



Trade Secrets and Employment Agreements

Deb Stegall – Peoria Office
Greg Rastatter – Peoria Office

Heyl, Royster, Voelker & Allen

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Illinois Trade Secrets Act

- “Trade secret” Defined
- "not generally known"
- "subject of efforts that are reasonable... to maintain its secrecy"
- Misappropriation (improper means)

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Illinois Trade Secrets Act

- Trade secret status generally denied for customer and client lists

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Illinois Trade Secrets Act

| Protected | Not Protected |
|--|---|
| Client/customer lists (that are protected and treated as secret by employer) | Client/customer lists (that can be recreated easily from other sources) |
| Service manuals and technical bulletins (compilations of valuable technical information) | Price lists (that are not kept secret) |
| Machines or processes invented | General skill and knowledge acquired by employee during employment |
| Software programs | |
| Sales data and marketing analysis | |

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Employment Contracts

- Non-Compete
- No-Solicitation

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Reliable Fire Equipment Company v. Arredondo (Illinois Supreme Court, 2011)

- Re-established "legitimate business interest" test
- Protection of contracts vs. suppressing market competition
- No holding - reversed

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Employment Agreements

- Sets forth the terms of the employment relationship
- Do not have to be written
- Exception rather than the rule

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Employment Agreements

- Duration of Job
- Employee Responsibilities
- Benefits
- Termination
 - Usually limits employer
- Protect trade secrets & client lists

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Employment Agreements

- Ownership of work product and inventions
- Method of resolving disputes

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Employment Agreements

- Scope of Employment
 - Title
 - Job Duties
 - Relocation
 - Permit activities beyond job duties
 - Location of employment

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Employment Agreements

- Salary
 - Base salary
 - Terms of Payment
 - Any base salary adjustments
 - COL
 - Hit targets
 - Performance Reviews

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Employment Agreements

- Bonuses
 - Signing
 - Guaranteed
 - Based on subjective & objective criteria of performance
 - Minimum target

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Employment Agreements

- Benefits
 - Health, Medical & Dental
 - Disability
 - 401(k)
 - Pension

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Employment Agreements

- What happens upon disability or death
- Reimbursement for expenses
- Define “for cause” reasons for termination

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Employment Agreements

- Advantages
 - Training and replacement costs
 - Protect confidential & sensitive information
 - Non-compete
 - Performance

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Employment Agreements

- Disadvantages
 - Goes both ways
 - Change requires renegotiation
 - Possible breach if need to terminate early
 - Carries an obligation of fair dealing

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Restrictive Covenants

- Protect Employer's Interests
- Legitimate Business Interests
 - Customer Relationships
 - Loss of Key Employee
 - Secret, confidential & proprietary information

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Legitimate Business Interests

- Near Permanent Relationships
- Trade Secrets/Confidential Information

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Legitimate Business Interests

- 7 Factor Test
 - Time to Develop Clients/Customers
 - Money Invested
 - Difficulty in Acquiring Clients/Customers
 - Extent of Personal Contact by Employee
 - Extent of Employee's Knowledge of Clients & Customers
 - Duration of Association
 - Continuity of those Relationships

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Legitimate Business Interests

- Nature of the Business Test
 - Sales
 - Generally no near-permanent relationship exists
 - Professional Services
 - Usually there is a near-permanent relationship

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Trade Secret or Confidential Information

- Confidential Information
 - Must not be generally known
 - Must be valuable to competitors
 - Must be protected or kept secret by company

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Reasonableness

- Geographic Scope
- Temporal Scope
- Activity Restrained
- Effect on General Public
- Hardship on the Employee

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Reasonableness

- Geographical Area
 - Must not extend beyond major area of employer's business
- Time Restriction
 - Two Years
 - Lacking time will not be enforceable

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Reasonableness

- Activity
 - Specific activities related to position and actual customers/client

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Reasonableness

- Hardship to Employee
 - If prevents employee from being gainfully employed, it will be a hardship
 - Cannot keep a person for working in the field of expertise or keep a business from engaging in its chosen line of business
- Effect on General Public
 - Cannot injure the public by restricting competition

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Prior to *Reliable Fire* (Kolar)

- Legitimate Business Interest only if:
 - Employee acquired confidential information and used or attempted to use it; and
 - Near permanent relationships and but for the employment, employee would have never had contact with those customers/clients

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After Reliable Fire

- Restrictive covenants were enforced if met the 3-prong test (presuming ancillary to a valid employment agreement or relationship)
 - No greater than required to protect a legitimate business interest
 - Not injurious to the public
 - No undue hardship to the employee

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After Reliable Fire

- Totality of the Circumstances Test
 - Did employee acquire confidential information
 - Are there near-permanent relationships
 - Are the restrictions reasonable in geography, time and activities
 - No longer are trade secrets, confidential information and near permanent relationships the only legitimate business interests

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After *Reliable Fire*

- Promotes a more fact intensive inquiry
- More difficult, if not impossible, to invalidate through Motion to Dismiss or Motions for Summary Judgment
- Provides employers with an opportunity to define interests in employment agreements
- A non-compete may be enforceable in one situation but not in another even though it's the same document

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What can you do?

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Considerations

- Have the right employment agreements in place
- Keep customer/client lists secret

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Considerations

- Cultural change
- Facts, facts, facts
- Misappropriation and use for employee's benefit
- Cultivate client/customer relationships

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Considerations

- Make sure your restrictive covenants are reasonable in time and geographical scope
- Consider narrowing activities
- Consider customers/products employee had contact within in a limited time frame prior to his leaving

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Considerations

- Who should sign a restrictive covenant and/or a confidentiality agreement
 - Research
 - Sales or Service
 - Engineers
 - Creative Work
 - Oversee Production

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Considerations

- Remind employee of non-compete and confidentiality at time of termination
- May need to send a letter to employee and new employer reminding or notifying them of non-compete

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