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## Employment

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### Hazards of Hiring — Avoiding Trade-Secret Spillage

By Eric Armdursky

Hiring new employees is expensive. In addition to the costs of headhunters and advertising, employers devote significant internal resources to interviewing and training new employees before ever seeing a return on their investment. But the costs are exponentially higher if a misstep in the hiring process results in litigation from the new employee's former employer.

Over the past several years, California companies have increasingly complained of former employees engaging in trade-secret misappropriation. The claims range from blatant intentional theft to innocent retention of trade secrets by employees who nonetheless disclose their former employer's proprietary information during subsequent employment. While it is rare for an employer who raids its competitor's employees to gain access to its trade secrets, it is becoming commonplace for employers with benign intentions to become embroiled in litigation based on the malfeasance (or unfamiliarity with the law) of their new employees. From an employer's first contact with a prospective employee to that employee's first few days on the job, new employers can and should make sure that candidates for employment are aware of their obligations to their former bosses.

#### Initial Contacts

Keep in mind that most candidates for employment are currently working elsewhere. They owe their employer a duty of loyalty that limits the acceptable range of their relationship with prospective future employers. Oftentimes, these employees will not be aware of what these legal obligations bind them to. The consequences of failing to comply with those legal obligations, however, can fall even more heavily on a new employer, who may risk suits for unfair competition or tortious interference with a

competitor's contracts.

To minimize the risks of such complications, companies interviewing applicants should take it upon themselves to make sure that those workers are aware of — and comply with — their obligations to their current employers. There are several ways to achieve this.

First, avoid communications by e-mail. It is too easy for a prospective employee to accidentally reveal something inappropriate in that format. Unfortunately, many employees do not seem to be aware that their employer can typically review any e-mails sent to or from their corporate e-mail account. Indeed, even e-mails sent to or from a personal e-mail account may be intercepted if the employee checks that account at work. Lacking this awareness, employees may not be as careful as they should in observing their obligations to their current employers. In over-the-phone or face-to-face communications, a prospective employer can stop such disclosures before they happen.

Second, an employer looking to hire employees from its direct competitors should consider requiring new hires to agree in writing, at the same time they fill out an employment application, that they will not use any of their current employer's confidential information during the interview process. This same warning should be repeated orally in subsequent discussions with the applicant, including at the employee's interview.

Third, employers should avoid requesting that candidates for employment take any actions on their behalf prior to separation from their current employment. For example, an employer hoping that an applicant may be able to assist in hiring co-workers from the applicant's current employer should wait until after the applicant changes employment and begins work to make this request. Solicitation of employees from a former employer may be legally permissible. Solicitation of employees from a current employer is not.

Similarly, an employer should instruct candidates not to solicit their

customers to do business with the new firm prior to the employee's resignation from the former one. After the employee resigns, it is perfectly appropriate to send an announcement to those customers informing them of his or her change in employment. Indeed, the employee may do so even if the identities of the customers are taken from the former employer's confidential customer lists, so long as the announcement only announces the individual's change in employment. However, these actions should not be taken until after the employee's separation from the former employer.

#### Getting the Facts Straight

As soon as practicable, employers should obtain copies of the new hire's proprietary information and inventions assignment agreements. If the individual has kept copies of these agreements, it may be possible to obtain them early in the interview process. If not, he can obtain them from his current employer. Such a request may signal the employee's resignation, however, so he may be reluctant to make this request until after accepting an offer of employment.

An employee's contracts with his or her former employer may contain several types of provisions that limit the permissible scope of that employee's activities. Certain sales jobs will prohibit soliciting former customers if doing so would reveal a trade secret. Others may prevent soliciting former co-workers. Clauses preventing competition or punishing it (for instance, by the forfeiture of stock options or pension benefits) are more legally dubious in California, but federal law or out-of-state proceedings can substantially muddy the waters. Choice-of-law and choice-of-venue provisions raise the prospect of costly and arduous litigation that may end up eroding the value of a new employee to his prospective employer.

In some cases, knowing about these agreements may impact an employer's decision to make an

offer to a new employee. Even if it does not, however, it is important to know what the employee's obligations are in order to ensure that they are not violated.

#### The Interview

Job interviews are an essential part of the hiring process, allowing employers to assess a candidate's qualifications in a personal setting. In some cases, however, there may be a fine line between inquiring about an employee's experiences and asking inappropriate questions about a competitor's business.

Employers should train all employees who conduct interviews to avoid inappropriate questions that may result in a candidate disclosing a current or former employer's trade secrets. Interviewers should make clear that they are not interested in such information, and they should be prepared to stop the candidate from volunteering such information.

Further, employers should train all employees who conduct interviews not to disclose their own trade secrets to a candidate. While the interviewer may try to recruit the applicant on the basis of the company's exciting business plans or cutting-edge technology, he must keep in mind that the candidate may ultimately stay with his or her current employer, or may even go to work for another firm. Employers who voluntarily disclose confidential information to competitors in these circumstances may lose their normal legal protection.

#### Transitioning

Once the employer makes an offer and the employee accepts it, there are still a number of safeguards that should be utilized.

First, make sure the employee does not take any of his or her for-



mer employer's confidential information or property (or information belonging to any third party, such as a client of the former employer). Giving this instruction in the abstract is not enough. Inform the employee in writing that this means: (1) not to forward or save work-related e-mails; (2) not to take lists of customers; (3) not to take copies of work files; (4) not to take notes or drafts regarding work projects; and (5) not to take company-owned laptops or digital storage media. Other than purely personal items, employees should leave empty-handed on their last day.

Second, make sure the employee does not delete or destroy any information belonging to a former employer. An employee's good manners in cleaning up after himself could be misinterpreted as destroying evidence and interfering with the former employer's business.

Third, make sure the employee signs an agreement not to use or disclose any of his former employer's confidential information during his new employment. This agreement should include a certification that the employee has returned all such information that he possessed.

Finally, assuming the employer navigates all of these pre-employment hazards, make sure that the employee complies with all of these obligations in the course of their work. Taking all the right precautions may help you if something goes wrong, but it will not save you entirely.

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