

# Intellectual Property Litigation

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## YOU DON'T SAY

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*Breach of Fiduciary Duty versus Trade Secret  
Misappropriation: whither one, ne'er the other?*

I recently settled a large and complicated trade secrets case. The terms of the settlement are confidential so I will not reveal the names of the parties. The key facts were that the former president of the client's industrial division had for several months before his departure conspired with a competitor. During that time, he sent to the competitor confidential business plans, marketing data, customer information, vendor pricing, technical data, product samples, price sheets and other competitively sensitive materials.

Upon leaving the client, the former president immediately started a new company exclusively representing the competitor in North America. This presented a very serious threat to my client.

I sued the competitor and the former president under a variety of theories including misappropriation of trade secrets, breach of fiduciary duty, breach of a non-disclosure agreement and civil RICO. The defense, in part, contended that the things that I alleged were trade secrets were, in fact, not trade secrets and that my other claims were preempted by the Illinois Trade Secrets Act (ITSA). I had anticipated the preemption defense (having used it successfully myself in the past), but my counter-arguments were complicated greatly by a decision from the Northern District of Illinois rendered last May, a year or so after I filed suit.

The decision is *Thomas & Betts Corp. v. Panduit Corp.*, 2000 U.S. LEXIS 6010 (May 2, 2000, N.D. Ill.). It was rendered by Judge James Moran, who has long been among the ablest and steadiest judges in our district. Indeed, Judge Moran's personal credibility, to which our trial judge made specific reference, made it even more difficult for me to contend with the decision. What Judge Moran did was to hold, on facts not unlike my own, that theories of recovery other than trade secret misappropriation and breach of contract are preempted under the express terms of the ITSA.

He was referring to Section 8 of the Act, 765 ILCS 1065/8(a), which says: "[T]his 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."

Subsection (b) clarifies that the preemption does not include:

- (1) contractual remedies, whether or not based upon misappropriation of a trade secret, ...;
- (2) other civil remedies that are not based upon misappropriation of a trade secret; or
- (3) criminal remedies, whether or not based upon misappropriation of a trade secret; or

- (4) the definition of a trade secret contained in any other Act of this State.

Judge Moran's opinion in *Thomas & Betts* construes the preempting language of Section 8 much more broadly than I believe is warranted or wise. In a nutshell, his view seems to be that Section 8 prohibits a plaintiff from bringing any sort of breach of fiduciary duty or other tort claim if, on the same set of facts, the plaintiff also alleges trade secret misappropriation. [If you question my reading of the opinion, look at some of the claims Judge Moran dismissed which included a claim for conversion because the defendant had walked off with a \$3000 computer.] This goes too far.

Here is an illustration. In my case, the former president engaged in an unlawful scheme for several months. Early in that period, he disclosed information that clearly qualified as trade secret information. He even acknowledged its highly confidential nature in the transmittal documents to the competitor. At a later point, he sent the competitor a set of my client's product samples in response to the competitor's request.

We could not very well argue that the product samples are trade secrets. They are, after all, released to the public without non-disclosure agreements. But consider this. The client had an internal procedure for "qualifying" customers before releasing samples. The procedure existed to limit, as far as possible, distribution of samples to potential customers with a genuine interest in buying the products. Complete sets of samples were rarely released. Instead, samples were limited to those products targeted specifically to the customer. The former president, acting clandestinely, ignored the "qualification" process and secretly sent the competitor a complete set of samples.

I claimed this was a breach of the former president's fiduciary duty to the client. Certainly, it was disloyal in the extreme, even if no trade secrets were disclosed. In such circumstances, I think that most trial lawyers in Illinois would agree that the client has a remedy for the disloyalty. The rub was that, under a literal reading of *Thomas & Betts*, the fiduciary duty claim would be preempted because we alleged trade secret misappropriation based on other conduct that occurred as part of the same scheme.

The foregoing galvanized my conviction that *Thomas & Betts* is too broad. I think that I would have succeeded in convincing our trial judge too. Of course, we will never know because of the settlement.

The key is that breach of fiduciary duty exists to provide a remedy against disloyalty, which can take many forms. In contrast, trade secret misappropriation provides a narrow remedy against misuse of confidential information that specifically qualifies for protection under the terms of the Act. In my view, preemption should be limited and not apply to fiduciary duty claims that are based either on disloyalty or misuse of proprietary information that does not qualify as a statutory trade secret. Limiting preemption in that way will assure that aggrieved parties have a remedy against conduct that everyone agrees is wrongful, even if no trade secret is stolen. The problem with Judge Moran's broader approach is that it creates a gap in the law, which can result in denying genuinely aggrieved parties a remedy as in the case of the disloyal president who breaks internal rules to send product samples to a business rival. In that case, if meaningful damages result, then the disloyal president should be held accountable (the competitor too, if it induced the breach of fiduciary duty).

What can be said in defense of *Thomas & Betts*? Well, I am reminded of what Charles Rembar once wrote about Justice Holmes' historic decision that major league baseball is not in interstate commerce and, therefore, not subject to the antitrust laws: "The best of us have had bad days".

One final note about my case. It settled very favorably for my client notwithstanding the uncertainty surrounding the fiduciary duty claims. That was because we had the incriminating evidence we needed dead to rights. We found it with the help of a forensic computer expert. It was right there on the hard drive of the computer the former president left behind when he quit the client and it was devastating to the defense. Computers make it very difficult to cover up misconduct because the trail left behind is invisible to laymen and therefore hard to erase. Remember always to examine the hard drives of the key players in trade secret litigation.