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Hiring from a Competitor: Practical Tips to Minimize Litigation Risks

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Agenda

- Potential legal claims when hiring from a competitor
- Practical steps to minimize the risk of contractual, common law and statutory claims
- Responding to “cease and desist” letters
- Potential settlement concepts

Potential Legal Claims When Hiring from a Competitor

Potential Legal Claims Against Former Employee and/or His New Employer

- Breach of contract/employment agreement
 - Violation of non-solicit (customers or co-workers)
 - Violation of non-compete
 - Violation of confidentiality agreement
- Alternatively, common law torts, such as conversion and unjust enrichment

More Potential Legal Claims by Former Employer

- Breach of fiduciary duty/duty of loyalty for inappropriate conduct or solicitations pre-resignation
- Tortious interference with contractual and business relations
 - For interfering with employee's contract
 - For interfering with employer's customers or other employees

More Potential Legal Claims

- Misappropriation of trade secrets
 - Actual misappropriation by former employee or his new employer
 - “Inevitable disclosure” of trade secrets is actionable

“Inevitable Disclosure” of Trade Secrets

- Argument:
 - Despite employee’s best efforts, he will inevitably disclose trade secrets to new employer
 - Courts apply inevitable disclosure doctrine, where:
 - Former employee is in possession of his former employer’s trade secrets
 - Joins direct competitor
 - Cannot help but rely on trade secrets
 - Circumstances suggest lack of trustworthiness
- Remedies:
 - Injunctive relief
 - Monetary damages
 - Attorneys’ fees and costs

Computer Fraud and Abuse Act

- Federal statute
 - May be available where employee either:
 - Accesses a computer “without authorization”
 - Accesses a computer but “exceeds authorized access”
- Typical violations
 - Employee downloads and copies confidential files from employer’s computer system
 - Employee tries to “cover his tracks” by deleting copied files before returning company’s computer

Computer Fraud and Abuse Act

- Courts split on whether CFAA applies to employees who are authorized to access an employer's computers, but do so for their own purposes (for example, to copy documents before leaving to join a competitor)

OR

- Whether CFAA only applies when an individual was not authorized to access an employer's computer (for example, a hacker)

Practical Steps to Minimize Litigation Risk When Hiring a Competitor's Employee

Gather Necessary Information

- Does the applicant have a restrictive covenant with his current employer? Ask!
 - Also ask about:
 - Restrictions from prior employers
 - Restrictions buried in employment agreements, confidentiality agreements, option agreements, other benefit programs, or purchase and sale agreements
 - Any other nooks and crannies where a restriction could be buried

Review Any Restrictive Covenants

- Have an expert review any restrictive covenant
 - Governing law?
 - Likelihood of enforceability?
 - Narrowly tailored to meet employer's legitimate business interest?
 - Undue burden on individual?
 - Duration of restrictions?
 - Does new employer meet definition of "competitor"?
- Can candidate adhere to restrictions and perform the new position?
 - Compare non-compete with any available job description
 - Discuss requirements with candidate's prospective manager
- Employer's past history of enforcement?

Possible Protective Steps

- Is it appropriate for the candidate to seek a waiver of restrictions? His choice
- Can the proposed position be restructured to avoid issues?
- Park candidate “on the bench” for duration of restriction?

Provide Legal Advice to Candidate?

- Encourage candidate to seek his own counsel
- Alternatively, the candidate and prospective employer can jointly seek advice provided they have a common interest and there are no conflicts
- Any agreement to indemnify candidate (or not) should be clear

Be a “Good Leaver”

- Instruct new hires to be “good leavers”:
 - Take nothing with them when leaving
 - Return all property at termination (such as laptops, iPhones, thumb drives)
 - Do not retain e-mails or electronically stored documents or information on personal computers, thumb drives or in the cloud
 - Do not solicit any customers or colleagues

“Loose Lips Sink Ships”

- New hire should be advised:
 - Don’t “rub salt in the wound”
 - Litigation decisions can be driven by emotion
 - Don’t “trash talk” former employer
 - It just invites claims for defamation and tortious interference
 - Do “kill them with kindness” and professionalism on the way out the door

Other Possible Protective Steps

- If the candidate has a non-compete, possible protective steps include:
 - Have candidate represent in counter-signed offer letter that he has reviewed duties and no contractual restriction would prevent performance
 - Courtesy phone call to old employer to provide assurances?
 - Seek a declaratory judgment?

Assess Likelihood of Litigation

- When assessing likelihood of litigation, put yourself in the other side's shoes:
 - Circumstances of departure?
 - Similarity of new/old positions?
 - How competitive are the businesses?
 - Likelihood of customer or co-worker flight?
 - Value of information?
 - Do circumstances justify litigation cost?

Avoiding Claims of Unlawful Co-worker Solicitation

- Of the various types of post-employment restrictions, courts are most likely to enforce an “anti-raiding” provision (meaning a clause barring solicitation of former colleagues)
 - Possible steps to avoid these claims:
 - Wall off new hire from recruitment of former colleagues
 - Establish protocol for handling employment inquiries by former colleagues

Avoiding Trade Secret Litigation

- Only a minority of “cease and desist” letters result in actual litigation
 - When they do, it’s usually because of trade secrets
- Is there anything you can do to avoid such litigation? Yes, quite a few things

Create Your Own Defense to a Trade Secret Misappropriation Claim

- Think of offer letters as “Defense Exhibit No. 1” in any resulting lawsuit
 - The letter should instruct new hires not to bring, distribute or use any confidential information, trade secrets or property of a prior employer
 - The letter should require new hire to confirm that he has reviewed duties and responsibilities of new position and can perform them without using or disclosing confidential information of another employer

Helpful Handbook Provision

- Address property of others in an employee handbook or confidentiality agreement
 - Should prohibit use or distribution of confidential information or trade secrets of former employers

Avoid “Inducement” Claims

- Verbally instruct new hires not to solicit co-workers or customers until after effective date of resignation

Responding to “Cease and Desist” Letters

Responding to “Cease and Desist” Letters

- Should you do so? Yes, almost always
 - Depending on the response, it can be “Defense Exhibit No. 2”
- Who should respond?
 - An equivalent person (HR v. HR; lawyer v. lawyer)
 - If using a lawyer, have someone who knows the law

The Appropriate Tone

- What tone is appropriate?
 - Generally, a reassuring one:
 - New employer takes the concerns of former employer seriously, but they have no basis
 - New employer has investigated (if trade secret misappropriation is alleged) and found none (if that's not true, take appropriate action)
 - New employer has created an information or client wall (if true)
 - If haven't addressed all concerns, please advise
- Leave the door open to dialogue
- Aggression will beget aggression

Evidence Preservation

- Duty to preserve is triggered by “cease and desist” letter; possibly even before that
- Issue document preservation notice
- Preserve e-mails
- Take forensic image of key hard drives

Potential Settlement Concepts

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- Return of information and documents
- Possible representations and warranties
 - No longer have access
 - If discovered, will return
 - New employer not aware of violations

Other Potential Settlement Concepts

- Hiring protocol (such as what to do about employment inquiries from former colleagues directed to new hire)
- Agreement that for designated period, new hire will not solicit:
 - Certain customers (typically, on a list)
 - Former colleagues

Inclusion of “No Hire” Provision in Settlement Agreement?

- What is a “no hire” agreement?
 - An agreement by new employer not to hire others from former employer for a limited time period
- Why include in settlement of non-compete or raiding case?
 - Workforce protection for former employer
 - Avoidance of disputes about former employee’s involvement in recruiting – a “bright line”
- Risk:
 - Possible anti-trust scrutiny
 - Must be narrowly tailored, of limited duration & tied to a legitimate business interest

Be In The Know



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Relevant Practical Law Resources

- *Practice Note, Preparing for Non-compete Litigation*
- *Practice Note, Trade Secrets Litigation*
- *Trade Secrets and Confidential Information Best Practices at Hiring Checklist*

Questions

CLE Credit

- CLE credit (1.0 General Skills Credit) is available in AL, AK, AR, AZ, CA, CO, GA, HI, IA, IL, ME, MN, MO, MS, MT, ND, NH, NJ, NY, OK, PA, TN, TX and VT
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