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Growing Pains: Intellectual Property Considerations for Illinois Small Businesses Seeking To Expand

*William Lynch Schaller**

I. INTRODUCTION

It is a fact of life that small businesses with small budgets sometimes neglect legal formalities. There are any number of reasons for this phenomenon, but the principal problem often is simply too much trust. Most small businesses are owned and operated by family or friends; they frequently rely upon their faith in one another and outside trading partners as a substitute for “costly” legal protection and the implicit message of distrust they think legal measures send. This understandable but naive attitude can lead to substantial problems down the road, especially if the business enjoys success and begins to grow.¹

Proper planning to avoid these disputes can be quite complex. For example, entity choice may have significant tax and legal control

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1. See, e.g., *Lozman v. Putnam*, 767 N.E.2d 805, 808–09 (Ill. App. Ct. 1st Dist. 2002) (describing corporate opportunity and other claims against Archipelago electronic stock exchange and its founders based upon the plaintiff’s alleged exclusion from Archipelago). See generally Darcy Evon, *Archipelago a Success with Technology in Trading*, CHI. SUN-TIMES, Jan. 13, 2003, at 52 (describing Archipelago’s substantial success in electronic trading, including Archipelago’s raising of \$200 million in venture capital in 1999), available at 2003 WL 9537552; David Roeder, *Archipelago Gets \$125 Million Investment*, CHI. SUN-TIMES, Nov. 14, 2003, at 68 (describing Archipelago’s raising of \$125 million from venture capital firm in 2003), available at LEXIS, News Library, All News File; *Archipelago Plans IPO*, CHI. SUN-TIMES, Dec. 2, 2003, at 62 (reporting Archipelago’s announcement that it “expects to file a registration statement with the Securities and Exchange Commission during the next several months” in order to make an initial public offering), available at 2003 WL 9578587.

implications for firm owners.² If a corporation is selected as a vehicle, shareholder agreements dealing with divorce, death, disability, and departure may prove critical as well.³ If a partnership or limited liability entity is chosen, careful attention must be given to contractual terms that seek to modify statutory default rules that would otherwise apply.⁴ Contracts with employees, customers, manufacturers, suppliers, and distributors also need to be thoroughly analyzed.⁵ And, of course,

2. See, e.g., *Baker v. Comm'r*, 338 F.3d 789, 794 (7th Cir. 2003) (holding that State Farm's termination payments to Baker, who built an insurance agency owned by State Farm, were taxable as ordinary income in return for a noncompete covenant, not as capital gains from the sale or exchange of capital assets); *EEOC v. Sidley Austin Brown & Wood*, 315 F.3d 696, 699 (7th Cir. 2002) (describing a law firm executive committee's self-perpetuating power to elect its own members). See generally Richard A. Booth, *Form and Function in Business Organizations*, 58 BUS. LAW. 1433, 1439-43 (2003) (comparing and contrasting different business entity forms); Kevin Hassett, *A Level Playing Field*, WALL ST. J., Oct. 20, 2003, at A18 (explaining that a small, profitless start-up would rather use stock options than cash to compensate employees since options have no tax consequences when issued, and arguing that the tax code should be amended to allow companies to award shares of stock without tax consequences), available at 2003 WL-WSJ 3983155.

3. See, e.g., *Miniat v. Ed Miniat, Inc.*, 315 F.3d 712, 715-16 (7th Cir. 2002) (construing a shareholder agreement addressing election of directors); *Valinote v. Ballis*, 295 F.3d 666, 667 (7th Cir. 2002) (describing a buy-sell agreement allowing one investor to set the share price, with the other then deciding to buy those shares "or sell his own, at that price"); *Jenkins v. Jenkins*, 64 P.3d 953, 958 (Idaho 2003) (describing the impact of marital divorce on business financing and rejecting an ex-spouse's corporate opportunity claim partly on the ground that the remaining shareholders were unwilling to deal with her under any circumstances); *In re Marriage of Devick*, 735 N.E.2d 153, 161-62 (Ill. App. Ct. 2d Dist. 2000) (ordering transfer of restricted stock from one spouse to another as part of divorce proceedings, as a stock transfer restriction does not apply to interspousal transfers of stock that constitute marital property absent an express provision prohibiting such transfers); Gene Colter, *Leadership Crisis Awaits Owners of Family Firms*, WALL ST. J., Mar. 5, 2003, at B11D (noting that, according to a Mass Mutual Financial Group and Raymond Family Business Institute survey, of 1143 companies responding, 42% of those with CEOs expected to depart within five years had not chosen a successor, a figure rising to 55% when CEOs were age 61 or older), available at 2003 WL-WSJ 3960858. See generally Kerry M. Lavelle, *Drafting Shareholder Agreements for the Closely-held Business*, 4 DEPAUL BUS. L.J. 109 (1991) (discussing drafting strategies).

4. See, e.g., *Indeck N. Am. Power Fund, L.P. v. Norweb plc*, 735 N.E.2d 649, 661 (Ill. App. Ct. 1st Dist. 2000) (finding that a partner's consent was necessary before a fellow partner could transfer a partnership interest); *Baldwin v. Wolff*, 690 N.E.2d 632, 635 (Ill. App. Ct. 1st Dist. 1998) (holding that the assignment of a partner's income stream did not make that assignee a partner; consent of the majority of the other partners was necessary to achieve partner status); see also Edward W. Feldman, *Essential Elements of an Operating Agreement for a Law Firm Organized as an LLC*, CBA REC., Apr. 2002, at 30 (providing a general discussion of operating agreement provisions).

5. See *Baxter Healthcare Corp. v. O.R. Concepts, Inc.*, 69 F.3d 785, 788 (7th Cir. 1995) (finding that the defendant did not breach its distribution agreement with the plaintiff when the defendant's shareholders sold 95% of their stock to the plaintiff's rival, and the change in the corporate defendant's stock ownership did not change the corporate defendant's contractual duties or constitute an assignment of distribution agreement); *Haslund v. Simon Prop. Group, Inc.*, 284 F. Supp. 2d 1102, (N.D. Ill. 2003) (awarding an employee a one percent equity interest, worth approximately \$600,000, in a company based on oral promises); *DiLorenzo v. Valve &*

debt and equity financing must be considered closely,⁶ particularly in light of the relatively slow initial public offering market.⁷ Yet if a small firm's core purpose is to develop and exploit intellectual property, all of these matters may have little practical meaning absent prudent intellectual property ownership and protection strategies. Simply put, the crown jewels might be lost, leaving the firm worthless.

Primer Corp., 791 N.E.2d 1232, 1237-38 (Ill. App. Ct. 1st Dist. 2003) (analyzing an employee's stock option claim based upon unsigned board minutes); Wasserman v. Autohaus on Edens, Inc., 559 N.E.2d 911, 918 (Ill. App. Ct. 1st Dist. 1990) (sustaining an employee's stock ownership claim based upon an oral promise to grant stock); Judy Artunian, *Daughters as Successors*, CHI. TRIB., Feb. 17, 2003, § 4, at 1 (describing the difficulties a small family businesses can experience during transition from one generation to another as the new generation works to win the trust of employees, customers, and business advisers), available at 2003 WL 13238286; Sean T. Carnathan, *Will the Company Cover an Ex-officer's Legal Costs? The New World of Sarbanes-Oxley*, BUS. L. TODAY, Sept.-Oct. 2003, at 33 (discussing the possibility that traditional corporate agreements to advance legal defense expenses to publicly traded company officers violate the "extension of credit" prohibitions of section 402 of the Sarbanes-Oxley Act).

6. See *Fait v. Hummel*, 333 F.3d 854, 856 (7th Cir. 2003) (stating that the violation of a rights agreement allowed preferred shareholders to elect the board majority, who then voted to approve a stock offering to stave off bankruptcy of a small drug development firm); *Pommer v. Medtest Corp.*, 961 F.2d 620, 622-24 (7th Cir. 1992) (discussing a securities fraud claim based upon representation that the stock issuer held a patent, when in fact the issuer only had a pending patent application); *In re Joy Recovery Tech. Corp.*, 286 B.R. 54, 79 (Bankr. N.D. Ill. 2002) (holding that a leveraged buy-out of 50% shareholder by the other 50% shareholder, when financed by a bank loan secured by the corporation's assets, constituted a fraudulent conveyance); Timothy J. Harris, *Modeling the Conversion Decisions of Preferred Stock*, 58 BUS. LAW. 587 (2003) (noting that for many years convertible preferred stock has been the main means start-ups have used to raise venture capital and explaining choices venture capitalists face when presented with a conversion decision due to an acquisition or initial public offering); Raymond Hennessey & Phyllis Plich, *Public Notice: Why Companies Harbor Doubts on Doing IPOs*, WALL ST. J., Mar. 24, 2003, at C5 (noting that increased regulatory, audit, and insurance costs have influenced many firms to remain private), available at 2003 WL-WSJ 3962707; Robert S. Schlossberg & Jason A. Lomax, *Trap for the Venture Capitalist—Beware the Hart-Scott-Rodino Act*, BUS. L. TODAY, Mar.-Apr. 2003, at 55 (discussing the subtleties of the Hart-Scott-Rodino Act reporting requirement, which triggers when venture capitalists invest in start-ups).

7. See Ann Grimes, *Venture Capitalists Show Hope*, WALL ST. J., Feb. 28, 2003, at C5 (reporting that a survey of 650 venture capital executives showed 25% expected the economy to improve in 2003, up from 12% in the fourth quarter of 2002), available at 2003 WL-WSJ 3960594; David P. Hamilton, *Biotech Industry Edges Toward IPO Boomlet: Only a Handful of Companies Have Gone Public in Past 3 Years, Now Shares and Hopes Are Rising*, WALL ST. J., Aug. 22, 2003, at C1 (detailing difficulties biotech firms have had in raising public and private funding), available at 2003 WL-WSJ 3977669; Kara Scannell, *Start-ups Feel Pain of 'Down Round,' Pay Dearly to Survive*, WALL ST. J., Feb. 4, 2003, at C1 (reporting the difficulties facing start-up companies seeking additional financing, including equity reductions for employees and seed investors), available at 2003 WL-WSJ 3958287. See generally Robert P. Bartlett, III, *Understanding Price-based Antidilution Protection: Five Principles To Apply When Negotiating a Down-round Financing*, 59 BUS. LAW. 23 (2003) (discussing complexities associated with antidilution provisions); Jeffrey A. Blomberg, *The Lurking Danger in Insider-led Financings: On Protecting Directors from Charges of Self-dealing*, BUS. L. TODAY, May/June 2003, at 55 (discussing fiduciary duty exposures inherent in down-round financings of cash-strapped small firms).

This Article highlights common issues and practical solutions concerning intellectual property of expanding small businesses in Illinois. Trade secrets are considered first because of their broad reach, with emphasis on disclosure to employees and third-parties, including potential acquirers.⁸ Next, because they dovetail with trade secret law, noncompete agreements are addressed in some detail, from both theoretical and practical perspectives.⁹ This Article then turns to copyright,¹⁰ patent,¹¹ and trademark¹² considerations, including trade name protection under Illinois and federal law, with primary emphasis on ownership and licensing issues. The last Part examines fiduciary duty law and the related field of idea law,¹³ as both sometimes substitute for other, more traditional forms of intellectual property, particularly in small business cases in which federal registrations have not been sought and appropriate contractual protection has not been secured.

Given its focus on small companies and local law, this Article does not address the complexities associated with international affairs,¹⁴ some of which, such as foreign patent, copyright, and trademark filings, can have significant implications here at home.¹⁵ Antitrust, bankruptcy, and criminal law issues are also omitted as beyond the scope of this

8. See *infra* Part II (discussing Illinois and federal trade secret issues).

9. See *infra* Part III (discussing noncompete agreements in the intellectual property context).

10. See *infra* Part IV (discussing commonly encountered copyright issues).

11. See *infra* Part V (discussing commonly encountered patent issues).

12. See *infra* Part VI (discussing commonly encountered trademark and tradename issues).

13. See *infra* Part VII (discussing commonly encountered fiduciary duty issues).

14. See, e.g., Geoffrey A. Fowler, *Copies 'R' Us: Pirates in China Move Fast To Pilfer Toy Makers' Ideas; Turning to Stealth Marketing*, WALL ST. J., Jan. 31, 2003, at B1 (noting that the "toy industry is still looking for a fail-safe way to protect designs from Chinese copies without curbing its addiction to [cheap] Chinese labor"), available at 2003 WL-WSJ 3958134. See generally Symposium, *Constructing International Intellectual Property Law: The Role of National Courts*, 77 CHI.-KENT L. REV. 991 (2002) (containing multiple articles exploring existing and pending conventions and treaties relating to intellectual property); Charles R. McManis, *Intellectual Property and International Mergers and Acquisitions*, 66 U. CIN. L. REV. 1283 (1998) (containing a general discussion of intellectual property law).

15. See, e.g., 35 U.S.C. § 102(a) (2000) (stating that an invention cannot be patented in the United States if it has already been "patented or described in a printed publication in a foreign country"); *id.* § 102(d) (providing that when an inventor's foreign patent application is filed more than twelve months before the United States application, the former bars the latter). See generally Terril Lewis, *Towards Implementation of the Madrid Protocol in the United States*, 89 TRADEMARK REP. 918, 919-23 (1999) (giving a general description of the international trademark registration regime under the Madrid Protocol); Brenda Sandburg, *Trademark Filing Made Simple: The Madrid Protocol Allows One Application for Many Countries*, NAT'L L.J., Nov. 24, 2003, at 13 (noting that on November 9, 2003, the United States officially joined the Madrid Protocol, a treaty that allows trademark owners to file a single application to register a trademark in dozens of countries).

Article, though they too can be important in particular cases.¹⁶ Because this Article is concerned primarily with voluntary undertakings involving owners seeking to expand their businesses, this Article also does not address claims under either the Illinois Consumer Fraud Act,¹⁷ the Illinois version of the Uniform Deceptive Trade Practices Act,¹⁸ the Illinois Computer Crime Prevention Law,¹⁹ or comparable Illinois general unfair competition laws like commercial defamation, commercial disparagement, and tortious interference with existing or prospective business relationships.

II. TRADE SECRETS

Many small businesses assume they have no intellectual property outside of the traditional, federal registration-based regimes of

16. See, e.g., *United Phosphorus, Ltd. v. Angus Chem. Co.*, 322 F.3d 942, 953 (7th Cir. 2003) (en banc) (dismissing a state court trade secret action claimed as the basis for a subsequent federal court antitrust action); *ITOFCA, Inc. v. MegaTrans Logistics, Inc.*, 322 F.3d 928, 929–32 (7th Cir. 2003) (discussing a complex copyright infringement action arising out of the bankruptcy court-approved sale of a software program); *West v. Balfour Beatty Constr., Inc.* (*In re Miller*), 290 F.3d 263, 269 (5th Cir. 2002) (finding that a monetary award based upon trade secret misappropriation was a non-dischargeable debt and rejecting an indemnification claim against a new employer); *Freund v. E.D. & F. Man Int'l, Inc.*, 199 F.3d 382, 384–85 (7th Cir. 1999) (collecting cases analyzing antitrust challenges to employee restrictive covenants); *In re Woldman*, 92 F.3d 546 (7th Cir. 1996) (holding that in order to establish that a debt is non-dischargeable under the Bankruptcy Code, 11 U.S.C. § 523(a)(4), a creditor must first prove a fiduciary relationship and a debt caused by the debtor's fraud or defalcation while acting as a fiduciary); *Prarie Eye Ctr. v. Butler* (*In re Butler*), 297 B.R. 741 (Bankr. C.D. Ill. 2003) (finding that \$1.8 million damages judgment against employee, for breach of his noncompete agreement, constituted non-dischargeable debt under the Bankruptcy Code, 11 U.S.C. § 523(a)(6)); *In re Winer*, 149 B.R. 539, 540–46 (Bankr. N.D. Ill. 1993) (providing a lengthy discussion of a bankruptcy trustee's powers with respect to a software start-up founder's bankruptcy); *Health Prof'ls, Ltd. v. Johnson*, 791 N.E.2d 1179, 1195 (Ill. App. Ct. 3d Dist. 2003) (rejecting an Illinois Antitrust Act defense to a business sale noncompete agreement); see also 18 U.S.C. § 2320 (2000 & West Supp. 2003) (criminalizing trademark counterfeiting); *id.* § 2319 (criminalizing copyright infringement); Richard J. Gilbert & Williard K. Tom, *Is Innovation King at the Agencies?: The Intellectual Property Guidelines Five Years Later*, 69 ANTITRUST L.J. 43, 45–47 (2001) (reviewing the antitrust agency experience under the 1995 Department of Justice/Federal Trade Commission Antitrust Guidelines for the Licensing of Intellectual Property); Charles A. Sullivan, *Revisiting the "Neglected Stepchild": Antitrust Treatment of Postemployment Restraints of Trade*, 1977 U. ILL. L. F. 621, 647–50 (discussing the relationship between the antitrust rule of reason and the common law employee noncompete rule of reason). See generally Richard M. Cieri & Michelle M. Morgan, *Licensing Intellectual Property and Technology from the Financially-troubled or Startup Company: Prebankruptcy Strategies To Minimize the Risk in a Licensee's Intellectual Property and Technology Investment*, 55 BUS. LAW. 1649 (2000) (providing an extended discussion of bankruptcy implications for sales, assignments, and licenses under the Bankruptcy Code, 11 U.S.C. § 365(n)).

17. 815 ILL. COMP. STAT. 505/1 (2002).

18. *Id.* § 510/1.

19. 720 ILL. COMP. STAT. 5/16D-1 (2002).

copyright, patent, and trademark law. This view overlooks the possible existence of trade secret rights in technical and non-technical information. Trade secrets, however, can be rendered worthless if an owner fails to take appropriate secrecy measures with respect to employees and outsiders.

A. *Federal Economic Espionage Act*

The Economic Espionage Act of 1996 (“EEA”)²⁰ has received much attention in legal and popular literature,²¹ though its application has been addressed by few judicial decisions.²² Prior to the EEA’s passage, the federal government had to weave together indirect theories under statutes such as the wire and mail fraud laws in order to pursue trade secret thieves.²³ The EEA filled this gap in federal law by giving the federal government a direct right to pursue civil and criminal remedies for domestic and international trade secret theft.²⁴ Trade secret owners

20. 18 U.S.C. § 1831 (2000).

21. See, e.g., Geraldine Szott Moohr, *The Problematic Role of Criminal Law in Regulating the Use of Information: The Case of the Economic Espionage Act*, 80 N.C. L. REV. 853, 887, 906 (2002) (discussing uncertainties involved in an EEA action); Daniel Sorid, *Economic-spying Case May Signal Crackdown*, CHI. TRIB., Nov. 28, 2003, § 3, at 1 (reporting that to date, federal prosecutors have gone after foreign government involvement in trade secret theft only twice in more than forty EEA criminal cases), available at 2003 WL 68337339.

22. *United States v. Lange*, 312 F.3d 263, 270–71 (7th Cir. 2002) (affirming an EEA conviction); *United States v. Pin Yen Yang*, 281 F.3d 534, 544 (6th Cir. 2002) (affirming EEA convictions arising out of the Four Pillars/Avery Dennison adhesives dispute and related sting operation); *United States v. Krumrei*, 258 F.3d 535, 539 (6th Cir. 2001) (rejecting an argument that the EEA’s definition of “trade secret” was unconstitutionally vague); *United States v. Martin*, 228 F.3d 1, 13, 19 (1st Cir. 2000) (affirming a conviction under the EEA and other federal statutes); *United States v. Hsu*, 155 F.3d 189, 198–204 (3d Cir. 1998) (examining the legal-impossibility defense and whether the government had to disclose corporate trade secrets to defendants).

23. See *United States v. Inigo*, 925 F.2d 641, 650–52 (3d Cir. 1991) (reviewing the Hobbs Act convictions of two out of three defendants in a trade secret case prior to the EEA).

24. See Tony Capaccio, *Air Force Seeks Larger Boeing Probe: Wants Ex-employee’s Activities Investigated Going Back to 2000*, CHI. SUN-TIMES, Dec. 9, 2003, at 56 (reporting the enlarged government probe of Boeing’s government contract bidding activities arising out of an internal Boeing investigation that resulted in the resignation of CEO Phil Condit, CFO Michael Sears, and senior employee Darlene Druyun), available at 2003 WL 9579482; Daniel Golden, *FBI Investigates If University Stole Trade Secrets*, WALL ST. J., July 21, 2003, at A3 (describing preliminary FBI investigations of allegations that the University of Phoenix stole trade secrets from its former testing-software provider), available at 2003 WL-WSJ 3974569; Andy Pasztor & Anne Marie Squeo, *Boeing Employees Are Disciplined in Espionage Case*, WALL ST. J., Sept. 12, 2003, at A2 (reporting that six current Boeing employees were disciplined as a result of a corporate espionage investigation involving proprietary documents of Lockheed Martin), available at 2003 WL-WSJ 3979561; Barbara Sopkin, *Exec Says Boeing May Exit Rocket Launch Business*, CHI. SUN-TIMES, Aug. 7, 2003, at 57 (quoting a senior Boeing official as saying that as a result of the Lockheed document debacle, “[t]he loss of launches is the least of our worries The effect on our reputation is something else”), available at 2003 WL 9567914; Anne Marie

themselves have no standing to invoke the EEA, however. The EEA expressly provides that it does not preempt state trade secret laws or other federal laws that might govern trade secret theft,²⁵ such as the Stored Communications Act,²⁶ the Wiretap Act,²⁷ the Electronic Communications Privacy Act,²⁸ and the Computer Fraud and Abuse Act.²⁹

B. Illinois Trade Secrets Act

Private parties victimized by trade secret misappropriation must turn, with the exception of constitutional takings claims against the government,³⁰ to state law for relief. Trade secrets enjoy legal protection under state law in every jurisdiction.³¹ A few still cling to common law principles under state law, but most states, including Illinois, have adopted some version of the Uniform Trade Secrets Act. The Illinois Trade Secrets Act (“ITSA”)³² largely codifies Illinois common law, but it also includes a few changes.

Squeo & Andy Pasztor, *U.S. Probes Whether Boeing Misused a Rival's Documents; At Issue in Investigations: A Rocket Scientist Hired Away from Lockheed*, WALL ST. J., May 5, 2003, at A1 (describing civil and criminal investigations launched by the Department of Justice arising out of a rocket engineer's job-switching that may have affected government contract bidding), available at 2003 WL-WSJ 3966643.

25. 18 U.S.C. § 1838 (2000). See generally Theofel v. Farey-Jones, 341 F.3d 978, 983–86 (9th Cir. 2003) (examining claims under the Stored Communications Act, the Wiretap Act, and the Computer Fraud and Abuse Act relating to a “patently unlawful” subpoena used to gain access to e-mail stored by the plaintiffs' Internet service provider).

26. 18 U.S.C. § 2701 (2000 & West Supp. 2003).

27. *Id.* § 2511; see Konop v. Haw. Airlines, Inc. 302 F.3d 868, 878 (9th Cir. 2002) (noting that the Wiretap Act Applies only to “acquisition contemporaneous with transmission,” and that Congress did not intend for “intercept” to apply to “electronic communications” when those communications are in “electronic storage”).

28. See 18 U.S.C. § 2510; Fraser v. Nationwide Mut. Ins. Co., 352 F.3d 107 (3d Cir. 2003) (finding that an insurer that provided e-mail service to its independent agent was entitled to search his e-mail without violating the Electronic Communications Privacy Act).

29. 18 U.S.C. § 1030; see Shurgard Storage Ctrs., Inc. v. Safeguard Self Storage, Inc., 119 F. Supp. 2d 1121, 1129 (W.D. Wash. 2000) (holding that the Computer Fraud and Abuse Act protects stolen information that does not rise to the level of a trade secret).

30. See Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1011 (1984) (holding that a trade secret constitutes property for takings purposes); Philip Morris, Inc. v. Reilly, 312 F.3d 24, 49 (1st Cir. 2002) (citing *Ruckelshaus*).

31. See 1 JAY DRATLER, JR., INTELLECTUAL PROPERTY LAW: COMMERCIAL, CREATIVE AND INDUSTRIAL PROPERTY § 4.01[3], at 4–9 (2003) (noting that a majority of states has adopted some form of the UTSA, with the remaining states following common law principles); R. MARK HALLIGAN, U.S. TRADE SECRET PROTECTION BY STATE, at <http://my.execpc.com/~mhalign/40state.html> (last revised June 25, 2000) (specifying each UTSA or other statutory state and each common law state).

32. 765 ILL. COMP. STAT. 1065/1–1065/9 (2002).

The ITSA defines trade secrets as encompassing both technical and non-technical information, offers a broad description of conduct constituting misappropriation, and sets forth a variety of remedies including lost profits, disgorgement, and reasonable royalties.³³ The ITSA does not address prejudgment interest, and one court has held that such relief is not available under the ITSA.³⁴ The ITSA does permit attorneys' fees awards and punitive damages if a party shows that misappropriation was willful and malicious.³⁵ Punitive damages are capped at twice the amount of compensatory damages, and of course preliminary and permanent injunctive relief can be granted as at common law,³⁶ though a question exists as to whether and to what

33. See *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 716, 726, 731 (7th Cir. 2003) (affirming an eight percent reasonable royalty award under the ITSA, based upon an expert's testimony that the novelty of the secret toy train track in issue would have commanded a premium royalty under a negotiated license agreement); *LinkCo, Inc. v. Fujitsu Ltd.*, 230 F. Supp. 2d 492, 504 (S.D.N.Y. 2002) (allowing reasonable royalty where the plaintiff-developer ceased operations close in time to misappropriation and a competitor did not make a profit, thereby precluding unjust enrichment), *later ruling*, 232 F. Supp. 2d 182, 187 n.7 (S.D.N.Y. 2002) (following reasonable royalty factors adapted from *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), *aff'd*, 446 F.2d 295, 296 (2d Cir. 1971)); *RKI, Inc. v. Grimes*, 177 F. Supp. 2d 859, 880 (N.D. Ill. 2001) (awarding a reasonable royalty of \$100,000 under the ITSA). See generally *Nilssen v. Motorola, Inc.*, No. 93C6333, 1998 U.S. Dist. LEXIS 12882, at *40-*41 (N.D. Ill. Aug. 12, 1998) (discussing flaws in an expert's ITSA reasonable royalty opinion); Andrew Beckerman-Rodau, *Trade Secrets—The New Risks to Trade Secrets Posed by Computerization*, 28 RUTGERS COMPUTER & TECH. L.J. 227, 262-63 (2002) (providing eight reasonable royalty factors that courts may consider).

34. *C&F Packing Co. v. IBP, Inc.*, 224 F.3d 1296 1308 (Fed. Cir. 2000) (reversing a \$5.1 million prejudgment interest award under the ITSA). *But see Roton Barrier, Inc. v. Stanley Works*, 79 F.3d 1112, 1123 (Fed. Cir. 1996) (affirming prejudgment interest award under ITSA).

35. See, e.g., *RKI, Inc. v. Grimes*, 233 F. Supp. 2d 1018, 1021 (N.D. Ill. 2002) (awarding just under \$275,000 in fees and costs under ITSA after finding that the defendant willfully and maliciously misappropriated trade secrets). See generally *Learning Curve Toys*, 342 F.3d at 730-31 (noting that no Illinois state-court decision has construed the ITSA phrase "willful and malicious misappropriation"); *Micro Data Base Sys., Inc. v. Dharma Sys., Inc.*, 148 F.3d 649, 653-54 (7th Cir. 1998) (discussing the burden of proof—preponderance or clear and convincing—for punitive damages under the Indiana and New Hampshire versions of UTSA); *Mangren Research & Dev. Corp. v. Nat'l Chem. Co.*, 87 F.3d 937, 946 (7th Cir. 1996) (finding that under the ITSA, "willful and malicious" includes intentional misappropriation or conscious disregard of another's rights).

36. See 765 ILL. COMP. STAT. 1065/3 (2002) (stating that in appropriate circumstances, a court may order affirmative acts to protect a trade secret as a form of injunctive relief); *Lucini Italia Co. v. Grappolini*, 288 F.3d 1035, 1038 (7th Cir. 2002) (finding that the defendant's voluntary cessation of trade secret misappropriation does not moot the plaintiff's preliminary injunction request); *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 91 F.3d 914, 920 (7th Cir. 1996) (deciding contempt proceedings relating to trade secret injunction), *rev'd sub nom.* *Goss Graphics Sys., Inc. v. DEV Indus., Inc.*, 267 F.3d 624, 627-28 (7th Cir. 2001) (reversing dismissal for failure to settle); *Am. Can Co. v. Mansukhani*, 742 F.2d 314, 334 (7th Cir. 1984) (reversing an ex parte search and seizure temporary restraining order concerning trade secrets); *Brunswick Corp. v. Outboard Marine Corp.*, 404 N.E.2d 205, 207-08 (Ill. 1980) (reversing summary judgment in favor of defendants who voluntarily abstained from using a stolen secret

extent a large damage award should negate injunctive relief.³⁷ The ITSA also has a section authorizing nondisclosure agreements unlimited in time and geographic scope,³⁸ as well as a provision preempting common law claims based on a trade secret.³⁹ The ITSA imposes liability on those who misappropriate secrets and on those who assist or knowingly benefit from such conduct; respondeat superior may also apply in instances where an employee jumps ship from one firm to another and then uses or discloses the prior employer's trade secrets.⁴⁰ In contrast to other forms of intellectual property, trade secrets are not subject to a public registration regime in Illinois or any other jurisdiction. Moreover, trade secret claims are not preempted by federal patent or copyright law.⁴¹

for the period of time it would take to reverse-engineer the secret as no evidence was offered to show that the secret was subject to reverse engineering); *Witkowsky v. Affeld*, 119 N.E. 630, 637–38 (Ill. 1918) (discussing court's power to restrain disclosure and use of trade secrets); *Loven v. People ex rel. Dr. Peter Fahrney & Sons Co.*, 42 N.E. 82, 84–86 (Ill. 1895) (affirming contempt finding, including ten-day jail sentence, for violation of a permanent injunction arising in part out of trade secret theft).

37. *Compare* *Minn. Mining & Mfg. Co. v. Pribyl*, 259 F.3d 587, 608–09 (7th Cir. 2001) (applying Wisconsin law and finding that a cost of a development damage award does not render a permanent injunction against the use of a duplicative remedy and distinguishing the *Next Level Communications* decision to the extent it suggests a defendant guilty of trade secret misappropriation can merely pay a judgment in order to continue using plaintiff's trade secrets), *with* *Next Level Communications LP v. DSC Communications Corp.*, 179 F.3d 244, 255–56 (5th Cir. 1999) (holding that when a plaintiff has been compensated for lost future damages, an injunction against future use would amount to an impermissible double recovery).

38. 765 ILL. COMP. STAT. 1065/8(b)(1).

39. *See* *Delta Med. Sys. v. Mid-Am. Med. Sys.*, 772 N.E.2d 768, 784 (Ill. App. Ct. 1st Dist. 2002) (stating that the ITSA preempted a tortious interference claim to the extent that it was based on trade secret misappropriation); *Fabricare Equip. Credit Corp. v. Bell, Boyd & Lloyd*, 767 N.E.2d 470, 475 (Ill. App. Ct. 1st Dist. 2002) (holding that a common law unjust enrichment claim was preempted by the ITSA); *Pope v. Alberto-Culver Co.*, 694 N.E.2d 615, 619 (Ill. App. Ct. 1st Dist. 1998) (deciding that an unjust enrichment claim based on an idea was preempted by the ITSA).

40. *Mangren*, 87 F.3d at 946 (finding that a new employer was liable for the employee's misappropriation once the employee advised the new employer of the former employer's secrets and the new employer then used those secrets); *RKI, Inc. v. Grimes*, 177 F. Supp. 2d 859, 880 (N.D. Ill. 2001) (holding a new employer liable where the new employer received indemnity from a new employee regarding a former employer's trade secrets); *Olin Hunt Specialty Prods., Inc. v. Advanced Delivery & Chem. Sys.*, No. 88 C 20364, 1991 WL 294970, at *4 (N.D. Ill. May 9, 1991) (holding that trade secret "[l]iability should be imposed on a corporation when it is a perpetrator of the illegal activity but not when it is an unwitting conduit of its employees' actions"); *Infinity Prods., Inc. v. Quandt*, 775 N.E.2d 1144, 1151–53 (Ind. Ct. App. 2002) (holding that an employee acted within the scope of his new employment in using a former employer's stolen secrets, and therefore the new employer was vicariously liable under respondeat superior principles).

41. *Kewance Oil Co. v. Bicon Corp.*, 416 U.S. 470, 474–77 (1974) (offering multiple rationales for permitting the co-existence of patent and trade secret law); *Computer Assocs. Int'l*,

Federal and state cases interpreting the ITSA have held that, to plead and prove a trade secret misappropriation claim, a plaintiff must establish three elements: (1) a trade secret, (2) misappropriation, and (3) use in the defendant's business.⁴² These criteria are not as straightforward as they seem. Regarding the first element, uncertainty exists as to whether "readily ascertainable" information constitutes a trade secret, and questions arise as to what constitutes "reasonable" secrecy measures. "Misappropriation," the second element, means "stolen" as opposed to "independently developed or legitimately obtained from a third party";⁴³ it is unclear, however, whether the plaintiff or the defendant has the burden of pleading and proving independent development or receipt from a third party.⁴⁴ The third element—"use" in the defendant's business—presumably includes both disclosure and use as well as inevitable and threatened disclosure and use, as the ITSA explicitly provides relief for actual and threatened disclosure and use and Illinois decisions have embraced (and to some extent even pioneered) the inevitable disclosure doctrine.⁴⁵ Given this Article's emphasis on planning, the following discussion focuses on the first element of proof as it relates to "readily ascertainable" information and secrecy efforts.

C. Trade Secrets and "Readily Ascertainable" Information

At first blush, the ITSA's application seems straightforward. The ITSA defines "trade secret" as having two elements: (1) information

Inc. v. Altai, Inc., 982 F.2d 693, 717 (2d Cir. 1992) (stating that the Copyright Act does not preempt trade secret claims).

42. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 728 (7th Cir. 2003) (stating the elements); accord *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265–66 (7th Cir. 1992); *Delta Med. Sys.*, 772 N.E.2d at 780; *Strata Mktg. Inc. v. Murphy*, 740 N.E.2d 1166, 1176 (Ill. App. Ct. 1st Dist. 2000); *Am. Antenna Corp. v. Amperex Elec. Corp.*, 546 N.E.2d 41, 44 (Ill. App. Ct. 2d Dist. 1989).

43. 765 ILL. COMP. STAT. 1065/2(a) (defining "improper means" as including "theft, bribery, misrepresentation, breach or inducement of a breach of a confidential relationship or other duty to maintain secrecy or limit use, or espionage through electronic or other means," but stating that "[r]everse engineering or independent development shall not be considered improper means"); *Composite Marine Propellers*, 962 F.2d at 1265–66 (defining misappropriation to mean stolen "from [a plaintiff] rather than developed independently or obtained from a third source").

44. *Cf. Moore v. Kulicke & Soffa Indus., Inc.*, 318 F.3d 561, 564 (3d Cir. 2003). The court in *Moore* held that under Pennsylvania law a defendant has the initial burden of production with respect to independent development, but a plaintiff carries the ultimate burden of persuasion on the issue since independent development is intrinsic to whether the defendant "used" the plaintiff's trade secret. *Id.*

45. *E.g., PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1268–69 (7th Cir. 1995) (recognizing the inevitable disclosure theory under the ITSA); *Strata Mktg.*, 740 N.E.2d at 1177–78 (following *PepsiCo* in adopting the inevitable doctrine under the ITSA).

that is sufficiently secret to derive economic value, actual or potential, from not being generally known to others who can obtain economic value from its disclosure or use; and (2) information that is subject to reasonable secrecy measures.⁴⁶ Both of these statutory requirements focus on the secrecy of the information sought to be protected, but they emphasize different aspects of secrecy. The first precludes “trade secret protection for information generally known or understood within an industry even if not to the public at large,” while the second precludes trade secret protection where the information owner has taken “no affirmative measures to prevent others from using its proprietary information.”⁴⁷ Secrecy is obviously of paramount importance, but judicial decisions interpreting the ITSA have read into this statutory definition the notion that “readily ascertainable” information does not come within the ITSA’s purview,⁴⁸ even though the Illinois General Assembly purposefully omitted from the ITSA the “readily ascertainable” language found in the Uniform Trade Secrets Act after which the ITSA otherwise was patterned.⁴⁹ Representative of these cases is *Nilssen v. Motorola, Inc.*⁵⁰ *Nilssen* collected Seventh Circuit

46. 765 ILL. COMP. STAT. 1065/2(d); see *Serv. Ctrs. of Chi., Inc. v. Minogue*, 535 N.E.2d 1132, 1136–37 (Ill. App. Ct. 1st Dist. 1989) (finding that a hospital records storage pricing formula, consisting of linear foot measurements and “rules of thumb,” did not constitute a trade secret).

47. *Learning Curve Toys*, 342 F.3d at 721–22 (summarizing secrecy requirements under the ITSA and collecting cases).

48. See *Hamer Holding Group, Inc. v. Elmore*, 560 N.E.2d 907, 918–19 (Ill. App. Ct. 1st Dist. 1990) (adopting the “readily ascertainable” defense); see also *Mangren Research & Dev. Corp. v. Nat’l Chem. Co.*, 87 F.3d 937, 942–43 (7th Cir. 1996) (failing to explicitly mention the “readily duplicated” test); *Computer Care v. Serv. Sys. Enters., Inc.*, 982 F.2d 1063, 1072 (7th Cir. 1992) (finding that there is no trade secret protection if information can be “readily duplicated” (citing *Hamer Holding Group*, 560 N.E.2d at 918)); *Delta Med. Sys., Inc. v. Mid-Am. Med. Sys., Inc.*, 772 N.E.2d 768, 781 (Ill. App. Ct. 1st Dist. 2002) (“Where information can be readily duplicated without involving considerable time, effort or expense, it is not a trade secret.” (citing *Hamer Holding Group*, 560 N.E.2d at 918)); *Stampede Tool Warehouse, Inc. v. May*, 651 N.E.2d 209, 215 (Ill. App. Ct. 1st Dist. 1995) (stating that the key to secrecy is the ease with which information can be “readily duplicated” (citing *Hamer Holding Group*, 560 N.E.2d at 918)).

49. *Hamer Holding Group*, 560 N.E.2d at 918–19 (finding plaintiff’s argument unpersuasive regarding the purposeful omission by the Illinois General Assembly); Melvin F. Jager, *Illinois Returns to the Mainstream of Trade-secret Protection*, CBA REC., Oct. 1988, at 20 (noting that the drafters of the ITSA intentionally omitted “readily ascertainable” language). According to Jager,

Another portion of the Uniform Act definition of a trade secret conflicted with Illinois jurisprudence and was eliminated from the Illinois Act. Illinois common law, as well as that of several other states, holds that it is not a defense to trade-secret theft if the accused could have, but in fact did not, obtain the secret information by fair and legitimate means.

Jager, *supra*, at 20.

50. *Nilssen v. Motorola, Inc.*, 963 F. Supp. 664, 674–75 (N.D. Ill. 1997).

and Illinois Appellate Court authorities placing this “readily ascertainable” limitation on the ITSA’s “trade secret” definition and then observed that pre-ITSA cases, such as *Goldberg v. Medtronic, Inc.*⁵¹ and *Affiliated Hospital Products, Inc. v. Baldwin*,⁵² are no longer the law to the extent they held that readily duplicable secrets are still protected so long as the defendant copied the plaintiff’s secrets.⁵³

The *Nilssen* view is in tension with the Illinois Supreme Court’s middle course, in its pre-ITSA opinions in *ILG Industries, Inc. v. Scott*⁵⁴ and *Schulenburg v. Signatrol, Inc.*,⁵⁵ that independent development and reverse engineering are only defenses to remedy—not liability—for defendants who have in fact copied a plaintiff’s secrets.⁵⁶ As noted, the ITSA drafters intended to preserve the *ILG* and *Schulenburg* common law approach, not to overrule it.⁵⁷ Moreover, the ITSA codified the independent development and reverse engineering defenses without mentioning the “readily ascertainable” limitation language.⁵⁸ While the *Nilssen* view makes sense at a certain level, it fails to account for the head start, however marginal, obtained by a defendant who does not have to make the effort of independently gathering from public domain or trade sources the information taken from a plaintiff.⁵⁹ This modest but real benefit might receive protection under common law or tort misappropriation principles;⁶⁰ it therefore deserves closer scrutiny under

51. *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1225 n.5 (7th Cir. 1982) (stating that the possibility that the defendant could have obtained misappropriated information by lawful means affects the remedy, not the liability).

52. *Affiliated Hosp. Prods., Inc. v. Baldwin*, 373 N.E.2d 1000, 1006 (Ill. App. Ct. 1st Dist. 1978) (“It is no defense that the design or process in question could have been developed independently and without resort to confidential information.”).

53. *Nilssen*, 963 F. Supp. at 675.

54. *ILG Indus., Inc. v. Scott*, 273 N.E.2d 393 (Ill. 1971).

55. *Schulenburg v. Signatrol, Inc.*, 212 N.E.2d 865 (Ill. 1965).

56. *See Hazelton Boiler Co. v. Hazelton Tripod Boiler Co.*, 30 N.E. 339, 346 (Ill. 1892) (“There was no trade secret in their manufacture which was hedged about by any sanctity which the defendant was not at liberty to invade.”).

57. *Jager*, *supra* note 49, at 20 (noting on this point that “Illinois is also a strong adherent to *Shellmar Products Co. v. Allan-Qualley Co.*, which held that injunctive or other relief extending beyond the public disclosure of a trade secret is permitted if the secret was learned or used by improper means before the public disclosure” (citation omitted)).

58. 765 ILL. COMP. STAT. 1065/2(a) (2000).

59. *See Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1243–44 (Fed. Cir. 1989) (holding that “trade secrecy ‘is not negated because defendant by an expenditure of effort might have collected the same information from sources available to the public’” (quoting *Clark v. Bunker*, 453 F.2d 1006, 1010 (9th Cir. 1972))).

60. *Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 375 (2d Cir. 2000) (applying New York law).

trade secret law, given the omission of the “readily ascertainable” language from the ITSA.⁶¹

For an interesting variation on this “readily ascertainable” defense, consider the Seventh Circuit Court of Appeals’ recent ITSA decision in *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, a stolen idea dispute that arose out of the development of wooden tracks for use with the popular Thomas the Tank Engine toy trains.⁶² The court found that PlayWood came up with a solution to Learning Curve’s dilemma concerning how to make toy train tracks competitive with a leading competitor: PlayWood’s representative pulled out a piece of Learning Curve’s existing track, drew some lines on it, and then suggested that Learning Curve cut grooves into the track to produce a “clickety-clack” sound as toy trains ran across the grooved track.⁶³ To demonstrate the possibility, PlayWood took a few minutes at the same meeting to create a working prototype and even suggested calling it “Clickety-Clack Track.”⁶⁴ Although Learning Curve had agreed orally at the meeting to keep this development secret, Learning Curve subsequently patented the noise-producing track in its own name without PlayWood’s knowledge or consent and then enjoyed spectacular success with the track upon releasing it for public sale.⁶⁵ The district court later overturned a jury verdict in PlayWood’s favor, offering, among other reasons, that PlayWood’s concept could have been acquired easily or duplicated through proper means.⁶⁶

The Court of Appeals reversed and reinstated the jury’s verdict.⁶⁷ The Seventh Circuit first emphasized the novelty of PlayWood’s idea: Learning Curve had struggled for months looking for a solution; the look, feel, and sound of the new track distinguished it from others on the market; and the idea was novel enough that Learning Curve patented it—a step requiring a much higher showing of novelty than that imposed by trade secret law.⁶⁸ Turning to the lack of time, effort and money expended by PlayWood, the court responded that the ITSA does not impose a development expense requirement and that creative genius

61. *But see* Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 1049–52 (Fed. Cir. 2001) (collecting cases criticizing the *Goldberg* “confidential relationship” theory in favor of a “property” theory of trade secrets).

62. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 716–720 (7th Cir. 2003).

63. *Id.* at 718.

64. *Id.* at 719–20.

65. *Id.* at 720.

66. *Id.* at 721.

67. *Id.* at 731.

68. *Id.* at 723–24.

often produces an intuitive flash.⁶⁹ Having established these premises, the Court of Appeals then rejected the defense that Learning Curve easily could have come up with the idea on its own, noting that if the concept had been truly obvious, Learning Curve would have thought of it earlier.⁷⁰ As to the notion that PlayWood's concept easily could have been duplicated or reverse engineered, the Seventh Circuit pointed out that the proper inquiry was whether the concept was secret at the time it was shared with Learning Curve, not whether the secret might eventually have become the subject of reverse engineering once the toy tracks were placed on the market.⁷¹

D. Reasonable Secrecy Measures

Assuming information otherwise meets the definition of a trade secret,⁷² from a planning standpoint, a small business owner must appreciate that to qualify as a trade secret, information must be subject to reasonable secrecy measures.⁷³ While the ITSA has been said to require "affirmative measures" to protect secrets,⁷⁴ a cost-benefit analysis should be undertaken; not all trade secrets can or should be guarded in the same way and to the same extent,⁷⁵ and courts frequently excuse small businesses from measures they might require of larger companies.⁷⁶ Still, as a rule of thumb, it is always prudent to err on the

69. *Id.* at 729.

70. *Id.*

71. *Id.* at 729–30.

72. *See* Johns-Manville Corp. v. Guardian Indus. Corp., 586 F. Supp. 1034, 1074 (E.D. Mich. 1983) (noting that trade secret law covers "the competitive edge a competitor gains by avoiding the developer's blind alleys"); Nathan Hamler, Note, *The Impending Merger of the Inevitable Disclosure Doctrine and Negative Trade Secrets: Is Trade Secrets Law Headed in the Right Direction?*, 25 J. CORP. L. 383, 398–401 (2000) (discussing when negative trade secrets—such as results of experiments that failed—should receive legal protection).

73. 765 ILL. COMP. STAT. 1065/2(d) (2002); Carus Chem. Co. v. Calciquest, Inc., 793 N.E.2d 931, 934 (Ill. App. Ct. 3d Dist. 2003) (dissolving a preliminary injunction under the ITSA where a defendant's letter, which disclosed the plaintiff's secrets, was voluntarily re-published by the plaintiff); McCann Constr. Specialties Co. v. Bosman, 358 N.E.2d 1340, 1342–43 (Ill. App. Ct. 2d Dist. 1977) (deciding a pre-ITSA case reversing a trade secret preliminary injunction based in part on insufficient secrecy precautions).

74. *Learning Curve Toys*, 342 F.3d at 722 (quoting *Jackson v. Hammer*, 653 N.E.2d 809, 816 (Ill. App. Ct. 4th Dist. 1995)).

75. *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 180 (7th Cir. 1991) ("[P]erfect security is not optimum security.").

76. *Learning Curve Toys*, 342 F.3d at 724 (finding that expectations for ensuring secrecy are different for small companies than for large ones); *Jackson v. Hammer*, 653 N.E.2d 809, 815 (Ill. App. Ct. 4th Dist. 1995) ("[T]he determination of what steps are reasonably necessary to protect information is different for a large company than for a small one."); *Elmer Miller, Inc. v. Landis*, 625 N.E.2d 338, 342 (Ill. App. Ct. 1st Dist. 1993) ("We note reasonable steps for a two or three person shop may be different from reasonable steps for a larger company."); *see also* Gillis

side of too much protection rather than too little, and disclosure only on a “need-to-know” basis is the most important factor. Nondisclosure agreements are also useful, but they usually are not considered prerequisites to trade secret recovery.⁷⁷ Other steps include confidentiality legends, handbook policies on confidentiality, sign in/sign out procedures, “lock and key” storage, advance vetting of speeches and publications, and exit interviews for employees. Trade secrets kept on computers should be secured by warning screens and passwords for those who require access,⁷⁸ and the company should reserve the right to access and inspect data on company computers provided to employees.⁷⁹ Some trade secret owners even go so far as to purposefully include mistakes or decoys in their drawings, descriptions, customer lists, or databases in order to catch thieves who unwittingly reveal their wrongdoing by copying useless material along with valuable information.⁸⁰

Associated Indus., Inc. v. Cari-All, Inc., 564 N.E.2d 881, 885–86 (Ill. App. Ct. 1st Dist. 1990) (deciding a case in which a multi-million-dollar company failed to take reasonable secrecy precautions).

77. *Compare* Southwest Whey, Inc. v. Nutrition 101, Inc., 117 F. Supp. 2d 770, 779 (C.D. Ill. 2000) (holding that a confidentiality agreement is not an absolute requirement), *and* Strata Mktg., Inc. v. Murphy, 740 N.E.2d 1166, 1175 (Ill. App. Ct. 1st Dist. 2000) (holding that a confidentiality agreement is not required), *with* Junkunc v. S.J. Advanced Tech. & Mfg. Corp., 498 N.E.2d 1179, 1184 (Ill. App. Ct. 1st Dist. 1986) (deciding that a small company’s significant secrecy measures as to other employees could not overcome its failure to obtain a secrecy agreement from an employee who was the founder’s son).

78. *RKI, Inc. v. Grimes*, 177 F. Supp. 2d 859, 874 (N.D. Ill. 2001) (describing corporate safeguards including database access restrictions); Nick Akerman & Edward M. Stroz, *Trade Secrets: Computer Security*, NAT’L L.J., Sept. 16, 2002, at B8 (discussing computer security considerations, including password protection issues).

79. *See* Muick v. Glenayre Elecs., 280 F.3d 741, 743 (7th Cir. 2002) (rejecting an invasion of privacy claim in light of a company’s computer access and inspection policies). *See generally* Andrew Beckerman-Rodau, *Trade Secrets—The New Risks to Trade Secrets Posed by Computerization*, 28 RUTGERS COMPUTER & TECH. L.J. 227, 271–72 (2002) (describing additional computer secrecy measures including employee education programs, firewalls, anti-virus software encryption, changing passwords periodically, isolating sensitive data on in-house computers not hooked up to the Internet, and immediately eliminating access for departing employees).

80. *See, e.g.,* Schulenburg v. Signatrol, Inc., 212 N.E.2d 865, 869 (Ill. 1965) (commenting on the exact match between the plaintiffs’ and defendants’ drawings, including the defendants’ copying of the plaintiffs’ mistakes); Nicholas Thompson, *The “Honeytoken,” an Innocuous Tag in a File, Can Signal an Intrusion in a Company’s Database*, N.Y. TIMES, Apr. 28, 2003, at C4 (describing the use of “honeytokens,” seemingly enticing information with no useful value embedded in databases in ways such that no innocent person should accidentally stumble upon them, noting that when such information is accessed an intrusion alarm is triggered), *available at* LEXIS, News Library, New York Times File; Scott Thurm, *Sting Operation Led Cisco To Sue Chinese Rival*, WALL ST. J., Apr. 4, 2003, at B1 (reporting on trade secret litigation Cisco Systems recently brought against Huawei Technologies Co. alleging that, based upon six months of pulling apart a suspect Huawei router and pouring over 15 million lines of source code from it,

Confidentiality legends deserve some comment. Owners should not be shy about marking material “secret”⁸¹—there is no “over claiming” defense in trade secret law.⁸² Nevertheless, courts frown on secrets that are described too generally,⁸³ and they often insist upon specific identification of the secrets at issue at the outset of litigation.⁸⁴ The owner, if in doubt, should designate as secret as much as possible during the relationship, even if the owner later pares back the scope of the claimed secrets in litigation. An owner who fails to specify the protected secrets during the business relationship can rely on the other party’s duty to use common sense,⁸⁵ but this can prove risky in the event of subsequent litigation, quite apart from the fact that litigation itself can pose inadvertent disclosure risks.⁸⁶ Of course, if the owner in

Cisco encountered hundreds of matches between its software and software in the Huawei machine, including “bugs” and misspellings matching those found in Cisco’s source code), *available at* 2003 WL-WSJ 3963909.

81. *See* Televation Telecomm. Sys., Inc. v. Saindon, 522 N.E.2d 1359, 1365 (Ill. App. Ct. 2d Dist. 1988) (discussing secrecy measures, including marking documents “proprietary”).

82. *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 176–77 (7th Cir. 1991) (rejecting the analogy to the patent misuse defense in a trade secret case).

83. *Compare* Minn. Mining & Mfg. Co. v. Pribyl, 259 F.3d 587, 595–96 (7th Cir. 2001) (finding that the plaintiff did not have to identify specific secrets found within 500 pages of materials in its operating procedures and manuals, as those materials were protectible as a trade secret compilation, even if individual items within the compilation did not constitute trade secrets), *with* *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 583–84 (7th Cir. 2002) (criticizing the description of IDX’s software as too inclusive), *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1266 (7th Cir. 1992) (confirming that “generalized confidential business information” does not merit trade secret protection), *AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1206–07 (7th Cir. 1987) (criticizing the plaintiff’s vague description of alleged trade secrets), *Nilssen v. Motorola, Inc.*, 963 F. Supp. 664, 674 (N.D. Ill. 1997) (criticizing the vague description of secrets), *and* *Serv. Ctrs. of Chi., Inc. v. Minogue*, 535 N.E.2d 1132, 1135 (Ill. App. Ct. 1st Dist. 1989) (criticizing the vague description of a pricing formula as a trade secret).

84. *See, e.g.,* *IDX Sys.*, 285 F.3d at 583–84; *AMP*, 823 F.2d at 1206–07; *Nilssen*, 963 F. Supp. at 674.

85. *See* *Johns-Manville Corp. v. Guardian Indus. Corp.*, 586 F. Supp. 1034, 1072–73 (E.D. Mich. 1983) (stating that “[t]he defendant’s employees, even if they had not been told that the information was secret, should have been able to so conclude from the very nature of their work”); *see also* *Affiliated Hosp. Prods., Inc. v. Baldwin*, 373 N.E.2d 1000, 1006 (Ill. App. Ct. 1st Dist. 1978) (holding that a defendant could not have “reasonably believe[d]” that information was not secret under the circumstances, even though the plaintiff did not label it accordingly).

86. *See, e.g.,* *Eagle Comtronics, Inc. v. Arrow Communication Labs.*, 64 U.S.P.Q. 2d 1481, 1489 (Fed. Cir. 2002) (finding that a patentee’s act of copying a competitor’s pending patent application, which was produced by the competitor during discovery in the patentee’s infringement action and designated as confidential, and then submitting the application to the Patent and Trademark Office as the patentee’s own application, violated a protective order prohibiting the parties from using confidential items for purposes beyond the infringement action unless authorized by the court); *Baxter Int’l, Inc. v. Abbott Labs.*, 297 F.3d 544, 547–48 (7th Cir. 2002) (setting forth requirements for sealing documents on appeal); *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411, 419 (4th Cir. 1999) (holding that the presence of a document in

its confidentiality agreements or policies imposes upon itself a duty to designate confidential material being turned over, the owner should so designate the material or it may find its opponent arguing—perhaps successfully—that the undesignated material was not confidential.⁸⁷

E. Employee Access Issues

Even though employees are routinely subject to secrecy strictures, most trade secret cases nevertheless involve employees—primarily employees who have changed jobs.⁸⁸ One reason trade secret theft has become so common is the general decline in honesty and loyalty over the past twenty years.⁸⁹ This surely has caused many employees to hold the misguided view that anything they learn is fair game after they depart. While they certainly are free to take their general skills and knowledge with them upon leaving, and while they certainly are free to use information found in the public domain, their employer's

a public file of the court does not make such information “generally known”); *Crane Helicopter Servs., Inc. v. United States*, 56 Fed. Cl. 313, 321–27 (2003) (ruling that some portions of a third-party's trade secrets were to remain sealed even after final judgment). See generally William Lynch Schaller, *Protecting Trade Secrets During Litigation: Policies and Procedures*, 88 ILL. B.J. 260, 261–88 (2000) (providing a general discussion of the policies and procedures relating to protecting trade secrets during litigation).

87. See *Nilssen*, 963 F. Supp. at 680–82 (finding a confidentiality waiver where plaintiff failed to follow contractual protocol for identifying secrets (citing *Roton Barrier, Inc. v. Stanley Works*, 79 F.3d 1112, 1118 (Fed. Cir. 1996); *Andrea Dumon, Inc. v. Pittway Corp.*, 442 N.E.2d 574, 579 (Ill. App. Ct. 1st Dist. 1982))); *Den-Tal-Ez v. Siemens Capital Corp.*, 566 A.2d 1214, 1223 (Pa. Super. Ct. 1989) (finding no confidentiality waiver by the plaintiff, even though the plaintiff failed to mark its information as “confidential” as required by an agreement, where the defendant admitted knowing that the information did not have to be marked “confidential” to be so considered).

88. William Lynch Schaller, *Jumping Ship: Legal Issues Relating to Employee Mobility in High Technology Industries*, 17 LAB. LAW. 25, 33–90 (2001) (collecting fiduciary duty, trade secret, noncompete, and other cases involving employee job-hopping).

89. See generally JOHN J. CLANCY, *THE OLD DISPENSATION: LOYALTY IN BUSINESS* (1998) (discussing the development and demise of loyalty between companies and their employees throughout the history of the United States); FRANCIS FUKUYAMA, *TRUST: THE SOCIAL VIRTUES AND THE CREATION OF PROSPERITY* (1995) (analyzing trust as a factor in the shaping and development of a society's economy); ONORA O'NEILL, *A QUESTION OF TRUST* (2002) (lamenting loss of trust in social institutions); FREDERICK F. REICHELLED, *THE LOYALTY EFFECT: THE HIDDEN FORCE BEHIND GROWTH, PROFITS AND LASTING VALUE* (1996) (discussing whether untrustworthy actions have made trust a risky practice); BARBARA LEY TOFFLER & JENNIFER REINGOLD, *FINAL ACCOUNTING: AMBITION, GREED AND THE FALL OF ARTHUR ANDERSEN* (2003) (recounting the practices and policies of Arthur Andersen and how such factors led to the firm's demise); Margaret M. Blair & Lynn A. Stout, *Trust, Trustworthiness, and the Behavioral Foundations of Corporate Law*, 149 U. PA. L. REV. 1735 (2001) (discussing the role of trust, the factors that influence trust, and the application to corporate law); Emma Blake, *Few Trust Corporate Managers, Survey Finds*, WALL ST. J., Nov. 25, 2003, at A16 (survey conducted in multiple countries showed “[o]nly politicians rank as less trustworthy than managers of large companies following waves of scandals”), available at 2003 WL-WSJ 68129330.

particularized secrets are off limits.⁹⁰ It does not help that employees frequently act impulsively and fail to seek legal advice until events have overtaken them—circumstances that at the very least can lead to trade secret inevitable disclosure claims.⁹¹

As noted, confidentiality agreements are one way to address this problem when it comes to employees. Unfortunately, as a result of *Disher v. Fulgoni*⁹² and *Cincinnati Tool Steel Co. v. Breed*,⁹³ Illinois courts at one time erroneously equated confidentiality agreements with noncompetition agreements, holding both void as a general rule when they lacked time and geographic limits.⁹⁴ The ITSA was passed in part to end this confusion,⁹⁵ and some Illinois cases have noted the relevant provision in the ITSA.⁹⁶ Old habits die hard, however, and some post-ITSA cases still adhered to the misguided *Disher-Cincinnati Tool* rule

90. *Computer Care v. Serv. Sys. Enters.*, 982 F.2d 1063, 1072 (7th Cir. 1992) (holding that computer-generated car service reminder notices were within the realm of general skill and knowledge in the car service industry); *AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1205 (7th Cir. 1987) (holding that generalized business and technical information fell within the general skill and knowledge category); *Nilssen v. Motorola, Inc.*, 963 F. Supp. 664, 674 (N.D. Ill. 1997) (noting that Illinois law does not treat “generalized confidential business information as protectible trade secrets”); *Fleming Sales Co. v. Bailey*, 611 F. Supp. 507, 514 (N.D. Ill. 1985) (stating that an employee is free “to take and to use” general skills, because “[a]ny other rule would force a departing employee to perform a prefrontal lobotomy on himself or herself”); *Schulenburg v. Signatrol, Inc.*, 212 N.E.2d 865, 869 (Ill. 1965) (recognizing a “general skills and knowledge” defense); *Stampede Tool Warehouse, Inc. v. May*, 651 N.E.2d 209, 216 (Ill. App. Ct. 1st Dist. 1995) (invoking the general skills and knowledge rule).

91. *See PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995) (recognizing inevitable disclosure theory under the ITSA); *Strata Mktg., Inc. v. Murphy*, 740 N.E.2d 1166, 1178 (Ill. App. Ct. 1st Dist. 2000) (following *PepsiCo* in adopting the inevitable disclosure doctrine under the ITSA). *But see Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 292–94 (Ct. App. 2002) (rejecting the inevitable disclosure doctrine as a matter of California public policy); *Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62, 66 (App. Div. 2003) (cautioning that inevitable disclosure injunctions are rarely granted under New York law and holding that on the proof presented, the inevitable disclosure injunction should not have been issued).

92. *Disher v. Fulgoni*, 464 N.E.2d 639 (Ill. App. Ct. 1st Dist. 1984).

93. *Cincinnati Tool Steel Co. v. Breed*, 482 N.E.2d 170 (Ill. App. Ct. 2d Dist. 1985).

94. *Compare AMP*, 823 F.2d at 1202 (employing the *Disher* and *Cincinnati Tool* approach under Illinois law), *with IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 586 (7th Cir. 2002) (rejecting the need for time and geographic limitations for nondisclosure agreements under Wisconsin law), *and NewInno, Inc. v. Peregrim Dev., Inc.*, No. CV020390074S, 2003 Conn. Super. LEXIS 1750, at *4–*11, *15–*16 (Super. Ct. June 3, 2003) (collecting cases comparing nondisclosure and noncompete agreement evaluation standards).

95. *See Jager, supra* note 49, at 21 (explaining the deficiencies of *Disher* and *Cincinnati Tool* as well as ITSA’s passage); *see also* 765 ILL. COMP. STAT. 1065/8(b)(1) (2002) (providing that a “contractual or other duty to maintain secrecy . . . of a trade secret shall not be deemed to be void or unenforceable solely for lack of . . . geographical limitation”).

96. *See PepsiCo*, 54 F.3d at 1269 n.7; *Strata Mktg., Inc. v. Murphy*, 740 N.E.2d 1166, 1175 (Ill. App. Ct. 1st Dist. 2000); *Coady v. Harpo, Inc.*, 719 N.E.2d 244, 250 (Ill. App. Ct. 1st Dist. 1999); *Abbott-Interfast Corp. v. Harkabus*, 619 N.E.2d 1337, 1344 (Ill. App. Ct. 2d Dist. 1993).

voiding confidentiality agreements for lack of time and geographic limitations.⁹⁷

Of course, the preceding discussion assumes that the employer owns its secrets and its employees do not.⁹⁸ Perhaps this is a reasonable assumption, as U.S. courts historically have treated employees as mere workers rather than owners of the enterprise and its output.⁹⁹ Yet strangely enough, no Illinois case concerning secrets developed on the job appears to have addressed squarely the applicable common law default rules that should govern an employer-employee contest over

97. See *Perman v. ArcVentures, Inc.*, 554 N.E.2d 982, 986 (Ill. App. Ct. 1st Dist. 1990) (stating that a “nondisclosure-confidentiality agreement is unreasonable and unenforceable given its unlimited geographic and time dimensions”); *Serv. Ctrs. of Chi., Inc. v. Minogue*, 535 N.E.2d 1132, 1137 (Ill. App. Ct. 1st Dist. 1989) (holding that a “confidentiality agreement [that] amounts in effect to a post-employment covenant not to compete which is completely unrestricted in duration or geographical scope . . . is unreasonable and will not be enforced”).

98. Cf. *Litton Systems, Inc. v. Honeywell, Inc.*, 87 F.3d 1559, 1573–74 (Fed. Cir. 1996) (reversing \$1.2 billion jury verdict, but affirming liability for trade secret misappropriation in violation of an employee’s licensing and exclusive consulting agreement with his former employer, under which the former employer continued to own mirror technology developed by the employee); *Mallinckrodt, Inc. v. Masimo Corp.*, 293 F. Supp. 2d 1102, 1106–07 (C.D. Cal. 2003) (concluding that a mutual release, under which the former employer acknowledged that the employee was not in possession of any of its proprietary information, precluded a later patent ownership claim against the employee and that the only reasonable interpretation of the release was that it left the employee free to use ideas conceived during his employment); *Dorazio v. Capitol Specialty Plastics, Inc.*, No. 01-6548, 2002 U.S. Dist. LEXIS 23622, at *13–*14 (E.D. Pa. Dec. 9, 2002) (indicating that a contact list compiled by an employee over the course of prior jobs with other companies did not belong to the employee); *Koehring Co. v. E.D. Etnyre & Co.*, 254 F. Supp. 334, 339 (N.D. Ill. 1966) (noting that if the defendant acquired his trade secret knowledge while at his prior employer, his subsequent employer would have no trade secret claim, and in fact would be liable itself to the defendant’s prior employer); *Nick Upmeyer, Insurer’s Suit Against Agents Backfires*, NAT’L L.J., Aug. 26, 2002, at B1 (discussing a court finding that “policy holder information” used by insurance agents did not belong solely to the insurer).

99. See generally *Bear Sterns & Co. v. Wyler*, 182 F. Supp. 2d 679, 684 (N.D. Ill. 2002) (holding that a witness was not entitled to avoid producing a corporation’s business records despite his claim that it would violate his Fifth Amendment rights); JAMES B. ATLESON, *VALUES & ASSUMPTIONS IN AMERICAN LABOR LAW*, 84–96 (1983) (discussing employer property interests); Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS L.J. 441, 450–534 (2001) (discussing the historical evolution of trade secret ownership and how courts came to view secrets as belonging to employers, as employers began using noncompete and intellectual property assignment agreements); Nathan Newman, *Trade Secrets and Collective Bargaining: A Solution to Resolving Tensions in the Economics of Innovation*, 6 EMPLOYEE RTS. & EMP. POL’Y J. 1, 16–28 (2002) (reviewing historical circumstances that led to the view that intellectual property was owned by firms rather than by their employees); Alice W. Yao, Comment, *Former Corporate Officers and Employees in the Context of the Collective Entity and Act of Production Doctrines*, 68 U. CHI. L. REV. 1487, 1493–96 (2001) (analyzing the collective entity doctrine and noting that a corporation’s documents belong to the corporation for Fifth Amendment purposes).

trade secret ownership absent a contract,¹⁰⁰ and the ITSA, too, is silent on this issue. It is not clear that an analogy can be made to employee patent ownership decisions, as that area of common law appears to have a special history derived from the peculiar status of inventors.¹⁰¹ Needless to say, to avoid these disputes, trade secret ownership should be covered by contract at the outset of the employment relationship.¹⁰²

F. *Third-party Access Issues*

Third-party access to trade secrets presents special problems. Customers, manufacturers, suppliers, and assemblers may need access to the owner's trade secrets,¹⁰³ and potential acquirers, investors, joint venturers, and strategic alliance "partners" will probably require it at

100. See *Victor Chem. Works v. Iloff*, 132 N.E. 806, 813 (Ill. 1921) (suggesting in dicta that an employee would have owned a phosphate manufacturing process if it had been a secret, despite a contractual promise to transfer it to the employer); *Leslie E. Keeley Co. v. Hargreaves*, 86 N.E. 132, 136-39 (Ill. 1908) (rejecting a defendant's claim that he was the co-creator of a trade secret remedy for drunkenness and affirming an injunction precluding the defendant from using or disclosing the secret remedy); *Rapp Ins. Agency v. Baldree*, 597 N.E.2d 936, 939 (Ill. App. Ct. 5th Dist. 1992) (implying but not holding that an employee owned the customer insurance files he admittedly copied before leaving); *Scheduling Corp. of Am. v. Massello*, 456 N.E.2d 298, 302 (Ill. App. Ct. 1st Dist. 1983) (noting that an employee who took index cards and "hot lists" reflecting sales and customer information admitted that these documents were the property of his employer, thereby allowing the court to avoid deciding the ownership issue); *Long v. Arthur Rubloff & Co.*, 327 N.E.2d 346, 355 (Ill. App. Ct. 1st Dist. 1975) (considering personal lists and files an employee compiled prior to employment and concluding that "we are unaware of any rule which would deprive an employee of his personal property merely because its use during the employment relationship accrued to the benefit of the employer").

101. See generally Catherine L. Fisk, *Removing the 'Fuel of Interest' from the 'Fire of Genius': Law and the Employee-Inventor, 1830-1930*, 65 U. CHI. L. REV. 1127 (1998) (discussing the history of employee patent ownership rules).

102. Cf. *Syntex Ophthalmics, Inc. v. Tsuetaki*, 701 F.2d 677, 679 (7th Cir. 1983) (noting that defendant Novicky had invention assignment agreements from the start of his employment with both plaintiff Syntex and defendant Tsuetaki); *Velsicol Corp. v. Hyman*, 90 N.E.2d 717, 723-24 (Ill. 1950) (enforcing an invention assignment agreement that evidence indicated had been signed and understood by the employee).

103. See generally *ILG Indus., Inc. v. Scott*, 273 N.E.2d 393, 396 (Ill. 1971) (noting that the disclosure of trade secrets to customers and suppliers, where necessary for a business purpose, does not destroy secrecy, so long as they understand the information is to be treated in confidence); *Televation Telecomm. Sys., Inc. v. Saindon*, 522 N.E.2d 1359, 1364 (Ill. App. Ct. 2d Dist. 1988) (noting that designer specification sheets routinely were provided to component manufacturers in the electronics industry, where they were treated as confidential, and not distributed to other customers without the designer's knowledge and approval); *Cook-Master, Inc. v. Nicro Steel Prods., Inc.*, 90 N.E.2d 657, 659-61 (Ill. App. Ct. 1st Dist. 1950) (describing a situation where the defendant was supposed to manufacture cooking utensils for the plaintiff pursuant to the plaintiff's allegedly confidential designs and specifications, but the defendant instead refused to deliver the utensils, placed its own name on the utensils, and then raided the plaintiff's customers and employees by telling them the plaintiff would be unable to perform its promised utensil sales).

some point as well.¹⁰⁴ For suppliers and others who visit the trade secret owner's premises,¹⁰⁵ it would be wise to insist upon a written confidentiality agreement for their companies and even their individual employees.¹⁰⁶ The latter might seem unnecessary, but its absence proved fatal in *Composite Marine Propellers, Inc. v. Van der Woude*.¹⁰⁷ In that case, the trade secret owner had entered into a confidentiality agreement with a third-party assembler, but the assembler's key employees themselves did not execute the confidentiality agreement in their individual capacities.¹⁰⁸ These employees then quit the assembler and went into competition with the trade secret owner.¹⁰⁹ The Seventh Circuit Court of Appeals, in a divided opinion, denied trade secret relief partly on the ground that the assembler's key employees had not signed the confidentiality agreement in their personal capacities.¹¹⁰ Fortunately, suppliers and assemblers have an interest in keeping their customers happy, so this situation is somewhat uncommon.¹¹¹ Nevertheless, *Composite Marine* teaches that secrecy measures should take into account employees of trading partners and not just the corporate entities that employ them.

104. See Ann Grimes, *Tensions Grow Between Venture Funds, Public Institutions*, WALL ST. J., Aug. 11, 2003, at C1 (reporting a venture firm's decision to ask the University of Michigan to sell its holdings in the firm's funds in light of an open-records lawsuit ruling requiring disclosure of private-equity investment performance data, in violation of a nondisclosure agreement between the firm and the University of Michigan), available at 2003 WL-WSJ 3976544; see also Robert Frank, *Dana Sues ArvinMeritor Adviser*, WALL ST. J., Aug. 5, 2003, at C12 (reporting on Dana Corp.'s action for trade secret misappropriation and breach of contract against UBS, which sought to stop UBS from representing or assisting ArvinMeritor on the ground that UBS had been advising Dana on a highly sensitive project at the same time that it helped ArvinMeritor launch its unsolicited bid for Dana), available at 2003 WL-WSJ 3976068.

105. See *Label Printers v. Pflug*, 564 N.E.2d 1382, 1386 (Ill. App. Ct. 2d Dist. 1991) (noting that even though the plaintiff's manufacturing plant was "closed" to outsiders, outsiders could nevertheless gain access by receiving permission from one of the plaintiff's officers).

106. See *Ferroline Corp. v. Gen. Aniline & Film Corp.*, 207 F.2d 912, 922 (7th Cir. 1953) (applying New Jersey law and indicating that a trade secret license imposed confidentiality obligations on the licensee and its employees).

107. *Composite Marine Propellers, Inc. v. Van der Woude*, 962 F.2d 1263, 1265 (7th Cir. 1992).

108. *Id.* at 1264.

109. *Id.*

110. *Id.* at 1265, 1268.

111. *But see* Pui-Wing Tam, *Cat and Mouse: High-technology Giant Duels with Nimble Knock-off Artists*, WALL ST. J., Sept. 25, 2002, at A1, A10 (describing how Hewlett-Packard's competitors obtained a prototype of a new H-P product, before its public release, from H-P contractors who had signed nondisclosure agreements), available at 2003 WL-WSJ 3407027.

G. Acquisition-related Access Issues

Potential acquirers and investors raise more serious concerns: they are likely to be competitors who might misappropriate secrets before or after a deal collapses.¹¹² In view of this reality, a secret's owner should be chary of their overtures unless the owner really wants to sell or raise money; shopping a company simply because one has a passing fancy for learning its possible value can lead to loss of secrets even with the best legal planning, and a secret once lost may be lost forever.¹¹³ Nevertheless, potential acquirers and investors have a legitimate interest in confirming that the secret's owner is, in fact, the true owner¹¹⁴ and

112. See *Roton Barrier, Inc. v. Stanley Works*, 79 F.3d 1112, 1116–23 (Fed. Cir. 1996) (applying Illinois law and upholding money damage award for trade secret misappropriation arising out of unsuccessful business sale negotiations); *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 560–63 (4th Cir. 1990) (affirming a decision against an investor for breach of a nondisclosure agreement); *Master Tech Prods., Inc. v. Prism Enters.*, No. 00 C 4599, 2002 U.S. Dist. LEXIS 5481, at *12–*16 (N.D. Ill. Mar. 26, 2002) (denying defense's summary judgment motion on a claim that defendant misappropriated plaintiff's trade secrets after acquisition negotiations collapsed); *X-It, LLC v. Walter Kidde Portable Equip., Inc.*, 227 F. Supp. 2d 494, 525 (E.D. Va. 2002) (finding that both the competitor that entered into a confidentiality agreement when negotiating for a potential acquisition and the attorney to whom the competitor had submitted a secret patent application solely for the purpose of telling the company whether the future patent's strength warranted a higher or lower price breached their contracts when the attorney revealed the details of the application in order to allow the competitor to design around the patent); Jason Singer, *Goldman Switches Sides in Japanese Bank Deal*, WALL ST. J., Jan. 13, 2003, at C5 (describing a situation in which Goldman Sachs Group switched from advising a seller, Softbank, to advising a potential buyer, Sumitomo Mitsui Banking, apparently with the consent of the parties), available at 2003 WL-WSJ 3956272.

113. Cf. Jeff Bailey, *Buying a Small Company Takes Patience, Too: An Inefficient Market, Secretive Sellers, a Host of Junk Make It a Maze*, WALL ST. J., Apr. 22, 2003, at A22 (describing multiple hurdles buyers of small businesses face, including lack of experience, lack of diligence, and lack of leads concerning businesses potentially for sale), available at 2003 WL-WSJ 3965421; Jeff Bailey, *The Difficult Business of Selling Your Business: Owners Often Don't Know Where They Should Begin When It Comes Time To Stop*, WALL ST. J., Apr. 1, 2003, at B4 (describing a small business owner's legal, emotional, and practical difficulties in selling his business, due to his lack of experience in such matters), available at 2003 WL-WSJ 3963532.

114. See *N. Petrochemical Co. v. Tomlinson*, 484 F.2d 1057, 1058–61 (7th Cir. 1973) (applying Illinois law and noting that the plaintiff acquired two separate companies, only to discover that both had substantially the same manufacturing process for fabric softener); *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 625–26 (7th Cir. 1971) (applying Wisconsin law and accepting Pillsbury's contention that it was not bound by Forest Laboratories' trade secret when Pillsbury acquired certain assets of Tidy House, to whom Forest Laboratories had disclosed the secret on a confidential basis, but holding that Pillsbury was bound because they had notice of the existence of the trade secret); *Magnum Def., Inc. v. Harbour Group Ltd.*, 248 F. Supp. 2d 64, 70 (D. R.I. 2003) (holding that the defendant was on notice when it received the plaintiff's misappropriated trade secrets as part of a business sale); *Kel-Keef Enters. v. Quality Components Corp.*, 738 N.E.2d 524, 527–31 (Ill. App. Ct. 1st Dist. 2000) (describing a breach of contract action arising out of the plaintiff's purchase of blueprints from the defendant, blueprints defendant had misappropriated from a third-party, as discussed more fully in *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174 (7th Cir. 1991)).

has, in fact, taken appropriate measures to guard the information's secrecy. As a practical matter, this may be all potential acquirers and investors need to know in small business cases, as frequently they are familiar already with the target's products and markets.

Assuming the secret's owner has pondered these issues and has accepted the inherent risks of disclosure and loss with respect to potential acquirers and investors, four steps should be considered concerning these third parties: (1) obtaining contractual protection, (2) delaying disclosure until a very late stage in the negotiations, (3) placing strict controls over access during due diligence when disclosure finally becomes necessary, and (4) insisting that the third party use outside business advisors rather than employees to review secrets. Securing a contract is crucial because usually there is no duty of good faith between purchaser and seller at the pre-contract stage.¹¹⁵ Contractual protection, whether oral or (preferably) written,¹¹⁶ might simply amount to a nondisclosure agreement requiring the interested third party to refrain from copying, disclosing, or using the information for so long as it remains secret.¹¹⁷ The problem here is that the third party may already have a comparable secret of its own or may eventually develop one through independent means.¹¹⁸ As noted, these

115. See *Mkt. St. Assocs. L.P. v. Frey*, 941 F.2d 588, 594 (7th Cir. 1991) (applying Wisconsin law and stating that “[b]efore the contract is signed, the parties confront each other with a natural wariness,” and because neither party expects the other to be “particularly forthcoming . . . there is no deception when one is not”). *But see* Nicola W. Palmieri, *Good Faith Disclosures Required During Precontractual Negotiations*, 24 SETON HALL L. REV. 70, 120–81 (1993) (comparing good-faith standards under common law with civil law and arguing that the duty of good faith should apply with or without a contract).

116. See *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 725–26 (7th Cir. 2003) (holding that there was sufficient evidence for the jury to conclude that an oral confidentiality agreement was enough to protect against theft of a trade secret toy design idea).

117. See *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1222–35 (Pa. Super. Ct. 1989) (invoking a nondisclosure agreement and trade secret law to bar the defendant from acquiring the plaintiff's rival after the defendant had first reviewed the plaintiff's confidential information); *cf.* *Smith v. Dravo Corp.*, 203 F.2d 369, 376–77 (7th Cir. 1953) (applying Pennsylvania law and noting that while the plaintiff failed to secure an express confidentiality agreement before turning over its confidential information to the defendant during business sale negotiations, an implied duty of confidence existed based on the circumstances). See generally Stephen R. Kruff, *Confidentiality Agreements in Acquisitions and Financing Transactions*, 109 BANKING L.J. 492 (1992) (discussing the purpose and content of confidentiality agreements).

118. See *Penalty Kick Mgmt. Ltd. v. Coca Cola Co.*, 318 F.3d 1284, 1295 (11th Cir. 2003) (concluding that a non-disclosure agreement allowed independent development, acquisition through third-parties, and acquisition from the public domain); *Moore v. Kulicke & Soffa Indus., Inc.*, 318 F.3d 561, 572 (3d Cir. 2003) (holding that, under Pennsylvania law, a defendant has the initial burden of production with respect to independent development, but the plaintiff carries the ultimate burden of persuasion on this issue because “independent development is intrinsic to whether the defendant ‘used’ the plaintiff's trade secret”); *Luigino's, Inc. v. Peterson*, 317 F.3d 909, 912–14 (8th Cir. 2003) (concluding that a confidentiality agreement that the defendant

are legitimate defenses, as is reverse engineering.¹¹⁹ Untangling the origin of the third party's claimed secret after the fact could prove more difficult than the target owner anticipated, particularly if the injured owner has never been through elaborate and expensive trade secret litigation.¹²⁰ A better idea may be to insist upon some form of noncompete or noncircumvention agreement, in addition to nondisclosure obligations, in order to assure a cooling-off period.¹²¹ For example, the noncompete might prohibit the third party from hiring key employees, soliciting critical customers, or using important

signed as part of failed business sale negotiations with the plaintiff, and subsequent placement of the defendant's employee on the plaintiff's board, were not sufficient to overcome an independent development defense in a breach of fiduciary duty case); *ILG Indus., Inc. v. Scott*, 273 N.E.2d 393, 395-98 (Ill. 1971) (holding that the drawings of an industrial fan design constituted a trade secret and the trial court properly limited injunctive relief to eighteen months, in view of defendants' ability to develop independently or reverse engineer the same fan within that time frame).

119. See 65 ILL. COMP. STAT. 1065/2(a) (2002) (providing that "[r]everse engineering or independent development shall not be considered improper means"); *Motorola, Inc. v. DBTEL, Inc.*, No. 02-C3336, 2002 U.S. Dist. LEXIS 13240, at *59-66 (N.D. Ill. July 19, 2002) (rejecting a preliminary injunction, even though the defendant-assembler had access to the plaintiff's trade secret, because the defendant-assembler proved that it had been independently developing a similar product for another customer). See generally Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE L.J. 1575 (2002) (discussing economic policies relating to reverse engineering); Fowler, *supra* note 14 (reporting that toy manufacturing piracy in China "has worsened with the development of so-called rapid prototypers, which can take a three-dimensional computer scan of a plastic or wood toy and reproduce a sample within hours"); Bruce Orwal, *EchoStar Joins Lawsuit Against NDS: Action Alleging Piracy Was Filed by Vivendi Universal Unit*, WALL ST. J., Sept. 30, 2002, at B4 (reporting recent allegations that an NDS employee broke an EchoStar computer security code, leading to widespread piracy of EchoStar's digital television programming), available at 2002 WL-WSJ 3407417; Andy Reinhardt & Jay Greene, *Death of a Dream: Tiny Sendo Linked Up with Microsoft To Build a Smart Phone. But Then . . .*, BUS. WK., Feb. 10, 2003, at 44 (reporting Sendo's charge that Microsoft provided Taiwan-based High Tech Computer with Sendo's prototype "smartphone" to aid in the development of a rival product and that Microsoft is expected to defend on independent development grounds).

120. See *Nilssen v. Motorola, Inc.*, 255 F.3d 410, 410-13 (7th Cir. 2001) (recounting protracted patent, contract, and trade secrets litigation concerning events that began no later than 1986 and arguably began as early as 1982); *Wyeth v. Natural Biologics, Inc.*, Civ. No. 98-2469, 2003 U.S. Dist. LEXIS 17713, at *23, *31-*33, *74-*79 (D. Minn. Oct. 2, 2003) (rejecting defendant's contention, after protracted litigation, that it had independently developed the secret in question and then granting permanent injunction against trade secret use or disclosure).

121. See generally *Am. Recovery Corp. v. Computerized Thermal Imaging, Inc.*, 96 F.3d 88, 94-95 (4th Cir. 1996) (reviewing a breach of a noncircumvention agreement and concluding that the breach of the agreement was arbitrable); *Eden Hannon v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 560-63 (4th Cir. 1990) (enforcing a noncircumvention agreement to protect confidential information, despite the defendant's contention that it did not use or need the plaintiff's confidential information); *Pactiv Corp. v. Menasha Corp.*, 261 F. Supp. 2d 1009, 1015 (N.D. Ill. 2003) (declining to enforce an employee "no hire" agreement executed as part of unsuccessful business sale negotiations, but commenting that portions of the agreement protecting confidential information were likely legitimate).

suppliers for a year or two. It might even go so far as to preclude the third party from activities in an industry segment. Information exchanges and other coordination activities prior to closing, however, can carry antitrust implications, so planning can become complicated.¹²²

When to disclose secrets during the negotiation process is also an important issue.¹²³ The third-party suitor may want early access for a variety of due diligence reasons,¹²⁴ but the target owner should decline. Only after contractual protection is in place and negotiations have matured to a very late stage should the owner make its secrets available, and even then additional steps should be taken. The parties should determine in advance who will be the person or persons to see the secrets, no copying should be allowed, and the owner should have a representative present in the due diligence data room to ensure these rules are followed. Again, these procedures do not guarantee the third party will behave, as note-taking is sometimes permitted and memorization could occur in any event.¹²⁵

If disclosure risks still seem unacceptable despite the foregoing tips, the target might insist that the third party go further and use an outside advisor rather than its own employees to evaluate financial and other trade secret data. Accounting firms frequently serve in this capacity with respect to verifying the accuracy of disclosed financial and

122. See generally M. Howard Morse, *Mergers and Acquisitions: Antitrust Limitations on Conduct Before Closing*, 57 BUS. LAW. 1463 (2002) (reviewing relevant antitrust principles for pre-closing conduct of merging parties).

123. See Mike Ribet, *Due Diligence: How Much and How Soon?*, I-STREET MAG., Apr. 2002, at 22 (warning against early disclosure of confidential information), available at <http://www.i-street.com/magazinearchive/yr2002/mn04/diligence.asp> (last visited Feb. 26, 2004).

124. See generally William M. Brown, *Grandfathering Can Seriously Damage Your Wealth: Due Diligence in Mergers and Acquisitions of Medical Device Companies*, 36 GONZ. L. REV. 315 (2000) (discussing the due diligence process in the context of the medical device industry); Carol R. Goforth & Ronald R. Goforth, *Technology Due Diligence—The Need for and Benefits of Technology Assessment in Connection with Investment in High-tech Companies*, 27 RUTGERS COMPUTER & TECH. L.J. 165, 182–84 (2001) (examining traditional due diligence processes and proposing the use of independent technology assessments for technology-based businesses).

125. See *AMP, Inc. v. Fleishchacker*, 823 F.2d 1199, 1204–05 (7th Cir. 1987) (applying Illinois law to reject a misappropriation claim, partly on the ground that there was no evidence of the memorization of trade secrets); *Fed. Pants, Inc. v. Stocking*, 762 F.2d 561, 568 (7th Cir. 1985) (applying Wisconsin law to reject a misuse of confidential information claim on the ground that an agent may use general information retained in his memory as long as obtaining such information did not violate the agency agreement); *RKI, Inc. v. Grimes*, 177 F. Supp. 2d 859, 875 (N.D. Ill. 2001) (reviewing the ITSA and noting that misappropriation claims may be based on memorization of trade secrets); *Schulenburg v. Signalrol, Inc.*, 212 N.E.2d 865, 868–70 (Ill. 1965) (affirming a trial court finding of trade secret infringement based upon memorization); *Stampede Tool Warehouse, Inc. v. May*, 651 N.E.2d 209, 217 (Ill. App. Ct. 1st Dist. 1995) (affirming a finding of misappropriation by memorization of trade secrets).

operating data, for example. In addition, at least with respect to financial trade secrets, the parties might also consider purchase price adjustments according to a formula, perhaps with an upper and lower cap, as a way to provide some certainty to both sides should the deal go through and the financials turn out to be incorrect.

H. *Strategic Alliance Issues*

A separate but related subject concerns the impact of confidentiality agreements on intellectual property ownership when a strategic alliance collapses. Putting aside the detail that “strategic alliance” has no specific legal meaning,¹²⁶ and assuming that the parties intend to pursue a joint venture or some other recognized legal relationship, it would be wise to give considerable thought to contractual language delineating who owns what in terms of contributed intellectual property and jointly-developed intellectual property, especially if a buy-out formula has not been agreed upon in advance.¹²⁷ An instructive case on this situation is *Ultralite Container Corp. v. American President Lines, Ltd.*¹²⁸ The parties there formed a shipping container manufacturing joint venture, with one party contributing its knowledge of shipping lines and the other contributing its design and manufacturing expertise plus its manufacturing facilities.¹²⁹ The parties executed two ambiguous confidentiality agreements and years later ended up trading accusations over which party could use what outside the joint venture once it ended.¹³⁰ The Seventh Circuit Court of Appeals, not surprisingly, invoked the rule that jointly owned property implies a license for each party to use the information absent a contract to the contrary.¹³¹

126. See *First Pub. Corp. v. Parfet*, 658 N.W.2d 477, 479–81 (Mich. 2003) (holding that a “joint enterprise” is not a recognized legal entity under Michigan law); see also *Lexmark Int’l, Inc. v. Transp. Ins. Co.*, 761 N.E.2d 1214, 1224–26 (Ill. App. Ct. 1st Dist. 2001) (rejecting a trade secret misappropriation claim relating to a “joint development program” between two companies). See generally George W. Dent, Jr., *Gap Fillers and Fiduciary Duties in Strategic Alliances*, 57 BUS. LAW. 55, 56–65 (2001) (describing the development of strategic alliances to define the terminology and the purposes behind creating strategic alliances).

127. See generally George Dent, *Lawyers and Trust in Business Alliances*, 58 BUS. LAW. 45 (2002) (discussing the important and advantageous role lawyers can play in helping their clients develop trust in alliances).

128. *Ultralite Container Corp. v. Am. President Lines, Ltd.*, 170 F.3d 784 (7th Cir. 1999) (applying California law).

129. *Id.* at 785.

130. *Id.* at 787–88.

131. *Id.* at 789.

I. Drafting Considerations

As this discussion demonstrates, contractual measures are crucial to trade secret protection.¹³² Contracts should define the relevant secrets where possible, should address the limited circumstances under which the recipient can disclose or use the information in question, and should prohibit reverse engineering. Contracts should also address choice of law and choice of forum in the event litigation arises. Provisions addressing fees and costs also should be included, with recovery tied to a prevailing party standard as opposed to the much stricter willful and malicious showing required under the ITSA. Arbitration language is another possibility. Other provisions should be tailored to the specific relationship at issue, such as a license, strategic alliance or acquisition. For these situations, for example, ownership of secrets and any matters derived from those secrets need to be clarified, as does the termination of the relationship¹³³ and the return or destruction of the secret material.¹³⁴

III. NONCOMPETE AGREEMENTS

Restrictive covenants are common and powerful tools for protecting intellectual property of small and large businesses alike.¹³⁵ Yet Illinois

132. See *supra* Part II.C–H (discussing secrecy measures, access to trade secrets, and the importance of confidentiality agreements).

133. E.g., *Integrgraph Corp. v. Intel Corp.*, 195 F.3d 1346, 1364–66 (Fed. Cir. 1999) (reversing a preliminary injunction compelling a manufacturer to continue supplying its customer with trade secrets and proprietary information and holding that the manufacturer had the right to terminate the “at will” nondisclosure agreement).

134. *Crane Helicopter Servs., Inc. v. United States*, 56 Fed. Cl. 313, 318–19 (Fed. Cl. 2003) (enumerating secrecy measures a manufacturer took to protect its secrets, including, inter alia, the use of contractual provisions requiring licensees to (1) use the secret information solely for the purposes permitted by the agreement; (2) not disclose the secret information to third parties without the manufacturer’s consent; (3) cease using the secret information upon the expiration or termination of the license agreement; and (4) return all secret information to the manufacturer, including copies and materials incorporating such information).

135. See Adam Geller, *Non-compete Contracts Pit Employers, Workers*, CHI. TRIB., Feb. 17, 2003, § 4, at 6 (underscoring the higher stakes involved in noncompete agreements today than in the past as companies try to protect their secrets and using the highly publicized disputes by BellSouth and Medtronics, Inc. as examples), available at 2003 WL 13238274; Joann S. Lublin & Shawn Young, *Judge Increases Chances Forsee Will Join Sprint*, WALL ST. J., Feb. 11, 2003, at A2 (reporting a trial judge’s refusal to enforce most of a temporary restraining order on Gary Forsee’s noncompete clause, and leaving a narrow portion determinate upon pending arbitration), available at 2003 WL-WSJ 3959014; Shawn Young & Joann S. Lublin, *Arbitrator Says Sprint Can Hire BellSouth’s Gary Forsee as CEO*, WALL ST. J., Mar. 19, 2003, at A3 (reporting an arbitrator’s ruling allowing Gary Forsee to become CEO of Sprint but restricting Forsee from “participating in certain merger and acquisition matters and limited aspects of the Sprint PCS wireless business” for up to one year), available at 2003 WL-WSJ 3961512; Shawn Young & Joann S. Lublin, *BellSouth, Sprint in Executive Spat: Regional Company Wins Order Preventing*

noncompete law can test even the most experienced attorneys and clients. Part of the problem is simply the wide variety of business arrangements restrictive covenants can cover and the differing standards and public policies that govern distinct relationships.¹³⁶ Variations in contractual terms, ranging from total noncompetition or customer nonsolicitation to employee raiding prohibitions and garden leave, also contribute to complexity.¹³⁷ Much of the confusion in Illinois flows from the erroneous enforcement tests that plague the most commonly litigated scenario—employee restrictive covenants. As a result of these dynamics, it can be extraordinarily difficult to gauge whether a restrictive covenant is enforceable under Illinois law in any given case. Only broadcasting industry employees¹³⁸ and lawyers¹³⁹ other than retired law partners¹⁴⁰ present easy calls: they enjoy blanket exemptions from noncompetes.

Forsee from Defecting for Now, WALL ST. J., Feb. 3, 2003, at A3, A5 (reporting that BellSouth is seeking to protect its trade secrets via enforcement of Gary Forsee's noncompete clause and raising the possibility that Forsee may end up unable to work at either BellSouth or Sprint), available at 2003 WL-WSJ 3958242.

136. See *Polk Bros. v. Forest City Enters.*, 776 F.2d 185, 187–90 (7th Cir. 1985) (discussing rationales for noncompetes in employment, partnership, and real estate settings); *KW Plastics v. U.S. Can Co.*, No. 99-D-286-N, 2000 U.S. Dist. LEXIS 15885, at *33–37 (M.D. Ala. Oct. 6, 2000) (applying Illinois law to discuss noncompete standards for business sales, employment relations, real estate transactions, close corporations, licensing arrangements, and franchising agreements).

137. Cf. *Freund v. E.D. & F. Man Int'l, Inc.*, 199 F.3d 382, 385–86 (7th Cir. 1999) (voiding an agreement that required the defendant to fire employees who formerly worked for the plaintiff); Greg T. Lembrich, *Garden Leave: A Possible Solution to the Uncertain Enforceability of Restrictive Employment Covenants*, 102 COLUM. L. REV. 2291, 2305–23 (2002) (discussing emerging American case law on “garden leave” and comparing it with English law allowing an employer to enforce an employee's restrictive covenant so long as the employer pays the employee during the restricted period).

138. 820 ILL. COMP. STAT. 17/10 (2002); Robert Feder, *Burns Keeping Herself in Media Spotlight*, CHI. SUN-TIMES, Mar. 6, 2003, at 49 (reporting that a television anchor made a calculated decision not to accept an early renewal of her contract in order to explore the market, a decision that resulted in her current employer taking her off the air and placing her on paid leave for the final four months of her contract), available at 2003 WL 9543405; Robert Feder, *Suppelsa Gets Down to Business with Fox*, CHI. SUN-TIMES, Mar. 7, 2003, at 51 (reporting a television news anchor's surprise ending of contract renewal negotiations, in the midst of February sweeps, followed weeks later by a switch to a rival station), available at 2003 WL 9543902; Jim Kirk, *Blakley Delivers Another Bombshell*, CHI. TRIB., Mar. 4, 2003, § 3, at 1 (describing television “anchor roulette” as local Chicago stations raid one another's talent), available at 2003 WL 14860906.

139. See *Dowd & Dowd, Ltd. v. Gleason*, 693 N.E.2d 358, 369 (Ill. 1998) (holding that under Rule 5.6 of the Illinois Rules of Professional Conduct, a noncompete covenant in the lawyer's employment agreement was void); *Stevens v. Rooks Pitts & Poust*, 682 N.E.2d 1125, 1131 (Ill. App. Ct. 1st Dist. 1997) (stating that “Illinois law provides little basis for allowing . . . noncompetition clauses”).

140. See ILL. SUP. CT. RULES OF PROF'L CONDUCT R. 5.6(a) (providing that a lawyer shall not make or offer a “partnership or employment agreement that restricts the rights of a lawyer to

A. *Relationships Between “Proprietary Interests” and “Reasonableness”*

At first blush it seems easy to state the governing Illinois rule: a noncompete must be reasonable to be enforceable. In determining reasonableness, Illinois courts consider the covenant’s injurious effect upon the general public, any undue hardship upon the promisor, and the need for protection by the promisee.¹⁴¹ If a covenant is ancillary to a legitimate business relationship,¹⁴² injury to the public is seldom if ever determinative.¹⁴³ The same is largely true of undue hardship on the promisor; covenants rarely have been stricken on this ground.¹⁴⁴ Most litigation instead focuses on the promisee’s need for protection, an inquiry that translates into whether the promisee has a legitimate “proprietary interest” justifying the covenant. If so, the court then determines how appropriately the asserted proprietary interest fits with the time, territory, and subject matter restrictions imposed by the covenant. Put differently, the contractual limitations should be a function of the proprietary interests at stake.¹⁴⁵ Only in rare cases involving the complete absence of time and geographic terms will a court bypass the initial protectible interest analysis.¹⁴⁶

practice after termination of the relationship, except an agreement concerning benefits upon retirement”); *Hoff v. Mayer, Brown & Platt*, 772 N.E.2d 263, 270–71 (Ill. App. Ct. 1st Dist. 2002) (holding that a retired law partner’s restrictive covenant was enforceable).

141. See *Cockerill v. Wilson*, 281 N.E.2d 648, 651 (Ill. 1972).

142. See *Kempner Mobile Elec., Inc. v. S.W. Bell Mobile Sys., LLC*, No. 02-C5403, 2003 U.S. Dist. LEXIS 3512, at *62–*64 (N.D. Ill. Mar. 7, 2003) (discussing a noncompete agreement that was ancillary to an agency agreement); *Abel v. Fox*, 654 N.E.2d 591, 597 (Ill. App. Ct. 4th Dist. 1995) (concluding that a noncompete covenant was ancillary to the employer-employee relationship because it was ancillary to the primary purpose of the relationship).

143. See, e.g., *Canfield v. Spear*, 254 N.E.2d 433, 435 (Ill. 1969) (rejecting injury to patients as a ground for defeating a physician’s restrictive covenant where the public and the doctor had reasonable alternatives); *Bauer v. Sawyer*, 134 N.E.2d 329, 331–32 (Ill. 1956) (rejecting a public policy defense where circumstances for the public and doctor were reasonable and not potentially injurious to the public).

144. *But see House of Vision v. Hiyane*, 225 N.E.2d 21, 25 (Ill. 1967) (holding that an overbroad geographic limitation would have placed an undue burden on the promisor); *Graber v. Badegian*, 611 N.E.2d 1291, 1295 (Ill. App. Ct. 1st Dist. 1993) (affirming a trial court decision to ignore a minor violation of a restrictive covenant geographic limitation on the ground of undue hardship to the promisor); *Hamer Holding Group, Inc. v. Elmore*, 613 N.E.2d 1190, 1200–01 (Ill. App. Ct. 1st Dist. 1993) (concluding that enforcing an injunction would have imposed an undue hardship on the promisor).

145. See *Morrison Metalweld Process Corp. v. Valent*, 422 N.E.2d 1034, 1039 (Ill. App. Ct. 1st Dist. 1981) (directing the trial court to enter a preliminary injunction against the defendant because time and territorial restrictions were “reasonably related” to legitimate proprietary interests sought to be protected).

146. E.g., *Eichmann v. Nat’l Hosp. & Health Care Servs., Inc.*, 719 N.E.2d 1141, 1148 (Ill. App. Ct. 1st Dist. 1999) (holding that restrictive covenants were unreasonable due to a lack of

B. Business Sale Covenants

To understand how these principles operate in practice, a systematic analysis of Illinois noncompete jurisprudence best begins with business sale covenants. Covenants to purchasers almost always are enforced in whole or in part for two reasons: (1) the parties have relatively equal bargaining power and (2) the transferred “goodwill” would have little value to the purchaser, and hence would fetch a poor price for the seller, if left unprotected from post-sale competition by the seller.¹⁴⁷ When a dispute arises in this context, Illinois courts examine a number of factors “bearing on the intent of the parties to protect the integrity of the sale.”¹⁴⁸ These include whether the covenant was a condition precedent to the sale, whether the covenant was incorporated into the sale agreement, and whether the parties signed the covenant at the same time as the sale.¹⁴⁹ The mere fact that goodwill is not specifically listed as an asset transferred in a sale agreement does not automatically mean that the business-sale test does not apply.¹⁵⁰

time and geographic restrictions); *Akhter v. Shah*, 456 N.E.2d 232, 235–36 (Ill. App. Ct. 1st Dist. 1983) (affirming a trial court’s order dismissing a restrictive covenant claim based on the covenant’s failure to identify prohibited hospitals and to specify a time limit). *But see* *Abbott-Interfast Corp. v. Harkabus*, 619 N.E.2d 1337, 1344 (Ill. App. Ct. 2d Dist. 1993) (reversing a trial court order granting a motion to dismiss a restrictive covenant claim where the covenant lacked geographic limitations).

147. *See* *Decker, Berta & Co., Ltd. v. Berta*, 587 N.E.2d 72, 76–77 (Ill. App. Ct. 4th Dist. 1992) (affirming the grant of a preliminary injunction to enforce a restrictive covenant for the sale of an accounting firm by finding the noncompete agreement to be “ancillary to the sale of business”). *But see* *Sheehy v. Sheehy*, 702 N.E.2d 200, 209 (Ill. App. Ct. 1st Dist. 1998) (affirming the trial court’s refusal to enforce a funeral home business sale covenant where the terms were unreasonable and no action by the employee threatened the employer); *Russell v. Jim Russell Supply, Inc.*, 558 N.E.2d 115, 126 (Ill. App. Ct. 5th Dist. 1990) (treating a partnership dissolution agreement as a business sale and reversing the trial court’s denial of a preliminary injunction to enforce the agreement).

148. *Hamer Holding Group*, 560 N.E.2d at 916.

149. *See* *Bus. Records Corp. v. Lueth*, 981 F.2d 957, 960–61 (7th Cir. 1992) (determining that, even though the employee was not a selling shareholder, the employee’s restrictive covenant was a closing condition to a business sale, and, thus, application of the business-sale test mandated enforcement of the covenant); *Health Prof’ls, Ltd. v. Johnson*, 791 N.E.2d 1179, 1189–90 (Ill. App. Ct. 3d Dist. 2003) (applying the business-sale test to a stock purchase agreement that required execution and delivery of a noncompetition agreement at closing and determining that this obligation was a condition precedent to the sale); *O’Sullivan v. Conrad*, 358 N.E.2d 926, 929 (Ill. App. Ct. 5th Dist. 1976) (finding that a noncompete agreement satisfied the business-sale test where the agreement was part of a reasonable arm’s length transaction and did not violate public policy).

150. *See* *Smith v. Burkitt*, 795 N.E.2d 385, 390 (Ill. App. Ct. 5th Dist. 2003) (applying the business-sale test even though the agreement did not mention goodwill); *see also* *Weitekamp v. Lane*, 620 N.E.2d 454, 459 (Ill. App. Ct. 4th Dist. 1993) (noting that the intention of the parties to transfer trade name, goodwill, or customer lists does not require specific mention of these attributes).

C. Physician Covenants

As with business sales, Illinois courts also take a pro-enforcement view with respect to physician-employee noncompetes, and for much the same reasons: protection of goodwill and bargaining power parity. When it comes to physicians, the Illinois Appellate Court properly follows *Canfield v. Spear*, in which the Illinois Supreme Court held that physician-employee noncompetes are enforceable.¹⁵¹ The Illinois Supreme Court in *Canfield* did not define explicitly the proprietary interest test it employed, but apparently the court was referring to patient goodwill, as measured by the “customer contacts” proprietary interest standard, given the court’s emphasis on the defendant’s status as a newcomer who had become known in the community through his association with the plaintiff’s medical clinic.¹⁵² This interpretation of *Canfield* is buttressed by the *Canfield* court’s discussion of *House of Vision v. Hiyane*,¹⁵³ in which the Illinois Supreme Court seemed to endorse the “customer contacts” proprietary interest standard followed in most jurisdictions,¹⁵⁴ by citing to a leading law review article collecting the authorities.¹⁵⁵ Indeed, this implicit view in *Canfield* was subsequently made explicit in *Cockerill v. Wilson*.¹⁵⁶ In *Cockerill*, the Illinois Supreme Court stated that an employer has a legitimate interest in protecting its clients from being taken over as a result of an employee’s contacts with those clients by virtue of the employment: “The protection of this asset is recognized as a legitimate interest of an employer.”¹⁵⁷

Some decisions of the Illinois Appellate Court, however, have read *Canfield* so broadly that they have explicitly dispensed with the proprietary interest inquiry altogether in physician restrictive covenant

151. *Canfield v. Spear*, 254 N.E.2d 433, 435 (Ill. 1969) (holding that where a noncompete agreement has reasonable terms, is not contrary to public policy, and imposes no special hardships, the covenant is enforceable).

152. *Id.* at 434–35.

153. *Id.* at 435 (distinguishing the *Canfield* case from *House of Vision v. Hiyane*, 225 N.E.2d 21 (Ill. 1967)).

154. *House of Vision v. Hiyane*, 225 N.E.2d 21, 24–25 (Ill. 1967); *see, e.g.*, *Safety-Kleen Sys., Inc. v. Hennkens*, 301 F.3d 931, 936–37 (8th Cir. 2002) (examining “quality, frequency, and duration” of customer contacts by sales personnel and noting that “substantial and individualized customer contacts are a protectible interest”).

155. *See* Harlan M. Blake, *Employee Agreements Not To Compete*, 73 HARV. L. REV. 625, 651–74 (1960) (discussing customer relationships and trade secret protection as the principal proprietary interests in restrictive covenant cases).

156. *Cockerill v. Wilson*, 281 N.E.2d 648, 651 (Ill. 1972) (“In determining the reasonableness of the restriction, the injurious effect thereof upon the general public must be considered as well as any undue hardship . . .”).

157. *Id.*

cases. Indeed, the recent decision in *Prairie Eye Center, Ltd. v. Butler* not only ruled that proprietary interests are irrelevant in physician restrictive covenant cases,¹⁵⁸ but even went so far as to hold that a physician-employee can be restrained by covenant from competing for patients the physician served before entering the employment governed by the noncompete.¹⁵⁹ The Illinois Supreme Court's recent decision in the physician-employee covenant case of *Carter-Shields v. Alton Health Institute*¹⁶⁰ did not address the legitimacy of the prevailing proprietary interest regime, though the supreme court did vacate the appellate court's holding that physician noncompetes are void as a matter of general public policy,¹⁶¹ analogous to the prohibition against lawyer covenants found in Rule 5.6 of the Illinois Rules of Professional Conduct.¹⁶² Thus, resolution of this lurking proprietary interest question will have to wait another day, as will the Rule 5.6 analogy.¹⁶³

D. Ordinary Employee Covenants

The pro-enforcement attitude Illinois courts display toward both business sale covenants and physician-employee covenants contrasts sharply with the anti-enforcement posture courts assume in ordinary employee covenant cases. Covenants ancillary to ordinary employment relationships must pass either of two exacting proprietary interest tests to have any hope of enforcement. Under the first, the employer must show that it has "near-permanent" customers to whom the employee would not have had access "but for" the employment.¹⁶⁴ Under the

158. *Prairie Eye Ctr., Ltd. v. Butler*, 768 N.E.2d 414, 421–22 (Ill. App. Ct. 4th Dist. 2002) (finding that the employer "need not present evidence of a protectible interest in [the employee's] former patients . . . [because] these patients are precisely what [the employer] negotiated for when it entered the employment agreement").

159. *Id.* at 422. *But see* *Hydroaire, Inc. v. Sager*, 424 N.E.2d 719, 725–26 (Ill. App. Ct. 1st Dist. 1981) (holding that an employee noncompete agreement could not protect the employer against the employee contacting customers that the employee knew before joining the employer).

160. *Carter-Shields v. Alton Health Inst.*, 777 N.E.2d 948, 956–60 (Ill. 2002) (failing to discuss proprietary interests).

161. *Id.* at 957–60.

162. ILL. SUP. CT. RULES OF PROF'L CONDUCT R. 5.6(a).

163. *See* Stuart Gimbel & Miles J. Zaremski, *Medical Restrictive Covenants in Illinois: At the Crossroads of Carter-Shields and Prairie Eye Center*, 12 ANNALS HEALTH L. 1, 9–10 (2003) (commenting that Illinois physician noncompete jurisprudence is ripe for review in light of significant changes in healthcare practice over the last thirty years).

164. *Hanchett Paper Co. v. Melchiorre*, 792 N.E.2d 395, 402 (Ill. App. Ct. 2d Dist. 2003) (noting that the plaintiff satisfied the "but for" test where the defendant employee had no experience in the packaging industry before joining the plaintiff as an employee); *Dam, Snell & Taveime, Ltd. v. Verchota*, 754 N.E.2d 464, 470 (Ill. App. Ct. 2d Dist. 2001) (enforcing a covenant which restricted an employee from soliciting clients of her former employer with whom she had no contact before quitting); *Com-Co. Ins. Agency v. Serv. Ins. Agency*, 748 N.E.2d 298,

second, the employer must show that the employee had access to the employer's trade secrets (or confidential information) *and* subsequently attempted to use such information.¹⁶⁵ Some cases, starting with *Office Mates 5, North Shore, Inc. v. Hazen*¹⁶⁶ and *Springfield Rare Coin Galleries, Inc. v. Mileham*,¹⁶⁷ have attempted to reformulate the “near-permanent” customer test as it relates to “sales” employees, but this appears to be a shorthand version of the existing test rather than a new proprietary interest standard.¹⁶⁸

These deceptively simple formulations have proven unworkable in practice, which no doubt explains in part the burgeoning number of reported Illinois employee restrictive covenant decisions over the last thirty years.¹⁶⁹ The problem with the “near permanent” customer test is that it fails to capture less compelling cases that still reflect employer goodwill in need of protection;¹⁷⁰ this readily explains why ordinary employees almost always win, while physician employees almost always lose. The problem with the trade secret access/subsequent use test is that it requires an employer to prove actual theft—proof the employer rarely has prior to litigation. The trade secret access/subsequent use test also defeats the very purpose of a noncompete, which is to prevent an ex-employee from taking

302 (Ill. App. Ct. 1st Dist. 2001) (finding that the plaintiff insurance agency could not meet the “but for” standard where the defendant (ex-employee) solicited friends he knew before joining the plaintiff); *Agrimerica, Inc. v. Mathes*, 524 N.E.2d 947, 951 (Ill. App. Ct. 1st Dist. 1988) (noting the factors in evaluating employee noncompete proprietary interests, including (1) the number of years, the amount of money invested, and the difficulty in developing a client; (2) the personal customer contact by an employee; (3) an employer's knowledge of its customers; (4) the length of time a customer has been associated with an employer; (5) the continuity of an employer's relationship with a customer; and (6) whether an employee would not have had contact with a customer but for employment); *McRand, Inc. v. van Beelen*, 486 N.E.2d 1306, 1311–13 (Ill. App. Ct. 1st Dist. 1985) (following the same factors outlined in *Agrimerica*).

165. See *Outsource Int'l, Inc. v. Barton*, 192 F.3d 662, 668–69 (7th Cir. 1999) (discussing trade secrets under the confidential information test); *Millard Maint. Serv. Co. v. Bernero*, 566 N.E.2d 379, 385–86 (Ill. App. Ct. 1st Dist. 1990) (discussing confidential information).

166. *Office Mates 5, North Shore, Inc. v. Hazen*, 599 N.E.2d 1072, 1082 (Ill. App. Ct. 1st Dist. 1992).

167. *Springfield Rare Coin Galleries, Inc. v. Mileham*, 620 N.E.2d 479, 489–90 (Ill. App. Ct. 4th Dist. 1993).

168. See, e.g., *Outsource Int'l*, 192 F.3d at 670–73 (Posner, J., dissenting) (exploring the rationale for distinguishing “sales” employees from other employees for restrictive covenant purposes).

169. See William Lynch Schaller, *Noncompete Nonsense: Reconsidering Employer Proprietary Interests Justifying Employee Restrictive Covenants in Illinois* (n.d.) (manuscript on file with author).

170. See *Shapiro v. Regent Printing Co.*, 549 N.E.2d 793, 799–800 (Ill. App. Ct. 1st Dist. 1989) (Jiganti, J., dissenting) (arguing that proprietary interests are not limited to “near permanent” customer relations and trade secret protection, and customer contacts should also be protectible by restrictive covenants).

competitive employment that might lead to loss of secrets.¹⁷¹ Indeed, the subsequent use condition actually has the bizarre effect of making noncompetes more difficult to enforce than trade secret inevitable disclosure claims, which do not require actual or even threatened use;¹⁷² at the very least noncompetes should be enforceable when trade secret disclosure would be inevitable.¹⁷³ The unnecessary analytic difficulties created by the subsequent use requirement can be seen in *Outsource International, Inc. v. Barton*, in which the district court made a subsequent use factual finding and the majority on appeal affirmed,¹⁷⁴ even though, as the dissent pointed out, no specific proof of subsequent use actually was offered.¹⁷⁵

As this analysis shows, there is no logic behind the near-permanent customer relations and trade secret access/subsequent use tests; they are plainly the product of judicial error, the source of which is *Nationwide Advertising Service, Inc. v. Kolar*.¹⁷⁶ In its 1973 opinion in *Kolar*, the appellate court simply misread the Illinois Supreme Court's 1969

171. See *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 560–63 (4th Cir. 1990) (explaining the purpose behind noncompete agreements and the difficulty that would result for enforceability if employees were allowed to take competitive employment).

172. See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269–71 (7th Cir. 1995) (granting an inevitable disclosure injunction despite no evidence of actual or threatened disclosure); *Strata Mktg., Inc. v. Murphy*, 740 N.E.2d 1166, 1179 (Ill. App. Ct. 1st Dist. 2000) (finding that based on *PepsiCo*, a plaintiff sufficiently alleged a cause of action for inevitable disclosure and finding that actual or threatened disclosure was unnecessary). See generally William Lynch Schaller, *Trade Secret Inevitable Disclosure: Substantive, Procedural and Practical Implications of an Evolving Doctrine* (2003) (forthcoming in the *Journal of the Patent and Trademark Office Society*) (canvassing multiple contexts in which the trade secret inevitable disclosure doctrine has been applied).

173. *Kempner Mobile Elec., Inc. v. S.W. Bell Mobile Sys., LLC*, No. 02-C5403, 2003 U.S. Dist. LEXIS 3512, at *69 (N.D. Ill. March 7, 2003).

While we have found no case that discusses the application of this [inevitable disclosure] doctrine in the specific context of a noncompete case that involves confidential (and not trade secret) information, we see no reason, in principle, that it should not apply in assessing both the interest to be protected and the reasonableness of the restraints imposed.

Id.

174. *Outsource Int'l, Inc. v. Barton*, 192 F.3d 662, 669 (7th Cir. 1999).

175. *Id.* at 672 (Posner, J., dissenting) (“[T]here is no evidence that he stole any of Outsource’s trade secrets.”); see also *Unisource Worldwide, Inc. v. Carrara*, 244 F. Supp. 2d 977, 989–90 (C.D. Ill. 2003) (holding that the plaintiff could not meet the “subsequent use” condition where the defendant/ex-employee admitted keeping a computer printout but claimed to have thrown it away without using it).

176. *Nationwide Adver. Serv. Inc. v. Kolar*, 302 N.E.2d 734, 738 (Ill. App. Ct. 1st Dist. 1973) (distinguishing *Cockerill v. Wilson*, 281 N.E.2d 648 (Ill. 1972), and *Canfield v. Spear*, 254 N.E.2d 433 (Ill. 1969), to rely on *United Travel Serv., Inc. v. Weber*, 247 N.E.2d 801 (Ill. App. Ct. 4th Dist. 1969), and to render a noncompete agreement unenforceable).

opinion in *Canfield v. Spear*¹⁷⁷ and its 1972 opinion in *Cockerill v. Wilson*,¹⁷⁸ neither of which sets forth anything similar to the “near-permanent” customer or trade secret access/subsequent use tests subsequently articulated in *Kolar*.¹⁷⁹ Yet, with one exception, every opinion of the Illinois Appellate Court that recites the “near-permanent” customer and trade secret access/subsequent use tests cites *Kolar*, or a case descended from *Kolar*, without stopping to consider the broad holdings of the Illinois Supreme Court in *Canfield* and *Cockerill*. The exception, *Retina Services v. Garoon*, recognized this dichotomy but made no attempt to reconcile the cases, holding instead that it was bound to follow *Canfield* and *Cockerill* since the defendant in *Garoon* was a physician.¹⁸⁰

E. Other Covenants

Because the chosen proprietary interest test tends to be outcome determinative, Illinois courts have struggled with which test to follow in cases involving other business relationships, such as those between manufacturers and distributors,¹⁸¹ licensors and licensees,¹⁸² franchisors and franchisees,¹⁸³ manufacturers and dealers,¹⁸⁴ and hiring parties and independent contractors,¹⁸⁵ to name just a few.¹⁸⁶ One would think that

177. *Canfield v. Spear*, 254 N.E.2d 433, 434–35 (Ill. 1969) (using the customer contacts proprietary interest standard and reasonableness factors to hold physician noncompete covenants enforceable).

178. *Cockerill v. Wilson*, 281 N.E.2d 648, 650–51 (Ill. 1972) (using and explicitly enumerating the test set forth in *Canfield* to enforce a noncompete agreement).

179. *Kolar*, 302 N.E.2d at 737–38.

180. *Retina Servs., Ltd. v. Garoon*, 538 N.E.2d 651, 654 (Ill. App. Ct. 1st Dist. 1989).

181. *See A.J. Dralle, Inc. v. Air Techs., Inc.*, 627 N.E.2d 690, 696 (Ill. App. Ct. 2d Dist. 1994) (employing the ordinary employment proprietary interest test to a manufacturer-distributor relationship).

182. *See Morrison Metalweld Processing Corp. v. Valent*, 422 N.E.2d 1034, 1037–38 (Ill. App. Ct. 1st Dist. 1981) (adopting the business sale proprietary interest test where litigants were a licensor and a licensee).

183. *See McDonald's Sys., Inc. v. Sandy's, Inc.*, 195 N.E.2d 22, 31 (Ill. App. Ct. 2d Dist. 1963) (determining that the franchise agreement was an in-term restrictive covenant, not post-term, and “as long as [franchisees] seek to avail themselves of the beneficial provisions of their franchise contract, they should not be permitted to disregard or refuse to abide by the several obligations they assumed”).

184. *See U-Haul Co. of Cent. Ill. v. Hindahl*, 413 N.E.2d 187, 191 (Ill. App. Ct. 3d Dist. 1980) (citing ordinary employee covenant cases but following no specific legal standard and finding that U-Haul had “a legitimate business interest in seeing that its investment in [defendants'] dealerships [was] not used in the full service of a competitor”).

185. *See Bankcard Am., Inc. v. Am. Timeshare Assocs. Inc.*, No. 93C6362, 1994 U.S. Dist. LEXIS 12205, at *25–*26 (N.D. Ill. Aug. 29, 1994) (using the ordinary employee proprietary interest test); *Eichmann v. Nat'l Hosp. and Health Care Servs., Inc.*, 719 N.E.2d 1141, 1146 (Ill. App. Ct. 1st Dist. 1999) (adopting the ordinary employee proprietary interest test).

the proper analogy would be to business sale noncompetes, given the relatively equal bargaining power in these business settings. The answer has been somewhat muddled, but by and large the business sale analogy has prevailed over the ordinary employee analogy in Illinois.

Employee anti-raiding clauses seem to constitute a class by themselves under Illinois law. Only a few cases have examined provisions prohibiting solicitation and recruitment of employees, and they have offered no significant analysis of the controlling proprietary interest that underlies such restrictions. Indeed, *Arpac v. Murray*, an ordinary employee covenant case, appears to be the only Illinois state court decision to touch directly upon the proprietary interest question.¹⁸⁷ The *Arpac* court held that workforce stability justifies an anti-recruitment covenant, though it cited no authority for this holding.¹⁸⁸ A contrary result was reached in *Unisource Worldwide, Inc. v. Carrara*, however, in which the court rejected *Arpac* on the ground that workforce stability does not fall within one of the two recognized legitimate business interests that justify a restrictive covenant under Illinois law—the “near permanent” customer relationship test and the trade secret access/subsequent use test.¹⁸⁹ Other cases involving employee anti-raiding covenants entered into between businesses have implied that employee training may constitute a proprietary interest.¹⁹⁰ In still others, courts have avoided the issue by construing the covenants narrowly,¹⁹¹ by voiding them outright on public policy grounds,¹⁹² or

186. See *Liautaud v. Liautaud*, 221 F.3d 981, 986 (7th Cir. 2000) (finding a noncompete ancillary to a gift); *Kempner Mobile Elec., Inc. v. S.W. Bell Mobile Sys., LLC*, No. 02-C5403, 2003 U.S. Dist. LEXIS 3512, at *59–*60 (N.D. Ill. Mar. 7, 2003) (finding a noncompete ancillary to an agency agreement between a phone company and an equipment provider).

187. *Arpac v. Murray*, 589 N.E.2d 640, 647 (Ill. App. Ct. 1st Dist. 1992).

188. *Id.* at 650.

189. *Unisource Worldwide, Inc. v. Carrara*, 244 F. Supp. 2d 977, 983 (C.D. Ill. 2003) (citing *Schmersahl, Treloar & Co. v. McHugh*, 28 S.W.3d 345, 351 (Mo. Ct. App. 2000), which held that “an employer’s interest in protecting the stability of its at-will workforce is not one of the interests which may be protected by a restrictive covenant in Missouri”).

190. See *Freund v. E.D. & F. Man Int’l, Inc.*, 199 F.3d 382, 385 (7th Cir. 1999) (suggesting that under Illinois law, an employer who substantially invests in his employee enough to uphold noncompete covenants is also entitled to enforcement of anti-raiding covenants); *Equity Ins. Managers of Ill., LLC v. McNichols*, 755 N.E.2d 75, 80–81 (Ill. App. Ct. 1st Dist. 2001) (affirming an arbitral award based in part on the cost of training a replacement employee, even though an in-term noncompete clause was not violated); *H&M Driver Leasing Servs. Unlimited, Inc. v. Champion Int’l Corp.*, 536 N.E.2d 858, 861–62 (Ill. App. Ct. 1st Dist. 1989) (mentioning the loss of a trained employee in affirming a grant of injunctive relief); *Am. Food Mgmt., Inc. v. Henson*, 434 N.E.2d 59, 64 (Ill. App. Ct. 5th Dist. 1982) (affirming an injunction against the defendant, partly due to the plaintiff’s loss of a trained employee).

191. See *Emergency Med. Care, Inc. v. Marion Mem’l Hosp.*, 94 F.3d 1059, 1062 (7th Cir. 1996) (finding that a covenant prohibiting the hospital from directly or indirectly contracting with an emergency medical service firm’s employees did not prohibit the hospital from contracting

by deciding the case on some other basis.¹⁹³ Given the prevalence and severity of employee raiding these days,¹⁹⁴ clarification of the governing proprietary interest standards would be beneficial.¹⁹⁵

Two additional scenarios are especially critical to small businesses. The first concerns what test to employ when nonshareholder employees sign restrictive covenants as part of a business sale. Although the issue has been seldom litigated in Illinois, at least one case has held that an employee's covenant in this situation should be assessed under the pro-enforcement business-sale test rather than the anti-enforcement ordinary employee test.¹⁹⁶ The importance of this issue hardly can be doubted; without such covenants nonshareholder employees might flee the target, thereby destroying the value of the acquisition.¹⁹⁷

with a new service provider that hired away the medical service's employees and then used those employees to staff the hospital's emergency room).

192. See *Freund*, 199 F.3d at 386 (finding that a contract between Freund and Man, requiring termination of certain personnel upon Freund's termination, was void as against Illinois public policy); *Szabo Food Serv. v. County of Cook*, 513 N.E.2d 875, 877 (Ill. App. Ct. 1st Dist. 1987) (holding that a restrictive covenant that bars employment of non-parties to the contractive covenant is void as being against public policy).

193. See *Pactiv Corp. v. Menasha Corp.*, 261 F. Supp. 2d 1009, 1014 (N.D. Ill. 2003) (declining to enforce an employee "no hire" agreement entered into between a putative buyer and a putative seller in an unsuccessful business sale, ruling that the restrictive covenant was too broad in barring hiring of managerial employees other than those of the targeted division); *Kocjancich v. Bridges*, 417 N.E.2d 694, 698 (Ill. App. Ct. 1st Dist. 1981) (finding that a \$5000 payment, in return for a waiver of an employee raiding restriction, did not constitute a "franchise fee").

194. See, e.g., *Constr. Mgmt. & Inspection, Inc. v. Caprock Communications Corp.*, 301 F.3d 939, 941 (8th Cir. 2002) (finding that the departure of 150 employees, spurred by the plaintiff's loss of a contract with Caprock, could not support a breach of contract and tortious interference action against Caprock); *ADR N. Am., LLC v. Agway, Inc.*, 303 F.3d 653, 660 (6th Cir. 2002) (finding no breach of contract or tortious interference actions arising out of a customer's raiding of an employee of its consultant because the employee solicited the customer for the job); Sue Reisinger, *\$21.5M Verdict for Employee Raid: Trade Secrets Claim Was Knocked Out, but Firm Still Prevails*, NAT'L L.J., Apr. 22, 2002, at A17 (reporting an enormous judgment against a company that raided fifteen of the defendant's branch managers); Steven R. Strahler, *Stockbroker Defections Roil Stressed Blair; Team Seeks Autonomy, a New Model*, CRAIN'S CHI. BUS., Feb. 3, 2003, at 3 (reporting the defections of six key William Blair & Co. principals controlling 10% of their department's business, prompting litigation in the Circuit Court of Cook County, Illinois).

195. See Daniel C. Vock, *High Court Urged To Consider Validity of No-compete Clause*, CHI. DAILY L. BULL., Apr. 23, 2003, at 1 (reporting on a petition for leave to appeal to the Illinois Supreme Court an unpublished Illinois Appellate Court order upholding a no-raiding clause between employers where an affected employee was unaware of the clause); *H&M Commer. Driver Leasing, Inc. v. Fox Valley Containers, Inc.*, 805 N.E.2d 1177 (Ill. 2004) (holding that a "no switch" agreement between employers was enforceable).

196. *Bus. Records Corp. v. Lueth*, 981 F.2d 957, 962 (7th Cir. 1992) (enforcing an employee's covenant).

197. See *Astor Chauffeured Limousine Co. v. Runnfeldt Inv. Corp.*, 910 F.2d 1540, 1544 (7th Cir. 1990) (considering a securities fraud action based upon planned employee departures allegedly concealed by sellers); *Kleinwort Benson N. Am., Inc. v. Quantum Fin. Servs., Inc.*, 692

The other context that presents a potential problem is the case of noncompetes signed by employee-shareholders of a start-up. This issue arose in *Central Waterworks Supply, Inc. v. Fisher*, in which several employees left one firm to form their own and entered into noncompetes that prohibited one another from quitting and returning to their former mutual employer.¹⁹⁸ Because the firm was a start-up, it was debatable as to whether the new firm had any customer relations or trade secrets that would support the restrictive covenants from a proprietary interest standpoint.¹⁹⁹ The court agreed with the new employer, however, that the proper analogy was to the business-sale test and therefore held that the putative goodwill of the new firm constituted a sufficient proprietary interest to justify enforcement of the restrictive covenants the founders had signed.²⁰⁰

On the other hand, Illinois courts have held that certain situations do not implicate a legitimate proprietary interest at all. For example, a divided court in *Danville Polyclinic, Ltd. v. Dethmers* ruled that physician-investors' mere financial interest in a building that housed their practice did not constitute a proprietary interest justifying a covenant.²⁰¹ Similarly, if a corporation or partnership dissolves, the noncompetition agreements signed by its employees may be void.²⁰² A customer's refusal to deal with the employer may also eliminate the employer's protectible interest and hence release the employee from his covenant with respect to that customer.²⁰³ This last proposition can be questioned, since its effect is to shift the inquiry from the employer's interests to a third party's interests, an approach the Illinois Supreme

N.E.2d 269, 271 (Ill. 1998) (evaluating a breach of contract and fraud action based upon employee departures allegedly concealed by the seller).

198. *Cent. Water Works Supply, Inc. v. Fisher*, 608 N.E.2d 618, 620 (Ill. App. Ct. 4th Dist. 1993).

199. *Id.* at 623.

200. *Id.* at 621-23.

201. *Danville Polyclinic, Ltd. v. Dethmers*, 631 N.E.2d 842, 846 (Ill. App. Ct. 4th Dist. 1994).

202. *Frazier v. Dettman*, 569 N.E.2d 1382, 1387 (Ill. App. Ct. 2d Dist. 1991) (finding that a dissolved dental partnership had no goodwill to justify an employee covenant).

203. *See Abbott-Interfast Corp. v. Harkabus*, 619 N.E.2d 1337, 1343 (Ill. App. Ct. 2d Dist. 1993) (commenting that it is more difficult for an employer to justify prohibiting ex-employees from accepting client orders than merely prohibiting solicitation); *Millard Maint. Serv. Co. v. Bernero*, 566 N.E.2d 379, 387 (Ill. App. Ct. 1st Dist. 1990) (noting that an injunction order did not prohibit the defendant from seeking contracts with the plaintiff's customers who might choose to terminate their relationship with the plaintiff); *Hagerty, Lockenvitz, Ginzkey & Assocs. v. Ginzkey*, 406 N.E.2d 1145, 1148 (Ill. App. Ct. 4th Dist. 1980) (determining that the word "compete" in the advertising industry was shown to mean active solicitation of business, not mere passive receipt, and, accordingly, the covenant not to "compete" was not violated when a customer terminated its relationship with the plaintiff and sent its business, unsolicited, to the defendant).

Court has rejected in the fiduciary duty context with respect to third-party refusals to deal.²⁰⁴ By contrast, an employer's refusal to deal with a customer, if not directly or indirectly induced by the employee,²⁰⁵ could operate to end the employer's protectible interests in the customer and thereby free an employee from a post-term covenant prohibiting employment by that customer.²⁰⁶

F. Drafting Considerations

Given the difficulty in sorting all this out, drafting enforceable noncompetes is no mean feat. At a minimum, it would be prudent to agree upon the covenant at the outset of the relationship. Afterthought noncompetes may be challenged on consideration grounds, especially in employment cases.²⁰⁷ Some thought should also be given to extension clauses stating, in substance, that the duration of the restrictions will be extended by any period of noncompliance.²⁰⁸ Assignment,²⁰⁹

204. See *Mullaney, Wells & Co. v. Savage*, 402 N.E.2d 574, 580–81 (Ill. 1980) (finding that a third party's refusal to deal with the plaintiff was not a defense); *Vendo Co. v. Stoner*, 321 N.E.2d 1, 10 (Ill. 1974) (finding that a third-party's willingness or unwillingness to deal with the plaintiff was not an element of the plaintiff's proof).

205. See *Triple Five of Minn., Inc. v. Simon*, 280 F. Supp. 2d 895, 906 (D. Minn. 2003) (determining that a third-party's refusal to deal with the plaintiff was induced by the defendant); *Patient Care Servs., S.C. v. Segal*, 337 N.E.2d 471, 479–81 (Ill. App. Ct. 1st Dist. 1975) (finding that an employee could not defend a breach of fiduciary duty claim based on a third party's refusal to deal with its principal where the employee induced the refusal to deal).

206. See *Peterson-Jorwic, Inc. v. Pecora*, 586 N.E.2d 676, 678 (Ill. App. Ct. 1st Dist. 1991) (finding that an employer terminated its customer relationship, which was the primary account handled by an employee).

207. See *Abel v. Fox*, 654 N.E.2d 591, 595 (Ill. App. Ct. 4th Dist. 1995) (collecting Illinois cases).

208. See *Prairie Eye Ctr., Ltd. v. Butler*, 713 N.E.2d 610, 615 (Ill. App. Ct. 4th Dist. 1999) (enforcing an extension clause); *Howard Johnson & Co. v. Feinstein*, 609 N.E.2d 930, 955 (Ill. App. Ct. 1st Dist. 1993) (finding that an extension clause in a business sale covenant was valid); *Jefco Labs., Inc. v. Carroo*, 483 N.E.2d 999, 1003 (Ill. App. Ct. 1st Dist. 1985) (finding that an extension clause in an employment contract was invalid based on a lack of bargaining power).

209. See *Chem Metall GmbH v. ZR Energy, Inc.*, 320 F.3d 714, 721 (7th Cir. 2003) (finding that an asset purchase agreement that stated that the successor would not assume any liability or obligation with respect to the predecessor's employees did not negate the successor's right to invoke the assignment provision of the former employee's confidentiality agreement with the predecessor); *Unisource Worldwide, Inc. v. Carrara*, 244 F. Supp. 2d 977, 982 (C.D. Ill. 2003) (holding that where an employment contract is silent on assignability, the rule is that an acquiring corporation can enforce the acquired company's restrictive covenants); *AutoMed Techs., Inc. v. Eller*, 160 F. Supp. 2d 915, 924 (N.D. Ill. 2001) (noting that when the employment contract is silent, courts generally permit assignment of restrictive covenants to a corporate acquirer); *Baker v. Daniel S. Berger, Ltd.*, 753 N.E.2d 463, 468 (Ill. App. Ct. 1st Dist. 2001) (affirming a Rule 137 sanctions award against a plaintiff/ex-employee who sought declaratory relief with respect to an unsigned restrictive covenant that had expired by its terms); *Williams & Montgomery, Ltd. v. Stellato*, 552 N.E.2d 1100, 1105 (Ill. App. Ct. 1st Dist. 1990) (finding that a change in entity status did not void the covenant).

severability,²¹⁰ modification,²¹¹ waiver,²¹² survival,²¹³ liquidated damages,²¹⁴ and prejudgment interest²¹⁵ language should be included as well. For employment noncompetes, the contract should explicitly state that termination of an employee does not release the employee from restrictive covenants, as discharged employees may press such defenses even when they are terminable at will.²¹⁶ In the case of business sales,

210. See *Unisource Worldwide*, 244 F. Supp. 2d at 984 (severing the invalid portion of an employee's restrictive covenant, pursuant to an express severability provision); *Abbott-Interfast Corp. v. Harkabus*, 619 N.E.2d 1337, 1343-44 (Ill. App. Ct. 2d Dist. 1993) (collecting severability cases); Richard L. Curry, *Severability of Employment Restraints: The Wrong Way To Right Wrongs*, 77 ILL. B.J. 102, 103 (1988) (arguing that severability clauses should be deemed void).

211. See *Kempner Mobile Elecs., Inc. v. S.W. Bell Mobile Sys., LLC*, No. 02-C5403, 2003 U.S. Dist. LEXIS 3512, at *61 (N.D. Ill. Mar. 7, 2003) (collecting Illinois noncompete modification clause cases); *House of Vision, Inc. v. Hiyane*, 225 N.E.2d 21, 24 (Ill. 1967) (noting that a court should determine whether restraints originally imposed were so overbroad as to make modification inequitable); *Eichmann v. Nat'l Hosp. & Health Care Servs., Inc.*, 719 N.E.2d 1141, 1149 (Ill. App. Ct. 1st Dist. 1999) (finding that even where the parties have included a modification clause in the noncompete, a court should refuse to modify an unreasonable restrictive covenant where the degree of unreasonableness renders it unfair).

212. See *Pochopien v. Marshall, O'Toole, Gerstein, Murray & Borun*, 733 N.E.2d 401, 409 (Ill. App. Ct. 1st Dist. 2000) (finding that the failure to enforce restrictions against other employees who were not similarly situated did not constitute waiver); *Midwest Television, Inc. v. Oloffson*, 699 N.E.2d 230, 236-37 (Ill. App. Ct. 3d Dist. 1998) (finding that the past releases of employee noncompetes raised a question of fact defeating summary judgment on a waiver defense); *Williams & Montgomery*, 552 N.E.2d at 1105 (finding no waiver or estoppel where an employee failed to show that other employees had violated noncompetes).

213. See *Quality Carriers, Inc. v. MJK Distrib.*, No. 02-CV-0148-MJR, 2002 U.S. Dist. LEXIS 5700, at *8-*10 (S.D. Ill. Apr. 2, 2002) (quoting a noncompete agreement containing language stating that restrictions would survive termination of the relationship).

214. See *Graber v. Badegian*, 611 N.E.2d 1291, 1296 (Ill. App. Ct. 1st Dist. 1993) (reversing a trial court's ruling that a noncompete liquidated-damages clause precluded injunctive relief); *McDonagh v. Moss*, 565 N.E.2d 159, 160 (Ill. App. Ct. 1st Dist. 1990) (finding that a noncompete liquidated-damages clause did not preclude injunctive relief).

215. See *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 757 (7th Cir. 2002) (noting that contracting parties may specifically provide for prejudgment interest on amounts past due, thereby avoiding any "good faith" defense to a prejudgment interest claim); *Gen. Dynamics Corp. v. Zion State Bank & Trust Co.*, 427 N.E.2d 131, 134 (Ill. 1981) (recognizing a "good faith" exception to prejudgment interest claims under the Illinois Interest Act); see also 815 ILL. COMP. STAT. 205/2 (2002) (providing that a contract creditor is entitled to receive a five percent annual interest rate on all monies after they become due if they are being withheld by an unreasonable and vexatious delay of payment).

216. See *Rao v. Rao*, 718 F.2d 219, 224 (7th Cir. 1983) (finding that an employee who was terminated without cause and in bad faith was released from a noncompete agreement); *Bishop v. Lakeland Animal Hosp.*, 644 N.E.2d 33, 35 (Ill. App. Ct. 2d Dist. 1994) (holding that an employee who was terminated without cause, where his contract stated the employee could be terminated "for any cause," was released from a noncompete agreement); *Agrimerica, Inc. v. Mathes*, 524 N.E.2d 947 (Ill. App. Ct. 1st Dist. 1988) (holding that termination of an at-will employee did not release the employee from a noncompete). See generally Kenneth J. Vanko, "You're Fired! And Don't Forget Your Non-compete . . .": *The Enforceability of Restrictive*

close attention should be given to merger clauses addressing the relationship among employment, sale, and shareholder agreements required for the transaction.²¹⁷ Because all noncompete agreements are strictly construed, the parties should define any industry-specific terms that courts might later find ambiguous.²¹⁸

Illinois courts permit arbitrators to enforce noncompetes,²¹⁹ but arbitration can prove more trouble than it is worth, primarily because of the inability to join third parties, limitations on discovery, questions over arbitrability, and procedural quagmires.²²⁰ Fee and expense-

Covenants in Involuntary Discharge Cases, 1 DEPAUL BUS. & COMM. L.J. 1 (2002) (surveying cases addressing wrongful termination as a ground for releasing a noncompete).

217. See *Howard Johnson & Co. v. Feinstein*, 609 N.E.2d 930, 933-34 (Ill. App. Ct. 1st Dist. 1993) (holding that employee noncompete agreements, business sale agreements, and post-sale shareholder agreements related to different subjects and, therefore, a sale agreement "merger" clause stating that all prior agreements were superceded did not operate to supercede employee noncompete agreements executed two days before sale).

218. See *Marwaha v. Woodridge Clinic, S.C.*, 790 N.E.2d 974, 976 (Ill. App. Ct. 2d Dist. 2003) (holding that "termination of employment" referred to employment under an employment agreement and that the noncompete restriction began running once the agreement's term expired, even though the employee remained employed for an additional five years thereafter while parties unsuccessfully sought to negotiate a partnership agreement); *Joliet Med. Group Inc. v. Ensimplinger*, 787 N.E.2d 879, 881 (Ill. App. Ct. 3d Dist. 2003) (finding that a covenant that barred a physician from operating a "medical practice" did not prohibit the physician from treating his patients at a local hospital, as hospital treatment did not constitute "medical practice").

219. *Vascular & Gen. Surgical Assocs., Ltd. v. Loiterman*, 599 N.E.2d 1246, 1256 (Ill. App. Ct. 1st Dist. 1992) (affirming a trial court order confirming arbitral award of an injunction enforcing an employee noncompete covenant).

220. E.g., *Rosenblum v. Travelbyus.com Ltd.*, 299 F.3d 657, 664 (7th Cir. 2002) (finding that an arbitration clause in an employment agreement did not cover disputes arising under a separate acquisition agreement); *Salsitz v. Kreiss*, 761 N.E.2d 724, 730 (Ill. 2002) (discussing the appealability of an order compelling arbitration and whether participation in the arbitration proceedings waives one's right to later contest arbitrability); *Rauh v. Rockford Prods. Corp.*, 574 N.E.2d 636, 638 (Ill. 1991) (finding that an arbitrator properly upheld the plaintiff's employment dismissal on one ground, even though the defendant terminated the plaintiff on a different ground); *Donaldson, Lufkin & Jenrette Futures, Inc. v. Barr*, 530 N.E.2d 439, 445 (Ill. 1988) (holding that when a generic arbitration clause is used, questions over arbitrability are for the arbitrator to decide); *Acme-Wiley Holdings, Inc. v. Buck*, 799 N.E.2d 337, 343-44 (Ill. App. Ct. 1st Dist. 2003) (staying an arbitration on the ground that a settlement agreement without an arbitration clause superceded an employment agreement with an arbitration clause); *Dannewitz v. Equicredit Corp. of Am.*, 775 N.E.2d 189, 192 (Ill. App. Ct. 1st Dist. 2002) (finding that the assignee did not fall within the class of persons covered by an arbitration clause); *Bass v. SMG, Inc.*, 765 N.E.2d 1079, 1085 (Ill. App. Ct. 1st Dist. 2002) (holding that some claims were arbitrable while others were not); *Feldheim v. Sims*, 760 N.E.2d 123, 132 (Ill. App. Ct. 1st Dist. 2001) (holding that the defendant waived his right to arbitration by first pursuing a motion to dismiss on the merits in the trial court without demanding arbitration); *Nagle v. Nadelhoffer, Nagle, Kuhn, Mitchell, Moss & Saloga, P.C.*, 613 N.E.2d 331, 337-38 (Ill. App. Ct. 2d Dist. 1993) (holding that contract parties' claims under an employment agreement and separate stock redemption agreement were all arbitrable, even though the stock redemption agreement itself did not contain an arbitration clause, as both agreements concerned the same subject matter; a third party which did not sign the arbitration agreement could not be compelled to arbitrate any

shifting terms are additional items to consider.²²¹ In some instances forfeiture-for-competition rather than a standard noncompete agreement might also be an option to explore.²²² As with confidentiality agreements, choice of law and choice of forum clauses are potential components that courts will enforce if a sufficient connection exists with the chosen jurisdiction.²²³

claims); *Sawtelle v. Waddell & Reed, Inc.*, 754 N.Y.S.2d 264, 269 (App. Div. 2003) (vacating a \$25 million punitive damage arbitral award arising out of the smear campaign a former employer conducted against an ex-employee who joined a rival brokerage firm); see Scott Atlas, *Opening Statement: Have You Ever Tried To Make Up Your Mind—About Arbitration?*, LITIGATION, Fall 2002, at 1, 2 (noting a Public Citizen's report that no research has ever been performed to substantiate the claim that arbitration costs less than litigation); Steven E. Bizar & Paul D. Weiner, *Arbitration Is Not Always Quick: In Complex Cases, Careful Thought Is Needed Before Giving Up the Court Process*, NAT'L L.J., Nov. 17, 2003, at 23 (describing high cost, substantial delay, discovery restrictions, and other problems associated with arbitrating complex commercial cases); Charles H. Resnick, *To Arbitrate or Not To Arbitrate: Practical Tips on Business Arbitration*, 11 BUS. L. TODAY 36 (May-June 2002) (providing a general discussion of arbitration issues); Jerald S. Solovy & Robert L. Byman, *Arbitration Discovery*, NAT'L L.J., Sept. 8, 2003, at 24 (discussing the severe limits on discovery parties typically encounter in arbitration).

221. See *Gerow v. Rohm & Haas Co.*, 308 F.3d 721, 725 (7th Cir. 2002) (finding that a golden parachute fee-shifting provision, which required payment of an employee's fees even if he lost, could not be invoked to recover fees expended on an unsuccessful appeal); *Saltiel v. Olsen*, 426 N.E.2d 1204, 1206 (Ill. 1981) (discussing the American rule that each side bears its own fees absent a statute or contract to the contrary); *J.B. Esker & Sons, Inc. v. Cle-Pa's P'ship*, 757 N.E.2d 1271, 1280 (Ill. App. Ct. 5th Dist. 2001) (holding that the prevailing party was entitled to its attorneys' fees, per contract; expert's fees were awardable as "expense" under the contract); *Tomlinson v. Dartmoor Constr. Corp.*, 645 N.E.2d 376, 383 (Ill. App. Ct. 1st Dist. 1994) (holding that where a contract states that the "prevailing party" shall receive a fee award, a party is a "prevailing party" when a judgment is entered in its favor); *Bertuli v. Gaull*, 574 N.E.2d 1390, 1391 (Ill. App. Ct. 3d Dist. 1991) (finding that the contractual term "damages" did not include fees and costs).

222. See *Tatom v. Ameritech Corp.*, 305 F.3d 737, 745 (7th Cir. 2002) (enforcing an agreement calling for the forfeiture of stock options in the event of competition); *Torrence v. Hewitt Assoc.*, 493 N.E.2d 74, 78-79 (Ill. App. Ct. 1st Dist. 1986) (enforcing a partner's forfeiture-for-competition clause under employee noncompete standards); *Johnson v. Country Life Ins. Co.*, 300 N.E.2d 11, 15 (Ill. App. Ct. 4th Dist. 1973) (holding that an insurance agent's forfeiture-for-compensation clause was void under employee noncompete standards where the contract prohibited the agent from representing any other life insurer in any capacity in eleven states, on pain of renewal commission forfeiture, even though the agent had only worked in the Coles County, Illinois area).

223. See *Curtis 1000, Inc. v. Suess*, 24 F.3d 941, 948 (7th Cir. 1994) (ignoring a Delaware law selection clause in an employee noncompete where Delaware was simply the plaintiff's state of incorporation and otherwise had no relationship to the issues); *Sarnoff v. Am. Home Prods. Corp.*, 798 F.2d 1075, 1080-81 (7th Cir. 1986) (enforcing a New York law selection clause in a forfeiture-for-competition contract); *Fister/Warren v. Basins, Inc.*, 578 N.E.2d 37, 41 (Ill. App. Ct. 1st Dist. 1991) (upholding a noncompete choice-of-law clause designating Wyoming law as controlling). But see *Keener v. Convergys Corp.*, 342 F.3d 1264, 1268-69 (11th Cir. 2003) (holding an Ohio law selection clause void as against Georgia public policy, but further holding that the district court erred in enjoining Convergys from enforcing Keener's restrictive covenant anywhere outside of Georgia).

Finally, and most important, time, territory, and subject matter limitations should approximate the scope of the covenantee's proprietary interests that are subject to injury by virtue of the business relationship with the covenantor. If customer contacts are the sole proprietary interest, for instance, an activity covenant restraining the covenantor from soliciting or accepting customer business is usually more appropriate than a complete ban on competition.²²⁴ Similarly, if short-term trade secrets like cost data need to be protected, the covenant's duration should approximate the shelf-life of the secrets rather than some longer period. In terms of geographic scope, Illinois courts generally permit a restriction co-extensive with the area in which the covenantee does business, unless the covenantor has only served a narrow region.²²⁵

IV. COPYRIGHTS

The recent boom and bust of high technology firms revealed a substantial appetite for information-technology companies, many of which started small and quickly grew (before failing).²²⁶ These and other high-tech firms often revolve around computer programs, databases and Internet services.²²⁷ Such activities can implicate

224. See *Howard Johnson & Co. v. Feinstein*, 609 N.E.2d 930, 935 (Ill. App. Ct. 1st Dist. 1993) (upholding a noncompete provision that prohibited both solicitation and acceptance of business from clients of a former employer); *McRand v. Van Beelen*, 486 N.E.2d 1306, 1311 (Ill. App. Ct. 1st Dist. 1985) (upholding a no-acceptance-of-business clause in an employee noncompete).

225. See *Midwest Television, Inc. v. Oloffson*, 699 N.E.2d 230, 235 (Ill. App. Ct. 3d Dist. 1998) (finding that a restrictive covenant is reasonable if the restricted geographical area is coextensive with the employer's business territory); *George S. May Int'l Co. v. Int'l Profit Assocs.*, 628 N.E.2d 647, 655 (Ill. App. Ct. 1st Dist. 1993) (refusing injunctive relief where the covenant covered territories defendants never served).

226. See Mylene Mangalindan, *Larry Ellison's Sober Vision: Tech Industry Will Shrink, 1,000 Companies Will Fail, Predicts Oracle's Feisty Chief*, WALL ST. J., Apr. 8, 2003, at B1 (reporting Oracle CEO's predictions as to the future of the computer industry, to the effect that shakeouts and consolidations will result in fewer and larger companies in the traditional Industrial Revolution mode), available at 2003 WL-WSJ 3964140.

227. See, e.g., *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1168-69 (C.D. Cal. 2002) (discussing copyright infringement claims based upon magazine images published on the Internet); Lee Gomes, *Software Companies Flex Real Muscle in Search for Pirates*, WALL ST. J., Oct. 20, 2003, at B1 (describing copyright enforcement activities by the Business Software Alliance in bringing civil actions based upon revelations by ex-employees of infringers), available at 2003 WL-WSJ 3983086; Ethan Smith, *Can Copyright Be Saved?: New Ideas To Make Intellectual Property Work in the Digital Age*, WALL ST. J., Oct. 20, 2003, at R1 (describing new digital copyright notices permitting users to engage in activities that would otherwise amount to copyright infringement, and describing advances in digital rights management technology that limit the ability of users to copy), available at 2003 WL-WSJ 3983145.

copyright issues, as the high-profile file-sharing, DVD piracy, and Linux “freeware” cases vividly illustrate.²²⁸

A. *Scope of Copyright Protection*

Copyright protection in the United States traces back to the original Constitution itself; its historical antecedents go back still further.²²⁹ Copyright law does not protect ideas as such, but rather the expression of ideas in a work of authorship.²³⁰ For expression to be protectible it

228. See *Recording Indus. Ass'n v. Verizon Internet Servs., Inc.*, 351 F.3d 1229 (D.C. Cir. 2003) (finding that a subpoena may be issued only to an ISP engaged in storing, on its own servers, infringing material, and not to an ISP acting solely as a conduit for data transfer between two Internet users); *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 458 (2d Cir. 2001) (rejecting a First Amendment challenge to the Digital Millennium Copyright Act's “anti-circumvention” and “anti-trafficking” provisions); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1019 (9th Cir. 2001) (affirming a preliminary injunction shutting down Napster on copyright infringement grounds); *Metro-Goldwyn-Mayer Studios v. Grokster*, 259 F. Supp. 2d 1029, 1042–45 (C.D. Cal. 2003) (rejecting contributory infringement and vicarious infringement copyright claims against Grokster and StreamCast Networks based on their lack of control over infringing uses of their peer-to-peer file sharing software); *DVD Copy Control Ass'n v. Bunner*, 75 P.3d 1, 19 (Cal. 2003) (rejecting a First Amendment challenge to an injunction protecting DVD encryption trade secrets); *Pavlovich v. Superior Court*, 58 P.3d 2, 5 (Cal. 2002) (discussing at length the DVD Copy Control Association's efforts to protect digital versatile disk media against hackers, in the context of personal jurisdiction for trade secret misappropriation); David Hechler & Aaron Lauchheimer, *Paying To Play: Industry Spreads Subpoenas and Fear over Music Copying*, NAT'L L.J., Aug. 11, 2003, at 1 (reporting waves of subpoenas and the expectation of thousands of lawsuits over sharing of music files via the Internet); Donald W. Muirhead, *Open Source Software Battles: The SCO Group Claims That the Use of Linux by Anyone Without Its License Violates Its IP Rights*, NAT'L L.J., Oct. 27, 2003, at S1 (analyzing the SCO/IBM litigation's implications for open source licensing); William M. Bulkeley, *Linux Lawsuit Could Undercut Other “Freeware,”* WALL ST. J., Aug. 14, 2003 at B1 (reporting how SCO Group's \$3 billion copyright infringement lawsuit, including its challenge of the General Public License underpinning most of the free-software industry, could imperil the free software movement), available at 2003 WL-WSJ 3976938; Jefferson Graham, *Four Students Fined \$60,000 for Music-sharing Networks; Settlement Part of Record Industry Battle Against File Swapping*, CHI. SUN-TIMES, May 3, 2003, at 6 (reporting a settlement of direct infringement copyright claims against college students engaged in music sharing via computers), available at 2003 WL 9551271; Ann Grimes, *Venture Firm Is Sued on Napster Role*, WALL ST. J., Apr. 23, 2003, at C5 (reporting on a copyright contributory infringement action brought against venture capital firm Hummer Winblad Venture Partners over its investment in Napster), available at 2003 WL-WSJ 3965636.

229. See *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 974 (4th Cir. 1990) (reviewing the history of copyright laws in England and the United States); see also JOSEPH LOEWENSTEIN, *THE AUTHOR'S DUE: PRINTING AND THE PREHISTORY OF COPYRIGHT* 47 (2002) (examining copyright history and the regulatory regime before the passage of the Statute of Anne in 1710); MARK ROSE, *AUTHORS AND OWNERS: THE INVENTION OF COPYRIGHT* 235–37 (1993) (recounting battles among booksellers over whether copyright was perpetual following the passage of the Statute of Anne in 1710).

230. See 17 U.S.C. § 102(b) (2000) (“In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in any such work.”); *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539,

must have only modest originality; novelty in the patent sense is not required.²³¹ Copyright protection attaches to a work of authorship once it is fixed in a tangible medium of expression from which the expression can be perceived, reproduced or otherwise communicated.²³² Books, movies, and computer programs are examples of copyrightable material.²³³ Ornamental aspects of useful articles,²³⁴ building designs,²³⁵ and architectural plans, drawings, and models can also be protected,²³⁶ as can compilations²³⁷ and collective works.²³⁸

While the original selection and arrangement of raw information can be protectible as a compilation, mere “sweat of the brow” in collecting and compiling data is not sufficient under the Supreme Court’s copyright decision in *Feist Publications, Inc. v. Rural Telephone Service Co.*²³⁹ Where copyright protection for compilations is unavailable due to *Feist Publications*, relief has to be found, if at all, under common law doctrines. If the compilation has been kept secret

547 (1985) (“The copyright is limited to those aspects of the work—termed ‘expression’—that display the stamp of the author’s originality.”); *Assessment Techs. of Wis., LLC v. Wire Data, Inc.*, 350 F.3d 640, 643 (7th Cir. 2003) (“[I]f there is only one way in which to express an idea—for example, alphabetical order for the names in a phone book—then form and idea merge, and in that case since an idea cannot be copyrighted the copying of the form is not an infringement.”).

231. See *Wire Data*, 350 F.3d at 643 (observing that the Copyright Act “requires only enough originality to enable a work to be distinguished from similar works that are in the public domain”); *Lamps Plus, Inc. v. Seattle Lighting Fixture Co.*, 345 F.3d 1140, 1147 (9th Cir. 2003) (finding that a table lamp design, consisting of a compilation of other well-known designs, lacked sufficient originality, rendering copyright registration invalid); see also *Baker v. Selden*, 101 U.S. 99, 102–03 (1880) (discussing originality of a book setting forth a bookkeeping system).

232. 17 U.S.C. § 102(a); see also Jane C. Ginsburg, *The Concept of Authorship in Comparative Copyright Law*, 52 DEPAUL L. REV. 1063 (2003) (examining the legal definition of “authorship” under United States and foreign laws).

233. See, e.g., *Jacobsen v. Deseret Book Co.*, 287 F.3d 936, 940 (10th Cir. 2002) (discussing a book titled *Who Refused to Die*); *Syntek Semiconductor Co. v. Microchip Tech., Inc.*, 285 F.3d 857 (9th Cir. 2002) (discussing a computer program), *amended by* 307 F.3d 775, 779 (9th Cir. 2002); *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1259 (11th Cir. 2001) (discussing *Gone With the Wind*); *qad. inc. v. ALN Assocs.*, 974 F.2d 834, 835–36 (7th Cir. 1992) (discussing a computer program); Steve Ellman, *\$20 Million Award to Newsletter: E-mail Distribution by Legg Mason Is Held To Be a Copyright Violation*, NAT’L L.J., Oct. 20, 2003, at 8 (reporting a \$20 million jury verdict against investment banking firm Legg Mason for illegally distributing plaintiff’s stock market newsletter to more than 1,000 Legg Mason employees).

234. 17 U.S.C. § 101 (defining “ornamental aspects of useful works”).

235. *Id.* § 120 (setting forth protection for certain building designs).

236. *Id.* § 101 (defining “architectural work”).

237. *Id.* (defining “compilation”).

238. *Id.* (defining “collective works”); *id.* § 201(c) (setting forth reproduction and distribution privileges accorded to collective work copyright owners); *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 506 (2001) (holding that print and electronic publishers infringed on copyrights of free-lance authors when publishers placed authors’ articles in electronic data bases).

239. *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 359–60 (1991).

by virtue of a fiduciary or contractual obligation, trade secret or contract law could supply a remedy because these claims require proof of an “extra element” and thus are not “equivalent” to a copyright action, thereby avoiding preemption under section 301(a) of the Copyright Act.²⁴⁰ If the compilation has been disclosed publicly and no contract exists, however, the owner might have to rely upon the common law torts of misappropriation,²⁴¹ trespass²⁴² or conversion,²⁴³ which may not escape Copyright Act preemption.²⁴⁴ Common law copyright actions, on the other hand, are plainly preempted by section 301(a).²⁴⁵

240. See *Balt. Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 678 (7th Cir. 1986) (holding that there is no preemption by the Copyright Act if a state law claim requires an extra element beyond those required to show copyright infringement); *Higher Gear Group, Inc. v. Rockenbach Chevrolet Sales, Inc.*, 223 F. Supp. 2d 953, 957–58 (N.D. Ill. 2002) (holding that a breach of a confidential relationship claim under the ITSA was not preempted by the Copyright Act); *Too, Inc. v. Kohl's Dep't Stores, Inc.*, 210 F. Supp. 2d 402, 405 (S.D.N.Y. 2002) (holding that common law claims of “passing off” were not preempted by the Copyright Act).

241. See *Ty, Inc. v. Perryman*, 306 F.3d 509, 512 (7th Cir. 2002) (commenting in passing in an Illinois state-law trademark antidilution action that the tort of misappropriation might cover certain forms of free riding); *NBA v. Motorola, Inc.*, 105 F.3d 841, 853 (2d Cir. 1997) (setting forth factors that allow the tort of misappropriation claim to escape section 301(a) preemption); *Bd. of Trade v. Dow Jones & Co., Inc.*, 456 N.E.2d 84, 90 (Ill. 1983) (holding that the common law tort of misappropriation protected stock index ownership rights but no discussion of section 301(a) preemption); Bruce P. Keller, *Condemned To Repeat the Past: The Reemergence of Misappropriation and Other Common Law Theories of Protection for Intellectual Property*, 11 HARV. J.L. & TECH. 401, 412–18 (1998) (discussing the uncertain status of the tort of misappropriation in light of section 301(a) and the new life this tort may receive as a result of the Second Circuit's *NBA v. Motorola* decision).

242. See *Pearl Invs., LLC v. Standard I/O, Inc.*, 257 F. Supp. 2d 326, 354 (D. Me. 2003) (noting that a trespass to chattels action for invasion of a computer requires a showing of impairment to the computer's condition, quality, or value); *Intel Corp. v. Hamidi*, 71 P.3d 296, 302–05 (Cal. 2003) (rejecting the tort of trespass as a basis for permanent injunctive relief barring an ex-employee from flooding a former employer's e-mail system with unwanted messages).

243. See *Kremen v. Cohen*, 337 F.3d 1024, 1033–35 (9th Cir. 2003) (recognizing a common-law conversion cause of action under California law and affirming a \$40 million judgment where the Internet registrar re-assigned the plaintiff's “sex.com” domain name to another based on a forged letter).

244. See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453–54 (7th Cir. 1996) (noting that section 301(a) of the Copyright Act preempts common law claims for data compilations even if *Feist Publications* precludes copyright protection; “shrinkwrap” license contract claim supplied requisite “extra element” to escape preemption); *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 271 F. Supp. 2d 737, 755–56 (D. Md. 2003) (holding that the Copyright Act preempted stock market newsletter publisher's unfair competition claim based on subscriber's intercom-broadcast of publisher's numbers).

245. See *Fenton McHugh Prods., Inc. v. WGN Cont'l Prods. Co.*, 434 N.E.2d 537, 541 n.3 (Ill. App. Ct. 1st Dist. 1982) (acknowledging that the common law copyright claim therein would have been preempted by the Copyright Act had the controversy arisen after January 1, 1978).

Because of these difficulties, database creators have sought legislative fixes, thus far without success.²⁴⁶

The owner of a copyright has five exclusive rights under section 106 of the Copyright Act. In addition to controlling public performance and public display rights for certain works like music and drama,²⁴⁷ the owner of a copyright enjoys the exclusive rights to reproduce the copyrighted work and to distribute copies of the work to the public by sale or by other transfer of ownership, or by rental, lease, or lending.²⁴⁸ An author's copyrights in the underlying work also include the exclusive right to authorize derivative works, sometimes referred to as the right of adaptation²⁴⁹—for example, a book author must give permission before someone else can make a movie based upon the book. These exclusive reproduction, distribution, and derivative work rights apply to all copyrighted works.

B. Copyright Registration

Registration with the Copyright Office is required to enforce copyrights in federal court.²⁵⁰ Although an author can register a work after infringement has occurred, statutory damages and attorneys' fees will not be available.²⁵¹ Hence, registration at the earliest possible date is a good idea. Registration involves only a minor form and a modest fee, plus deposit of copies with the Copyright Office.²⁵² Special deposit rules apply to protect the secrecy of computer programs, databases, and

246. See generally Jonathan Band and Makoto Kono, *The Database Protection Debate in the 106th Congress*, 62 OHIO ST. L.J. 869 (2001) (reviewing database protection legislation proposals).

247. 17 U.S.C. § 106(4)–(5) (2000).

248. *Id.* § 106(1), (3); see also *Assessment Techs. of Wis., LLC v. Wire Data, Inc.*, 350 F.3d 640 (7th Cir. 2003) (noting that “[a] derivative work is a translation or other transformation of an original work and must itself contain minimum originality for the same evidentiary reason . . . that a copyrighted work be original”); *Kennedy v. Nat’l Juvenile Det. Ass’n*, 187 F.3d 690, 694 (7th Cir. 1999) (setting forth a copyright owner’s exclusive rights under § 106).

249. 17 U.S.C. § 106(2). See generally *Stewart v. Abend*, 495 U.S. 207 (1990) (discussing the motion picture *Rear Window*, which was based upon the magazine article *It Had To Be Murder*).

250. 17 U.S.C. § 411(a); see also *Salerno v. City Univ.*, 191 F. Supp. 2d 352, 356 (S.D.N.Y. 2001) (holding that filing of a copyright application, deposit, and fee with the Register of Copyrights, pursuant to 17 U.S.C. § 411(a), was sufficient to establish federal court jurisdiction).

251. 17 U.S.C. § 412; see also *Evans Newton, Inc. v. Chi. Sys. Software*, 793 F.2d 889, 897 (7th Cir. 1986) (noting the unavailability of statutory damages and attorneys’ fees for pre-registration infringement).

252. 17 U.S.C. § 408; see also *Coles v. Wonder*, 283 F.3d 798, 801–02 (6th Cir. 2002) (noting that a bona fide copy is required for registration, and that “reconstruction” based upon memory is not sufficient).

unpublished compilations.²⁵³ Use of copyright notices, such as the “©” symbol, has been voluntary rather than mandatory in the United States since March 1, 1989, though including a notice offers some minor advantages in certain circumstances, such as showing notice for purposes of enhanced statutory damages.²⁵⁴

Registered material eventually becomes part of the public domain after expiration of the limited copyright term, but the term can be very lengthy, in some instances 100 years or longer.²⁵⁵ Material can also fall into the public domain for failure to follow copyright formalities.²⁵⁶ The Visual Artists Rights Act of 1990,²⁵⁷ which has been characterized as “a stepchild of our copyright laws,”²⁵⁸ does not require registration.²⁵⁹ Although the Copyright Office handles registration of mask works pursuant to the Semiconductor Chip Protection Act of 1984,²⁶⁰ chip protection under this statute reflects a unique body of law, albeit one that borrows heavily from copyright law and to a lesser extent from patent law.²⁶¹ The Digital Millennium Copyright

253. See *Xoom, Inc. v. Imageline, Inc.*, 323 F.3d 279, 284–85 (4th Cir. 2003) (discussing the need for compliance with Circular 61 when registering computer programs with the Copyright Office); *Syntek Semiconductor Co., Ltd. v. Microchip Tech., Inc.*, 307 F.3d 775, 779–80 (9th Cir. 2002) (discussing in detail the deposit rules for computer programs under 37 C.F.R. § 202.20(c)(2)(vii)(A)); *Cinebase Software, Inc. v. Media Guaranty Trust, Inc.*, No. C98-1100 FMS, 1998 U.S. Dist. LEXIS 15007, at *29 (N.D. Cal. 1998) (noting that the plaintiff’s deposit of fifty pages of source code at the Copyright Office did not defeat the plaintiff’s trade secret claims as to the remaining portions of the source code or as to the architecture as a whole).

254. See 17 U.S.C. § 401(d) (stating that no weight should be given to an innocent infringement/damage mitigation defense if the infringer copied material bearing a copyright notice).

255. See 17 U.S.C. § 302(a), (c); *Eldred v. Ashcroft*, 537 U.S. 186, 195–96 (2003) (upholding Copyright Act amendments extending copyrights to the life of the author plus seventy years, or in the case of anonymous works, pseudonym works, and works made for hire, ninety-five years from publication or 120 years from creation, whichever comes first). See generally Edward C. Walterscheid, *Defining the Patent and Copyright Term: Term Limits and the Intellectual Property Clause*, 7 J. INTELL. PROP. L. 315, 381–88 (2000) (exploring the history of limited copyright terms); Anick Jesdanun, *Copyright Ruling Didn’t Go by the Books, Some Say*, CHI. SUN-TIMES, Jan. 27, 2003, at 52 (describing criticism of the Supreme Court’s decision in *Eldred*), available at 2003 WL 9538824.

256. See *Bell v. E. Davis Int’l, Inc.*, 197 F. Supp. 2d 449, 459–60 (W.D.N.C. 2002) (noting a defendant’s failure to correctly identify the date of creation and failure to acknowledge a co-author in a copyright registration application).

257. 17 U.S.C. § 101 (defining a “work of visual art”); *id.* § 106A (2000) (defining rights of attribution and integrity).

258. See *Martin v. City of Indianapolis*, 192 F.3d 608, 611–12 (7th Cir. 1999) (noting that VARA protects art works of “recognized stature”).

259. 17 U.S.C. § 411(a).

260. *Id.* §§ 901–914.

261. See *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1564–65 (Fed. Cir. 1992) (discussing the “substantial similarity” liability standard and the specialized “reverse

Act²⁶² does not require registration of the protected work as part of its effort to combat copyright piracy by those seeking to penetrate digital walls such as encryption codes or password protections.²⁶³

C. Copyright Infringement

Copyright infringement exists when any of the rights granted under section 106 are violated, such as the exclusive right to distribute or authorize distribution of a work.²⁶⁴ To establish copyright infringement in a straightforward copying case, a plaintiff must prove two elements: (1) ownership of a valid copyright and (2) copying of constituent elements of the work that are original.²⁶⁵ Certificates of registration provide prima facie evidence of the validity of the copyright and of the facts stated in the certificate.²⁶⁶ Given that direct evidence of copying is usually unavailable, copying may be inferred where the defendant had access to the copyrighted work and the accused work is substantially similar to the copyrighted work. As a practical matter, if the two works are so similar as to make it highly probable that the later one is a copy of the earlier one, proof of access need not be shown on the ground that the later work's creator must have had access to the original. Yet, the inference of copying that is drawn from proof of access and substantial similarity can be rebutted if the defendant shows that it independently created the allegedly infringing work or copied it from some source

engineering" defense, requiring innovation and improvement to show originality, in mask work cases under the Semiconductor Chip Protection Act).

262. 17 U.S.C. §§ 512, 1201–1205.

263. See *Pearl Invs., LLC v. Standard I/O, Inc.*, 257 F. Supp. 2d 326, 349–350 (D. Me. 2003) (summarizing the plaintiff's argument that the Digital Millennium Copyright Act's anticircumvention prohibitions were violated by an unauthorized connection, or "tunnel," the defendant installed to access the plaintiff's computer); Steve Seidenberg, *Copyright Owners Sue Competitors: Suits Attempt To Control Digital Spare Parts*, NAT'L L.J., Feb. 3, 2003, at A13 (discussing *Lexmark International v. Static Control Components*, 253 F. Supp. 2d 943 (E.D. Ky. 2002) and *Chamberlain Group v. Skylink Technologies*, No. 02-C-6376, 2003 WL 22038638 (N.D. Ill. 2003), two Digital Millennium Copyright Act actions testing whether businesses can use copyrighted software to prevent customers from using third-party add-ons or replacement parts).

264. See 17 U.S.C. § 501(a) (2000 & West Supp. 2003); see also *Softman Prods. Co. v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075, 1082–83 (C.D. Cal. 2001) (rejecting a distribution right infringement claim based upon first sale doctrine).

265. See *Feist Publ'ns v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 361 (1991) (setting forth the copyright infringement test); *Susan Wakeen Doll Co. v. Ashton-Drake Galleries*, 272 F.3d 441, 450 (7th Cir. 2001) (same).

266. See 17 U.S.C. § 410(c) (2000).

other than the plaintiff's work.²⁶⁷ Fair use and scenes a faire are also defenses;²⁶⁸ copyright misuse probably is not.²⁶⁹

Assuming registration precedes infringement, available relief under the Copyright Act can include the infringer's profits or statutory damages,²⁷⁰ as well as injunctive relief and attorneys' fees,²⁷¹ though a

267. See *Mazer v. Stein*, 347 U.S. 201, 217–18 (1954) (noting that copyright infringement requires copying); *Susan Wakeen Doll Co.*, 272 F.3d at 450–51 (noting that the defendant had access to the plaintiff's copyrighted doll in affirming the infringement judgment); *Ty, Inc. v. GMA Accessories, Inc.*, 132 F.3d 1167, 1169–70 (7th Cir. 1997) (noting that striking similarity by itself can give rise to an inference of access); 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.11[D], at 12–207 (2001).

268. See 17 U.S.C. § 107 (codifying the fair use defense allowing use of copyrighted work for purposes such as criticism, comment, news reporting, teaching, scholarship or research); see also *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 499 (2001) (discussing fair use); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579–80 (1994) (discussing a parody as fair use); *Assessment Techs. of Wis., LLC v. Wire Data, Inc.*, 350 F.3d 640, 651–52 (7th Cir. 2003) (recognizing fair use defense for “intermediate copying” of software); *Ty, Inc. v. Publ'ns Int'l*, 292 F.3d 512, 515 (7th Cir. 2002) (discussing fair use); *Sony Computer Entm't v. Connectix Corp.*, 203 F.3d 596, 603–04 (9th Cir. 2000) (finding that preparation of intermediate copies to reverse engineer software constitutes fair use); *Reed-Union Corp. v. Turtle Wax, Inc.*, 77 F.3d 909, 913–14 (7th Cir. 1996) (discussing the application of the *scenes a faire* doctrine); *Sega Enters. v. Accolade, Inc.*, 977 F.2d 1510, 1520–28 (9th Cir. 1992) (discussing fair use); *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 843–44 (Fed. Cir. 1992) (discussing fair use); *Atari, Inc. v. N. Am. Phillips Consumer Elecs. Corp.*, 672 F.2d 607, 616 (7th Cir. 1982) (describing how “scenes a faire refers to incidents, characters or settings which are as a practical matter indispensable, or at least standard, in the treatment of a given topic” (citations omitted)). See generally Richard A. Posner, *When Is Parody Fair Use?*, 21 J. LEG. STUD. 67 (1992) (discussing the relationship between borrowed and new elements for fair use purposes).

269. See *Wire Data*, 350 F.3d at 657–58 (reviewing the copyright misuse defense without deciding its propriety); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026–27 (9th Cir. 2001) (approving the copyright misuse defense); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 792–95 (5th Cir. 1999) (approving the copyright misuse defense); *Practice Mgmt. Info. Corp. v. AMA*, 121 F.3d 516, 520 (9th Cir. 1997) (recognizing the copyright misuse defense); *DSC Communications Corp. v. DGI Techs., Inc.*, 81 F.3d 597, 601 (5th Cir. 1996) (recognizing the copyright misuse defense); *Reed-Union Corp.*, 77 F.3d at 913 (questioning but not deciding the propriety of the copyright misuse defense); *qad. inc. v. ALN Assocs., Inc.*, 974 F.2d 834, 837 (7th Cir. 1992) (avoiding the resolution of a copyright misuse defense on appellate jurisdiction grounds); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976–77 (4th Cir. 1990) (recognizing the copyright misuse defense based upon a patent misuse analogy); Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 HARV. J.L. & PUB. POL'Y 108 (1990) (arguing that intellectual property rights do not implicate monopoly laws).

270. 17 U.S.C. § 504(b)–(c) (discussing infringer's profits and statutory damages); see *Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390, 400–01 (1940) (allowing a plaintiff to recover an infringer's actual profits); *Xoom, Inc. v. Imageline, Inc.*, 323 F.3d 279, 286 (4th Cir. 2003) (holding that collective work registration gave rise to only one award of statutory damages, as opposed to multiple awards based upon copyrightable components); *Leigh v. Engle*, 727 F.2d 113, 138 (7th Cir. 1984) (holding that a copyright owner's entitlement to recover an accused infringer's profit, if warranted, is limited to profits flowing from the infringing activities).

271. See 17 U.S.C. § 502 (discussing injunctions); *id.* § 505 (describing costs and attorneys' fees); *Fogerty v. Fantasy*, 510 U.S. 517, 534–35 (1994) (noting that a fee award should be based upon such factors as frivolousness, motivation, objective unreasonableness, and the need to

copyright owner victimized by infringement can pursue actual damages if these seem preferable.²⁷² The Copyright Act does not explicitly authorize prejudgment interest, and cases outside the Seventh Circuit Court of Appeals do not agree entirely on its availability. Nevertheless, the Seventh Circuit recently held that prejudgment interest should be presumptively available for copyright infringement claims,²⁷³ a holding consistent with its long-standing view that prejudgment interest should be presumptively available to victims of all federal law violations.²⁷⁴

Of these remedies, statutory damages are often the most important.²⁷⁵ Statutory damages generally fall in the range of \$500 to \$20,000 for each copyrighted work infringed, but the court can increase the award to \$150,000 per work if infringement was willful.²⁷⁶ Direct infringers and contributory infringers face liability, which is why notice letters are sent to both potential infringers²⁷⁷ and third parties dealing with them.²⁷⁸ Courts are also authorized to issue ex parte seizure orders²⁷⁹ and impoundment and destruction orders²⁸⁰ in copyright cases.

advance considerations of compensation and deterrence); *Gonzales v. Transfer Techs., Inc.*, 301 F.3d 608, 609 (7th Cir. 2002) (holding that a prevailing party in a copyright case in which monetary stakes are small should have a presumptive entitlement to an award of attorneys' fees).

272. See 17 U.S.C. § 504(b) (defining actual damages); *Taylor v. Meirick*, 712 F.2d 1112, 1120 (7th Cir. 1983) (holding that copyright law allows a copyright owner to recover his actual damages and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages).

273. *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 572–73 (7th Cir. 2003) (holding that a prejudgment interest award was proper in light of the jury's finding of willful copyright infringement).

274. See *Gorenstein Enters. v. Quality Care-USA, Inc.*, 874 F.2d 431, 436 (7th Cir. 1989) (holding as much in a trademark action).

275. See *Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc.*, 259 F.3d 1186, 1194–98 (9th Cir. 2001) (affirming a \$31 million in statutory damages under the Copyright Act, as well as \$722,000 in fees).

276. 17 U.S.C. § 504(c)(2).

277. See *Susan Wakeen Doll Co. v. Ashton-Drake Galleries*, 272 F.3d 441, 446 (7th Cir. 2001) (discussing a notice letter sent to a potential infringer).

278. See *Janmark, Inc. v. Reidy*, 132 F.3d 1200, 1202 (7th Cir. 1997) (discussing a tortious interference claim based on contributory copyright infringement threats to customers of an infringer); *P. Kaufmann, Inc. v. Americraft Fabrics, Inc.*, 232 F. Supp. 2d 220, 224–25 (S.D.N.Y. 2002) (deciding that sending notice letters did not constitute tortious interference with contract).

279. See *First Tech. Safety Sys., Inc. v. Depinet*, 11 F.3d 641, 652 (6th Cir. 1993) (reversing an ex parte search and seizure order that failed to comply with Rule 65 injunctive relief procedural standards).

280. 17 U.S.C. § 503(a)–(b); see *Evans Newton, Inc. v. Chi. Sys. Software*, 793 F.2d 889, 895–96 (7th Cir. 1986) (affirming an injunction order requiring defendant to deliver up all infringing articles for destruction).

D. Copyright Ownership

From a small business perspective, one of the most important organizational questions is also one of the most fundamental: who owns the copyright? This issue arises most often with respect to oral partnerships and joint authors. The Copyright Act contains an unusually strong statute of frauds designed to enhance the marketability of title.²⁸¹ Thus, oral partnership claims and associated estoppel theories are likely to fare poorly in title disputes.²⁸² Joint authorship assertions also will prove unavailing if a person has merely supplied direction or ideas; a person claiming joint authorship actually must have translated the idea into a fixed, tangible expression.²⁸³ Assignments can also present ownership problems,²⁸⁴ as can security interests in unregistered copyrights.²⁸⁵

Another common dispute concerns employee-author ownership.²⁸⁶ Under the employee prong of the “work for hire” doctrine, a work prepared by an employee within the scope of his or her employment belongs to the employer.²⁸⁷ The scope of an employee’s duties for these purposes should be spelled out in a contract, as controversies can

281. See *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 556–57 (9th Cir. 1990) (noting that section 204 of the Copyright Act enhances predictability and certainty of copyright ownership, “Congress’ paramount goal” when it revised the Copyright Act in 1976).

282. E.g., *Konigsberg Int’l Inc. v. Rice*, 16 F.3d 355, 358 (9th Cir. 1994) (rejecting an oral partnership claim over copyright title); *Brooks v. Bates*, 781 F. Supp. 202, 205–06 (S.D.N.Y. 1991) (holding that a computer program written before the corporation formed belonged to the author-shareholder, not the corporation).

283. See 17 U.S.C. § 101 (defining “joint work”); *id.* § 201(a) (noting that joint work authors are co-owners of the copyright in the work); see also *Erickson v. Trinity Theatre, Inc.*, 13 F.3d 1061, 1068 (7th Cir. 1994) (noting that copyright co-owners each have an independent right to use and license the copyright but must account to fellow owners for any profit).

284. See generally *Latin Am. Music Co. v. Archdiocese of San Juan*, 194 F. Supp. 2d 30 (D. P.R. 2001) (discussing throughout the implications of failure to record copyright transfers with the Register of Copyrights).

285. See *In re World Auxiliary Power Co.*, 303 F.3d 1120, 1131 (9th Cir. 2002) (holding that state law, rather than the Copyright Act, governed perfection and priority in unregistered copyrights).

286. *Snapp v. United States*, 444 U.S. 507, 510–11 (1980) (holding that the Central Intelligence Agency had an enforceable contract permitting it to bar an employee from publishing an exposé). See generally FRANK SNEPP, *IRREPARABLE HARM: A FIRSTHAND ACCOUNT OF HOW ONE AGENT TOOK ON THE CIA IN AN EPIC BATTLE OVER SECRECY & FREE SPEECH* (1999) (offering Frank Snapp’s version of events leading up to the Supreme Court’s decision against him).

287. See 17 U.S.C. § 201(b); *Estate of Hogarth v. Edgar Rice Burroughs, Inc.*, 342 F.3d 149 (2d Cir. 2003) (noting that under the 1909 Copyright Act, “work made for hire” was left undefined).

arise with respect to outside or casual activities by employees.²⁸⁸ Fact-intensive inquiries also can arise with respect to whether the author was an “employee” or an independent contractor, thereby triggering analysis of multiple factors under the Supreme Court’s decision in *Community for Creative Non-Violence v. Reid*.²⁸⁹ If the parties for some reason intend the employee-author to be the owner, their written agreement should say so.²⁹⁰ Of course, all of this assumes that an employee, as a factual matter, is the author in the first instance²⁹¹ and that the employer, as a practical matter, no longer needs the employee’s cooperation in developing or revising the work—cooperation that should not be expected in the event of a dispute.²⁹²

The work-for-hire doctrine has a second prong dealing with independent contractors. If the work falls within one of nine statutorily specified categories,²⁹³ and if a work-for-hire signed writing has been obtained from the independent contractor, then copyright ownership will vest in the hiring party. However, both conditions must be satisfied or the independent contractor will retain title.²⁹⁴ If both are not met, the

288. See *Avtec Sys., Inc. v. Peiffer*, No. 94-2364, 1995 U.S. App. LEXIS 25901 (4th Cir. Sept. 13, 1995) (holding that an employee owned software he wrote on his own time, even though it related to his employer’s business); *Morris v. Castle Rock Entm’t, Inc.*, 246 F. Supp. 2d 290, 294 (S.D.N.Y. 2003) (noting that the hiring party’s breach of contract did not operate to rescind the independent contractor’s grant of copyright title under the “work for hire” doctrine).

289. *Comty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739–41 (1989) (adopting the common law agency test for work-for-hire disputes); see also *Evans Newton, Inc. v. Chi. Sys. Software*, 793 F.2d 889, 894–95 (7th Cir. 1986) (holding that a written contract granted copyright title to the plaintiff with respect to the defendant-independent contractor’s software code and manuals prepared at the plaintiff’s request and under the plaintiff’s direction); *Alcatel USA, Inc. v. Cisco Sys., Inc.*, 239 F. Supp. 2d 645, 657–59 (E.D. Tex. 2002) (rejecting a hiring party’s copyright title claims under employee “work for hire” and 17 U.S.C. § 204(a) signed writing theories).

290. See *Dispatch Automation, Inc. v. Richards*, 280 F.3d 1116, 117–19 (7th Cir. 2002) (holding that a written agreement gave computer program copyright ownership to the employee-founder, and all subsequent “developments” also belonged to the employee pursuant to the contract terms).

291. See *Queenie, Ltd. v. Nygard Int’l*, 204 F. Supp. 2d 601, 603–04, 609 (S.D.N.Y. 2002) (awarding \$1.5 million in punitive damages, as well as \$221,000 in fees and \$40,000 in costs, where an ex-employee of the plaintiff testified that she did not create the fabric designs in issue, contrary to her former employer’s testimony and Copyright Office filings).

292. See *Disciplined Inv. Advisors, Inc. v. Schweih*, 650 N.E.2d 578, 583 (Ill. App. Ct. 1st Dist. 1995) (reviewing a company valuation dispute in which the company’s value depended primarily on the willingness of the defendants to modify and update trading software).

293. See 17 U.S.C. § 101(2) (2000) (specifying nine categories of specially commissioned works: (1) contribution to a collective work, (2) motion picture or other audiovisual work, (3) translation, (4) supplementary work, (5) compilation, (6) instructional text, (7) test, (8) answer material for a test, or (9) atlas).

294. See *Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410, 412–13 (7th Cir. 1992) (noting that the ownership of a specially commissioned work was not transferred by an

hiring party needs a signed writing complying with § 204(a) in order to obtain title.²⁹⁵

Copyright title rules can be counterintuitive, as exemplified by *Brooks v. Bates*.²⁹⁶ The parties there formed a two-man corporation, with one putting up the money and the other contributing his previously written software.²⁹⁷ The software author, however, never executed a formal assignment transferring title for the software to the new corporation.²⁹⁸ The business partners later divorced, and the money partner learned a hard lesson: ownership of the key software remained with the departing software author because of the lack of a written assignment, as the fundamental rule is that ownership vests in the initial author.²⁹⁹

Derivative works present another area rife with potential ownership disputes. In a typical derivative-work scenario, the original or underlying-work author grants a derivative-work license to another. This can lead to problems between the underlying-work author and the derivative-work author, who may end up having unilateral veto rights over each other's works, as the author of the derivative work ordinarily acquires copyrights in the derivative work itself. Such derivative-work ownership claims were pressed in *Liu v. Price Waterhouse LLP*, in which Price Waterhouse granted a derivative-work license, and delivered its source code to an outsource programming firm in China.³⁰⁰ The Chinese firm came up with a faster version of the software, and the parties then disputed title to the improved software.³⁰¹ The Seventh

independent contractor, as both the independent contractor and the plaintiff hiring party had not signed a written statement and, in any event, the independent contractor already had transferred ownership to a third party before executing the signed writing with the plaintiff hiring party).

295. See 17 U.S.C. § 201(d) (noting that copyright ownership may be transferred in whole or in part by any means of conveyance); *id.* § 204(a) (stating that a transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance or a note or memorandum of the transfer is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent); see also *Billy-Bob Teeth, Inc. v. Novelty, Inc.*, 329 F.3d 586, 591–93 (7th Cir. 2003) (holding that an author can ratify an oral transfer by a subsequent writing, and a third party infringer has no standing to object so long as the copyright owner and transferee agree on their transfer); *Pearl Invs., LLC v. Standard I/O, Inc.*, 257 F. Supp. 2d 326, 351–52 (D. Me. 2003) (finding a question of fact as to whether an intellectual property assignment provision in a nondisclosure agreement covered an independent contractor/software writer's trading program).

296. *Brooks v. Bates*, 781 F. Supp. 202 (S.D.N.Y. 1991).

297. *Id.* at 204.

298. *Id.* at 205.

299. See 17 U.S.C. § 201(a).

300. *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 754–55 (7th Cir. 2002) (noting that a license may prevent a derivative-work author from claiming copyright).

301. *Id.* at 751–52.

Circuit Court of Appeals affirmed a jury verdict in Price Waterhouse's favor on the ownership question, holding that the jury was entitled to read an ambiguous Price Waterhouse letter as stating that Price Waterhouse retained title to all source code.³⁰² As *Liu* suggests, special attention should be given to title questions when outsourcing software development work.

E. Copyright Licenses

Licensing of copyrighted material is a common practice. A license is simply a grant by the owner allowing some other party to enjoy one or more of the owner's otherwise exclusive rights noted above. As with any contract, it is essential that authors, like other copyright owners, negotiate license terms specifying who has the right to do what and who has to pay whom for the privilege.³⁰³

The Copyright Act's writing requirement applies to transfers of ownership and exclusive licenses but not to nonexclusive licenses.³⁰⁴ As a result, nonexclusive licenses can be written, oral, or implied.³⁰⁵

302. *Id.* at 755.

303. See, e.g., *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 561 (7th Cir. 2003) (discussing why a jury trial resulted from ambiguity over the license phrase "Media 100 hardware"); *Random House, Inc. v. Rosetta Books LLC*, 283 F.3d 490, 491-92 (2d Cir. 2002) (holding that a license to publish works "in book form" did not necessarily include the sale of electronic versions such as "ebooks"); *Bridgeport Music, Inc. v. Dimension Films*, 230 F. Supp. 2d 830, 837-38 (M.D. Tenn. 2002) (holding that a license agreement specifically granted songwriters the right to license to filmmakers the composition owner's interest in the song); *Greenfield v. Philles Records, Inc.*, 780 N.E.2d 166, 168 (N.Y. Ct. App. 2002) (holding that a singing group's transfer of full ownership rights, pursuant to a 1963 contract, gave the record producer the unconditional right to redistribute songs in any technological format); Ronald Grover, *Why Is Christopher Robin Sobbing? Disney Is in a Bear of a Fight over Pooh's Lucrative Honey Pot*, BUS. WK., Sept. 16, 2002, at 51 (reporting on California litigation over whether the Winnie the Pooh licensing deal covers the videocassette and DVD arena); Jennifer Ordonez, *Rockers vs. Bean Counters: Recording Artists Take On Music Industry Practices They Say Cost Them Millions*, WALL ST. J., Sept. 24, 2002, at B1 (reporting disputes between rock musicians and music companies over accounting practices that have developed under ambiguous license agreements), available at 2003 WL-WSJ 3406844; Bruce Orwall, *Disney Asks Court To Dismiss Suit over "Pooh" Rights*, WALL ST. J., Feb. 4, 2003, at B7 (reporting Disney's dismissal request based upon Disney documents, including attorney-client communications, allegedly stolen by the plaintiff's private investigator who searched Disney's trash), available at 2003 WL-WSJ 3958386.

304. See 17 U.S.C. §§ 101, 204(a) (2000 & West Supp. 2003); *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 775 (7th Cir. 1996) (noting that "even though section 204(a) of the Copyright Act invalidates any transfer of copyright ownership that is not in writing, section 101 explicitly removes a nonexclusive license from the section 204(a) writing requirement").

305. See *John G. Danielson, Inc. v. Winchester-Conant Props. Inc.*, 322 F.3d 26, 40-41 (1st Cir. 2003) (noting that the most important factor in an implied nonexclusive license dispute is the creator's objective intent, i.e., whether the creator's conduct during the creation or delivery of the copyrighted material indicated that use of the material without the creator's involvement or consent was permissible); *Nelson Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 515

Nonexclusive licenses can arise when a licensee requests the creation of a work, the licensor creates the work and delivers it to the licensee who asked for it, and the licensor intends that the licensee copy and distribute the work.³⁰⁶ If these circumstances are present, an author seeking to retain complete control over a work should take care to negate by contractual language any inference of an implied nonexclusive license.

Licenses can lead to complex litigation, as in *ITOFCA, Inc. v. MegaTrans Logistics, Inc.*³⁰⁷ There, plaintiff ITOFCA transferred its assets to a new entity, ITOFCA Consolidators, Inc. (“ICI”), and ICI later went bankrupt.³⁰⁸ The bankruptcy court approved the sale to Amerifreight of ICI’s intellectual property, with a carve-out granting ICI a “nonexclusive” right to certain software originally owned by ITOFCA.³⁰⁹ When Amerifreight subsequently assigned all of its acquired rights to MegaTrans, ITOFCA and MegaTrans battled over who had certain rights concerning the software ITOFCA seemingly had transferred to ICI at the outset of this chain of events.³¹⁰ The majority and concurring opinions in *ITOFCA* agreed that the bankruptcy court’s sale-approval order precluded ITOFCA’s challenge because ITOFCA participated in the bankruptcy sale proceedings but agreed upon little else with respect to the substantive copyright law issues.³¹¹ The majority held that under the terms of the bankruptcy court’s order, ICI was free to sell additional copies of the software; the majority therefore concluded that ICI and its transferees (including, ultimately, MegaTrans) must have had more than a license to use the software, as a mere copyright licensee generally has no right to make further copies.³¹² Judge Ripple, in his concurrence, thought the question less clear, emphasizing that the transfer of ICI’s “right, title and interest” approved by the bankruptcy court was ambiguous, as one clause of the

(4th Cir. 2002) (holding that in order to establish a nonexclusive license, the creator of a protected work must intend that its copyrighted drawings be used on the project for which they were created, independent of the creator’s involvement); *Foad Consulting Group, Inc. v. Azzalino*, 270 F.3d 821, 826–28 (9th Cir. 2001) (finding that state law governed the question of whether a copyright holder had granted a nonexclusive license to use the copyrighted work); *I.A.E., Inc.*, 74 F.3d at 776–77 (finding that the circumstances surrounding airport drawings showed an implied nonexclusive license).

306. See *Kennedy v. Nat’l Juvenile Det. Ass’n*, 187 F.3d 690, 694 (7th Cir. 1999) (setting forth the implied nonexclusive license test).

307. *ITOFCA, Inc. v. MegaTrans Logistics, Inc.*, 322 F.3d 928 (7th Cir. 2003).

308. *Id.* at 929.

309. *Id.*

310. *Id.*

311. *Id.* at 929–32.

312. *Id.* at 930.

asset agreement indicated that ITOFCA was selling all of its assets to ICI while another indicated that ITOFCA was retaining many of its assets.³¹³

In recent years, the Seventh Circuit Court of Appeals has decided a number of important copyright license cases in addition to *ITOFCA*. For example, in *In re Aimster Copyright Litigation*, the Seventh Circuit upheld an injunction against the Aimster peer-to-peer music service³¹⁴ but took a slightly different approach than the Ninth Circuit did in *A&M Records v. Napster*³¹⁵ in holding that actual knowledge of specific infringing uses, without more, is not a sufficient condition for deeming a facilitator a contributory infringer.³¹⁶ In *Walthal v. Rusk*, the court of appeals held that the Butthole Surfers musical group had properly terminated an oral license agreement of indefinite duration, rejecting the argument that section 203 of the Copyright Act imposes a minimum term of thirty-five years for license agreements.³¹⁷ In *Kennedy v. National Juvenile Detention Ass'n*, the Seventh Circuit determined that the term “use” in a license agreement encompassed the act of creating derivative works³¹⁸ because the agreement in question “gave the defendants ‘the right to use, duplicate and disclose, in whole or in part, such materials in any manner for any purpose whatsoever.’”³¹⁹ As noted, in *Liu v. Price Waterhouse LLP*, the Seventh Circuit Court of Appeals squarely held that a derivative work’s author can be precluded from claiming copyright ownership if the pertinent license agreement between the underlying-copyright owner and the derivative-work owner bars the licensee from obtaining copyright protection in the licensed derivative work.³²⁰ And in *ProCD Inc. v. Ziedenberg*, the Seventh Circuit approved “shrinkwrap” licenses,³²¹ which suggests that the Seventh Circuit is likely to do the same with respect to “clickwrap” licenses, both of which commonly are used for mass distribution of

313. *Id.* at 934 (Ripple, J., concurring).

314. *In re Aimster Copyright Litig.*, 334 F.3d 643, 656 (7th Cir. 2003) (holding that a computer operator who has knowledge of specific infringing material available on his system and who fails to purge said material is contributing to direct infringement).

315. *A&M Records v. Napster*, 239 F. 3d 1004, 1021 (9th Cir. 2001).

316. *Aimster*, 334 F.3d at 655.

317. *Walthal v. Rusk*, 172 F.3d 481, 485 (7th Cir. 1999).

318. *Kennedy v. Nat’l Juvenile Det. Ass’n*, 187 F.3d 690, 695 (7th Cir. 1999).

319. *Id.* (alteration in original).

320. *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 755 (7th Cir. 2002) (citing 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 3.06 (2002)).

321. *ProCD Inc. v. Ziedenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996) (finding that the Copyright Act does not preempt shrinkwrap licenses).

software products.³²² Finally, in *Assessment Technologies of Wisconsin, LLC v. Wire Data, Inc.* the Court of Appeals, in a wide-ranging opinion touching upon originality, derivative works and copyright misuse, followed the Ninth Circuit's lead and held that "intermediate copying" is permissible as a fair use when such copying is the only way to extract otherwise unprotected data from a computer program.³²³

F. Drafting Considerations

It is often said that copyrights reflect a bundle of rights,³²⁴ and this bundle can be divided via licenses almost without limitation. Although some license arrangements can be simple, others, such as multi-media licensing arrangements, can prove daunting, with hundreds of licenses becoming necessary.

At a minimum, a license should specify which rights are being licensed and which are being reserved by the author/grantor. These rights can be licensed together or separately to one party or to many.³²⁵ Licenses can be exclusive or non-exclusive.³²⁶ They also can be perpetual or for a limited duration, with either subject to termination. Limitations on field of use and territory also can be imposed. The right to pursue or the duty to defend against third-party infringement should be addressed. Other possibilities are arbitration clauses and provisions requiring licensees to turn over their user lists upon termination of their

322. See *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1323 (Fed. Cir. 2003) (holding that the Copyright Act did not preempt "shrinkwrap" licenses that prohibited reverse engineering); *Specht v. Netscape Communications Corp.*, 306 F.3d 17, 32 (2d Cir. 2002) (holding that a "clickwrap" agreement was invalid where licensed terms were hidden in a submerged screen); *Hill v. Gateway 2000, Inc.*, 105 F.3d 1147, 1148 (7th Cir. 1997) (finding that "terms inside a box of software bind consumers who use the software after an opportunity to read the terms and to reject them by returning the product"); *Step-Saver Data Sys. Inc. v. Wyse Tech.*, 939 F.2d 91, 105 (3d Cir. 1991) (analyzing a "shrinkwrap" license under the Uniform Commercial Code and holding a limitation of liability provision unenforceable); *i.Lan Sys. Inc. v. Netscout Serv. Level Corp.*, 183 F. Supp. 2d 328, 338-39 (D. Mass 2002) (enforcing a "clickwrap" license limitation of liability); *Softman Prods. Co. LLC v. Adobe Sys. Inc.*, 171 F. Supp. 2d 1075, 1083 (C.D. Calif. 2001) (rejecting a "shrinkwrap" license as inconsistent with the first sale doctrine); *Adobe Sys. Inc. v. One Stop Micro Inc.*, 84 F. Supp. 2d 1086, 1092 (N.D. Cal. 2000) (approving a "shrinkwrap" license and rejecting the first sale doctrine defense); *Moore v. Microsoft Corp.*, 741 N.Y.S.2d 91, 92 (App. Div. 2002) (enforcing a clickwrap agreement).

323. *Assessment Techs. of Wis., LLC v. Wire Data, Inc.*, 350 F.3d 640, 650-51 (7th Cir. 2003) (citing *Sega Enterprises, Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520-28 (9th Cir. 1992)).

324. *E.g.*, *Stewart v. Abend*, 495 U.S. 207, 220 (1990) ("An author holds a bundle of exclusive rights in the copyrighted work, among them the right to copy and the right to incorporate the work into derivative works.").

325. See 17 U.S.C. § 201(d)(2) (2000).

326. 35 U.S.C. § 207(a)(2) (2000).

licenses.³²⁷ Licensees should be required to affix copyright notices, and the specific work or works being licensed should be identified by registration number. Timely recording of transfers and licenses with the Copyright Office is essential to bar bona fide purchaser claims; recordation is not necessary as between the contracting parties themselves. The relationship between a copyright licensor and licensee is not by itself sufficient to establish a joint venture,³²⁸ but disclaimers of joint ventures might be an idea to consider as well.

V. PATENTS

Few subjects capture the imagination like patents: Samuel Morse, Eli Whitney, Samuel Colt, Charles Goodyear, Thomas Edison, and Alexander Graham Bell need no introduction, nor do their inventions.³²⁹ These and other prosaic products have had a profound effect on daily life if not history itself; one only has to think about the impact of barbed wire in the 19th century³³⁰ or the influence of electronic technology in

327. See *Liveware Publ'g, Inc. v. Best Software, Inc.*, 252 F. Supp. 2d 74, 85 (D. Del. 2003) (enforcing an arbitration clause concerning whether a copyright licensee had to deliver its user list to a licensor upon termination of the license so that the licensor could bypass the licensee and sell directly to the customers).

328. See *Dinaco, Inc. v. Time Warner, Inc.*, 346 F.3d 64, 68 (2d Cir. 2003) (observing that “the relationship between an author and a publisher is not that of joint venturers merely because the publisher is to pay the author on the basis of receipts from the sale of books” (quoting *Steinbeck v. Gerosa*, 151 N.E.2d 170, 179 (N.Y. 1958))).

329. See generally *Dolbear v. Am. Bell Tel. Co.*, 126 U.S. 1 (1888) (deciding the battle over Alexander Graham Bell’s telephone patent); *Providence Rubber Co. v. Goodyear*, 76 U.S. 788 (1869) (recounting endless litigation over Charles Goodyear’s vulcanized India-rubber patents); *O’Reilly v. Morse*, 56 U.S. 62 (1853) (reviewing a challenge to Samuel Morse’s telegraph patent); *White v. Allen*, 29 F. Cas. 969 (C.C.D. Mass. 1863) (mentioning Samuel Colt’s invention of revolving pistols); *Whitney v. Carter*, 29 F. Cas. 1070 (C.C.D. Ga. 1810) (deciding a patent infringement action concerning Eli Whitney’s cotton gin); NEIL BALDWIN, *EDISON: INVENTING THE CENTURY* (1995) (describing Thomas Edison’s role in organizing his Menlo Park operations, a forerunner of modern corporate research and development departments); RICHARD KORMAN, *THE GOODYEAR STORY: AN INVENTOR’S OBSESSION AND THE STRUGGLE FOR A RUBBER MONOPOLY* (2002) (describing Charles Goodyear’s travails in and out of court); KENNETH SILVERMAN, *LIGHTNING MAN: THE ACCURSED LIFE OF SAMUEL F.B. MORSE* (2003) (recounting Samuel Morse’s legal battles with former colleagues who challenged his 1837 telegraph patent); David Hounshell, *The Evolution of Industrial Research in the United States*, in *ENGINES OF INNOVATION: U.S. INDUSTRIAL RESEARCH AT THE END OF AN ERA* (Richard S. Rosenbloom & William J. Spencer eds., 1996) (tracing the rise of industrial research in the United States from 1875 forward).

330. See Kevin R. Casey, *The Barbed Wire Invention: An External Factor Affecting American Legal Development*, 72 J. PAT. & TRADEMARK OFF. SOC’Y 417 (1990) (describing the impact of the barbed wire invention on U.S. farmers and ranchers as well as its impact on the development of U.S. antitrust, property, tort, and patent law). See generally *Washburn & Moen Mfg. Co. v. Beat ‘Em All Barbed Wire*, 143 U.S. 275 (1892) (sustaining Joseph Glidden’s barbed wire patent).

the 20th century to appreciate this.³³¹ Such is the power of an idea whose time has come³³²—a power greatly magnified when protected under the patent laws.

Because they represent legal monopolies of a sort,³³³ patents often serve as the economic engine driving small firms.³³⁴ Indeed, venture capitalists frequently seek out investment opportunities in small firms precisely because of the revenue stream a valuable patent represents once the firm ramps up production and sales on its own or through licenses.³³⁵ Venture capitalists also appreciate the value a patent

331. See generally DAVID C. MOWERY & NATHAN ROSENBERG, *PATHS OF INNOVATION: TECHNOLOGICAL CHANGE IN 20TH-CENTURY AMERICA* (1998) (describing the emergence of electronic technology); Howard Wolinsky, *From Brick to Slick*, CHI. SUN-TIMES, Apr. 3, 2003, at 57 (tracing the rise of portable and cellular phones in the United States from a few hundred portable phones in 1973 to nearly 141 million cell phones today), available at 2003 WL 9547169.

332. See Howard Wolinsky, *Nanotech Likely Will Be Boon to Area*, CHI. SUN-TIMES, Dec. 10, 2003, at 74 (reporting remarks of Philip J. Bond, undersecretary for technology of the U.S. Department of Commerce, that nanotechnology is the future of the U.S. and world economies and that the Midwest stands to gain greatly from this development due to its concentration of nanotechnology pioneers), available at 2003 WL 9579064; Howard Wolinsky, *Illinois Poised for Giant Leap in Technology*, CHI. SUN-TIMES, Mar. 13, 2003, at 8 (describing Illinois' status as a premier nanotechnology center and commenting that "nanotechnology could dramatically change our lives"), available at 2003 WL 9544473.

333. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979) (finding that a patent-trade secret license that set reduced royalties after patent expiration was enforceable); *Lear, Inc. v. Adkins*, 395 U.S. 653, 674–75 (1969) (holding that a license agreement cannot estop a licensee from challenging a patent's validity); *Brulotte v. Thys Co.*, 379 U.S. 29, 33–34 (1964) (holding that a license requiring royalties after patent expiration was per se unenforceable under antitrust law); *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945) (recognizing that patents are an "exception to the general rule against monopolies"); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933) (explaining that a patent grant is not, strictly speaking, a monopoly, since a monopoly takes something from the community while an inventor gives something of value to the community by adding to the sum of human knowledge); *Hughes Aircraft Co. v. United States*, 148 F.3d 1384, 1385 (Fed. Cir. 1998) (Clevenger, J., dissenting) ("We have come a long way from the days when judges frowned on patents as pernicious monopolies deserving scant regard."); *Jamesbury Corp. v. Litton Indus. Prods., Inc.*, 756 F.2d 1556, 1559 (Fed. Cir. 1985) (disapproving the characterization of the patentee as a "monopolist," since a patent is a form of property); Andrew Beckerman-Rodau, *Patent Law—Balancing Profit Maximization and Public Access to Technology*, 4 COLUM. SCI. & TECH. L. REV. 1, 3–7 (2002) (summarizing the monopoly and property arguments).

334. See Chris Fusco, *Touch Tone Inventor Wins \$12 Million Patent Suit*, CHI. SUN-TIMES, Apr. 3, 2003, at 18 (reporting a verdict in favor of small inventor Philip Jackson against voicemail industry giant Glenayre Electronics for infringing patent for using telephone touch tones to control devices from afar), available at 2003 WL 9547068; Robert A. Guth & Marcelo Prince, *Microsoft Faces \$521 Million Verdict*, WALL ST. J., Aug. 12, 2003 at A3 (reporting a verdict in favor of small Chicago start-up Eolas Technologies, founded by former University of California Professor Michael Doyle, against industry giant Microsoft for infringing patent covering a method for interactive content to be embedded in a Web page), available at 2003 WL 3976737.

335. See Howard Wolinsky, *First Major Biotech Conference Here*, CHI. SUN-TIMES, Mar. 11, 2003, at 43 (describing the Mid-America Venture Forum, at which seventy Midwestern biotech

confers through the right to exclude others from practicing the invention absent permission. Thus, firms that can afford the cost of successful patent prosecution make inviting targets.

A. *Scope of Patent Protection*

Patents, like copyrights, do not protect ideas as such. Rather, patents protect things through which ideas are implemented, such as devices, machines, materials, and processes.³³⁶ To be patentable, the subject matter must be novel, useful, and non-obvious.³³⁷ Most patents fall within the utility category, though design and plant patents are also available.³³⁸ Business method patents also have gained favor following the Federal Circuit's controversial decisions in *In re Alappat*³³⁹ and *State Street Bank & Trust Co. v. Signature Financial Group*.³⁴⁰ Not everything can be patented; laws of nature, natural phenomena, and abstract ideas such as fundamental scientific principles are excluded.³⁴¹

The value of a patent derives from the exclusive rights associated with it.³⁴² A patent gives the holder the right to exclude others from

companies were invited to make presentations to the Midwestern Health Investors Syndicate, a group of more than thirty venture capital firms experienced in biotech), available at 2003 WL 9544429.

336. See 35 U.S.C. § 101 (2000); see also *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) (describing patent law as potentially applicable to "anything under the sun that is made by man").

337. 35 U.S.C. §§ 101–103 (defining useful, novel, and non-obvious subject matter); see also *Graham v. John Deere Co.*, 383 U.S. 1, 17–18 (1966) (setting forth criteria for determining obviousness); *In re Sastry*, 285 F.3d 1378, 1379 (Fed. Cir. 2002) (rejecting a patent application on obviousness grounds).

338. 35 U.S.C. §§ 161, 171 (describing design and plant patents); *J.E.M. AG Supply, Inc. v. Pioneer Hi-Bred Int'l, Inc.*, 534 U.S. 124, 145 (2001) (holding that the Plant Variety Protection Act and the Plant Patent Act are not the exclusive means of obtaining a federal statutory right to exclude others from reproducing, selling, or using plants or plant varieties, utility patents under 35 U.S.C. § 101 can also be obtained, and neither the PVPA or the PPA limits the scope of § 101's coverage); *Contessa Food Prods. Inc. v. Conagra Inc.*, 282 F.3d 1370, 1376 (Fed. Cir. 2002) (describing a design patent).

339. *In re Alappat*, 33 F.3d 1526, 1544 (Fed. Cir. 1994) (en banc) (showing the practical application of a mathematical algorithm to obtain a useful, concrete, and tangible result constitutes patentable subject matter).

340. *State Street Bank & Trust Co. v. Signature Fin. Group*, 149 F.3d 1368, 1373–74 (Fed. Cir. 1998) (finding that a final share price calculation through a mathematical algorithm constituted patentable business method). See generally Rochelle Cooper Dreyfuss, *Are Business Method Patents Bad for Business?*, 16 SANTA CLARA COMPUTER & HIGH TECH. L.J. 263, 265 (2000) (explaining why *State Street* is such a crucial case).

341. See *Diamond v. Diehr*, 450 U.S. 175, 185 (1981).

342. See 35 U.S.C. § 154 (2000 & West Supp. 2003) (providing that a patent grants the right to exclude others from making, using, or selling the invention throughout the United States); *Universal Oil Prods. Co. v. Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944) (commenting that the right of exclusion is the "reward for inventions"); *Integrat Corp. v. Intel Corp.*, 195 F.3d 1346,

making, using, or selling the invention throughout the United States for the entire term of the patent, which in general is twenty years from the patent application filing date.³⁴³ This is no small matter; a patentee can exclude others even if they develop independently the same invention, as the Supreme Court noted in *Kewanee Oil Co. v. Bicron Corp.*³⁴⁴ Despite its broad sweep, federal patent law does not always preempt state unfair competition laws,³⁴⁵ as the Supreme Court held in *Kewanee Oil*,³⁴⁶ patent law only does so where a given state law attempts to create patent-like protection for intellectual property that would otherwise remain unprotected as a matter of federal law.³⁴⁷

The federal patent scheme has obvious attractions, but pursuing the patent path is not an automatic decision. A patent publicly discloses the invention,³⁴⁸ as does a patent application after eighteen months—even

1362 (Fed. Cir. 1999) (observing that “the antitrust laws do not negate the patentee’s right to exclude others from parent property”).

343. See 35 U.S.C. § 154(a)(2) (2000) (providing the general rule); Edward C. Walterscheid, *The Remarkable—and Irrational—Disparity Between the Patent Term and the Copyright Term*, 83 J. PAT. & TRADEMARK OFF. SOC’Y 233, 234–39 (2001) (discussing the historical reasons for the significant disparity between patent and copyright terms).

344. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 477 (1974).

345. See *Compco Co. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 236 (1964) (indicating that federal patent law does not diminish the state’s power to impose liability on those who wrongfully copy material); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964) (recognizing state’s authority to regulate an area governed by federal patent law); *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1473–79 (Fed. Cir. 1998) (holding that state law claims for unfair competition, based on the defendant’s threats to sue the plaintiff’s customers for patent infringement, were not preempted by federal patent law, even though state law claims were based on inequitable conduct in the Patent and Trademark Office); *Schulenburg v. Signatrol, Inc.*, 212 N.E.2d 865, 868 (Ill. 1965) (noting that *Sears* and *Compco* demonstrated that federal law did not preempt state law trade secret claims).

346. *Kewanee Oil Co.*, 416 U.S. at 493 (holding that trade secret law is not pre-empted by federal patent law).

347. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 168 (1989) (overturning Florida trade secret law).

348. See *Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 272 F.3d 1335, 1358–60 (Fed. Cir. 2001) (holding that wrongful use or disclosure of trade secrets prior to patent issuance preclude a wrongdoer from invoking patent publication as a defense), *vacated on other grounds*, 123 S. Ct. 1828 (2003) (mem.); *Rototron Corp. v. Lake Shore Burial Vault Co.*, 712 F.2d 1214, 1215 (7th Cir. 1983) (noting that patent places the information comprising a trade secret into the public domain); *Syntex Ophthalmics, Inc. v. Tsuetaki*, 701 F.2d 677, 683 (7th Cir. 1983) (holding that a misappropriator who patents someone else’s secret cannot defeat a trade secret claim based upon the wrongfully secured patent’s public disclosure); *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1228 (7th Cir. 1982) (holding that the subsequent issuance of a patent does not negate liability for trade secret misappropriation prior to patent issuance); *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 624 (7th Cir. 1971) (stating that uniqueness in the patent law sense is not an essential element of a trade secret, however, a trade secret must “possess at least that modicum of originality which will separate it from everyday knowledge”); *Shellmar Prods. Co. v. Allen-Qualley Co.*, 87 F.2d 104, 109–10 (7th Cir. 1936) (holding that a person who makes an unlawful disclosure cannot contend that he was a member of the public to whom it was disclosed).

if the application ultimately is rejected by the Patent and Trademark Office.³⁴⁹ This gives others the information they need to design around the patent, conduct which is not necessarily foreclosed by the doctrine of equivalents prohibition against accused devices that contain elements identical or equivalent to each element of a patent claim.³⁵⁰ Moreover, in crowded fields, the patent's claims may be construed narrowly. Patent litigation is also expensive: the patentee may lack the financial means to enforce the patent, and litigation can result in the patent being declared invalid.³⁵¹ In addition, the useful life of an invention might be too short to warrant the expense and delay associated with the patent registration process. For these and other reasons it is often better to keep a new idea secret and protect it through trade secret law, which provides unlimited duration and broad reach,³⁵² recognizing that the trade secret approach runs the risk of someone else's patent preempting the secret. The ease with which a product can be developed independently or inspected and then reverse-engineered are critical considerations in choosing between patent and trade secret protection, as are market size, capital investment intensity, and the ability to keep a technology secret given employee turnover and other disclosure risks.³⁵³ *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.* illustrates this balancing act: Learning Curve knew that the wooden toy track could be duplicated readily once it hit the market, so it patented the track before releasing it to the public, only to have PlayWood, the

349. Andrew Beckerman-Rodau, *The Choice Between Patent Protection and Trade Secret Protection: A Legal and Business Decision*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 371, 381 (2002) (noting that after publication, if the patent fails to issue then there can be no reliance on trade secret protection).

350. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 733 (2002) (reaffirming the doctrine of equivalents); *Acco Brands, Inc. v. Micro Sec. Devices, Inc.*, 346 F.3d 1075, 1080 (Fed. Cir. 2003) (comparing literal infringement with infringement by equivalents); *Festo Corp. v. Shoketsu Kinzoku Kabushiki Co.*, 344 F.3d 1359, 1367–68 (Fed. Cir. 2003) (en banc) (reexamining prosecution history estoppel rules barring upon the doctrine of equivalents).

351. See *Kewanee Oil Co.*, 416 U.S. at 485 (comparing patent and trade secret protection).

352. See generally *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 180 (7th Cir. 1991) (noting significance of trade secret rights in light of the cost and temporary protection of patent rights); Beckerman-Rodau, *supra* note 349, at 380–406 (noting economic barriers to entry, financial status, and industry culture and custom as additional factors to weigh in choosing between patent and trade secret protection); Daniel C. Munson, *The Patent-Trade Secret Decision: An Industrial Perspective*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 689, 690–706 (1996) (reviewing factors to be weighed in choosing between patent and trade secret protection).

353. See *Syntex Ophthalmics*, 701 F.2d at 683 (discussing risks associated with disclosure of trade secrets in seeking patent protection); *Delta Med. Sys. v. Mid-Am. Med. Sys.*, 772 N.E.2d 768, 780–81 (Ill. App. Ct. 1st Dist. 2002) (stating that an employer is entitled to protection from an employee who wrongfully discloses his trade secret); Peter Engardio & Faith Keenan, *The Copycat Economy*, BUS. WK., Aug. 26, 2002, at 94 (describing copying practices endemic to many industries).

track's creator, come back to sue Learning Curve for trade secret theft.³⁵⁴

B. Patent Registration

Securing a patent from the United States Patent and Trademark Office is a complex and specialized undertaking, and the assistance of patent prosecution counsel is necessary. Greatly simplified, the inventor must submit a patent application to the Patent and Trademark Office, which gives the patent application a serial number and assigns the application to an examiner. The examiner then reviews the application for compliance with the relevant criteria, such as novelty, utility, and non-obviousness.³⁵⁵ The examiner also considers whether the application's disclosures describe the claimed features of the invention with particularity and meet the "enabling" and "best mode" requirements, meaning that the disclosures must enable one of ordinary skill in the relevant art to make and use the invention and must reveal the best method known to the inventor for practicing the invention.³⁵⁶ A patent application can be barred if the invention was known or used by others in this country, or if it was patented or described in a printed publication anywhere in the world before the applicant invented it.³⁵⁷ A patent application can also be barred if the invention was "in public use or on sale"³⁵⁸ more than one year prior to the United States application date. Other statutory bars also may apply.³⁵⁹

354. *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 718–20 (7th Cir. 2003).

355. *See In re Peterson*, 315 F.3d 1325, 1332 (Fed. Cir. 2003) (affirming the Patent and Trademark Office's rejection of a patent application on obviousness grounds).

356. *See* 35 U.S.C. § 112 (2000) (setting forth particularity, enabling, and best mode requirements); *Plant Genetic Sys. v. DeKalb Genetics Corp.*, 315 F.3d 1335, 1339 (Fed. Cir. 2003) (explaining that in order "[t]o be enabling, the specification of the patent must teach those skilled in the art how to make and use the full scope of the claimed invention without 'undue experimentation'"); *Teleflex, Inc. v. Ficosa N. Am. Corp.*, 299 F.3d 1313, 1329 (Fed. Cir. 2002) (providing a best mode analysis); *Union Pac. Res. Co. v. Chesapeake Energy Corp.*, 236 F.3d 684, 690 (Fed. Cir. 2001) (providing an enablement analysis).

357. *See* 35 U.S.C. § 102(a) (2000); *Norian Corp. v. Stryker Corp.*, 252 F. Supp. 2d 945, 960 (N.D. Cal. 2002) (holding that a patent infringement defendant failed to establish that an abstract prepared for and taken to a scientific conference was an anticipatory "publication" because there was no evidence that copies of the abstract had been available for handout at the conference).

358. 35 U.S.C. § 102(b) (2000); *see also Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 67 (1998) (holding that an invention need not be reduced to practice to trigger the on-sale bar); *EZ Dock, Inc. v. Schafer Sys., Inc.*, 276 F.3d 1347, 1353 (Fed. Cir. 2002) (finding that the on-sale bar defense presented a question of fact); *In re Kollar*, 286 F.3d 1326, 1334 (Fed. Cir. 2002) (finding that a license to an experimental process under future patents did not trigger automatically the on-sale bar); *Finnsugar Bioproducts, Inc. v. Amalgamated Sugar Co.*, 244 F. Supp. 2d 890, 892 (N.D. Ill. 2002) (holding that the "experimental stage" exception to the on-sale bar did not apply

The application process often takes two years or more and can be quite active in terms of amendments or other actions by the Patent and Trademark Office.³⁶⁰ As a result of recent statutory amendments, in general United States patent applications are now published eighteen months after the earliest priority date, unless the applicant requests an earlier publication date.³⁶¹ Pursuant to the Patent Term Guarantee Act of 1999,³⁶² the Patent and Trademark Office determines the length of the patent term, with adjustments for things like agency or judicial delay or an applicant's lack of prosecution diligence. In some instances an applicant may appeal an unfavorable decision of the Patent and Trademark Office to the Board of Patent Appeals and Interferences or to the Federal Circuit.³⁶³ A civil action in federal district court is an alternative avenue for posing such challenges.³⁶⁴

C. Patent Infringement

To establish a patent infringement claim, a plaintiff must show (1) a valid patent and (2) infringement.³⁶⁵ An infringement analysis entails two steps: the first is determining the meaning and scope of the patent claims asserted to be infringed; the second involves comparing the properly construed claims to the device or process accused of infringing.³⁶⁶ Regarding the first step, patent claim language defines the scope of the invention, and claim language carries the ordinary meaning of the words in their normal usage in the field of invention

because the commercial exploitation was not incidental to the primary purpose of experimentation).

359. 35 U.S.C. § 102 (c)–(g) (2000 & West Supp. 2003) (codifying the following statutory bars: (c) abandonment of invention; (d) foreign patent application filing more than twelve months before a United States filing; (e) invention described in a patent application previously filed by another; (f) applicant did not invent the subject matter sought to be patented; (g) prior invention by another who had not abandoned, suppressed, or concealed it, with focus on conception, reduction to practice, and reasonable diligence).

360. See U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2002, at 15 (2003), available at <http://www.uspto.gov/web/offices/com/annual/2002/1-58.pdf> (last visited March 3, 2004) (showing that on average, twenty-four months elapsed from filing to issue or abandonment of a patent application); Beckerman-Rodau, *supra* note 349, at 400–01 (noting that a patent typically can take several years to issue).

361. 35 U.S.C. § 122(b) (2000).

362. *Id.* § 154(b)(3).

363. 35 U.S.C. § 134 (2000 & West Supp. 2003) (discussing an appeal to the Board of Patent Appeals and Interferences); *id.* § 141 (discussing an appeal to the Federal Circuit).

364. See *id.* § 145 (2000) (discussing a civil action to obtain a patent); *id.* § 146 (2000) (discussing a civil action in a case of interference).

365. See *id.* § 271 (describing infringements and inducements of infringements).

366. *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 976 (Fed. Cir. 1995).

unless the inventor uses the specification to implicitly or explicitly supply new meanings for terms.³⁶⁷ Regarding the second step, proof of infringement requires the patentee to demonstrate that the accused device contains each limitation of the asserted claim or an equivalent of each limitation.³⁶⁸ Literal infringement can be proven by showing that the patent claims read on the defendant's challenged product or process, meaning that every element of the invention as claimed is present in the accused device.³⁶⁹ In the alternative, the patentee can invoke the doctrine of equivalents if the defendant's product or process performs substantially the same function as the patentee's in substantially the same way to obtain the same result.³⁷⁰ Claim construction presents a question of law for the court,³⁷¹ while infringement, either literal or under the doctrine of equivalents, presents a question of fact.³⁷²

Patent rights can be enforced with considerable vigor through injunctions,³⁷³ compensatory damages,³⁷⁴ reasonable royalties,³⁷⁵

367. See *Bowers v. Baystate Techs., Inc.*, 302 F.3d 1334, 1351 (Fed. Cir. 2002) (reviewing infringement standards); *Teleflex, Inc. v. Ficoso N. Am. Corp.*, 299 F.3d 1313, 1325–26 (Fed. Cir. 2002) (holding that a term used in a patent claim should keep its ordinary meaning, unless the specification or prosecution history shows that the inventor intended to depart from that ordinary meaning using words or expressions representing a clear disavowal of claim scope); *C.S. Fitness, Inc. v. Brunswick Corp.*, 288 F.3d 1359, 1366 (Fed. Cir. 2002) (holding that there is a heavy presumption that a claim term has its ordinary meaning to those skilled in the art); *Cybor Corp. v. FAS Techniques, Inc.*, 138 F.3d 1448, 1476 (Fed. Cir. 1998) (Rader, J., dissenting in part) (questioning whether *Markman* hearings have had their intended effect, given the Federal Circuit's forty percent reversal rate of district court claim constructions).

368. See *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 29 (1997) (“Each element contained in a patent claim is deemed material to defining the scope of the patented invention, and thus the doctrine of equivalents must be applied to individual elements of the claim, not to the invention as a whole.”).

369. *Acco Brands, Inc. v. Micro Sec. Devices, Inc.*, 346 F.3d 1075, 1077 (Fed. Cir. 2003) (setting forth the test for literal infringement).

370. See *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 608 (1950) (holding that the doctrine of equivalents does not require completely identical products for every purpose and in every respect).

371. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 372 (1996) (rejecting the argument that the Seventh Amendment requires claim construction to be determined by juries).

372. See *Prima Tek II, LLC v. Polypap, S.A.R.L.*, 318 F.3d 1143, 1154 (Fed. Cir. 2003) (vacating a non-infringement summary judgment to allow for further fact-finding).

373. See 35 U.S.C. § 283 (2000) (describing injunctions); *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350 (Fed. Cir. 2001) (setting forth the four-factor preliminary injunction test, with no single factor sufficient but with reasonable likelihood of success and irreparable harm being necessary conditions); *For Your Ease Only, Inc. v. Natural Sci. Indus., Ltd.*, 233 F. Supp. 2d 988, 995 (N.D. Ill. 2002) (denying a preliminary injunction because the defendant had raised a significant question as to whether the plaintiff's patent was invalid on obviousness grounds).

374. See 35 U.S.C. § 284 (describing damages); *Micro Chem., Inc. v. Lextron, Inc.*, 318 F.3d 1119 (Fed. Cir. 2003) (discussing theoretical approaches to lost profits in patent cases); *Rite-Hite Corp. v. Kelley Co.* 56 F.3d 1538, 1549–51 (Fed. Cir. 1995) (en banc) (same); *Kaufman Co. v.*

prejudgment interest,³⁷⁶ as well as attorneys' fees³⁷⁷ and treble damages,³⁷⁸ depending upon the particular circumstances presented, such as whether the infringer had actual notice of the patent or constructive notice based upon appropriate markings on the patented article.³⁷⁹ Design patents give rise to additional remedies.³⁸⁰ Though they are seldom called upon to invoke it, federal courts also may have the discretion under older authority to order infringing products destroyed.³⁸¹ Patents are cloaked with a strong presumption of validity by virtue of the Patent and Trademark Office's rigorous issuance process,³⁸² but invalidity can be raised as a defense in litigation, as can non-infringement, unenforceability, and absence of liability for infringement, among others.³⁸³ The Federal Circuit's exclusive

Lantech, Inc., 926 F.2d 1136, 1143 (Fed. Cir. 1991) (adopting the so-called "two suppliers market" test: where the patentee and infringer are the only suppliers present in the market, it is reasonable to infer that the infringement probably caused the loss of profits); *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580–81 (Fed. Cir. 1989) (affirming allocation between lost profits for the percentage of the entire market based on the patentee's share of the entire market, with the balance of the patentee's damages awarded under a reasonable royalty theory); *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978) (adopting the so-called "but for" test, meaning that to obtain lost profits, a patent owner must prove that it would have made the sales but for the infringing activity).

375. See 35 U.S.C. § 284 (requiring reasonable royalty as a minimum award if compensatory damages cannot be proven); *Panduit Corp.*, 575 F.2d at 1157–58 (giving a reasonable royalty analysis); *Ga.-Pac. Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120–21 (S.D.N.Y. 1970) (employing the reasonable royalty analysis). See generally Daniel C. Munson, *The Equitable Profits and Reasonable Royalty Remedies—An Economic Connection*, 76 J. PAT & TRADEMARK OFF. SOC'Y 887 (1994) (providing historical discussion of lost profits and reasonable royalties in patent cases).

376. See 35 U.S.C. § 284 (discussing interest); *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655–56 (1983) (holding that "[p]rejudgment interest should ordinarily be awarded" from the date of infringement).

377. See 35 U.S.C. § 285 (discussing attorneys fees); *Mach. Corp. of Am. v. Gullfiber AB*, 774 F.2d 467, 470 (Fed. Cir. 1985) (establishing a four-part test for fees in exceptional cases).

378. See 35 U.S.C. § 284 (discussing treble damages); *Paper Converting Machine Co. v. Magna-Graphics Corp.*, 785 F.2d 1013, 1016 (Fed. Cir. 1986) (affirming a treble-damages award based upon a willfulness finding).

379. See 35 U.S.C. § 287(a); *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1469 (Fed. Cir. 1997) (stating that absent marking, damages may be recovered only after actual notice is given); *Tulip Computers Int'l v. Dell Computer Corp.*, No. 00-981-KAJ, 2003 WL 1606081, at *11 (D. Del. Feb. 4, 2003) (holding that a statutory-marking defense was proper where the licensee failed to mark a licensed computer with patent numbers).

380. See 35 U.S.C. § 289 (finding a design patent infringer liable "to the extent of his total profit, but not less than \$250").

381. See *Birdsell v. Shaliol*, 112 U.S. 485, 487 (1884) (observing in dicta that an infringer can be ordered to deliver an infringing article for destruction); *Lion Mfg. Corp. v. Chi. Flexible Shaft Co.*, 106 F.2d 930, 934 (7th Cir. 1939) (recognizing "inherent power" to order destruction but reversing a destruction decree as unnecessary).

382. 35 U.S.C. § 282 (setting forth the presumption of patent validity).

383. See *id.* (setting forth defenses).

jurisdiction over virtually all patent appeals fosters doctrinal certainty with respect to these rights, remedies, and defenses.³⁸⁴ The Federal Circuit also has taken a somewhat broad view of its jurisdiction to consider patent licensing cases.³⁸⁵

D. Patent Ownership

In terms of organization, it must be recognized that only individuals can qualify as inventors for purposes of applying for a patent. For a company to own and apply for a patent, ownership of the invention must be transferred to the company by written assignment from an individual.³⁸⁶ If the firm founder is also the inventor, this distinction generally does not matter, but if the two differ, then assignment of the patent to the organization is crucial. The assignment will control and protect the company in the event that the founder departs; without it, the founder may claim ownership of the patent.³⁸⁷ If the patent is assigned to the company and the company later dissolves, the founder and remaining shareholders may end up co-owners of the patent with equal, non-exclusive rights.³⁸⁸ Co-inventorship can present similar problems

384. Compare *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 830–32 (2002) (holding that the well-pleaded complaint rule does not allow a patent law counterclaim to serve as the sole basis for appellate jurisdiction in the Federal Circuit), and *Purdue Research Found. v. Sanofi-Synthelabo, S.A.*, 338 F.3d 773, 779–80 (7th Cir. 2003) (holding that the absence of a patent law question in a cooperative research agreement dispute permitted appeal to the Seventh Circuit rather than the Federal Circuit), with *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 811 (1988) (ruling that claims rather than theories must “arise under” the patent laws to trigger Federal Circuit appellate jurisdiction), *Nilssen v. Motorola, Inc.*, 255 F.3d 410, 415 (7th Cir. 2001) (reversing and remanding a state-law case for consolidation with the original patent law case from which it had been severed erroneously), *Unique Concepts, Inc. v. Manuel*, 930 F.2d 573, 574–75 (7th Cir. 1991) (establishing that the Federal Circuit has jurisdiction over a state-law counterclaim so long as the plaintiff’s complaint at one time alleged a patent claim), *aff’d*, 937 F.2d 622 (Fed. Cir. 1991) (per curiam), and *Kennedy v. Wright*, 851 F.2d 963, 969 (7th Cir. 1988) (concluding that the Federal Circuit has appellate jurisdiction over nonpatent claims on appeal so long as the plaintiff’s claims in the district court “arise under” the patent laws), *aff’d*, 867 F.2d 616 (Fed. Cir. 1989).

385. See, e.g., *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (finding a substantial patent law issue, warranting Federal Circuit appellate jurisdiction, where the district court had to interpret patents in order to resolve the breach of license claim).

386. 35 U.S.C. § 118 (concerning patent filing by one other than the inventor); *id.* § 261 (relating to ownership and assignment).

387. See *Kennedy v. Wright*, 676 F. Supp. 888, 890, 893 (C.D. Ill. 1988) (involving a situation in which Kennedy incorporated a corporation, gave it loans, and served as its majority shareholder, causing the court to reject Kennedy’s claim that he personally owned the patents that he allowed the corporation to use under an “oral royalty-free non-exclusive license”).

388. See 35 U.S.C. § 262 (establishing that joint owners, absent agreement to the contrary, each may make, use, offer to sell, or sell the patented invention without the consent of and without accounting to the other owners); *Monco v. Janus*, 583 N.E.2d 575, 580–81 (Ill. App. Ct.

absent a written agreement.³⁸⁹ Without an agreement, each co-inventor will be deemed a co-owner with equal rights to license and exploit the patent without the other's consent and with no duty to account, thereby setting off a race to the bottom in the marketplace.

An all-important and frequently litigated issue involves employee patent ownership. At common law an employee hired to invent owed a duty to assign patent rights to his or her employer; a non-inventive employee did not have such an obligation.³⁹⁰ In the latter situation the employer may have only a limited shop right in the employee's invention if the employee used the employer's time and materials in coming up with the invention.³⁹¹ These rules can be difficult to apply in some instances, however, such as where the employee's duties are unclear.³⁹² Employers usually avoid ownership issues by requiring employees to sign invention assignment agreements at the outset of

1st Dist. 1991) (involving a lawyer/co-founder who hid co-ownership implications from the inventor/co-founder).

389. See 35 U.S.C. 116 (2000) (relating to joint inventors); *Ethicon, Inc. v. U.S. Surgical Corp.*, 135 F.3d 1456, 1460 (Fed. Cir. 1998) ("Because '[c]onception is the touchstone of inventorship,' each joint inventor must generally contribute to the conception of the invention."); *Fina Oil & Chem. Co. v. Ewen*, 123 F.3d 1466, 1474 (Fed. Cir. 1997) (vacating a summary judgment that the defendant was not a joint inventor); *Nichols Inst. Diagnostics, Inc. v. Scantibodies Clinical Lab., Inc.*, 218 F. Supp. 2d 1243, 1248 (S.D. Cal. 2002) (holding that where patent invalidity based upon omission of co-inventor was raised as a defense to infringement, parties to the patent could seek correction in the district court or the Patent and Trademark Office).

390. See *Solomons v. United States*, 137 U.S. 342, 346–47 (1890) (setting forth general rules for determining whether an employer or an employee maintains rights to patent).

391. See *Freedom Wireless, Inc. v. Boston Communications Group, Inc.*, 220 F. Supp. 2d 16, 18–19 (D. Mass. 2002) (noting that an employee invention assignment agreement did not cover an invention unrelated to the employer's business); *E.J. McKernan Co. v. Gregory*, 623 N.E.2d 981, 1004 (Ill. App. Ct. 2d Dist. 1993) (explaining that "inventions made by an employee 'employed to invent' are typically the property of the employer, while those made by other employees in 'general employment' of a noninventive nature, using the employer's property, are typically property of the employee but subject to a nontransferable shop right in favor of the employer"); *Mimica v. Area Interstate Trucking, Inc.*, 620 N.E.2d 1328, 1330–31, 1334–35 (Ill. App. Ct. 1st Dist. 1993) (affirming the trial court's declaratory judgment that the plaintiff-employee was the sole owner of all patent rights and that the defendant-employer only had shop rights to the invention, even though the invention was developed and perfected in the employer's plant with its time, materials, and appliances, and wholly at its expense); *Muencer v. W.F. & John Barnes Co.*, 133 N.E.2d 312, 321 (Ill. App. Ct. 2d Dist. 1956) (treating an employee's secret polishing powder formula as an invention, rather than a trade secret, and then invoking hired-to-invent default rules in rejecting an employee's oral contract/ownership claim).

392. See *Heath v. Zenich*, 540 N.E.2d 776, 780–81 (Ill. App. Ct. 1st Dist. 1989) (holding that Heath was not hired by Zenex, one of the defendants, specifically to invent or to provide engineering services, but that he provided these product development services to Zenex, which was a small company employing only eleven people, and thus the patent rights belonged to his employer Zenex).

employment,³⁹³ a practice that generates controversy in fields such as academic research.³⁹⁴ These contracts sometimes include trailer clauses covering inventions developed shortly after termination.³⁹⁵ However, an employee agreement purporting to cover an invention unrelated to the employer's business and developed without using the employer's time and materials is invalid under the Illinois Employee Patent Act.³⁹⁶

E. Patent Licenses

An invention may require experimentation to commercialize it. Small businesses faced with this common problem should be aware that licensing their inventions for experimental activities prior to patent registration can present significant risks under the "on-sale bar" doctrine. For example, in *EZ Dock, Inc. v. Schafer Systems, Inc.*, a

393. See *Velsicol Corp. v. Hyman*, 90 N.E.2d 717, 724 (Ill. 1950) (enforcing an employee invention assignment agreement); *Julius Hyman & Co. v. Velsicol Corp.*, 233 P.2d 977, 1008 (Colo. 1951) (enforcing an employee invention assignment agreement and awarding \$1.5 million in damages). See generally Jim C. Lai, *Alcatel USA, Inc. v. Brown: Does Your Boss Own Your Brain?*, 21 J. MARSHALL J. COMPUTER & INFO. L. 295 (2003) (examining a Texas trial court decision that granted summary judgment in favor of an employer, declared an employee invention disclosure contract enforceable, and granted the employer all legal rights with respect to employee's process for converting machine-executable binary code into high-level source code).

394. See, e.g., *Chou v. Univ. of Chi.*, 254 F.3d 1347, 1352 (Fed. Cir. 2001) (finding that a graduate student research assistant could maintain an action for correction of inventorship under 35 U.S.C. § 256 even though she had a contractual obligation to assign her patent rights to her university-employer); CORYNNE MCSHERRY, WHO OWNS ACADEMIC WORK? BATTLING FOR CONTROL OF INTELLECTUAL PROPERTY (2001) (setting forth a cultural study of three academic intellectual property ownership disputes); Margaret Cronin Fisk, *Ivory Towers Fire Back over Patents: More Schools Are Suing Businesses*, NAT'L L.J., Aug. 26, 2002, at A1 (noting how universities in recent years increasingly have sought and enforced patents); Julie Johnsson, *U of I's Plasma TV Tussle: Faces Down Fujitsu over Flat Screens*, CRAIN'S CHI. BUS., Nov. 10, 2003, at 1 (reporting on a patent infringement suit by the University of Illinois against Fujitsu and a counter suit for breach of confidentiality, trade secret misappropriation, and fraud by Fujitsu against the University of Illinois, over plasma screen technology developed by University of Illinois researchers in the mid-1980's); J. Steven Rutt et al., *Academia Often Ignore Trademarks in Tech Deals: Universities That Partner with Business Can Seek To Brand Major Inventions.*, NAT'L L. J., Sept. 22, 2003, at S4 (discussing complexities associated with university licensing of patents and trademarks for inventions, including the need to consider separate patent and trademark licenses to avoid flaws in one voiding the other). See generally 15 U.S.C. §§ 3701-3717 (2000) (containing federal laws that regulate technology transfer); Joshua A. Newberg & Richard L. Dunn, *Keeping Secrets in the Campus Lab: Law, Values and Rules of Engagement for Industry—University R&D Partnerships*, 39 AM. BUS. L.J. 187 (2002) (offering a detailed discussion of the dynamic growth of university/private company intellectual property joint ventures and related technology transfer arrangements).

395. See William Lynch Schaller, *Jumping Ship: Legal Issues Relating to Employee Mobility in High Technology Industries*, 17 LAB. LAW. 25, 70-73 (2001) (reviewing statutes and cases addressing trailer clauses and employee patent ownership).

396. 765 ILL. COMP. STAT. 1060/2 (2002); see also *Lewis v. Am. Airlines, Inc.*, 678 N.E.2d 728, 732 (Ill. App. Ct. 1st Dist. 1997) (discussing the Illinois Employee Patent Act's legislative history).

small business sold a prototype floating boat dock for \$758 to an unsolicited customer prior to filing its patent application.³⁹⁷ The small business failed to enter into any written agreement governing the purchaser's experimental use, though the small business' owners inspected the installed dock from time to time, made some minor repairs, and ultimately modified certain structural aspects of the dock.³⁹⁸ The small business subsequently had its patent declared invalid under the on-sale bar in the district court and barely overturned the summary judgment ruling on appeal by arguing that the sale was for experimental purposes.³⁹⁹ Small businesses would do well to avoid this trap for the unwary by reviewing carefully the thirteen criteria for determining whether a use is commercial or experimental, as set forth in Judge Linn's concurring opinion in *EZ Dock*.⁴⁰⁰

Another common oversight on the part of small businesses is failing to realize the negative implications of an exclusive license if the parties should divorce and the patentee then wishes to practice the invention. Assuming the licensee has not breached the license, the licensee can bar the patentee from practicing his own invention, which occurred in *U.S. Valves, Inc. v. Dray*.⁴⁰¹ In that case, Dray secured a patent and then joined his son and another person in forming U.S. Valves, Inc.⁴⁰² A month after U.S. Valves was incorporated, Dray granted U.S. Valves an exclusive license.⁴⁰³ The parties eventually had a falling out, and Dray and his son left the firm.⁴⁰⁴ Dray subsequently became embroiled with U.S. Valves over patents Dray later secured, and Dray ultimately found himself on the receiving end of a \$240,000 infringement money

397. *EZ Dock, Inc. v. Schafer Sys., Inc.*, 276 F.3d 1347, 1349 (Fed. Cir. 2002).

398. *Id.* at 1353.

399. *Id.* at 1350, 1351.

400. *See id.* at 1357 (Linn, J., concurring). Judge Linn identified the following thirteen factors:

- (1) the necessity for public testing,
- (2) the amount of control over the experiment retained by the inventor,
- (3) the nature of the invention,
- (4) the length of the test period,
- (5) whether payment was made,
- (6) whether there was a secrecy obligation,
- (7) whether records of the experiment were kept,
- (8) who conducted the experiment, . . . (9) the degree of commercial exploitation during testing. . . (10) whether the invention reasonably requires evaluation under actual conditions of use,
- (11) whether testing was systematically performed,
- (12) whether the inventory continually monitored the invention during testing, and
- (13) the nature of contacts made with potential customers.

Id. (citations omitted).

401. *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1370 (Fed. Cir. 2000).

402. *Id.*

403. *Id.*

404. *Id.* at 1370–71.

judgment.⁴⁰⁵ Plainly, granting an exclusive license has its down sides for the individual or small company intending to remain in or return to the field.

Even if a small company has no interest in licensing its technology to others and instead desires to expand on its own, the company should first investigate the possibility that someone else may hold a patent precluding such expansion. Companies typically retain patent counsel for an opinion to avoid this disaster.⁴⁰⁶ But the value of patent counsel's opinion is only as good as the facts available to counsel. Moreover, patent counsel's opinion is not a defense except with respect to a willful infringement charge, and discovery concerning the basis of counsel's opinion surely will be pursued.⁴⁰⁷

If a small firm lacks inventive expertise, another way to expand is to purchase someone else's patent or to obtain a license from them. There are any number of issues with respect to transfers and licenses, but first and foremost is whether the transferee or licensee obtains rights at all.⁴⁰⁸ If the seller or licensor does not have rights to sell or license, the person paying for the privileges may have to look to the bona fide purchaser rule. This principle may save a putative purchaser, but a licensee will be out of luck. The Federal Circuit in *Rhone-Poulenc*

405. *Id.* at 1369–71.

406. See generally *Jackson Jordan, Inc. v. Leydig, Voit & Mayer*, 633 N.E.2d 627 (Ill. 1994) (involving a legal malpractice action arising out of patent counsel's opinion).

407. See *Knorr-Bremse Systeme Fuer Nutzfahrzeuge, GmbH v. Dana Corp.*, 344 F.3d 1336, 1336–37 (Fed. Cir. 2003) (ordering hearing en banc to reconsider Federal Circuit precedent concerning the drawing of adverse inferences, with respect to willful patent infringement, based on actions of the party charged with infringement in obtaining legal advice and withholding that advice from discovery); *SRI Int'l, Inc. v. Advanced Tech. Labs., Inc.*, 127 F.3d 1462, 1468 (Fed. Cir. 1997) (affirming a willfulness finding after examining the thoroughness, competence, objectivity, and substance of legal opinions from three separate patent counsel, all secured after infringement commenced); *Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1572 (Fed. Cir. 1996) (“The ‘steps normally considered to be necessary and proper in preparing an opinion’ include a thorough review of the cited prior art and prosecution history.”); *Electro Med. Sys. v. Cooper Life Scis., Inc.*, 34 F.3d 1048, 1057 (Fed. Cir. 1994) (noting that when an infringer refuses to produce an exculpatory opinion of counsel in response to a willful infringement charge, an inference may be drawn that no opinion was obtained or that the opinion was unfavorable); *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1579 (Fed. Cir. 1986) (holding that a potential infringer has an affirmative duty to exercise due care to determine whether he is infringing, including the duty to seek and obtain competent legal advice before initiation of any possible infringing activity); Daniel Wise, *Jury Finds LeBoeuf Liable for Malpractice: Sheraton Sued Its Law Firm After a Jury Found It Liable for \$30 Million*, NAT'L L.J., Sept. 29, 2003, at 14 (reporting on a jury verdict against a law firm for “failure to present documents in support of the reliance-on-counsel defense” in a commercial litigation dispute).

408. See 35 U.S.C. § 261 (2000) (“An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.”).

Agro S.A. v. DeKalb Genetics Corp. recently held that the bona fide purchaser exception only protects purchasers of title, not licensees.⁴⁰⁹ To avoid title problems, licensees usually demand representations and warranties to the effect that the patentee/licensor actually holds the rights it is licensing. If title questions are apparent, an opinion of counsel may be necessary.

An instructive case on the peculiarities of patent licensing law is *Cook Inc. v. Boston Scientific Corp.*⁴¹⁰ In that case the patentee, Angiotech, entered into an exclusive licensing agreement with Cook and Boston Scientific concerning

certain patent rights to an invention that allow[ed] expandable metal tubes called stents to be coated with medication to increase their treatment effectiveness. The agreement granted worldwide co-exclusive rights to Cook and Boston Scientific to 'use, manufacture, have manufactured, distribute and sell, and to grant sublicenses to its Affiliates to use, manufacture, have manufactured, distribute and sell, the Angiotech Technology . . . for use in the Licensed Applications.⁴¹¹

Cook thereafter entered into five agreements with Advanced Cardiovascular Systems ("ACS").⁴¹² These agreements, taken together, allowed ACS to act as the exclusive distributor for certain coated stents manufactured by Cook under the Angiotech license.⁴¹³

In resolving the parties' cross-motions for summary judgment as to whether the ACS agreements were prohibited under the Angiotech license with Cook and Boston Scientific, the district court set forth the rule that a license amounts to an agreement by the patentee "not to sue the licensee for the activities described within the license."⁴¹⁴ The court also noted that "a patent license is personal to the licensee and allows only the activities enumerated within the license to the exclusion of any activity not specified."⁴¹⁵ In other words, the court observed, "silence as to a particular activity implicitly prohibits the licensee from engaging in that activity."⁴¹⁶ Given these patent license construction rules, the court concluded that the Angiotech agreement did not allow Cook to have ACS distribute licensed applications of the Angiotech stent.⁴¹⁷

409. *Rhone-Poulenc Agro S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323, 1334 (Fed. Cir. 2002) (en banc).

410. *Cook Inc. v. Boston Scientific Corp.*, 208 F. Supp. 2d 874 (N.D. Ill. 2002).

411. *Id.* at 876.

412. *Id.*

413. *Id.* at 877.

414. *Id.* at 879.

415. *Id.*

416. *Id.*

417. *Id.* at 880.

The district court also rejected Cook's argument that it had sold the licensed applications to ACS and therefore was protected by the patent exhaustion doctrine, which provides that a patent holder's rights (and thus the licensee's rights) are protected only up until the product is first sold by an authorized party.⁴¹⁸ The court ruled that the Cook/ACS contractual arrangements amounted to an impermissible de facto sublicense in violation of the Angiotech license.⁴¹⁹ The court therefore granted summary judgment in Boston Scientific's favor and subsequently entered a permanent injunction barring Cook and ACS from rendering any performance under the Cook/ACS agreements or from using any information, data, or technology generated or gathered in connection with the ACS deal.⁴²⁰ The court also permanently enjoined Cook from acting in a manner inconsistent with the Angiotech agreement.⁴²¹ The Seventh Circuit Court of Appeals affirmed all of these rulings with only slight modifications.⁴²²

In short, a small business can encounter complex and somewhat counterintuitive issues when licensing its patent or taking a license for someone else's patent. The implications of these arrangements need to be thought through before pursuing the patent licensing avenue.

F. Drafting Considerations

Assuming a license is otherwise valid, the parties to a licensing deal need to give serious thought to their relationship going forward. Their interests obviously are adverse: the licensor wants to receive the maximum royalty, while the licensee wants to pay as little as possible. Given this inherent tension, consider what happens if the licensee takes an exclusive license and then comes up with a superior product by designing around the patent. The licensee at that point has no incentive to push the licensed product, preferring instead to promote its own. One solution here would be for the licensor to bargain for a minimum royalty as opposed to a best efforts exploitation obligation on the

418. *Id.* (citing *Intel Corp. v. ULSI Sys. Tech, Inc.*, 995 F.2d 1566, 1568 (Fed. Cir. 1993)).

419. *Id.* at 880–81 (noting the similarities between the ACS deal and a de facto sublicense that was found impermissible by the court in *E.I. duPont de Nemours & Co. v. Shell Oil Co.*, 498 A.2d 1109 (Del. 1985)).

420. *See* *Cook Inc. v. Boston Scientific Corp.*, No 01 C 9479, 2002 U.S. Dist. LEXIS 19223, at *22 (N.D. Ill. Oct. 1, 2002).

421. *Id.* at *22–*23.

422. *Cook, Inc. v. Boston Scientific Corp.*, 333 F.3d 737, 745 (7th Cir. 2003) (modifying the injunction to the extent it prohibited Boston Scientific from seeking FDA approval to sell paclitaxel-coated stents and affirming the district court's judgment in all other respects).

licensee's part.⁴²³ Other solutions include substantial fee payments up front and milestone payments as commercialization goals are realized. These compensation terms, of course, necessarily will vary with the nature of the license and its scope.

Beyond price, there are many additional terms that need to be negotiated in connection with a patent license. The license can be either exclusive or nonexclusive, limited to a certain field, limited as to territory, limited as to sublicenses or assignments, or any of a host of combinations and permutations, as the decision in *Cook* illustrates.⁴²⁴ The license should also define the patents to be licensed and any other information that will be shared, such as trade secrets, "know how," or "show how."⁴²⁵ The right or duty to pursue third-party infringers, the right to receive, and the duty to provide indemnity in the event of infringement claims by third parties should all be addressed as well. The term of the license and the right to terminate it also warrant attention, as does the expiration of the patent in the case of a hybrid patent/trade secret license.⁴²⁶ Because licenses are often assignable, language requiring assignees to submit to the personal jurisdiction of particular courts is another consideration.⁴²⁷

Another aspect of licensing is arbitration. Patent disputes can be arbitrated,⁴²⁸ but arbitration can have its downsides depending upon whether a small business is the patentee or the licensee. The arbitrators

423. See *Saverslak v. Davis-Cleaver Produce Co.*, 606 F.2d 208, 215–16 (7th Cir. 1979) (concluding that a best efforts clause in a patent license did not require the licensee to use best efforts to promote the patentee's product once the licensee developed a new, unrelated process to manufacture a similar product).

424. See *supra* notes 410–22 and accompanying text (discussing particulars of the *Cook* decision in regards to licenses).

425. See *Saverslak*, 606 F.2d at 216 (holding that under the terms of the license, a patentee that licensed a wheat gluten turkey roll manufacturing process was not entitled to receive a salt extraction process the licensee subsequently developed on its own). See generally Timothy J. Engling, *Improvements in Patent Licensing*, 78 J. PAT. & TRADEMARK OFF. SOC'Y 739 (1996) (suggesting contractual language addressing new designs, substitutes, alternatives, or equivalents).

426. See *Scheiber v. Dolby Labs., Inc.*, 293 F.3d 1014, 1017 (7th Cir. 2002) (finding that a license requiring royalty payments beyond the United States patent term was void under *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), even though a separate Canadian patent had not expired).

427. See *Purdue Research Found. v. Sanofi-Synthelabo, S.A.*, 338 F.3d 773 (7th Cir. 2003) (holding that the district court lacked personal jurisdiction over a patent license assignee).

428. See generally 35 U.S.C. § 294(a) (2000) (authorizing contract provisions allowing arbitration of any dispute relating to patent validity or infringement); *Baxter Int'l, Inc. v. Abbott Labs., Inc.*, 315 F.3d 829 (7th Cir. 2003) (holding that an arbitrator's determination of an antitrust claim was binding); *Deprenyl Animal Health, Inc. v. Univ. of Toronto Innovations Found.*, 297 F.3d 1343, 1357 (Fed. Cir. 2002) (holding that patent claims can be arbitrated and § 294 is not limited to domestic arbitration).

might declare the patent invalid, and such a ruling might have collateral estoppel effect in subsequent litigation involving other parties.⁴²⁹ This is a very significant risk for the patentee, which has more to lose than an individual licensee if the patentee has a valuable patent and multiple licensees. These issues should be addressed in the arbitration clause. For example, the clause could prohibit the arbitrators from amending the license or considering any issues relating to patent validity, patent infringement, antitrust, or related issues. Nevertheless, arbitration can have beneficial uses, such as setting a royalty rate when the parties have left that term open in a license agreement or when the parties have used a “most favored nations” clause calling for the licensee to receive terms as favorable as those granted to subsequent licensees.

VI. TRADEMARKS AND TRADENAMES

A small business may or may not have trade secrets, copyrights, or patents, but invariably it will have trademarks or tradenames. Many small firms believe Illinois statutory or common law provides sufficient protection for such intellectual property. This perception is understandable but erroneous; state law is not nearly as powerful as federal law when it comes to trademarks, tradenames, and associated rights.

A. *Scope of Protection*

Trademarks and servicemarks⁴³⁰ identify the source of goods and services, distinguish goods and services from those of others, and imply that goods and services meet the mark owner’s standards for quality and consistency.⁴³¹ A firm’s reputation and goodwill take years of effort and expense to develop, and they eventually become closely associated with the firm’s marks, names, product configurations, colors, and other

429. See *Blonder-Tongue Labs., Inc. v. Univ. of Ill.*, 402 U.S. 313, 332–33 (1971) (noting that a patent declared invalid in one action cannot be used in another action unless it can be shown that the party did not have a fair opportunity to litigate fully the invalidity issue the first time); Arianne H. de Govia & Timothy D. Casey, *Arbitration of Patent Licenses Comes with Risks: Panel Could End Up Issuing Rulings on Such Substantive Aspects as Validity and Scope*, NAT’L L.J., Sept. 23, 2002, at B16 (setting forth a general discussion of arbitration in the context of patent litigation).

430. See *Murphy v. Provident Mut. Life Ins. Co.*, 923 F.2d 923, 927 (2d Cir. 1990) (“A servicemark differs from a trademark only in that a servicemark identifies services rather than goods.”).

431. See *Gorenstein Enters., Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) (“The purpose of a trademark, after all, is to identify a good or service to the consumer, and identify implies consistency and a correlative duty to make sure that the good or service really is of consistent quality, i.e., really is the good or service.”).

identifying symbols.⁴³² A company plainly does not want someone else damaging or free riding off of its hard-earned status.⁴³³

The federal trademark statute, known as the Lanham Act, protects trademarks used in interstate commerce.⁴³⁴ It also outlaws certain activities that do not require trademarks, such as false advertising, passing off, and false designation of origin.⁴³⁵ In addition, since 1995, the Lanham Act has prohibited trademark “dilution.”⁴³⁶ Trademark counterfeiting is also barred.⁴³⁷ For marks used solely within Illinois without any interstate commerce impact, the Illinois Trademark Registration and Protection Act also guards against infringement and dilution.⁴³⁸ Common law protection is also available for marks in actual use in a specific geographic region prior to another party’s adoption of an infringing mark.⁴³⁹

432. See, e.g., *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 162 (1995) (interpreting the federal trademark statute (the Lanham Act) as including color alone as protectible as a registered trademark); *AM Gen. Corp. v. DaimlerChrysler Corp.*, 311 F.3d 796, 823–24 (7th Cir. 2002) (holding that the doctrine of progressive encroachment did not apply to a trade dress dilution claim asserted by an automobile manufacturer and based on a competitor’s intended use of a front-end grille design on a sport utility vehicle); *Hyman v. Nationwide Mut. Fire Ins. Co.*, 304 F.3d 1179, 1197 (11th Cir. 2002) (concluding that an advertising injury was sufficiently alleged to trigger insurance coverage for a trade dress claim); *Cumulus Media, Inc. v. Clear Channel Communications, Inc.*, 304 F.3d 1167, 1177–78 (11th Cir. 2002) (holding that a radio station that changed its name from “The Breeze” to “Star 98” did not abandon its protectible trade name in “The Breeze”).

433. See *Park N’ Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985) (explaining that the Lanham Act provides national protection for goodwill associated with an owner’s trademark).

434. 15 U.S.C. § 1125 (2000).

435. See *id.*; *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813, 827 (7th Cir. 1999) (concluding that the laches doctrine barred false advertising and false promotion claims under section 43(a) of the Lanham Act); *BASF Corp. v. Old World Trading Co.*, 41 F.3d 1081, 1099 (7th Cir. 1994) (affirming a false advertising claim and awarding damages under the Lanham Act).

436. See 15 U.S.C. § 1125(c); *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 433 (2003) (holding that a plaintiff must make a showing of actual dilution rather than mere likelihood of dilution); *Ty Inc. v. Softbelly’s*, 353 F.3d 528, 535 (7th Cir. 2003) (expressing uncertainty as to the reach and impact of the Supreme Court’s trademark-antidilution decision in *Moseley*); *Caterpillar Inc. v. Walt Disney Co.*, 287 F. Supp. 2d 913, 921 (C.D. Ill. 2003) (rejecting trademark-antidilution claim arising out of “George of the Jungle” movie sequel that used brief shots of Caterpillar tractors as villains).

437. 15 U.S.C. §§ 1114(1)(a)–(b), 1116(d), 1117(c) (2000 & West Supp. 2003).

438. See 765 ILL. COMP. STAT. 1036/1–1036/999 (2002).

439. See *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 100 (1918) (recognizing the common law rule of first in use, first in right and noting it would be a “perversion” to hold otherwise).

A separate regime covers registration of computer domain names.⁴⁴⁰ Domain name disputes give rise to contract-based dispute resolution under the Uniform Domain-Name Dispute-Resolution Policy of the Internet Corporation for Assigned Names and Numbers (“ICANN”).⁴⁴¹ A challenge to such ICANN proceedings can be lodged under the Anticybersquatting Consumer Protection Act, however.⁴⁴² Even if a domain name registrant prevails in such proceedings, it should be noted that such registration does not insulate the registrant from infringement liability under federal and state trademark law if use of the domain name otherwise violates these laws.⁴⁴³

B. Trademark Registration

1. Federal Registration

Registration under the Lanham Act requires compliance with certain conditions. The Patent and Trademark Office has a website that sets forth trademark registration steps.⁴⁴⁴ Greatly simplified, an applicant can register based either on “use in commerce” or an “intent to use.” Use in commerce requires a showing that the mark is used in the ordinary course of trade and displayed on the applicant’s goods, which

440. See 2 JAY DRATLER, JR., *INTELLECTUAL PROPERTY LAW: COMMERCIAL, CREATIVE AND INDUSTRIAL PROPERTY* § 9.01[7] (2001) (setting forth a lengthy discussion of Internet domain name registration mechanics).

441. See *Dluhos v. Strasberg*, 321 F.3d 365, 372 (3d Cir. 2003) (finding that Uniform Domain-Name Dispute-Resolution Policy proceedings do not fall under the Federal Arbitration Act).

442. See *id.* at 367, 373 (finding jurisdiction under the Anticybersquatting Consumer Protection Act); *Schmidheiny v. Weber*, 319 F.3d 581, 581 (3d Cir. 2003) (holding that “re-registration” of a domain name was subject to the Anticybersquatting Consumer Protection Act).

443. See *Ty Inc. v. Perryman*, 306 F.3d 509, 514–15 (7th Cir. 2002) (reversing a permanent injunction barring a defendant from using the Internet domain name “bargainbeanies.com” where the court found “bargainbeanies” did not constitute “dilution” of the famous “Beanie Babies” mark under the federal antidilution statute); *Cardservice Int’l, Inc. v. McGee*, 950 F. Supp. 737, 740 (E.D. Va. 1997) (noting that domain name registration policies do not trump federal trademark law); see also *Harrods Ltd. v. Sixty Internet Domain Names*, 302 F.3d 214 (4th Cir. 2002) (concerning a trademark infringement and dilution action under the Anticybersquatting Consumer Protection Act over domain names using the name “Harrods”); *PGC Prop., LLC v. Wainscott/Sagaponack Prop. Owners, Inc.*, 250 F. Supp. 2d 136, 143 (E.D.N.Y. 2003) (holding that questions of fact precluded summary judgment on trademark infringement and cybersquatting claims relating to a domain name); *GlobalSantaFe Corp. v. GlobalSantaFe.com*, 250 F. Supp. 2d 610, 626 (E.D. Va. 2003) (finding trademark infringement when the defendant merely added “.com” to the plaintiff’s trademark).

444. See U.S. PATENT AND TRADEMARK OFFICE, *BASIC FACTS ABOUT TRADEMARKS: HOW DO I FILE A TRADEMARK APPLICATION*, at <http://www.uspto.gov/web/offices/tac/doc/basic/howtofile.htm> (last modified Nov. 16, 2003).

must be sold or transported in interstate commerce.⁴⁴⁵ An intent-to-use application does not require current use of the mark but does require a showing of a bona fide intent to use the mark.⁴⁴⁶ In the case of an intent-to-use registration, the applicant must actually begin using the mark in interstate commerce before the Patent and Trademark Office will register the mark officially.⁴⁴⁷

The Patent and Trademark Office reviews applications and conducts its own search for conflicting marks before publishing the mark in the Official Gazette. If the Patent and Trademark Office raises deficiencies on its own, or if a third party lodges an objection with the Patent and Trademark Office, the Patent and Trademark Office will attempt to resolve the problem through administrative proceedings before the Trademark Trial and Appeal Board, with any appeal thereafter going to the Federal Circuit Court of Appeals or to a federal district court.⁴⁴⁸ Absent an opposition, the Patent and Trademark Office will issue a certificate of registration for use in commerce marks or a notice of allowance for intent to use marks, as the case may be.⁴⁴⁹ Even though the Patent and Trademark Office will conduct a search, applicants should perform their own private search.⁴⁵⁰ There is no guarantee that the Patent and Trademark Office's search or a private search will uncover all conflicting marks.

Selecting a trademark involves a number of crucial choices independent of the ultimate business value of the mark. In choosing a mark, a company should recognize that trademarks fall within one of five categories, which in order from weakest to strongest are generic, descriptive, suggestive, arbitrary, and fanciful.⁴⁵¹ Generic marks cannot be registered, nor can descriptive marks unless they have acquired secondary meaning, which exists when consumers link the word to the

445. See *CAE, Inc. v. Clean Air Eng'g, Inc.*, 267 F.3d 660, 672–73 (7th Cir. 2001) (noting that in order to be registered, a mark must have been used in interstate commerce).

446. *Id.* at 673; see also *Caesars World, Inc. v. Milanian*, 247 F. Supp. 2d 1171, 1191 (D. Nev. 2003) (noting that the Lanham Act requires “‘a bona fide intention, under the circumstances showing the good faith of such person’ to use the mark on the goods or services listed”).

447. *Caesars World, Inc.*, 247 F. Supp. 2d at 1191.

448. *Id.* at 673.

449. 15 U.S.C. § 1063(b) (2000).

450. See *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 962–63 (7th Cir. 1992) (finding that in-house counsel's perfunctory trademark search was not “particularly good evidence of bad faith,” thereby reversing a \$24 million trademark infringement award relating to “Thirst Aid” in a Gatorade slogan).

451. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992) (citing *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976)).

applicant rather than viewing it as merely descriptive.⁴⁵² This can be a tough sell, as the applicant must use a descriptive mark exclusively and for a long time in association with its goods or services in order to show that consumers associate those goods or services with the applicant's mark.⁴⁵³ By definition, this means that a descriptive mark cannot be registered until long after it has been in use. By contrast, suggestive, arbitrary, or fanciful marks can be registered without proof of secondary meaning. These three categories tend to compel thought on the part of a consumer before an association can be made between the applicant's goods and services and its mark. Tradenames identify firms or businesses rather than their products or services, and they therefore cannot be registered as trademarks under the Lanham Act. However, tradenames used in a trademark sense, like Kodak or Exxon, can be registered and protected as trademarks.⁴⁵⁴ Trademarks cannot be registered if they consist of immoral, deceptive, or scandalous matter, or if they disparage or bring into disrepute persons, institutions, beliefs or national symbols.⁴⁵⁵

2. Illinois State Law Registration and Common Law Protection

The Illinois Trademark Registration and Protection Act largely duplicates federal law.⁴⁵⁶ Registration can be secured by application to the Illinois Secretary of State.⁴⁵⁷ The Secretary of State will examine the application for conformity with the state statute and may request amendments or deny registration. The Secretary of State will grant

452. See *Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. 111, 116–17 (1938) (“Since the term is generic, the original maker of the product acquired no exclusive right to use it.”). The Court also discussed the requirements for establishing secondary meaning. *Id.* at 118.

453. See *TE-TA-MA Truth Found.—Family of URI, Inc. v. World Church of the Creator*, 297 F.3d 662, 666 (7th Cir. 2002) (holding that the plaintiff's trade name “Church of the Creator” is descriptive and entitled to trademark protection).

454. See *Ty Inc. v. Perryman*, 306 F.3d 509, 513 (7th Cir. 2002) (mentioning “Kodak” and “Exxon” as examples of fanciful trademarks); Leonard D. DuBoff, *What's In a Name: The Interplay Between the Federal and Trademark Registries and State Business Registries*, 6 DEPAUL BUS. L.J. 15, 26 (1993) (mentioning “Chevron” as an example of a tradename registered as a trademark).

455. 15 U.S.C. § 1052(a) (2000); e.g., *Pro-Football, Inc. v. Harjo*, 284 F. Supp. 2d 96, 144–45 (D. D.C. 2003) (reversing the Trademark Trial and Appeal Board's (“TTAB”) decision to cancel six federal trademark registrations involving the Washington Redskins professional football team based on the TTAB's determination that the marks “may disparage” Native Americans or “bring them into contempt or disrepute”).

456. See Andrew L. Goldstein, *The New Illinois Trademark Registration and Protection Act*, 86 ILL. B.J., 219 (1998) (giving an overview of the Illinois Trademark Registration and Protection Act that took effect on January 1, 1998, and discussing its derivation from the Lanham Act).

457. 765 ILL. COMP. STAT. 1036/15 (2002).

registration based on priority of applications in the event of concurrent applications by separate parties. As with federal law, the Secretary of State's issuance of a registration is not a substitute for an applicant's diligent mark search. Unlike the Lanham Act, the Illinois Trademark Registration and Protection Act does protect tradenames in some instances.⁴⁵⁸ Common law protection, by definition, does not require registration. Registration under the Illinois Assumed Name Act does *not* confer any trademark rights.⁴⁵⁹ It should be noted that there is no "personal name rule" that gives a person an absolute right to use his or her name in business.⁴⁶⁰

C. Trademark Infringement

As noted, federal registration is not required to bring certain claims under federal law, such as false advertising,⁴⁶¹ nor is a federal registration required to bring a trademark action, as a party can invoke common law rights in limited instances. Nevertheless, federal registration confers significant benefits. A federal registration places others on constructive notice as to the registrant's mark; it also gives rise to a presumption of the registrant's ownership of the mark and its exclusive right to use the mark nationwide in connection with the goods and services identified in the registration.⁴⁶² Most important, a federal registration allows the registrant to initiate trademark infringement proceedings in federal court. Finally, a federal registration can be filed with the United States Customs Service to block importation of infringing or counterfeit goods.

Federal registration carries with it powerful remedies. Under sections 32 and 35 of the Lanham Act, a trademark infringer can be liable for actual damages, reasonable royalties, or disgorgement of its own

458. See *id* § 1036/5(j) (defining "tradename"); *id* § 1036/65(a) (protecting tradenames against dilution).

459. See *Carmen's Pizza Corp. v. Manzella*, No. 91 C 4833, 1992 U.S. Dist. LEXIS 6763, at *1 (N.D. Ill. May 18, 1992) ("[C]ompliance with the Illinois Assumed Name Act does not exempt the assumed business name from the federal law requirement that another business' trademark not be infringed.").

460. *Rosario D. Salerno's Sons, Inc. v. Butta*, 635 N.E.2d 1339, 1346 (Ill. App. Ct. 1st Dist. 1994) (holding that the ex-employee of a funeral home had no absolute right to use her surname as a trade name associated with her new funeral home employer).

461. See *supra* notes 434–35 and accompanying text (discussing the activities prohibited by federal trademark law); *BASF Corp. v. Old World Trading Co.*, 41 F.3d 1081 (7th Cir. 1994) (affirming a \$2 million Lanham Act false advertising judgment that did not involve a trademark infringement claim).

462. 15 U.S.C. § 1057(b) (2000).

profits.⁴⁶³ In addition, the infringer can be held liable for attorneys' fees and treble damages for willful infringement.⁴⁶⁴ Prejudgment interest is also available under the Seventh Circuit's interpretation of the Lanham Act.⁴⁶⁵ As one would expect, preliminary and permanent injunctive relief is authorized statutorily.⁴⁶⁶ Even more severe sanctions are available for trademark counterfeiting, including ex parte searches and seizures.⁴⁶⁷ Destruction of infringing products also can be ordered.⁴⁶⁸ Abandonment and fair use frequently are asserted as defenses.⁴⁶⁹

The Illinois Trademark Registration and Protection Act also provides infringement remedies, including injunctive relief, damages, and the infringer's profits.⁴⁷⁰ The Illinois statute grants courts discretion to treble monetary relief and to award attorneys' fees if the court finds bad faith or similar circumstances warrant enhanced remedies.⁴⁷¹ For trademark dilution, however, the Illinois act ordinarily permits only injunctive relief, unless the plaintiff proves willfulness. Proof of willfulness gives the court discretion in a state law dilution action to award all other relief available under the Illinois Trademark Registration and Protection Act.⁴⁷² Abandonment and fair use are defenses, just as under federal law.⁴⁷³

463. See *id.* § 1114 (describing remedies available regarding infringing printers and publishers); *id.* § 1117 (2000 & West Supp. 2003) (specifying recovery for violation of rights).

464. *Id.* § 1117(b).

465. See *Gorenstein Enters. v. Quality Care-USA, Inc.*, 874 F.2d 431, 436 (7th Cir. 1989) ("While the statute makes no reference to prejudgment interest, the Gorensteins do not question that federal common law authorizes the award of such interest in appropriate cases to victims of violations of federal law.").

466. See *In re Vuitton et Fils S.A.*, 606 F.2d 1, 4 (2d Cir. 1979) (holding that a trademark owner was entitled to a temporary restraining order).

467. See 15 U.S.C. § 1117(c) (fixing damages at amounts not less than \$500 nor more than \$100,000 per counterfeit mark per type of goods or services sold, or if willful, not more than \$1 million per counterfeit mark per type of goods or services sold).

468. *Id.* § 1118; see *Piper Aircraft Corp. v. Wag-Aero, Inc.*, 741 F.2d 925, 928-29 (7th Cir. 1984) ("Plaintiff also sought the destruction of all infringing material in defendant's possession . . .").

469. *But see Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 955 (7th Cir. 1992) (rejecting the abandonment defense).

470. 765 ILL. COMP. STAT. 1036/70 (2002).

471. *Id.*

472. *Id.* § 1036/65.

473. See *id.* § 1036/65(b)(1) (stating that fair use of a famous mark is not actionable under section (b)(1)).

D. Trademark Licenses

Trademark licensing is primarily a contractual matter, and thus parties are free to organize their affairs as they see fit, such as through exclusive or nonexclusive licenses.⁴⁷⁴ However, two crucial considerations arise with respect to trademark licensing: (1) the mark owner/licensor must specify in the license the nature of the goods (or services) covered; and (2) the mark owner/licensor should provide for control over the quality of the licensed goods (or services) in the license.⁴⁷⁵ The absence of an express contractual right to inspect and supervise a licensee's operations is not conclusive evidence of lack of control, but the mark owner/licensor must in fact exercise at least some reasonable control over the quality of the marked goods or services. Failure to do so could result in a court declaring the agreement a naked license, which would be deemed an abandonment of the mark.⁴⁷⁶

Another problem to consider concerns reversion of mark ownership where the licensor and licensee sever their relationship, as often happens when a manufacturer terminates a relationship with a distributor that has been using the manufacturer's mark. The license agreement controls the rights of the parties in the use of the mark, and the agreement should state that use and ownership of the mark remains solely with the manufacturer in the event the distributorship is terminated. It is unlikely that a court would allow a distributor to continue using the manufacturer's mark after losing access to the trademark product, as doing so would confuse customers,⁴⁷⁷ but inclusion of a contractual term has the benefit of precluding any debate. As with copyright licenses, it is not necessary to negate the possibility

474. See *Beanstalk Group, Inc. v. AM Gen. Corp.*, 283 F.3d 856, 861 (7th Cir. 2002) (determining that a representation agreement that appointed Beanstalk as an agent of AM General to obtain licenses to use the latter's "HUMMER" trademark did not give Beanstalk a right to a commission on the sale of AM General's business merely because the sale included the HUMMER trademark).

475. 15 U.S.C. § 1055 (2000).

476. See *Barcamerica Int'l USA Trust v. Tyfield Imp., Inc.*, 289 F.3d 589, 598 (9th Cir. 2002) (holding that a mark owner's failure to include a quality control provision in either of its agreements with the defendant, and the mark owner's total failure to engage in any quality control efforts, resulted in abandonment of the mark); Jeffrey H. Brown & Luke W. DeMarte, *Trademark Gone Sour: Failure To Supervise Quality of a Licensee's Wine Led to Cancellation*, NAT'L L.J. Sept. 23, 2002, at B7 (discussing the *Barcamerica* case as well as licensing strategies).

477. See *Int'l Cosmetics Exch., Inc. v. Gapardis Health & Beauty, Inc.*, 303 F.3d 1242, 1248-49 (11th Cir. 2002) (holding that the parties' concurrent use of identical marks was likely to confuse customers).

of a joint venture being established by an ordinary trademark licensing agreement, but such prudence might be worth the effort.⁴⁷⁸

Finally, licenses, like assignments and other transfers of trademarks, should take into account the rule invalidating "assignments in gross."⁴⁷⁹ In *Green River Bottling Co. v. Green River Corp.*, for example, Sethness-Greenleaf sold its trade secret formula and "Green River" soft drink trademark to Green River Corporation for \$75,000, with payment to be made in \$5 increments for each gallon sold until the full purchase price was paid.⁴⁸⁰ When full payment was tendered, the secret formula was to be turned over to Green River Corporation; until then, Green River Corporation was simply a licensee and the formula was to be held in escrow, with Sethness-Greenleaf entitled to repossess the formula in the event of default.⁴⁸¹ Green River Corporation later defaulted, and Sethness-Greenleaf therefore took back possession of the secret formula, but Green River Corporation continued selling beverages under the Green River mark using a different formula.⁴⁸² The Seventh Circuit Court of Appeals held that under the sale contract, the Green River trademark was to stay with the formula and that a contrary view would result in an impermissible assignment in gross.⁴⁸³ The court stressed that the assignment in gross prohibition serves to protect consumers from receiving goods that do not correspond to the quality and consistency implied by the mark.⁴⁸⁴

VII. FIDUCIARY DUTIES

Fiduciary duties, though strictly speaking not a form of intellectual property, can play a pivotal part in intellectual property cases, often serving as an alternative theory of liability.⁴⁸⁵ Indeed, fiduciary duty

478. See *Dinaco, Inc. v. Time Warner, Inc.*, 346 F.3d 64, 68 (2d Cir. 2003) (rejecting a joint venture claim based upon a trademark licensing agreement, stating, "The agreement . . . established contractual obligations, not a business enterprise.").

479. See 15 U.S.C. § 1060 (2000 & West Supp. 2003). The statute states,

A registered mark or a mark for which an application to register has been filed shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark.

Id.

480. *Green River Bottling Co. v. Green River Corp.*, 997 F.2d 359, 360 (7th Cir. 1993).

481. *Id.*

482. *Id.*

483. See *id.* at 362 ("A trademark cannot be said 'in gross,' that is, separately from the essential assets used to make the product/service that the trademark identifies.")

484. *Id.* at 362-63.

485. See *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 753 (7th Cir. 2002) (noting the jury's finding of a breach of fiduciary duty in a copyright case).

claims can be quite powerful in light of the Illinois Supreme Court's strict insistence on full disclosure, timely tender, and clear consent.⁴⁸⁶

A. *Scope of Fiduciary Duties*

Fiduciary obligations are imposed judicially and therefore do not require a contract,⁴⁸⁷ although contracts can be used to establish or modify fiduciary duties.⁴⁸⁸ Some relationships are fiduciary in nature as a matter of law: partners, directors, officers, and employees present familiar examples.⁴⁸⁹ The application of fiduciary principles to shareholders in closely held corporations has divided Illinois courts,⁴⁹⁰ and their role in limited liability companies has been rarely tested in Illinois.⁴⁹¹ Other relationships may also trigger fiduciary duties⁴⁹²

486. See *Mullaney, Wells & Co. v. Savage*, 402 N.E.2d 574, 581–82 (Ill. 1980) (noting that disclosure and tender of corporate opportunity are not enough because consent is also required); *Vendo Co. v. Stoner*, 321 N.E.2d 1, 9–10 (Ill. 1974) (finding insufficient an inaccurate and partial disclosure of a corporate opportunity); *Kerrigan v. Unity Sav. Ass'n*, 317 N.E.2d 39, 43–44 (Ill. 1974) (requiring full disclosure and timely tender of corporate opportunity).

487. See *LID Assoc. v. Dolan*, 756 N.E.2d 866, 877 (Ill. App. Ct. 1st Dist. 2001) (holding that expert witnesses cannot testify to the standard of care in a fiduciary duty case, as fiduciary duties present questions of law for the court alone).

488. See *Armstrong v. Guigler*, 673 N.E.2d 290, 296–97 (Ill. 1994) (noting the “unique character” of fiduciary duties and contrasting implied and expressed fiduciary duties for statute of limitations purposes); *Kinzer v. City of Chicago*, 539 N.E.2d 1216, 1220 (Ill. 1989) (holding that fiduciary duties are a product of contract, agency, and equity law).

489. See *Eckard Brandes, Inc. v. Riley*, 338 F.3d 1082, 1085–86 (9th Cir. 2003) (holding that even low-level employees owe fiduciary duties under Hawaii law and noting that the Restatement (Second) of Agency “maintains an action for a violation of the duty of loyalty”); *Winston & Strawn v. Nosal*, 664 N.E.2d 239, 244–46 (Ill. App. Ct. 1st Dist. 1996) (finding that a law firm owed a fiduciary duty of good faith to an expelled partner); *Langer v. Becker*, 608 N.E.2d 468, 470 (Ill. App. Ct. 1st Dist. 1992) (holding that when dissolution occurs upon a partner leaving a partnership, “[t]he fiduciary relationship ceases and the remaining partner is free to do business on his own under a new name”); *Labovitz v. Dolan*, 545 N.E.2d 304, 310 (Ill. App. Ct. 1st Dist. 1989) (finding that a general partner owed a fiduciary duty of good faith to limited partners); *Saballus v. Timke*, 460 N.E.2d 755, 760 (Ill. App. Ct. 1st Dist. 1983) (holding that “partners are free to vary many aspects of their relationship inter se, but they are not free to destroy its fiduciary character”).

490. See generally William Lynch Schaller, *Competing After Leaving: Fiduciary Duties of Closely Held Corporation Shareholders After Hagshenas v. Gaylord*, 84 ILL. B.J. 354 (1996) (arguing that minority shareholder status, by itself, should not impose fiduciary duties); Frank H. Easterbrook & Daniel R. Fischel, *Close Corporations and Agency Costs*, 38 STAN. L. REV. 271 (1986) (arguing that close corporations should not be treated routinely as the equivalent of partnerships, as the two differ in many significant respects).

491. See *Valinote v. Ballis*, 295 F.3d 666, 670 (7th Cir. 2002) (treating a limited liability company inter-member dispute as a contractual rather than a fiduciary matter); *Anest v. Audino*, 773 N.E.2d 202, 209, 210–11 (Ill. App. Ct. 2d Dist. 2002) (noting that the Illinois Limited Liability Company Act originally adopted the law of corporations for fiduciary purposes and by recent amendment now explicitly imposes fiduciary duties of loyalty and care on members in a member-managed limited liability company, and holding that members and managers of limited liability companies cannot divert corporate opportunities). See generally Charles W. Murdock,

depending upon whether the facts show one party reposed trust and confidence and the other accepted corresponding obligations.⁴⁹³ The rule in such cases can be stated simply: “Every person who accepts the responsibility of acting on behalf of another is a fiduciary.”⁴⁹⁴

Though intended as a shield, fiduciary duties can sometimes be wielded as a sword.⁴⁹⁵ Unlike large company executives and employees who are expected to devote their entire time to a single firm, small business owners often pursue opportunities outside their own companies. Unfortunately, in doing so, many small business owners do not give adequate thought to potential disputes over the propriety of their relationships with outsiders, which may give rise to corporate opportunity claims. This problem is so common that some commentators have argued that small business owners should be subject

Limited Liability Companies in the Decade of the 1990s: Legislative and Case Law Developments and Their Implications for the Future, 56 BUS. LAW. 499, 520 (2001) (discussing sparse case law on fiduciary duties in limited liability companies).

492. *Compare* Safeway Ins. Co. v. Daddono, 777 N.E.2d 693, 696–98 (Ill. App. Ct. 1st Dist. 2002) (holding that an insurance agency breached a fiduciary duty to maintain premiums in a premium fund trust account, but sole shareholders of the insurance agency did not owe a fiduciary duty to the injured insurer absent allegations of their individual participation in the fraud), *with* Gotham Partners, L.P. v. Hallwood Realty Partners, L.P., 817 A.2d 160, 178 (Del. 2002) (affirming that directors and officers of a general partner’s corporate parent could be jointly and severally liable for aiding and abetting a general partner’s breach of its contractually created fiduciary duties).

493. *See In re Scarpello*, 272 B.R. 691, 701–02 (Bankr. N.D. Ill. 2002) (discussing the standard Illinois definition of a fiduciary duty in a nondischargeability contest under 11 U.S.C. § 523(a)(4) between cousins over converted funds); *Dunbar v. Am. Tel. & Tel. Co.*, 87 N.E. 521, 535 (Ill. 1909) (finding that an agent, in violation of trust and confidence, entered into a “secret intrigue” with third parties against the interests of his principal); *Prodromos v. Everen Sec., Inc.*, 793 N.E.2d 151, 156–57 (Ill. App. Ct. 1st Dist. 2003) (stating that the existence of an agency relationship can be proven through circumstantial evidence, and that an engagement letter or fee is unnecessary).

494. *Graham v. Mimms*, 444 N.E.2d 549, 555 (Ill. App. Ct. 1st Dist. 1982).

495. *See Universal Mfg. Co. v. Gardner, Carton & Douglas*, 207 F. Supp. 2d 830, 834–35 (N.D. Ill. 2002) (rejecting a breach of fiduciary duty claim where counsel represented opposing parties in separate cases); *Goldberg v. Michael*, 766 N.E.2d 246, 251–53 (Ill. App. Ct. 2d Dist. 2002) (rejecting a corporate opportunity fiduciary duty claim and requiring that the plaintiffs and their attorneys show cause why sanctions should not be imposed where the plaintiff lacked standing to sue); Andrew Park, *Family Feuds Don’t Get Nastier Than This: EDS Is Suing the Former CEO of Its A. T. Kearney Unit, Who’s Throwing Some Punches of His Own*, BUS. WK., Feb. 10, 2003, at 62–63 (reporting EDS’s charge that a top executive bilked the company of \$100,000 in phony expenses and the accused executive’s countercharge that EDS manipulated its financial statements); *cf. Walker v. Dep’t of Transp. & Dev.*, 817 So. 2d 57, 62 (La. 2002) (noting that representing a party against a former client on the same type of case, without more, is insufficient to disqualify an attorney).

to less stringent fiduciary duties in these circumstances,⁴⁹⁶ a position that obviously runs counter to conventional wisdom about agency costs.⁴⁹⁷

B. Fiduciary Duty Remedies

Assuming fiduciary duties apply in a given situation, the fiduciary duty of loyalty prohibits competition during the fiduciary relationship.⁴⁹⁸ Corporate opportunities also cannot be usurped by a fiduciary.⁴⁹⁹ On the other hand, some fiduciaries in very limited circumstances may be allowed to prepare to compete before severing the fiduciary relationship.⁵⁰⁰ The line between proper and improper activities by fiduciaries prior to resignation is not always easy to draw, as Illinois courts tend to engage in fact-intense inquiries in these disputes.⁵⁰¹ If a fiduciary crosses this line, however, courts can and will treat the wrongdoer harshly. Compensatory damages, punitive damages, prejudgment interest, compensation forfeiture, constructive trust, and restitutionary relief are all available,⁵⁰² as is injunctive relief,

496. See Victor Brudney & Robert Charles Clark, *A New Look at Corporate Opportunities*, 94 HARV. L. REV. 997, 1060–61 (1981) (arguing in favor of reduced fiduciary duties for closely held corporation owners).

497. See generally Jennifer Arlen et al., *Endowment Effects Within Corporate Agency Relationships*, 31 J. LEGAL STUD. 1, 2 n.4 (2002) (collecting literature on behavioral law and economics); Easterbrook & Fischel, *supra* note 490, at 283–300 (examining agency costs associated with entity structures).

498. See *Mullaney, Wells & Co. v. Savage*, 402 N.E.2d 574, 582 (Ill. 1980) (holding that an employee who competed for a corporate opportunity violated his fiduciary obligations); *Vendo Co. v. Stoner*, 321 N.E.2d 1, 12 (Ill. 1974) (holding that an officer who competed for a corporate opportunity and assisted a rival corporation violated his fiduciary duty).

499. See *City of Chicago ex rel. Cohen v. Keane*, 357 N.E.2d 452, 456 (Ill. 1976) (applying the corporate opportunity doctrine to a public official); *Kerrigan v. Unity Sav. Ass'n*, 317 N.E.2d 39, 43–44 (Ill. 1974) (applying the corporate opportunity doctrine expansively to cover opportunity outside of a corporation's line of business and arguably illegal for the corporation to undertake).

500. See generally *Dowd & Dowd, Ltd. v. Gleason*, 693 N.E.2d 358, 371 (Ill. 1998) (recognizing the limited right of attorneys to prepare to compete before resigning).

501. See *Superior Envtl. Corp. v. Mangan*, 247 F. Supp. 2d 1001, 1002 (N.D. Ill. 2003) (“Illinois law involving fiduciary duties of corporate officers following their departure from a corporation is, at best, confusing.”); William Lynch Schaller, *Disloyalty and Distrust: The Eroding Fiduciary Duties of Illinois Employees*, 3 DEPAUL BUS. L.J. 1, 74–75 (1991) (criticizing the preparing-to-compete doctrine).

502. See *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 424–25 (2003) (emphasizing that “in practice, few awards exceeding a single-digit ratio between punitive and compensatory damages, to a significant degree, will satisfy due process”); *Martin v. Heindol Commodities, Inc.*, 643 N.E.2d 734, 755–59 (Ill. 1994) (affirming a pre-judgment interest award, accounting award, and constructive trust award with respect to a \$597,800 wrongful gain/foreign service fee and a \$500,000 punitive damage award in a breach of fiduciary duty case); *Neumann v. Neumann*, 777 N.E.2d 981, 985 (Ill. App. Ct. 3d Dist. 2002) (affirming the award of prime rate

of course.⁵⁰³ In light of such scandals as Enron, ImClone, Tyco, Global Crossing, and WorldCom, involving alleged conflicts of interest ranging from mutual back-scratching to outright theft, fiduciary duty claims are sure to hold center stage for years to come.⁵⁰⁴ And these private sector

prejudgment interest for a breach of partnership fiduciary duty); *Levy v. Markal Sales Corp.*, 643 N.E.2d 1206, 1226 (Ill. App. Ct. 1st Dist. 1994) (affirming a \$5,252,248 judgment for a breach of fiduciary duty, including \$3 million in punitive damages and \$1,699,118 in forfeited salary and benefits); David Venino, *Suppliers Fight to \$6 Million Award*, NAT'L L.J., Dec. 9, 2002, at B1 (reporting a \$6 million unjust enrichment/restitutionary relief jury verdict for diversion of sixty-nine employees and wrongful appropriation of business value); Joann S. Lublin, *Companies Seek To Recover Pay from Ex-CEO's*, WALL ST. J., Jan. 7, 2004, at B1 (describing compensation forfeiture litigation against senior executives of Kmart, HealthSouth, Rite Aid, Freddie Mac, and the New York Stock Exchange, all for breach of fiduciary duty), available at 2004 WL-WSJ 56916347.

503. See *Foodcomm Int'l v. Barry*, 328 F.3d 300, 304–05 (7th Cir. 2003) (enjoining employees from working for a customer solely on breach of fiduciary duty grounds); *Regal-Beloit Corp. v. Drecoll*, 955 F. Supp. 849, 868–69 (N.D. Ill. 1996) (enjoining employees from purchasing a business on breach of fiduciary duty grounds); Stephen B. Burbank, *The Bitter with the Sweet: Tradition, History, and Limitations on Federal Judicial Power—A Case Study*, 75 NOTRE DAME L. REV. 1291, 1317–21 (2000) (discussing the practical power of injunctive relief in federal courts); William Lynch Schaller, *Some Preliminary Thoughts About Preliminary Injunctions*, 85 ILL. B.J. 12, 13–15, 27 (1997) (describing various circumstances in which preliminary injunctive relief will lie).

504. See generally Roger C. Cramton, *Enron and the Corporate Lawyer: A Primer on Legal and Ethical Issues*, 58 BUS. LAW. 143 (2002) (discussing legal ethics in relation to corporate clients); John R. Emshwiller, *Enron Report Says Lay, Skilling 'Breached Their Fiduciary Duties'*, WALL ST. J., Nov. 25, 2003, at A13 (describing bankruptcy examiner's report contending that Kenneth Lay and Jeffrey Skilling breached their fiduciary duties in managing Enron and could be liable for repaying millions of dollars to the company), available at 2003 WL-WSJ 68129223; Richard A. Epstein, *Law and Economics: Sarbanes Overdose*, NAT'L L.J., Jan. 27, 2003, at A17 (arguing that heightened independent director requirements, imposed by the Sarbanes-Oxley Act, will have the unintended effects of making it more difficult and expensive to recruit independent directors and of reducing their independence by forcing them to focus greater attention on a single firm); John Gibeau, *Fear and Loathing in Corporate America*, A.B.A. J., Jan. 2003, at 50 (reviewing recent corporate scandals); Linda Himmelstein & Ben Elgin, *Tech's Kickback Culture: Inside the Sweet Deals that Grease the Industry*, BUS. WK., Feb. 10, 2003, at 74 (describing a four-month investigation by *Business Week* that revealed hundreds of high-tech company managers who were granted exclusive stock in companies with which their employers did business); Charles Murdock, *Corporate Leaders Lied to Themselves*, CHI. TRIBUNE, Oct. 13, 2002, § 2, at 1 (describing how expectations, entitlement mentality, and legal developments contributed to the Enron, Tyco, WorldCom, Global Crossing, and ImClone scandals), available at 2002 WL 101651086; Joseph E. Murphy, *Can the Scandals Teach Us Anything? Enron, Ethics and Lessons for Lawyers*, BUS. L. TODAY, Jan.-Feb. 2003, at 11 (discussing the role of lawyers in scandals); Larry P. Scriggins, *Legal Ethics, Confidentiality, and the Organizational Client*, 58 BUS. LAW. 123 (2002) (discussing post-Enron ethical issues for corporate lawyers); Steven R. Smith, *The Sarbanes-Oxley Act: How Will It Affect D&O Insurance Coverage?*, 91 ILL. B.J. 128 (2003) (analyzing the Sarbanes-Oxley Act's potential impact on directors' and officers' policy coverage questions over "claim" definition, "loss" definition, "insured v. insured" exclusion, advancement of defense costs, allocation of covered and uncovered expenses, and other issues).

debacles pale in comparison to the public pension fund fiduciary-duty storm clouds gathering on the horizon.⁵⁰⁵

C. *Fiduciary Duties Exist Independent of Other Claims*

As noted, fiduciary duties can serve as an alternative to intellectual property law in some commonly encountered small business contexts. For instance, in *Vendo Co. v. Stoner*, Stoner sold his firm to Vendo but remained as president of the firm.⁵⁰⁶ Stoner became unhappy when he was relegated to the role of a “figurehead” and secretly began assisting a rival in developing a competing vending machine.⁵⁰⁷ Stoner’s problems were compounded when Vendo, unaware of the full extent of Stoner’s interest in the rival, asked Stoner to serve as an intermediary on behalf of Vendo in its attempt to acquire the rival’s technology, leaving Stoner with “a foot in each camp.”⁵⁰⁸ The Illinois Supreme Court affirmed a massive money judgment against Stoner solely on fiduciary duty grounds, independent of Vendo’s unsuccessful trade secret and noncompete claims.⁵⁰⁹

A variation on this theme can be found in *Farwell v. Pyle-National Electric Headlight Co.*⁵¹⁰ In *Farwell* a corporation licensed certain patented technology from third parties.⁵¹¹ The corporation’s director, Farwell, secretly purchased the patents and license agreements from the third parties in question and later asserted royalty claims against the corporation.⁵¹² The Illinois Supreme Court held that Farwell breached his fiduciary duties by standing on both sides of the license transaction, which barred Farwell from recovering on his royalty claims against the corporation.⁵¹³

505. Compare Leigh v. Engle, 727 F.2d 113, 140 (7th Cir. 1984) (finding a breach of fiduciary duty by private pension fund trustees because their investment decisions, even though ultimately very beneficial to the pension fund, were designed to benefit entities other than the pension fund), with Editorial, *Cronyism at Calpers*, WALL ST. J., Jan. 31, 2003, at A10 (describing the “lethal mix” of politics and declining investment returns at Calpers, the giant California state pension fund), available at 2003 WL-WSJ 3958090.

506. *Vendo Co. v. Stoner*, 321 N.E.2d 1, 3–5 (Ill. 1974).

507. *Id.* at 5–6.

508. *Id.* at 9.

509. See *id.* at 9–11 (explaining Stoner’s fiduciary duty violations); *Vendo Co. v. Stoner*, 300 N.E.2d 632, 636 (Ill. App. Ct. 2d Dist. 1973) (reversing a damages award on a noncompete claim); *Vendo Co. v. Stoner*, 245 N.E.2d 263, 271–73 (Ill. App. Ct. 2d Dist. 1969) (rejecting a trade secret claim).

510. *Farwell v. Pyle-Nat’l Elec. Headlight Co.*, 124 N.E. 449 (Ill. 1919).

511. *Id.* at 450.

512. *Id.* at 451.

513. *Id.* at 453–54.

Another example of fiduciary duties substituting for intellectual property law is *Rexford Rand Corp. v. Ancel*.⁵¹⁴ There, a minority shareholder-employee was fired and hence “frozen out” of Rexford Rand, a closely held corporation.⁵¹⁵ As it turned out, Rexford Rand had been “administratively dissolved,” which made available the names “Rexford Rand Corporation” and “Daxcel Corporation.”⁵¹⁶ The minority shareholder discovered that these names were available and, thinking he was no longer a fiduciary by virtue of his employment termination, reserved these names and secured a corporate charter of his own in the name of Rexford Rand Corporation.⁵¹⁷ This prevented the original Rexford Rand from re-incorporating under its name.⁵¹⁸ The Seventh Circuit affirmed the district court’s order directing the minority shareholder to transfer the “Rexford Rand” and “Daxcel” corporate names back to the original Rexford Rand Corporation, approving this relief based upon common law fiduciary duty principles it thought applicable to minority shareholders.⁵¹⁹ The Court of Appeals nowhere mentioned federal or state trademark laws.

D. Fiduciary Duties and Employee Raiding

Another aspect of fiduciary duties concerns employee schemes to raid or divert customers and fellow employees before resignation.⁵²⁰ A significant number of Illinois Appellate Court opinions over the past

514. *Rexford Rand Corp. v. Ancel*, 58 F.3d 1215 (7th Cir. 1995).

515. *Id.* at 1217.

516. *Id.*

517. *Id.*

518. *Id.*

519. *Id.* at 1220–21; *see Med. Air Tech. Corp. v. Marwan Inv., Inc.*, 303 F.3d 11, 21 (1st Cir. 2002) (holding that a fifteen percent minority shareholder in a closely held corporation did not breach a fiduciary duty under Massachusetts law when it voted against a proposed merger, even if the vote furthered the minority shareholder’s financial interests); *Anest v. Audino*, 773 N.E.2d 202, 209–10 (Ill. App. Ct. 2d Dist. 2002) (following *Rexford Rand* in holding that a minority member of a limited liability company owed a fiduciary duty, but also holding that the same individual owed fiduciary duties by virtue of his management position in a limited liability company).

520. *Cf. Susan Beck, Brobeck Ex-staffers Weigh a Suit: Ex-chairman Tower Snow Jr. Is One Potential Target*, NAT’L L.J., Aug. 11, 2003, at 7 (discussing a possible lawsuit against former Brobeck Phleger & Harrison senior partners for a breach of fiduciary duty, unfair competition, and other conduct that allegedly contributed to the collapse of Brobeck); *Renee Deger, Brobeck’s Suit Has Feel of Earlier Case It Lost: The Defunct Firm Sues its Former Chairman and Clifford Chance*, NAT’L L. J., Oct. 20, 2003, at 11 (reporting that Brobeck’s loss in an earlier employee raiding case should help it in its recently filed employee-raiding action against its former chairman Tower Snow and his new firm, Clifford Chance); *Lisa Stansky, Brobeck Dies: Collapse Tied to Partner*, NAT’L L.J., Feb. 17, 2003, at A9 (discussing the fact that some partners’ rapid departures with major clients created irreversible momentum, leading to a major California law firm’s implosion).

two decades have condemned such activities, starting with two 1978 decisions, *H. Vincent Allen & Assoc. v. Weis*⁵²¹ and *ABC Trans National Transport, Inc. v. Aeronautics Forwarders, Inc.*⁵²² When such sneak attacks are planned on company time⁵²³ using company computers⁵²⁴ or other company assets,⁵²⁵ in addition to company personnel, they are especially likely to receive a chilly reception in court. These basic principles should never be forgotten, as many intellectual property disputes find their inception in precisely such “jumping ship” facts. At the very least, fiduciary duty charges will trigger wide-ranging discovery that may lead to unexpected intellectual property claims.⁵²⁶

E. Fiduciary Duties and “Mere Information”

Embedded in many Illinois corporate opportunity cases is the frequent observation that a person may not use information gained during the fiduciary relationship for his or her own purposes after termination of the relationship,⁵²⁷ a statement that makes sense in view

521. *H. Vincent Allen & Assoc. v. Weis*, 379 N.E.2d 765 (Ill. App. Ct. 1st Dist. 1978).

522. *ABC Trans Nat'l Transp., Inc. v. Aeronautics Forwarders, Inc.*, 379 N.E.2d 1228 (Ill. App. Ct. 1st Dist. 1978).

523. *See* *Guy v. Duff & Phelps, Inc.*, 625 F. Supp. 1380, 1384–85 (N.D. Ill. 1985) (finding a breach of fiduciary duty in the use of company time and computers); *Levy v. Markal Sales Corp.*, 643 N.E.2d 1206, 1217 (Ill. App. Ct. 1st Dist. 1994) (finding breach of fiduciary duties by directors for the personal use of company time, employees, and money); *Graham v. Mimms*, 444 N.E.2d 549, 558–59 (Ill. App. Ct. 1st Dist. 1982) (determining that a controlling shareholder's use of company time and employees was a breach of fiduciary duty).

524. *See* *Veco Corp. v. Babcock*, 611 N.E.2d 1054, 1060 (Ill. App. Ct. 1st Dist. 1993) (characterizing a business plan prepared on company computers as a “veritable smoking gun”); *Preferred Meal Sys. v. Guse*, 557 N.E.2d 506, 515 (Ill. App. Ct. 1st Dist. 1990) (holding that the use of a company computer to prepare a competitive business plan, along with a failure by executives to inform the corporation of these activities, constituted a breach of fiduciary duty).

525. *See* *Kerrigan v. Unity Sav. Ass'n*, 317 N.E.2d 39, 43–44 (Ill. 1974) (holding that the diversion of prospective customers was a breach of fiduciary duty); *Winger v. Chi. City Bank & Trust Co.*, 67 N.E.2d 265, 276–77 (Ill. 1946) (finding that the use of an insurance company's stock to collateralize a loan to a separate reserve company was a breach of fiduciary duty); *Zokoych v. Spalding*, 344 N.E.2d 805, 815 (Ill. App. Ct. 1st Dist. 1976) (holding that there was a breach of fiduciary duty because of the use of company assets).

526. *Compare* *James C. Wilborn & Sons, Inc. v. Brandex Tilt Sash, Inc.*, 380 F.2d 44, 48 (7th Cir. 1967) (reversing a district court's ruling that it lacked jurisdiction over a patent infringement claim simply because the defendants challenged the plaintiff's title to the patent), *with* *James C. Wilborn & Sons, Inc. v. Heniff*, 237 N.E.2d 781, 786 (Ill. App. Ct. 1st Dist. 1968) (rejecting a breach of fiduciary duty claim against departing employees), *and* *James C. Wilborn & Sons, Inc. v. Heniff*, 205 N.E.2d 771, 775 (Ill. App. Ct. 1st Dist. 1965) (affirming the vacating of a preliminary injunction against departing employees).

527. *See, e.g.,* *E.J. McKernan Co. v. Gregory*, 623 N.E.2d 981, 994 (Ill. App. Ct. 2d Dist. 1993) (stating that a corporation's fiduciary may not usurp a business opportunity developed through the use of corporate assets); *Veco Corp.*, 611 N.E.2d at 1059 (“The resignation of an

of the “prophylactic purpose” of this doctrine.⁵²⁸ But at least one Illinois fiduciary duty case has questioned this sweeping rule, holding that prohibiting fiduciaries from exploiting “mere information” after termination runs afoul of the trade secret rule permitting people to utilize their general skill and knowledge following departure.⁵²⁹ In addition, a more recent Illinois case could be read as holding that the Illinois Trade Secrets Act preempts corporate opportunity claims that are based upon misappropriated information alone.⁵³⁰ The precise contours of this fiduciary duty information restriction have not yet been examined in Illinois, and its relationship to potentially conflicting intellectual property law therefore remains unsettled.

F. Fiduciary Duties and “Ideas”

Many of the preceding observations hold true with respect to common law “idea” claims in Illinois, which often arise out of fiduciary or confidential relationships.⁵³¹ Idea law, Professor Margreth Barrett has explained,⁵³² emerged in the 1940s and 1950s but has received little comprehensive, critical evaluation of its fit within the framework of other intellectual property fields like patent, copyright, and trade secret law. For example, some Illinois state and federal cases have found

officer, however, will not sever liability for transactions completed after the termination of the party’s association with the corporation of transactions which began during the existence of the relationship or were founded on information acquired during the relationship.”); *Smith-Shrader Co. v. Smith*, 483 N.E.2d 283, 289 (Ill. App. Ct. 1st Dist. 1985) (noting that because the fiduciary duties of directors and officers apply after termination of the fiduciary relationship, the date of an alleged breach is not dispositive); *H. Vincent Allen & Assoc. v. Weis*, 379 N.E.2d 765, 769–70 (Ill. App. Ct. 1st Dist. 1978) (holding that officers and directors maintain fiduciary duties in transactions entered after the relationship with the corporation ends).

528. *Kerrigan*, 317 N.E.2d at 43–44 (1974).

529. *Dangeles v. Muhlenfeld*, 548 N.E.2d 45, 49 (Ill. App. Ct. 2d Dist. 1989) (declining to follow *Smith-Shrader* on the fiduciary duty “information” question in light of countervailing views that “solicitation of a business’ employees by a former officer is not actionable”).

530. *See Lucini Italia Co. v. Grappolini*, 231 F. Supp. 2d 764, 766–68 (N.D. Ill. 2002) (collecting federal cases examining when the ITSA preempts fiduciary duty claims); *see also Master Tech Prods., Inc. v. Prism Enters.*, No. 00 C 4599, 2002 U.S. Dist. LEXIS 5481, at *9–*10 (N.D. Ill. Mar. 26, 2002) (finding that the ITSA preempted Illinois Consumer Fraud Act, Illinois Antitrust Act, and common law fraud claims).

531. *See Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 721 n.1, 730–31 (7th Cir. 2003) (deciding a stolen toy idea claim under the ITSA and noting, but not deciding, the propriety of the district court’s dismissal of implied-in-fact contract, quasi-contract, and common law idea misappropriation claims); *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1228 (7th Cir. 1982) (applying Minnesota law and finding a misappropriation claim proper where the defendant disclosed the plaintiff’s idea to a third party who then secured a patent covering it).

532. *See generally* Margreth Barrett, *The “Law of Ideas” Reconsidered*, 71 J. PAT. & TRADEMARK OFF. SOC’Y 691 (1989) (presenting a comprehensive review of idea claims under various federal and state law theories).

common law idea claims preempted by the ITSA even where a plaintiff did not state a claim for trade secret misappropriation,⁵³³ an outcome that seems difficult to square with the ITSA's explicit provision barring preemption when the ITSA does not apply.⁵³⁴

A threshold element common to all Illinois idea cases seems to be concreteness.⁵³⁵ Otherwise abstract, generalized suggestions like "let's open a restaurant" could serve to saddle opponents with litigation over an undeveloped idea. The role of novelty or originality is less certain; novelty has been required in contract cases⁵³⁶ but excused in confidential relationship cases.⁵³⁷ Insistence on novelty seems

533. See 765 ILL. COMP. STAT. 1065/8 (a) (2002) ("Except as provided in subsection (b), this Act is intended to displace conflicting tort, restitutionary, unfair competition and other laws of this State providing civil remedies for misappropriation of a trade secret."); *Composite Marine Propellers, Inc. v. Van der Woude*, 962 F.2d 1263, 1265 (7th Cir. 1992) (noting that Illinois has "abolished all common law theories of misuse of [secret] information"); *Fabricare Equip. Credit Corp. v. Bell, Boyd & Lloyd*, 767 N.E.2d 470, 475 (Ill. App. Ct. 1st Dist. 2002) (finding that the ITSA preempted a common law unjust enrichment claim—even absent a trade secret claim); *Pope v. Alberto-Culver Co.*, 694 N.E.2d 615, 619–20 (Ill. App. Ct. 1st Dist. 1998) (holding that a hair care tube dispenser idea did not constitute a trade secret and stating that a common law unjust enrichment claim was preempted by the ITSA). But see *Learning Curve Toys, L.P. v. PlayWood Toys, Inc.*, No. 94 C 6884, 1999 U.S. Dist. LEXIS 11262, at *11–*12 (N.D. Ill. July 19, 1999), where the court observed the following:

In sum, the ITSA does not, as PlayWood contends, simply preempt common law claims for which misappropriation of a trade secret is an element. Rather, the provision eliminated common law claims based on conduct which might support an ITSA action. In other words, if the operative facts are arguably cognizable under the ITSA, any common law claim that might have been available on those facts in the past now no longer exists in Illinois.

534. See 765 ILL. COMP. STAT. 1065/8(b)(2) ("This Act does not affect . . . other civil remedies that are not based upon misappropriation of a trade secret . . ."). See generally Robert Unikel, *Bridging the "Trade Secret" Gap: Protecting "Confidential Information" Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841, 882–90 (1998) (discussing various preemption theories under the Uniform Trade Secrets Act).

535. See *Fenton McHugh Prods., Inc. v. WGN Cont'l Prods. Co.*, 434 N.E.2d 537, 541 (Ill. App. Ct. 1st Dist. 1982) (holding that an idea must be reduced to concrete form); *Jones v. Ulrich*, 95 N.E.2d 113, 120 (Ill. App. Ct. 3d Dist. 1950) (holding that while an idea must be concrete to be protectible, an idea need not "be tangible and in a material form"); *Pidot v. Zenith Radio Corp.*, 31 N.E.2d 385, 393–94 (Ill. App. Ct. 1st Dist. 1941) (holding that a defendant's independent conception and construction of a radio cabinet design was sufficient to defeat the plaintiff's wrongful appropriation claim).

536. See *Henning v. Kitchen Art Foods, Inc.*, 127 F. Supp. 699, 702 (S.D. Ill. 1954) (holding that a cake mix idea contained nothing "new or novel" and no contractual restriction barred independent development); *Fabricare Equip. Credit Corp.*, 767 N.E.2d at 475 (noting, in a contract case, that novelty is required to protect a property right in an idea); *Fenton McHugh Prods.*, 434 N.E.2d at 541 (stating, in a television format case, that novelty is required to protect a property right in an idea); *Szczesny v. W.G.N. Cont'l Broad. Corp.*, 370 N.E.2d 11, 16 (Ill. App. Ct. 1st Dist. 1977) (imposing, in dicta, a novelty requirement in a television program dispute).

537. See *Korkos v. Toyo Kogyo Co.*, 213 U.S.P.Q. 719, 720 (N.D. Ill. 1981) (stating that Illinois law indicates that a plaintiff may recover for misappropriation by demonstrating a

legitimate if the policy is to prevent private parties from claiming a property interest in public domain information,⁵³⁸ but if this is the point, then one would think the same policy would apply with equal force to both contract and confidential relationship cases and not just to contract cases alone. Perhaps the confidential relationship cases should simply be read as narrowly holding that the idea need only be new and novel as to the defendant, not to the whole world.⁵³⁹ Here, too, however, consistency would seem to demand that the same approach be used in both contract and confidential relationship cases, as a contract defendant gains something from the information exchange, even if the gain is minor.⁵⁴⁰

G. Drafting Considerations

While fiduciary duties can exist without a written agreement, the practical value of these duties can be enhanced significantly by carefully crafted contractual language authorizing or prohibiting outside activities.⁵⁴¹ From the fiduciary's perspective, written permission is crucial: absent such contractual authorization, full disclosure to and appropriate consent from the principal must be shown for a fiduciary to escape the otherwise absolute strictures of fiduciary duty law.⁵⁴² Given

confidential relationship and that the idea was new to the defendant); *Jones*, 95 N.E.2d at 121 (holding that a confidential relationship excused the need for proof of novelty); *Pidot*, 31 N.E.2d at 393 (indicating that the plaintiff need not show that its idea was "new and novel to the entire world").

538. See *Brunswick Corp. v. Outboard Marine Corp.*, 404 N.E.2d 205, 207 (Ill. 1980) (identifying the public interest in the free use of ideas and goods not protected by a valid patent as a reason for limiting trade secret protection); *ILG Indus., Inc. v. Scott*, 273 N.E.2d 393, 398 (Ill. 1971) ("What in reality is protected in cases of this nature is not the product or process, but the secrecy of it." (citing *Jones*, 95 N.E. 2d at 120)); *Fabricare Equip. Credit Corp.*, 767 N.E.2d at 475 (noting that the idea for tying financing and services together was in the public domain); *Hughes v. West Publ'g Co.*, 225 Ill. App. 58, 65 (1st Dist. 1922) (explaining that at common law there was no property right in a publicly disclosed system, device, plan, or scheme).

539. See *Korkos*, 213 U.S.P.Q. at 720 (noting that a plaintiff may recover for misappropriation where the idea was "new to the defendant"); *Pidot*, 31 N.E.2d at 392-93 (holding that an idea need only be new and novel as to the defendant).

540. Cf. *Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 377-79 (2d Cir. 2000) (applying New York law and stating that contract-based claims require only a showing that the disclosed idea was novel to the buyer, while misappropriation claims require that the idea be "original and novel in absolute terms").

541. See *Dremco, Inc. v. S. Chapel Hills Gardens, Inc.*, 654 N.E.2d 501, 505-06 (Ill. App. Ct. 1st Dist. 1995) (noting that a joint venture agreement, limited to development of a single property, did not restrict a venturer with respect to other properties).

542. See *McCabe Packing Co. v. United States*, 809 F. Supp. 614, 617-18 (C.D. Ill. 1992) (finding no fiduciary duty by a director after full disclosure of a business opportunity to the corporation and the corporation's subsequent rejection of the opportunity); *Kerrigan v. Unity Sav. Ass'n*, 317 N.E.2d 39, 43-44 (Ill. 1974) (noting that full disclosure, tender, and consent are

the high burden of proof a fiduciary faces on waiver and ratification defenses, a fiduciary should never confuse passive acquiescence with active consent.⁵⁴³ From the principal's perspective, written prohibitions are not essential but certainly are helpful. For example, the principal would be aided greatly by a clear contract if a dispute arose as to the scope of the fiduciary's affirmative duties, such as seeking new business.⁵⁴⁴ Without a writing, the principal would be forced to fall back on the gap-filling function of fiduciary duty law, which could potentially result in protracted litigation.⁵⁴⁵ Hence, from a planning standpoint, fiduciary duties should be viewed as supplementing rather than supplanting written agreements.

VIII. CONCLUSION

The importance of property rights in our society can hardly be doubted,⁵⁴⁶ and intellectual property rights have become one of the most important forms of modern property.⁵⁴⁷ Yet, as this overview demonstrates, intellectual property rights are not self-enforcing. Small companies, like large companies, must always be on their guard when it comes to valuable property, and intellectual property is no exception.

required to avoid a breach of fiduciary duty); *Anest v. Audino*, 773 N.E.2d 202, 211 (Ill. App. Ct. 2d Dist. 2002) (finding that an opportunity was not "properly disclosed and tendered").

543. See *TMF Tool Co. v. Siebengartner*, 899 F.2d 584, 589 (7th Cir. 1990) (applying Illinois law and noting that "in the absence of equities justifying an estoppel, a corporation cannot waive such a [breach of fiduciary duty] claim merely by inaction"); *Thornwood, Inc. v. Jenner & Block*, 799 N.E.2d 756, 763-69 (Ill. App. Ct. 1st Dist. 2003) (holding that a release between joint venturers, and a release between a departing joint venturer and the joint venture's law firm, were void on fiduciary duty grounds for failure to disclose a potential deal that would have enhanced materially the value of the joint venture); *In re Estate of Miller*, 778 N.E.2d 262, 267 (Ill. App. Ct. 5th Dist. 2002) (stating that to overcome presumption of fraud, a fiduciary must show full disclosure, fair value paid, and competent and independent advice received by the principal).

544. See *Delta Med. Sys., Inc. v. Mid-Am. Med. Sys., Inc.*, 772 N.E.2d 768, 785 (Ill. App. Ct. 1st Dist. 2002) (rejecting a fiduciary duty claim where the defendants had no responsibility to procure a new contract from a customer); *Blackman Kallick Bartelstein v. Sorkin*, 574 N.E.2d 121, 127 (Ill. App. Ct. 1st Dist. 1991) (determining that an employee was not a fiduciary for purposes of seeking out client investment opportunities for his accounting firm/employer).

545. See *Graham v. Mimms*, 444 N.E.2d 549, 555 (Ill. App. Ct. 1st Dist. 1982) ("The law of fiduciary obligations facilitates commercial efficiency by imposing a duty of loyalty on fiduciaries, thereby relieving the parties to such relationships of the obligation of, in every case, individually negotiating contracts which specify the fiduciary's duties in a large number of hard to anticipate situations.").

546. See generally Harold Demsetz, *Toward a Theory of Property Rights II: The Competition Between Private and Collective Ownership*, 31 J. LEGAL STUD. 653 (2002) (reviewing the evolution of the general theory of property rights).

547. See *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 976, 988 (N.D. Ill. 2000) (noting that strong intellectual property laws are necessary to encourage creativity and protect business investment).

That said, proper attention to intellectual property ownership and protection measures can yield enormous benefits for small firms, and thus planning is essential. But even the best legal and business planning is not a substitute for prudence in picking one's partners: If your philosophies don't match, don't do the deal.