Don't "Hire" A Lawsuit: A New Employee's Misappropriation of Trade Secrets May Quickly Become Your Own

Insights
5.23.17

Companies commonly assume that they will only be sued for trade secret misappropriation if they or someone from their company steal the "secret sauce" of their competitor. Not true. A far more common way that companies get dragged into these lawsuits is through poor hiring decisions and practices. These cases are sometimes referred to as third-party misappropriation claims. [1] A recent example is *Molon Motor and Coil Corp. v. Nidec Motor Corp*, Case No. 16 C 03545 (N.D. Ill. May 11, 2017).

This case involved two competing motor companies. The defendant hired plaintiff's former employee who allegedly copied dozens of trade secrets and saved them to a thumb drive while he was still employed with plaintiff. The plaintiff sued the defendant/new employer for trade secret misappropriation. The defendant moved to dismiss claiming that the plaintiff could not establish "misappropriation" because (1) the new employee properly acquired them while still employed with plaintiff, [2] and (2) the plaintiff did not specifically allege the *defendant* used or disclosed the trade secrets. The court rejected both arguments.

The employee's acquisition was improper, even though acquired while still employed, because the acquisition would breach his employment agreement, which required him solely to use trade secrets for work purposes. [3] The court also found that the plaintiff had sufficiently alleged that the defendant disclosed or used the trade secrets under the "inevitable disclosure" doctrine. Illinois is one of the few states that expressly recognizes the inevitable disclosure doctrine. [4] The doctrine permits plaintiff to prove use or disclosure by showing the "defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."

Lastly, the court rejected the defendant's argument that plaintiff could not establish continued misappropriation. Prior decisions decided by federal district courts have rejected this same argument. Unique to this case, the court held that the inevitable disclosure doctrine likewise established continued misappropriation because the trade secrets continued to be valuable, and under the inevitable disclosure doctrine, continued to be used.

This case is instructive to employers for a number of reasons. It highlights the need to follow best recruiting and hiring practices. A new employee's past misconduct (even if not readily known, occurring in the past, and while still employed with the previous employer *that is suing you*) could result in expensive and time consuming litigation for the new employer. Employers would be wise to

result in expensive and time consuming litigation for the new employer. Employers would be wise to take steps to mitigate this substantial risk. Among other things, they can review any employment agreements the employee has with his or her current or former employer, instruct the employee not to bring trade secrets and certify this fact in writing in the employee's offer letter, tell the employee check and purge common sources of information such as personal e-mail accounts, cloud-based accounts, home computers, and smart phones. These steps will hopefully assist employers in minimizing the risk that comes with hiring new employees, and may help identify a rogue employee before he or she is hired. At a minimum, they can help set up a good defense to a third-party misappropriation case if a rogue employee slips through the cracks.

These are just some of the steps that employers would be wise to take when hiring a new employee from a competitor. Contact any member of the firm's Employee Defection and Trade Secrets Practice Group to discuss further or to obtain a free, comprehensive checklist when recruiting employees from a competitor.

Third-party misappropriation claims such as these pose a substantial risk to employers and the lawsuits are only growing. Often times the new employer is a more attractive defendant than the rogue employee because it has "deeper pockets." Employers do not want to become a target for these suits by taking unnecessary risks. They should be cognizant of their recruiting and hiring practices, and follow best practices when bringing on a new employee, particularly from a competitor. Otherwise, a lawsuit could be just around the corner, or as in a recent high profile case brought by Google against Uber (with admittedly egregious allegations,) a criminal prosecution.

[1] The employer is indirectly liable as a "third party" to the employee's direct misappropriation.

[2] This argument is similar to one often raised in Computer Fraud and Abuse Act cases. Defendants argue that they could not have exceeded their authorized access because they used their employee credentials, while still employed, to access the information they were permitted to access.

[3] The court also found that the employee's actions would be improper because they violated plaintiff's policies and practices prohibiting the use of memory sticks on its computer network.

[4] The doctrine was adopted in a key 7th Circuit decision, *Pepsico, Inc. v. Redmond*.