

Fleming Sales Co., Inc. v. Bailey
D.C.Ill.,1985.

United States District Court, N.D. Illinois, Eastern
Division.

FLEMING SALES COMPANY, INC., Plaintiff,
v.

Joseph W. BAILEY and Unlimited Sales of America,
Inc., Defendants.
No. 84 C 7028.

May 24, 1985.

MEMORANDUM OPINION AND ORDER
SHADUR, District Judge.

Fleming Sales Company, Inc. ("Fleming") has filed a five-count Verified Complaint (the "Complaint") against Joseph Bailey ("Bailey") and Unlimited Sales of America, Inc. ("Unlimited"). Fleming charges Bailey (1) misappropriated Fleming's trade secrets, (2) interfered with Fleming's contractual relations, (3) slandered Fleming, (4) breached his fiduciary duty to Fleming and (5) unfairly competed against Fleming. Unlimited is alleged to be the vehicle through which Bailey engaged in some or all of that activity.

Defendants have now moved under Fed.R.Civ.P. ("Rule") 56 for summary judgment on Complaint Counts I and III, the trade secrets and slander claims. In addition defendants assert those claims are neither "well grounded in fact" nor "warranted*509 by existing law or a good faith argument for the extension, modification or reversal of existing law." Accordingly they seek to recover their expenses on the Rule 56 motion in the form of sanctions imposed on Fleming under [Rule 11](#). For the reasons stated in this memorandum opinion and order defendants' motion for a summary judgment as to Counts I and III is granted. Defendants' [Rule 11](#) motion is granted to a limited extent but denied in principal part.

Facts^{FNI}

[FNI](#). Rule 56 principles impose on the party moving for summary judgment the burden of establishing the lack of a genuine issue of material fact. [Korf v. Ball State University, 726 F.2d 1222, 1226 \(7th Cir.1984\)](#). For that purpose the court must, in viewing the evidence, draw all reasonable inferences in the light most favorable to the nonmovant. [Hermes v. Hein, 742 F.2d 350, 353 \(7th](#)

[Cir.1984](#)). This section states matters in conformity with the principles just outlined. To the extent either party seeks to controvert the facts as so stated, the later text discussion deals with their respective contentions.

Fleming, a family-owned manufacturers' representative business, has an original equipment manufacturers ("OEM") division headquartered in Elkhart, Indiana. Through its OEM division, Fleming is engaged by recreational vehicle ("RV") component manufacturers ("Fleming's principals") to market their products to RV manufacturers ("Fleming's customers"). Bailey was hired as a salesman in the OEM division in March 1977. In July 1980 Bailey was made General Manager of the OEM division, and in August 1983 he was placed on the Fleming Board of Directors. In the meantime he had turned the OEM division into a substantially better business operation for Fleming.

Despite Bailey's relatively rapid rise at Fleming, he had for some time been dissatisfied over what he perceived as his limited freedom to run the OEM division without oversight by Fleming management (he had been promised a "free hand" in that respect) and his limited future prospects in its family-owned structure. On April 27, 1984 Bailey wrote to Fleming Board Chairman Jack Grady ("Grady") explaining his dissatisfactions and announcing his decision to resign from Fleming and the Board of Directors effective May 1, 1984 (Bailey Aff.Ex.). In fact Bailey continued as OEM division head until May 18 and continued to receive his salary and benefits until the end of May (Bailey Dep. 84-87). Bailey had entered into no written employment contract with Fleming, nor had he signed a restrictive covenant of any kind in Fleming's favor.

In late 1983, several months before his resignation from Fleming, Bailey joined with James Clipp ("Clipp") to form Unlimited for the manufacture of a rigid blind product to be sold as an accessory for RVs. Though formed in January 1984 Unlimited did not begin substantial operations before June 1984. It has yet to begin manufacture of the rigid blind product.

In late June Bailey and Clipp formed a second company, Unified Sales of America, Inc. ("Unified"), to compete with Fleming's OEM division in the representation of RV component manufacturers.

Bailey hired several Fleming salesmen to work with him at Unified and began to develop Unified's business with Fleming's principals and customers. Soon thereafter (in August 1984) Fleming initiated this lawsuit.

Trade Secrets Claim

Fleming contends Bailey has misappropriated several kinds of information, learned in the course of his employment and protectible as trade secrets, that he is now using to compete with the OEM division:

- (1) the names and addresses of Fleming's customers;
- (2) other information about customers, including the names of contact people and the customers' prior purchasing and payment histories, projected needs and buying procedures; and
- (3) information as to Fleming's principals and other sources of supply, including the terms of principals' contracts with Fleming.

Defendants argue none of that information properly qualifies as a trade secret as a matter of law.

*510[1] Before this opinion turns to the merits of Fleming's trade secrets claim, it must deal with a threshold question: whether Illinois' or Indiana's trade secrets law supplies the applicable substantive rule. Of course under [Klaxon Corp. v. Stentor Electric Manufacturing Co.](#), 313 U.S. 487, 496, 61 S.Ct. 1020, 1021, 85 L.Ed. 1477 (1941) this Court must look to Illinois conflict-of-law rules. Since [Ingersoll v. Klein](#), 46 Ill.2d 42, 48, 262 N.E.2d 593, 596 (1970), Illinois has used the "most significant contacts" approach in torts cases. Applying the *Ingersoll* rule in the trade secrets context, the Illinois Appellate Court has concluded ([Mergenthaler Linotype Co. v. Leonard Storch Enterprises, Inc.](#), 66 Ill.App.3d 789, 803, 23 Ill.Dec. 352, 363, 383 N.E.2d 1379, 1390 (1st Dist.1978), confirming Illinois' adoption of the position taken in the *Restatement (Second) of Conflict of Laws 2d* (1971) and quoting this passage from *Restatement* § 145 comment f):

[T]he principal location of the defendant's conduct is the contact that will usually be given the greatest weight in determining the state whose local law determines the rights and liabilities that arise from false advertising and the misappropriation of trade values.

Not surprisingly, Fleming and defendants agree Indiana law should supply the substantive rule.

Bailey's operational site since resigning from Fleming has been Elkhart, Indiana. Both Unlimited and Unified ^{FN2} are Indiana operations with their principal bases of operations in Elkhart. And because Bailey has entered into competition with Fleming's Elkhart-headquartered OEM division, the harm to Fleming of any misappropriation of trade secrets is focused in Indiana. Accordingly this Court will look to Indiana trade secrets law.^{FN3}

^{FN2}. From the nature of the two Bailey companies' businesses, it appears Unified and not Unlimited is the competitor Fleming is really complaining about (though Fleming did not know that when it filed suit). This opinion should be read as extending to all the competitive activity by whomever it was conducted.

^{FN3}. Defendants also suggest the trade secrets laws of Indiana and Illinois are in full agreement, at least as to the questions in issue on the present motion. Defendants urge that renders any distinction between Indiana law and Illinois law at best an "apparent" conflict, so this Court need not choose between them. See [In re Air Crash Near Chicago, Illinois on May 25, 1979](#), 644 F.2d 594, 605 (7th Cir.1981). That argument reflects an imperfect understanding of the distinction between "true" and "false" conflicts introduced by the late Brainerd Currie as part of his proposed governmental-interest-analysis approach to conflicts problems. See E. Scoles & P. Hays, *Conflict of Laws* 565-73, 603-04 (1982). And in any event, as the text indicates, Illinois does not employ governmental interest analysis in tort cases. As already shown, its most-significant-contacts analysis (derived from the *Restatement*) points directly to Indiana law. Defendants do appear to be right, though, about the substantial similarity between Indiana and Illinois trade secrets law. Because Illinois' law of trade secrets is more extensive than Indiana's, this opinion will therefore look to Illinois law for guidance in instances where Indiana provides no definitive answer.

In 1982 Indiana adopted the Uniform Trade Secrets Act, [Ind.Code §§ 24-2-3-1 to 24-2-3-8](#) (the "Act"), which authorizes injunctive relief, damages and

recovery for unjust enrichment in trade secret misappropriation cases. Where the misappropriation was willful and malicious, the Act also allows an award of exemplary damages. Section 2 defines the Act's operative terms:

"Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

"Misappropriation" means:

(1) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(2) disclosure or use of a trade secret of another without express or implied consent by a person who:

(A) used improper means to acquire knowledge of the trade secret;

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was:

(i) derived from or through a person who had utilized improper means to acquire it;

*511 (ii) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(iii) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

"Person" means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

What the parties' dispute really boils down to is whether or not the items of information defendants allegedly misappropriated qualify as "trade secrets" under the Act. If they do not, Fleming has no action against defendants for their use of the information, for Fleming did not elect to bind Bailey by a restrictive covenant of any kind. See [Steenhoven v.](#)

[College Life Insurance Co. of America, 460 N.E.2d 973, 975 n. 7 \(Ind.App.1984\).](#)

After extensive discovery defendants assert there is no reasonable predicate for inferring the information (1) derives independent economic value by virtue of its confidentiality or (2) was the subject of efforts reasonably calculated to maintain its secrecy. Defendants contend each item of information was rather (1) general business knowledge bred of experience (and consequently lacking "independent economic value") or (2) information "readily ascertainable by proper means" or (3) both. In addition defendants say Fleming did not make reasonable efforts to maintain the secrecy of the information. Fleming retorts genuine fact issues exist as to each of those contentions.

[2] This opinion will consider the parties' arguments as to each item of information in turn, but it is first worth taking a step backward to gain a perspective that might otherwise get lost in the welter of citations to cases, affidavits and depositions the parties have set out against one another. Trade secrets law in general and the Act in particular were never intended "to act as a blanket *post facto* restraint on trade." [Steenhoven, 460 N.E.2d at 975 n. 7.](#) Thus the identity of a business' customers is no doubt a legitimate business interest protectible by a restrictive covenant (see [American Hardware Mutual Insurance Co. v. Moran, 545 F.Supp. 192, 195-96 \(N.D.Ill.1982\), aff'd, 705 F.2d 219 \(7th Cir.1983\)](#)), and the same may perhaps be true of other knowledge a company has amassed simply by virtue of having been in a particular line of business for a long period of time. But that right to impose contractual restraints does *not* render the same knowledge "trade secrets" in the absence of such restraints. Knowledge derived from experience does not automatically carry with it the ability to forestall others who have shared that experience (and thus that knowledge).

[3] In other words, a court called on to define boundaries in this area must take care to strike a balance between (1) the underlying purposes of trade secrets law (to maintain standards of commercial ethics and to encourage research and innovation, see M. Jager, *1982 Trade Secrets Law Handbook* §§ 1.01-1.02) and (2) the equally strong policy against inhibiting competition *512 in the marketplace.^{FN4} Analysis of Fleming's claims discloses it has sought to stifle legitimate competition rather than to resist unwarranted encroachment on its property rights.

[FN4](#). Fleming Surreply Mem. 6 is simply wrong in contending the distinction between “confidential information” and “trade secrets” is purely “semantic.”

1. Customer Lists

[\[4\]](#) Fleming says Bailey, through his employment as general manager of its OEM division, had access to a comprehensive list of Fleming's customers. While there is no allegation-and no evidence-Bailey took a copy of the list with him when he left his employment,^{[FN5](#)} Fleming does assert he took with him knowledge of the customers' names-knowledge he later used to compete (unfairly) against Fleming. Defendants do not deny Bailey came away from Fleming with a knowledge of who its customers were, but defendants argue (1) Fleming did not exert reasonable efforts to maintain the secrecy of that information and (2) the information was readily ascertainable by other means.

[FN5](#). In fact Bailey swears (Aff. ¶ 7):
In connection with my resignation and leaving Fleming I did not take with me any Fleming business records.
Fleming offers no affirmative evidence to the contrary, with one exception discussed later in this opinion.

Fleming has offered affidavit and deposition evidence indicating a policy of maintaining the confidentiality of the customer list and virtually all other business information. Grady Aff. ¶ 11 says he “has given directions and established the policy that as much information as possible of Fleming is to remain confidential.” Each Fleming employee received a “Rules and Regulations” letter specifying as one basis for termination “[c]ommunication or action detrimental to Fleming Sales Company, including but not limited to, exposing confidential information” (Grady Aff.Ex. A). As for customers' identity in particular, Fleming has tendered a showing its complete list of customers was available to only a few top Fleming employees, though OEM division salesmen and office personnel had access to lists identifying all of Fleming's Elkhart customers and some, but not all of, its customers outside Indiana. Fleming claims no other employee had access to the list.

Defendants acknowledge there is at least a fact issue as to how widely the customer lists were distributed within Fleming. Defendants point out, however, (1) account lists were provided to Fleming's *principals* from time to time and (2) Fleming has no written policy and no clearly articulated procedures to ensure the confidentiality of the customer lists. For example the lists are not kept under lock and key or marked “confidential,” and salesmen routinely keep copies in their offices. Moreover customer list information necessarily appeared on shipping documents stored in Fleming's warehouses.

Of course the absence of specific confidentiality procedures (whether written or unwritten) does not itself negate the existence of “reasonable” efforts to maintain secrecy-all the Act requires. Fleming's OEM division was, after all, a *sales* organization. Constant dealings with its customers-whether by phone, letter or in person-was the essence of the business. Naturally Fleming employees whose business it was to maintain that contact needed ready access to customer information. By the same token, distribution of account list information to principals or on occasion to other customers may well have been necessary to the pursuit of Fleming's business. Fleming was plainly not required to shoot itself in the foot to meet the “reasonable efforts” requirement of the Act. So long as Fleming scrupulously limited distribution of customer list information to employees and outsiders whose access was necessary to Fleming's successful pursuit of its business, it must be deemed to have satisfied the “reasonable efforts” requirement, particularly if those given access to the information were also advised to preserve its confidentiality, as Fleming indicates *513 they were (Grady Aff. ¶¶ 13, 16).^{[FN6](#)} Were that the critical issue, the factual dispute as to Fleming's efforts in that regard (a dispute defendants acknowledge) would compel denial of defendants' motion.

[FN6](#). No matter how scrupulous Fleming may have been in handling the customer lists, they might nevertheless not qualify as trade secrets if the demands of Fleming's business required so broad a distribution (either inside or outside the company) as to make it impossible as a practical matter to maintain confidentiality. That question need not be resolved in light of the text analysis.

. . . . [section omitted on information as readily ascertainable]

2. Other Information As to Customers

[5] Fleming also claims trade secret protection for other types of customer information including (Mem. 10-11):

knowledge of the individual persons at these customers to contact in order to effectuate sales; the prior purchasing history of the customers; the product and service requirements; their present and future projected needs; the packages that Fleming must put together in order to sell particular products; their payment histories; and their buying procedures.

Fleming does not assert any of that information was systematically recorded or compiled in any way, though it says much of the information was supplied to Fleming salesmen in the course of their training (Richard Dotson Aff. ¶ 6). Again Fleming claims to have exerted reasonable efforts to maintain its confidentiality.

Once more that represents only part of the story, and a skewed version at that. Fleming seeks to make the “trade secrets” label carry too much baggage. All the information it tries to wrap in the Act’s mantle is nothing more than the kind of knowledge any successful salesman necessarily acquires through experience. In the Act’s terms, it is information “readily ascertainable by proper means” over the course of time without efforts beyond those ordinarily exerted by salesmen in developing customers.^{FN9}

^{FN9}. See Appendix.

That is not to say Bailey may not have derived some benefit from his access to the collective experience of Fleming’s OEM division (experience to which Bailey himself doubtless contributed significantly during the course of his employment). It is rather to say such information comprises general skills and knowledge acquired in the course of employment. Those are things an employee is free to take and to use in later pursuits, especially if they do not take the form of written records, compilations or analyses. See *MBL (USA) Corp. v. Diekman*, 112 Ill.App.3d 229, 236-37, 67 Ill.Dec. 938, 944, 445 N.E.2d 418, 424 (1st Dist.1983).

Any other rule would force a departing employee to perform a prefrontal lobotomy on himself or herself.

It would disserve the free market goal of maximizing available resources to foster competition. Or to frame the issue in the way discussed earlier in this opinion, it would not strike a proper balance between the purposes of trade secrets law and the strong policy in favor of fair and vigorous business competition.

All this does not render helpless an employer worried that the skills and knowledge an employee acquires during the course of employment will give him or her an undue competitive advantage. Nothing prevents such an employer from guarding its interests by a restrictive covenant.^{FN10}*515 But it would really be unfair competition to allow the employer *without* such a covenant to obtain trade secret status for the fruits of ordinary experience in the business, thus compelling former employees to reinvent the wheel as the price for entering the competitive market. Once again defendants must prevail.

^{FN10}. Of course the concern about inhibiting fair competition also informs the law of restrictive covenants. In Indiana, as in most jurisdictions, *Licocci v. Cardinal Associates, Inc.*, 445 N.E.2d 556, 561 (Ind.1983):

All such covenants as this are in restraint of trade and are not favored by the law. They will be enforced only if they are reasonable with respect to the covenantee, the covenantor, and the public interest.

But if an express covenant were nonenforceable because of overbreadth, the employer could scarcely expect protection from the common law (or the codified common law) of trade secrets.

3. Information As to Principals

[6] Fleming Mem. 16 concedes the identity of its principals is widely known and therefore not a trade secret, but it says other principal-related information is: the identity of the contact people, the sales volumes for particular products, the existence of “minor” items provided by principals or other suppliers for use with a principal’s products or necessary to permit use of the products, and the terms of Fleming’s contracts with principals. No elaboration is required here: All the earlier analysis as to customer-related information applies with equal force. Once more the information is part and parcel of a salesman’s experience in the RV business. Bailey naturally carried away from his years at Fleming a

familiarity with the contracts, products and personnel of the principals he did business with, not to mention an awareness of what products sold best. For reasons already surveyed the Act's "trade secret" definition simply does not embrace that kind of information.

Fleming tries to bolster its claim by pointing to defendants' possession of some papers containing information about Fleming's relationship with its principals and other suppliers. Bailey discovered those documents, all from the 1981-83 period, in his garage well after this litigation began, and he produced them in response to a Fleming document request. Bailey has explained he periodically carried papers home during the course of his employment and at one point, well before his resignation, stored them all in a box in his garage (Bailey March 25, 1985 Aff. ¶¶ 3-4). Fleming has offered nothing to contradict that explanation. What really controls, however, is that the specific documents Fleming points to do not-even with all inferences in Fleming's favor as Rule 56 requires-create a *material* fact issue. One of them compiles basic information about a number of Fleming principals, including the commissions each pays to Fleming. But because that information is of the sort Bailey was likely to know anyway, and because there is no evidence to indicate defendants made use of the document,^{FN11} Bailey's mere possession is insufficient to raise a genuine issue of fact.

^{FN11}. As "evidence" of Bailey's use of the information on the list, Fleming points to Bailey's having approached Vernco, a Fleming principal, proposing to enter into a more advantageous arrangement. Fleming claims that proposition indicates Bailey was making use of the document. Yet Vernco official Robert Watson has testified *he*, not Bailey, identified the commission he was prepared to pay on a new contract (Watson Aff. 38-39). If anything, that tends to negate Bailey's having used the document as a source of information after his resignation from Fleming. At worst the inference is neutral, for it does not suggest the information on the paper added to Bailey's stock of knowledge for purposes of entering into competition with Fleming.

Also among the papers in the box Bailey found in his garage were invoices with the names of two suppliers who provide Fleming with products for resale.

Fleming argues the identity of those suppliers is secret, yet Bailey approached one of them-Runglin International ("Runglin")-in an effort to obtain goods for his new sales company. Fleming says that shows Bailey was making use of information gleaned from the documents he had retained. Defendants, however, point to Grady's own deposition testimony (Grady Dep. 532-35) that he and Bailey traveled to the Orient in 1984 with a Runglin representative to explore foreign supplier sources. Bailey thus knew of Runglin independently of the documents. Again there is nothing to suggest *516 Bailey's retention of the documents was anything but the oversight he claims it was.

4. Conclusion

There is a telling passage at Fleming Mem. 17: [T]he RV Business Directory reveals a most important fact concerning Defendants' actions relative to Fleming. The directory lists several hundred manufacturers of equipment utilized by the RV industry. Bailey could easily have undertaken to represent these other manufacturers. Furthermore, Bailey could have solicited the many thousands of manufacturers of equipment not currently involved with the RV business to bring them into that industry as did Ken Lail (Lail Dep., pgs. 227 to 229). However, Bailey chose not to follow this course of action; rather, he went after those principals whom he had personal contact with because of his position with Fleming, that is, Fleming's principals (Bailey Dep., pg. 299).

Fleming unconsciously reveals something of itself: Its desire to attach a "trade secrets" label to its own generalized business skills, and to the skills acquired by Bailey while in its employ, simply to prevent competition by its former employee.

But as the Indiana Court of Appeals stated in [Steenhoven, 460 N.E.2d at 975 n. 7](#):
Insofar as College Life attempts to merely restrain Steenhoven's competition, we believe the Uniform Trade Secrets Act to be an improper vehicle therefor. The fact that Steenhoven possesses certain knowledge acquired within the course of his employment does not mandate that, upon his departure, Steenhoven must wipe clean the slate of his memory.

So here Fleming may not look to the Act to restrain

competition from Bailey, especially given the nature of the information in issue here. Fleming has come forward with nothing to indicate that the allegedly misappropriated information rose to the “trade secrets” level. Business experience and knowhow as reflected in that information, however valuable, are not something the law protects from the rigors of the marketplace.^{FN12} Defendants' motion is granted as to Count I and its trade secrets claims.

^{FN12}. In this respect the law takes much the same view of anticompetitive legal restraints that John Milton urged in opposing censorship in his great tract on unlicensed printing, *Areopagitica* :
Let [Truth] and Falsehood grapple: who ever knew Truth put to the worse in a free and open encounter?

. . . . [section on defamation omitted]

Conclusion

There is no genuine issue of material fact as to Fleming's trade secret and defamation claims, and defendants are entitled to a judgment as a matter of law on those claims. Complaint Counts I and III are therefore dismissed with prejudice. Defendants' [Rule 11](#) motion is granted with respect to Fleming's claims concerning the Georgie Boy dashboard and denied in all other respects.