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Restrictive Covenant/Trade Secrets Bulletin

Legislative Changes On The Horizon

Covenants not to compete and the Illinois Trade Secrets Act are powerful weapons that an employer can use to prevent unfair competition by a former employee. Two bills recently introduced to the Illinois legislature propose changes that, if enacted, could significantly alter the law in these two areas.

Proposed Amendments to the Illinois Trade Secrets Act

State Senator Don Harmon, Oak Park (D), has introduced SB 2149, which proposes amendments to the Illinois Trade Secrets Act ("ITSA"), 765 ILCS 1065/1, *et seq*. The major component of the legislation is a requirement that a trade secret plaintiff identify its alleged trade secrets in writing with "reasonable specificity" before obtaining any discovery from the defendant(s). The current version of the ITSA does not require a specific, written disclosure by a plaintiff at any time.

The primary purpose of the legislation is to tie the plaintiff to specific trade secrets at an early stage of the litigation and prevent frequent alteration of the trade secrets. In that regard, a litigant may only amend its written trade secret disclosure (1) with leave of court, (2) upon a showing of good cause, (3) within 180 days of the original disclosure, and (4) before the close of discovery.

Moreover, if the amended trade secret disclosure abandons previously-identified trade secrets or discloses additional secrets, the defending party is entitled to a mandatory award of attorneys' fees. The proposed legislation also includes a mandatory award of attorneys' fees and costs for a false, knowingly inaccurate, or objectively unreasonable statement of trade secret misappropriation.

Other highlights of the proposed amendments include:

- When a court enjoins the use of trade secrets, it must specifically identify the trade secrets subject to the injunction.
- Attorneys' fees for the prevailing party.
- A mandatory award of attorneys' fees when a party unreasonably resists the dissolution of an injunction.
- A discretionary award of attorneys' fees if (i) the court modifies an order of injunction as impermissibly over-broad, vague, or ambiguous, (ii) the plaintiff's claim for damages is specious or without substantial proof of economic injury, or (iii) an injunction request is for an order substantially greater than necessary under specified circumstances.

Proposed Covenants Not to Compete Act

State Representative Rosemary Mulligan, Des Plaines (R), recently introduced HB 4040, entitled the Illinois Covenants Not to Compete Act, that proposes changes to existing law regarding the enforcement of covenants not to compete.

Below are some of the highlights of the proposed legislation, followed by brief notes as to how, if at all, the proposed legislation would change existing law:

Proposed: Covenants not to compete could only be enforced against "key employees" or "key independent contractors," which are employees or independent contractors with (i) substantial executive management of the business, (ii) direct and substantial contact with the business's customers, (iii) knowledge of trade secrets or other proprietary information, (iv) unique skills that have given them a high degree of notoriety or fame, or (v) a salary among the highest paid 5% of the employer's employees or independent contractors.

Current: There is currently no limitation as to the types or categories of employees to whom noncompetes can be applied.

Proposed: For new employees, the employer must inform the key employee or key independent contractor in writing, at least two (2) weeks *before* the first day of employment, that a covenant not to compete is a condition of employment.

Current: Existing law does not require any pre-employment notice.

Proposed: For existing employees, a new covenant not to compete must be accompanied by a material advancement, promotion or payment of a material bonus or raise.

Current: Continued employment for a substantial period of time after entering into a covenant not to compete is presently sufficient consideration.

Proposed: The statute proposes a rebuttable presumption that a covenant is *not* enforceable if it is (i) longer than one year, (ii) extends geographically beyond the area where the key employee provided services for the employer, or (iii) restricts the employee's activities for a competitor beyond the type of services that the employee provided for the employer during his last year of employment. An employer may overcome these presumptions by a showing that more extensive restrictions are necessary to protect a legitimate business interest.

Current: The current test does not provide any hard-and-fast rules for reasonableness. Rather, that determination is made on a case-by-case basis.

Proposed: Courts may modify overbroad covenants to make them enforceable, but if so, the employer may not recover damages for the period before the court's modification.

Current: Courts may currently modify overbroad covenants, and employers may recover damages for the period before the modification.

Proposed: Provisions that allow an employer to recover attorneys' fees in actions to enforce a covenant not to compete are declared to be mutual, such that, if the employee prevails in such an action, the employee can recover his or her attorneys' fees.

Current: "One-sided" attorneys' fees provisions in favor of the employer are generally enforceable as drafted.

Proposed: Customer and employee non-solicitation provisions, confidentiality agreements, partnership agreements, and shareholder agreements are exempt form the proposed legislation.

We will monitor the progress of the legislation and provide updates of any significant developments. In the meantime, if you have any questions about the proposed legislation or any other matter related to trade secrets or covenants not to compete, please contact any Vedder Price attorney with whom you have worked.

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