

Where Illinois Trade Secrets Act Meets Other Areas Of Law

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Law360, New York (July 28, 2017, 4:06 PM EDT) -- Preemption is an important consideration when evaluating what claims to bring with or instead of an Illinois Trade Secrets Act claim. The ITSA preempts all noncontract state common law and statutory claims that are based on the misuse of trade secrets, but does not preempt either contractual remedies or “other civil remedies that are not based upon misappropriation of a trade secret.” 765 ILCS 1065/8(a)-(b).

Additionally, after the Seventh Circuit’s decision in *Hecny Transportation Inc. v. Chu*, 430 F.3d 402 (7th Cir. 2005), the majority of Illinois courts refuse to find non-ITSA claims preempted where the information does not rise to the level of a trade secret. Also, it is important to note that non-ITSA claims or parts of them may be preempted depending on whether certain federal law claims also are brought.

Potential Claims Under Illinois Law

Breach of Restrictive Covenant

The ITSA does not preempt claims to enforce restrictive covenants because they are contractually based, even if they are seeking to protect trade secrets. In fact, pleading an ITSA claim as well may help with the enforceability of a restrictive covenant to protect trade secrets because the ITSA provides that while restrictive covenants are generally unenforceable unless they are reasonable in scope, “a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographic limitation on the duty.” 765 ILCS 1065/8(b)(1).

It should be noted, however, that Illinois state courts currently seem to require two years of continued employment as consideration to enforce a noncompetition or nonsolicitation covenant against an at-will employee. See, e.g., *McInnis v. OAG Motorcycle Ventures Inc.*, 2015 IL App (1st) 142644; *Fifield v. Premier Dealer Services Inc.*, 2013 IL App (1st) 120327. Some federal courts, however, have declined to apply the two-year requirement. See, e.g., *Apex Physical Therapy LLC v. Ball*, 2017 WL 3130241, at *2-3



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(S.D. Ill. July 24, 2017). As a result, until the Illinois Supreme Court weighs in, an ITSA plaintiff seeking to enforce a noncompetition or nonsolicitation covenant where the employee worked for less than two continuous years may fare better in federal court, which is now more easily accessible after the enactment of the Defend Trade Secrets Act, discussed below.

Tort Claims

Tort claims generally will not be preempted if they are based on conduct other than trade secret misappropriation. For example:

Breach of fiduciary duty: After *Hecny*, Illinois courts generally have refused to find preemption of fiduciary duty claims based on conduct other than trade secret misappropriation, such as where the alleged misconduct includes setting up a competing business and hiring away the plaintiff's employees. E.g., *Jano Justice Systems Inc. v. Burton*, 2008 WL 5191765, at *2 (C.D. Ill. Dec. 11, 2008).

Tortious interference with contract: Similarly, an ITSA plaintiff can avoid preemption by alleging interference independent of trade secret misuse, such as conduct involving inducements to compete with a current employer or to solicit other employees and customers away from an employer. E.g., *EBI Holdings Inc. v. Butler*, 2009 WL 400634, at *5 (C.D. Ill. Feb. 17, 2009).

Conversion: While the ITSA preempts claims for conversion of "intangible" property like computer software, see *Sys. Am. Inc. v. Providential Bancorp Ltd.*, 2006 WL 463314, at *6-7 (N.D. Ill. Feb. 24, 2006), it does not preempt claims for conversion of "tangible" property with "value apart from the information it contains," like medical equipment with value not tied to the information stored electronically on the equipment, *CardioNet Inc. v. LifeWatch Corp.*, 2008 WL 567223, at *3 (N.D. Ill. Feb. 27, 2008).

Examples of other potential claims that might not be preempted where they are based on conduct other than trade secret misappropriation are:

Civil conspiracy;

Fraud;

Illinois Deceptive Trade Practices Act;

Illinois Consumer Fraud and Deceptive Trade Practices Act;

Tortious interference with prospective economic advantage;

Unfair competition; and

Unjust enrichment.

Potential Federal Law Claims

ITSA claims generally are not preempted by federal causes of action and often are brought (or considered) with complementary federal law claims, including:

Defend Trade Secrets Act

When Congress enacted the DTSA in 2016 to amend the Economic Espionage Act (which imposes criminal liability for trade secret theft) to add a federal civil cause of action for trade secret theft, owners gained a powerful tool that can be used in conjunction with the ITSA. Importantly, the DTSA does not preempt state law claims (with the exception of whistleblower immunity), 18 U.S.C. § 1838, and also precludes courts from entering any injunction that conflicts with state law “prohibiting restraints on the practice of a lawful profession, trade, or business,” 18 U.S.C. § 1836(b)(3)(A)(i)(II).

Given the DTSA’s framework, there are several potential advantages of pleading both ITSA and DTSA claims. For example, even though the DTSA applies only “if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce,” *id.* at (b)(1), when available, such claims can be brought in federal court. As noted above, this may be particularly advantageous under the current legal landscape if a restrictive covenant is involved. The DTSA also allows for ex parte seizure of property related to the trade secrets “in extraordinary circumstances,” which is not available under ITSA. *Id.* at (b)(2)(A)(i).

Importantly, the DTSA has much in common with the ITSA, and while case law is still developing, thus far, federal courts have been applying ITSA precedent in evaluating potential DTSA violations. E.g., *Molon Motor & Coil Corp. v. Nidec Motor Corp.*, 2017 U.S. Dist. LEXIS 71700 (N.D. Ill. May 11, 2017).

Additionally, while one perceived disadvantage of the DTSA was that it might not allow for application of the inevitable disclosure doctrine, at least one Illinois federal court (*Molon*) has recently suggested otherwise in denying a motion to dismiss a DTSA claim based on the doctrine.

Computer Fraud and Abuse Act

With more trade secrets and confidential information being stored on computers, the CFAA has become more prevalent in trade secrets cases. Originally enacted as a criminal statute, the CFAA now includes a civil cause of action for persons who, without authority or exceeding authorization, access a computer and either corrupt the integrity or availability of electronic data or information, or cause an interruption of computer services. 18 U.S.C. § 1030. Notably, unlike the ITSA, the CFAA applies even if the information is not a trade secret or well-protected. This is helpful because it means a plaintiff need not show that it took reasonable steps to maintain the secrecy of the information, which is sometimes challenging under the ITSA.

Patent and Copyright Laws

Patent law does not preempt ITSA claims. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974).

Similarly, copyright law does not preempt state law claims unless such claims seek to protect rights equivalent to the exclusive rights granted to copyright owners. See *Ho v. Taflove*, 648 F.3d 489, 500 (7th Cir. 2011). Accordingly, the Seventh Circuit has held that copyright laws do not preempt ITSA claims because “a claim for trade secrets misappropriation regulates conduct beyond the rights under the Copyright Act.”

Conclusion

1. ITSA preemption is limited to noncontractual civil remedies based on misappropriation of trade secrets. The ITSA does not preempt contract claims, federal claims, or claims “not based upon misappropriation of a trade secret.”
2. To avoid preemption, carefully plead separate factual bases that do not involve trade secret misappropriation.
3. Consider pleading a DTSA claim especially where federal decisions are more helpful than state court ones.

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