McGinnis Shares Advice on Reducing Liability When Hiring

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Charlotte Employment & Labor Member Karin McGinnis authored a piece that was published in *Corporate Counsel* on October 10. McGinnis' article, "5 Ways to Reduce Liability in Hiring a Rival's Employee," provides readers with the top five steps companies should take before hiring a competitor's employee. Complete article text is below.

5 Ways to Reduce Liability in Hiring a Rival's Employee

Hire a key player from your competitor and the inevitable will follow: a lawsuit against your company and the employee, trying to prevent him from working for you and demanding every document on your computer system. If your competitor is being especially nice, you might receive a demand letter just threatening to sue you. Having represented companies on the giving and receiving ends of these lawsuits, I have learned that a company can significantly reduce its liability, and even the likelihood of getting sued, with some planning at the hiring stage.

Here are the top five actions that companies should take before hiring a competitor's employee:

1. UNDERSTAND THE EMPLOYEE'S CONTRACT AND POSITION WITH HIS CURRENT EMPLOYER

It is critical to understand the scope of the employee's position with the current employer, as well as the terms of the employee's contract. Reviewing the employee's contract will allow you to assess the enforceability of any restrictive covenants, to determine whether you can work around any restrictions, and to decide how aggressive you can be with your competitor, if it comes to that.

But, don't end the review after you determine that the employee does not have an enforceable noncompetition agreement with his current employer. Nondisclosure and return of property provisions are important, too. Ensure that the employee understands restrictions on retaining his current employer's information (see step No. 2 below), and take steps to limit opportunities for the employee to use the competitor's trade secret information at your company.

In some states, a court can prevent an employee from working for a competitor if the employee would likely use the former employer's trade secrets in the same position at his new employer. This theory—called the doctrine of inevitable disclosure—is illustrated in the Illinois federal court decision *PepsiCo v. Redmond* (7th Cir. 1995). In *PepsiCo*, the court barred one of PepsiCo's employees from working for a competitor for a period of five months even though he did not have a noncompete. The court reasoned that the similarity of the

employee's positions at both companies made it inevitable that he would use the strategic planning information he learned as general manager at PepsiCo in managing the competitor's beverage distribution strategies for that year.

The inevitable disclosure doctrine has been recognized or applied to varying degrees in nearly 20 states. You can set up a better defense for an inevitable disclosure claim by understanding the employee's position with the competitor and then placing the employee in a position that will make the former employer's trade secrets less useful in his work for you.

2. INSIST THAT THE EMPLOYEE NOT BRING ANY DOCUMENTS, EMAILS, LISTS, OR OTHER PROPERTY OF HIS FORMER EMPLOYER

Employee misappropriation of sensitive company documents can give rise to claims for conversion, trade secret misappropriation, or breach of the employee's contract if it requires him to return documents. It also can tank a good defense for a claim of inevitable disclosure—judges simply don't like it. In addition, as the new employer, your company can be on the hook for aiding and abetting, tortious interference with contract, or even trade secret misappropriation. Unless the employee has express authorization to take his former employer's documents with him to a new employer (yes, this sometimes happens), tell the employee to leave everything with the former employer, including files the employee may have tucked away at home and customer lists or emails that have made their way onto the employee's personal devices.

The employee also should avoid downloading or accessing and memorizing documents on the eve of departure. Suspicious conduct, even if innocent, will make the former employer more likely to sue, and less trusting when you claim that the employee did not take anything. Upon or before hiring, make the employee sign a statement clearly informing him that your company does not want the former employer's confidential, proprietary, and trade secret information, and that he cannot bring such information to your company or use it in his employment with you. When the employee starts work for you, encourage him to find information that is publicly available and to keep a record of where he found it.

3. DON'T HIRE THE EMPLOYEE'S STAFF, COLLEAGUES, ETC.

Definitely don't hit your competitor while he's down. If you don't really need these additional employees, avoid the appearance of raiding your competitor. If it is necessary to hire a group, it is better to hire them all at once than to pick them off one by one. This will help cut off avenues of communication between your company and the competitor. Leaving someone behind at the competitor opens the possibility that he will share inside information with employees that have come to work for you, or misrepresent his future employment with your company to gain access to your information.

4. LET THE EMPLOYEE TELL THE TRUTH

Encourage the employee to be honest if the former employer asks where he is going to work. Hiding or lying about it can create more suspicion and ill will, making the former employer more likely to sue. Deceit about the employee's intentions also can give fuel to a claim for inevitable disclosure in those states that recognize the theory. In *PepsiCo*, the court noted that the PepsiCo employee's deceit about his new position with the competitor "demonstrated a lack of candor . . . and proof of [his] willingness to misuse [PepsiCo's] trade secrets."

5. BE COURTEOUS TO THE FORMER EMPLOYER

By the time the former employer's attorneys send a demand letter, your company should have a good set of defenses and nothing to hide. Do not ignore the demand letter. In consultation with your legal counsel, there are several responses you can provide to assuage the competitor's concerns. Give the competitor assurances that the employee has not taken information, is not working in the same position, and/or is not violating his restrictive covenants. Show the competition a copy of the agreement about the former employer's property that you made the employee sign. Discuss alternatives to litigation; often it is possible to negotiate down the scope of a restrictive covenant.

If the former employer insists on suing, your assurances (if accurate) will be great evidence and will make your company look reasonable before the court—instead of the bad guy your competitor claims you are.