



Hiring a New Employee in Pennsylvania? Don't Stumble Into a Trade Secret Lawsuit

By Shane Miller

Let's say you own a mid-sized company in Pennsylvania. You've stayed in business for the last 20 years by selling a few products to a small but loyal customer base. But sales have dried up. You need to launch new products and find new customers. But how?

Fresh thinking, that's the answer. And fresh thinking means new employees. But not just any employees — they need industry experience and expertise. So, you post a job opening. The applications roll in. You find a great fit. She's been with a competitor for the last seven years but wants a new opportunity.

You've been around the block a few times, though. You know you must be careful when hiring from a competitor. So, you do the right thing and ask if she has a noncompete agreement. She says no. Great. She's hired. She joins the team a few weeks later and injects energy into the group. New ideas flow and fresh products develop. More customers seem within reach.

But the momentum screeches to a halt a few months later when you receive a nasty letter from a big law firm that represents your new employee's former company. It says she stole secret company information before she left. She's now supposedly using it at your company. The company threatens to sue your company unless you fire her

and return the stolen information. You don't care for threats, especially from a competitor, so you tell them to go pound salt.

The former company carries out its threat. It sues you for trade secret misappropriation and several other claims. The lawsuit drags on for two years. You must turn over a million pages of company documents during discovery. Some employees also must attend depositions. They spend days locked in the conference room preparing with your lawyers. Then, each deposition lasts several hours. They give new meaning to the word "tedious," as the opposing lawyer asks about one document after another, never seeming to tire. All the while, your attorney's fees keep piling up.

As the facts come to light, you realize that your new employee did mess up. She downloaded confidential documents from her former employer before quitting. She's been using them to generate new ideas for you. You can't believe it. You never told her not to take confidential materials from her last employer ... but isn't that common sense?

Finally, after two long years of litigation, your company pays a big settlement to end the case and move on. After cutting the check and sinking into your chair, you ponder the same question that's been bugging you for the last two years: How could you have avoided this mess?

A close-up photograph of a hand holding a stack of five wooden blocks. The blocks are stacked vertically, and the text is printed on the top surface of each block. The background is a blurred, dark blue-grey color. The lighting is soft, highlighting the texture of the wood and the skin of the hand.

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What is a Trade Secret?

Most employers don't need to know the intricacies of trade secret law, but they should understand the basic difference between a trade secret and general company information. After all, a trade secret lawsuit often boils down to determining if the defendant misappropriated a trade secret. Let's say an employee resigns and walks out with a box of blank printer paper. He may have misappropriated the paper, since it did not belong to him. But it is not a trade secret; it's just a box of blank paper. But if that box contained important company financial statements — not just blank paper — then that's a whole different ballgame. That sensitive financial data may qualify as the company's trade secret. And by walking out with it and using it at his next job, the employee may be in hot water for trade secret misappropriation.

In practice, the line between a trade secret and regular company data is, of course, harder to draw than distinguishing between blank paper and valuable financial statements. Nonetheless, past cases provide guidance about where the line falls. For example, the following information often qualifies as a trade secret in Pennsylvania as long as the information's owner took reasonable steps to keep it secret:

- Business plans
- Marketing strategies
- Financial projections
- Terms of specific customer accounts, such as contract expiration dates and revenues generated
- Customer or client lists, especially if the company has a permanent and exclusive relationship with the customer or client
- Sales trends, vendor capabilities and strategic methods of purchasing

- Any compilation of data that has independent economic value, such as the categorization and organization of information on thousands of customers

Conversely, the following information usually fails to qualify as a trade secret in Pennsylvania:

- An employee's general knowledge and skill
- Common industry knowledge, especially if it has been known for a long time
- Pricing information that can be readily obtained from a customer or another publicly available source
- Public information, such as information available in articles, websites, public disclosure statements or patents
- An employee's personal business contacts
- Data that can be readily obtained from another source, such as prices charged, the identity of a material supplier, information that is marketed to the public, information that can be obtained by enrolling in an academic course and names and addresses published in a directory
- Materials that are not the employer's intellectual property

10 Tips to Avoid a Trade Secret Lawsuit

So, with this framework in mind, how does an employer avoid stumbling into a trade secret lawsuit when hiring a new employee? Here are 10 pieces of advice for all steps of the hiring process. The following largely come from "The Sedona Conference, Commentary on Protecting Trade Secrets Throughout the Employment Life Cycle," 23 *Sedona Conf. J.* 807 (2022), which is an excellent resource for trade secret issues.



Before the Interview

1. Consider including a statement in the job description asserting that the candidate, if hired, must not misappropriate any trade secrets. In addition, state that the candidate must be able to perform the job responsibilities without misappropriating any trade secrets from a former employer.

2. Be especially careful when interviewing or recruiting a candidate from a competitor. The competitor may be unhappy and eager to retaliate. You, as the new employer, cannot know if the job candidate took any confidential or trade secret information from his/her former employer. But look for red flags suggesting that the candidate is not trustworthy. For example, does the candidate's resume include potentially confidential information about previous employers? Has he or she been involved in previous lawsuits involving restrictive covenants, unfair competition or trade secrets? None of these factors necessarily means that you should lose interest in the candidate. But it can't hurt to know who you're speaking with.

3. Make it clear to the job recruiter and the interviewer that they should never ask the candidate about nonpublic information from a former employer or a third party. To

that end, consider creating specific guidelines or checklists describing topics to avoid during the interview.

4. Before the interview, consider providing the candidate with a detailed description of the proposed job duties. Then, ask the candidate to certify in writing that he or she does not believe the new job would require reliance upon a former employer's trade secrets. This certification should also state that a candidate will not disclose any trade secrets during the application process or any interviews.

5. After the candidate accepts an offer for an interview, request any documents the candidate has containing a noncompetition, nonsolicitation or confidentiality agreement; any invention disclosure or assignment agreement; any separation or severance agreement with restrictive covenants or confidentiality provisions; and any patents and published patent applications that identify the prospective employee as an inventor.

During the Interview

6. Don't ask the candidate to provide any nonpublic information related to a previous employer. For example, don't ask about company-specific information, the identity

of customers and nonpublic information on current products or processes. Just talk about the candidate's talents, skills, general experience and qualifications.

7. During the interview, discuss the nature of the position in general terms and ask a yes or no question as to whether the candidate has had exposure to potential trade secrets of a prior employer or third party that would be relevant to performance of the proposed job. If yes, ask the candidate whether (based on the job description) he or she can perform the job without knowingly or unconsciously using or disclosing the prior company's trade secrets. Ask the candidate to agree to take care that no such trade secrets are used or disclosed during employment.

8. Keep the interview centered on general knowledge and not specific topics when discussing projects and customers (unless they are public information already). For example, don't discuss the following topics:

- Customer profitability, margins, order history and ongoing projects
- Research and development efforts
- Strategic plans
- Future plans

Ask a yes or no question as to whether the candidate has had exposure to potential trade secrets of a prior employer.

After the Interview

9. Before extending an employment offer, review the candidate's ongoing obligations to former employers (contractual, non-compete, nonsolicit, restrictive covenants, etc.). Determine if those provisions are enforceable and, if so, what the relevant parameters are. For example, what is the candidate prohibited from doing under the agreement? What would be permissible? For executives or other sensitive hires, it may be wise for the candidate to obtain independent legal advice concerning his or her continuing obligations under such agreements.
10. If the new role might violate a noncompete obligation, consider if the job can be modified to prevent potential exposure. For example, it may be possible to arrange for engineers to take on a different type of



project. Or maybe sales personnel can operate in a different geographic area or market segment involving different customers. Finally, reiterate that the employee must not share any trade secrets as he or she transitions to your company.

What's the Payoff?

The adage “An ounce of prevention is worth a pound of cure” may be a cliché, but it happens to be true. Following the tips mentioned above may create extra work on the front end but may save a giant headache down the road. By exercising diligence in the hiring process, an employer can reduce the odds of being sued for stealing trade secrets. And if the lawsuit comes anyway, the employer will be in a much stronger position to fend it off. ¹²



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