing, where appropriate, some or all of the restrictive covenants discussed above. Of particular significance to the trade-secret discussion is a confidentiality or non-disclosure provision. Confidential information that might not otherwise meet the more stringent requirements for a trade secret can be protected from disclosure if carefully defined in the agreement, and injunctive relief could be available to prevent the use of such information in the departing employee’s next venture. Freeborn & Peters LLP has extensive experience in drafting, enforcing, and defending against the enforcement of restrictive covenants of all varieties, and can provide counsel to businesses looking to ensure that they have the strongest levels of protection against unfair and improper competition.



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