To Hire or Not to Hire: What Silicon Valley Companies Should Know About Hiring Competitors' Employees

by

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Introduction

Silicon Valley, thirty miles south of San Francisco, is the world's technology hub. There are more start-ups in key areas like networking, wireless communications, multimedia, and internet applications here than anywhere else in the world.1 This technological production has transformed the Silicon Valley into one of the most important money-generating regions of America. In 1994, Silicon Valley firms surpassed $106 billion in sales2 and were expanding their markets internationally, most notably to the Pacific Rim's booming markets. By 1996, the Valley achieved its status as the nation's largest source of exports.3 More than 131,000 jobs have been created since 1992,4 totaling 900,000 by 1996.5 Silicon Valley also boasts the nation's highest average wages of nearly $45,000.6

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2. See id. at ix.
3. Telephone interview with Stephen Levy, Director of Studies, Center for Continuing Study of California Economy. The Silicon Valley boasted $35 billion in exports, compared to $826 billion for the nation. See U.S. DEPARTMENT OF COMMERCE, STATISTICAL ABSTRACT 1996 (116th ed.).
5. See Levy, supra note 3.
Many observers believe that the success of the Silicon Valley has been a result of a unique "regional network-based industrial system that promotes collective learning and flexible adjustment among specialized producers of ... related technologies." The Valley’s fluid industrial structure accommodates rapid dissemination of information and technological changes. The region’s networks operate as a kind of meta-organization through which engineers, in shifting combinations, create technological advances. Engineers move between firms and projects frequently, taking the knowledge, skills, and experience acquired at their previous jobs, and then using them as building blocks in their new jobs. Indeed, job-hopping has become the norm, with job tenure averaging about two years. One engineer explained the ease of changing jobs in the Silicon Valley as follows:

If you left Texas Instruments for another job, it was a major psychological move, all the way to one coast or the other, or at least as far as Phoenix. Out here, it wasn’t that big a catastrophe to quit your job on Friday and have another job on Monday ... You didn’t necessarily even have to tell your wife. You just drove off in another direction on Monday morning. You didn’t have to sell your house, and your kids didn’t have to change schools.

This accumulation of technical knowledge enhances the viability of Silicon Valley start-ups and reinforces a shared technical culture. Indeed, the speed of the diffusion of technical skills and know-how is the key to the Silicon Valley’s success.

The California courts have contributed to the Silicon Valley’s success by allowing employee mobility to take place. The courts have thwarted employers’ attempts to restrain employees from jumping ship. As a result, most employers have come to accept a high turnover rate as a cost of doing business in the region. Thus, engineers move between...
firms "without the alienation that might be expected with such a high degree of mobility." 17

Indeed, this unique employment mobility contributes to the success of the Silicon Valley and distinguishes it from other less successful technology areas. 18 For example, the Route 128 region in the Boston area (hereinafter "Route 128") had exhibited "technological vitality, entrepreneurship and extraordinary economic growth" during the 1970's. 19 By the end of the 1980's, however, Route 128 lost its dominance in computer production to the Silicon Valley. 20 Observers believe that Route 128's decline was due to its industrial system which consisted of independent self-contained firms, which allowed little interaction between them. 21 "Employees in Route 128 firms tended to be loyal to the firm, and generally expected to stay for the long term, working their way up the corporate hierarchy and retiring with a comfortable pension." 22 This low employment mobility rate was due to the region's culture and geography. The culture of the Route 128 region was one in which secrecy and corporate loyalty governed the relationship between the individual and the firm. 23 The geography of Route 128 contributed to and reinforced the independent firm-based industrial system; companies were "scattered widely along the Route 128 corridor... with miles of forest, lakes, and highways separating them." 24 This geographical and cultural separation made it difficult for engineers of different firms to exchange technological information and to change jobs. 25 These factors resulted in low employment mobility 26 and a corresponding slower adjustment pace to changes. Accordingly, the "independent firm-based industrial system" of Route 128 limited the firms' ability to adapt quickly to changing competitive conditions. 27 On the other hand, the unique "network-based industrial system" of the Silicon Valley has accommodated fast changes, sustaining the region's economic and technological vitality.

17. Id. at 37.
18. See, e.g., id. (comparing the Route 128 region to the Silicon Valley).
19. See id. at 1.
20. See id. at 2.
21. See id. at ix-x, 59-82.
22. Id. at 77.
23. See id. at 59.
24. Id. at 60.
25. See id. at 61. On the contrary, the geographic proximity of firms in the Silicon Valley facilitated occupational mobility. "People change jobs out here without changing car pools," said one executive. Id.
26. See, e.g., id. at 75. Indeed, Digital Equipment Technology, one of the main players in the Route 128 region, boasted a turnover rate among the lowest in the computer industry. See id. at 75.
27. See id. at 9.
Alarmingly, lawsuits are threatening the Valley's valuable networks. After two decades of amicable farewells, high technology employers in the Silicon Valley are replacing their blessings for departing employees with litigation. Recent high profile cases include the suit filed by Informix, a database company, which accused the database giant Oracle of stealing its trade secrets by raiding a team of Informix's key engineers. Similarly, chip manufacturer Advanced Micro Devices ("AMD") sued Hyundai, seeking to prevent former AMD employees now working for Hyundai from performing certain tasks. This phenomenon is likely a result of the heated pace of competition among Silicon Valley companies, forcing them to preserve their competitive advantage by protecting their intellectual property more aggressively.

The current trend of increased litigation may undermine the foundation of the Silicon Valley's success by chilling companies from aggressively competing for experienced engineering talent. Furthermore, litigation can be extremely disruptive to a company's business. It takes time, drains resources, and distracts employees and employers from what they do best—developing new technology. Yet, California law clearly allows competitors to solicit each other's employees except in a few narrow circumstances when employers use "unfair or deceptive means" or engage in "concomitant, unconscionable conduct" to effectuate the hiring.

This Note will address these circumstances, examine the employer's rights and duties in specific situations, and recommend practices that will

30. See Pascal W. DiFronzo, When Lips Aren't Sealed, LEGAL TIMES, April 8, 1996, at 46.
31. Caltado, supra note 29 (citing Sam Young, Vice President of Marketing for the Flash Division at Hyundai Electronics America, Sunnyvale, Cal.).
33. See Caltado, supra note 29.
34. Diodes, Inc. v. Franzen, 67 Cal. Rptr. 19, 25-26 (1968) (stating that defendant company committed no wrong in hiring away its competitor's employees because the interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interest of the employers); see also Metro Traffic Control, Inc. v. Shadow Traffic Network, 28 Cal. Rptr. 2d, 573, 577 (1994) ("[C]ompetitors may solicit another's employees if they do not use unlawful means or engage in acts of unfair competition"); Muggill v. Reuben H. Donnelley Corp., 398 P.2d 147, 149 (Cal. 1965) (holding that employment contracts which prohibit an employee from working for a competitor are invalid unless necessary to protect the employer's trade secrets); Buxbom v. Smith, 145 P.2d. 305, 310 (Cal. 1944) ("[T]t is not ordinarily a tort to hire the employees of another for use in the hirer's business. ").
help employers avoid and deal effectively with potential lawsuits. Part I offers an analysis of the causes of action that may arise from certain hiring practices. It provides a summary of California state law governing the hiring process and, where needed, supplements California law with the law of the Ninth Circuit, and of other jurisdictions, both state and federal. Part II provides a hypothetical which represents the typical hiring process in the Silicon Valley. The liability of the parties in the hypothetical is analyzed according to the law discussed in Part I. Part III proposes guidelines in the recruiting and hiring process in the form of a check list of recommended practices in order for hiring employers to avoid liability. Finally, this Note concludes that California courts should continue the pro-competition tradition.

I. Analysis of Potential Causes of Action

The recent boom in the Silicon Valley has created a problem of unequal supply and demand for technical employees. Jobs are "going begging" because there are more jobs than people to fill them. Thus, "to protect their competitive edge, employers are increasingly resorting to lawsuits to prevent valued employees from taking similar jobs with rival companies." For example, in January of 1997, Informix Software, Inc. filed a lawsuit against its arch-rival Oracle Corporation and eleven former Informix employees. Informix alleged that Oracle lured away these eleven engineers "to gain expertise and catch up in the hotly competitive market for corporate database software." Oracle vehemently denied this allegation, maintaining that the hiring simply reflected an interest in attracting good employees. The employees, also named as defendants in the lawsuit, called Informix's lawsuit against them an "infringement of their freedom of choice." They explained that they left Informix for Oracle because they believed that Oracle is a better-managed company with stronger research and development.

This case illustrates the potential conflict between the three parties: the departed employee, his or her former employer, and his or her new employer. A typical suit begins with the departure of an employee to

36. See id.
37. See DiFronzo, supra note 30, at 46.
38. See Mardesich, supra note 28.
39. Id.
40. See id.
41. Id.
42. See id.
further his career interests in the employ of a competitor. Fearing possible disclosure of its technological know-how, loss of the employee's expertise as well as a subsequent loss of its competitive advantage, the former employer sues to enjoin the disclosure or use of its trade secrets or to enjoin the departed employee from assuming his responsibilities in his new job. The most common causes of action advanced by former employers against their departed employees and the hiring employers include unfair competition, breach of fiduciary duty, breach of employment contract, and trade secret misappropriation. These causes of action will be analyzed seriatim in this section.

A. Unfair Competition

Generally, competitors may hire away another's employees if they do not use unfair or deceptive means, or engage in some concomitant or unconscionable conduct in the hiring process. In unfair competition cases, it is not the defendant's hiring of plaintiff's employees which is objectionable; rather, it is the use of improper means to solicit the employees which is punishable. The California Business and Professions Code defines unfair competition as an "unlawful, unfair or fraudulent business act or practice." Courts have broadly construed unfair competition to include a number of causes of action such as misappropriation of trade secrets, breach of duty of loyalty, and other unfair practices that do not give rise to a recognizable cause of action. Thus, the unfair competition claim often overlaps other legal theories. Plaintiffs usually advance the unfair competition claim as a residual cause of action because this cause of action covers allegations that do not fit within any of the established legal principles.

An example of judicial analysis of an unfair competition claim is Buxbom v. Smith. In that case, the court determined that breaching a

43. See Robert Alan Spanner, Leaving with Secrets, LEGAL TIMES, Dec. 11, 1995, at 47.
44. See id. The departed employee sees the suit as an infringement on his right to make a living, while the new employer views such a suit as anti-competitive litigation. See id.
45. Id.
46. See Metro Traffic Control, 27 Cal. Rptr. 2d at 577; Diodes, 67 Cal. Rptr. at 25-26; Muggill, 398 P.2d at 149; Buxbom, 145 P.2d at 310.
47. CAL. BUS. & PROF. CODE § 17200 (West 1997).
48. See Bureerong v. Uvawas, 922 F. Supp. 1450, 1477 (C.D. Cal. 1996) (holding that under California law, unfair competition includes anything that can be called a business practice and is also forbidden by law); see also Courtesy Temp. Servs., Inc. v. Camacho, 272 Cal. Rptr. 352, 360 (1990) (holding that misappropriation of plaintiff's customer list should be enjoined as unfair competition even if it did not qualify as a trade secret under the Uniform Trade Secrets Act).
49. See Bureerong, 922 F. Supp. at 1477.
50. 145 P.2d. 305 (Cal. 1944).
contract to facilitate the hiring of a competitor's employees constituted unfair competition. The plaintiff in Buxbom was the owner of a business engaging in the distribution of fliers, newspapers and advertisers. Defendants entered into two contracts with plaintiff under which plaintiff was to handle the publication and distribution of defendants' newspaper. Immediately after entering into the contracts with defendants, plaintiff enlarged his distributing crews, hiring additional supervisors to prepare to handle the distribution of 40,000 copies of defendants' shopping news. Shortly thereafter, defendants canceled the distribution contract and hired away plaintiff's distributing crews and supervisors. The court held that defendants were liable not only for breach of contract but also for unfair competition. The court recognized that the defendants gained an unfair advantage over the plaintiff by deliberately inducing plaintiff to build up his distributing business, and then, having acquired the knowledge of plaintiff's business and methods and records through the contractual relationship, terminating their relationship with plaintiff, and hiring his crews. Accordingly, breaching a contract to facilitate raiding a competitor's employees is an example of unfair competition.

Another commonly claimed unfair practice is predatory hiring: hiring away a competitor's employee solely to destroy its business. "In such a case, the defendant does not seek the services of gifted or skilled employees as such, but aims to cripple, destroy or misappropriate a competitor's business organization." Because predatory hiring is rooted in both antitrust law and common law, plaintiffs have advanced this type of claim under both theories. Under antitrust theory, a plaintiff claiming predatory hiring must establish three elements: (1) defendant has a monopoly power in the relevant market; (2) defendant hired away its competitor's employees for the sole purpose of denying them to a competitor; and (3) defendant's actions resulted in causal antitrust injury. The Ninth Circuit has strictly construed the "sole purpose" element; as long as the employer does not hire the competitor's employees for the sole purpose of destroying the competitor, it will not be held liable for preda-

51. See id. at 310-11.
52. See id. at 306.
53. See id.
54. See id.
55. See id.
56. See id. at 311.
57. See id.
58. See Universal Analytics, Inc. v. MacNeal-Schwendler Corp., 914 F.2d 1256, 1258 (9th Cir. 1990).
60. See Universal Analytics, Inc., 914 F.2d at 1257.
61. See id. at 1258.
tory hiring. Thus, even if one of the company’s purposes for hiring its competitor’s employees is to injure the competitor’s business, the company has committed no wrong.

The Ninth Circuit thoroughly analyzed a predatory hiring claim under antitrust theory in Universal Analytics, Inc. v. MacNeal-Schwendler Corp. In that case, defendant hired five of plaintiff’s six key technical employees. To support its claim, plaintiff introduced a memo from defendant’s executive vice president, which read:

This guy came through some months ago, and we turned him down because he didn’t give us a warm feeling. . . . Since then, Nima B. [a prior employee of plaintiff] has given him a strong endorsement. As Nima is a winner, this is important. Also we wound UAI [plaintiff] again, and Layfield has shown that he is hard-nosed enough to fire someone who does not work out.

The court held that the four words “we wound UAI again” were insufficient to establish predatory intent; although one reason for the hiring was to frustrate the competitor, defendant’s primary motivation was to obtain a productive employee for itself. The court also stated that evidence that the new employee is put to use in his new job can exonerate the hiring employer of a predatory hiring claim. Thus, a predatory claim based on antitrust law is very difficult to establish because a plaintiff has to show not only that defendant has monopoly power, but also that defendant attempts to gain or maintain that illegitimate power by hiring away plaintiff’s employees.

Similar to antitrust law, a plaintiff claiming predatory hiring under common law must show that the sole purpose for defendant’s hiring away plaintiff’s employees is to cripple plaintiff’s business.

62. See id. at 1258-59; cf. Northwest Power Products, Inc. v. Omark Industries, Inc., 576 F.2d 83, 90-91 (5th Cir. 1978) (requiring plaintiff who advances a predatory claim under antitrust law to show adverse impact on the market in addition to showing that defendant used unfair means).

63. See Universal Analytics, 914 F.2d 1259.

64. See id.

65. Id. (emphasis in original).

66. See id.

67. See id.

68. See id. at 1257.

69. See Gunter v. Astor, 4 J.B. Moore, 12 (1819) (defendant ruined plaintiff’s business by enticing plaintiff’s employees by entertaining them lavishly and offering them higher wages); Sugar Creek Creamery Co. v. Momence Milk Coop. Ass’n, 37 Trademark Rep. 851 (E.D. Ill. 1947) (defendant sought to deprive plaintiff of his key employees, contractors and buyers); Driver v. Smith, 89 N.J. Eq. 339, (N.J. 1918) (defendant enticed plaintiff’s employees to leave with the intention to drive plaintiff out of business); International Tailoring Co. of N.Y., Inc. v. Lukas, 64 N.Y.S.2d 879 (Sup. Ct. 1946) (defendant induced employees of plaintiff to breach their employment contract and work for defendant).
Under both antitrust and common law theories, the means used in the hiring process can provide circumstantial evidence of a predatory purpose. Wrongful means include targeting recruiting efforts exclusively at a particular competitor or enticing a competitor’s employees by offering unwarranted significant monetary rewards. Courts may view targeting the recruiting efforts exclusively at one competitor as an attempt to raid the competitor’s employees to drive the competitor out of business. However, evidence that an employment agency placed the employee, without a direction from the hiring employer to recruit exclusively from one source, can negate this charge. For example, the *Universal Analytics* court noted that the employees were not sought out by the defendant company, but rather placed at the defendant company by employment agencies, and refused to find defendant liable for predatory hiring. The district court below also dismissed plaintiff’s allegation that defendant conspired with the employment agencies to deplete plaintiff’s crucial talent, because defendant did not direct the agencies to seek employees from any particular source or to target certain employees of plaintiff. Accordingly, evidence that the hiring employer used different venues to obtain employees can exculpate the hiring employer from a predatory hiring charge.

Some federal courts, including the Ninth Circuit, as well as some state courts outside California, have held that, like targeted recruiting, significant monetary rewards disproportionate to the new employee’s skills and experience are evidence of predatory hiring. One state court in North Carolina noted that an offer to pay a new employee’s legal expenses in defending a potential action by the former employer was evidence that helped to establish wrongful intent. On the other hand, the


71. See *Universal Analytics*, 914 F.2d at 1259.


73. See *Universal Analytics, Inc. v. MacNeal-Schwendler Corp.*, 707 F. Supp. 1170, 1174 (C.D. Cal. 1989), aff’d 914 F.2d 1256 (9th Cir. 1990).

74. See *Universal Analytics*, 914 F.2d at 1259.

75. See *Universal Analytics*, 707 F. Supp. at 1174-76.

76. Id.

77. *Medronics Inc.*, 15 U.S.P.Q.2d (BNA) at 1467 (offering salaries designed not as reasonable compensation but intended to harm or destroy plaintiff constitutes an actionable claim); *United Lab., Inc. v. Kuykendall*, 370 S.E.2d 375 (N.C. 1988), aff’d 437 S.E.2d 374 (N.C. 1993).

78. See *Kuykendall*, 370 S.E.2d at 387-88. In that case, one of plaintiff’s sales representatives went to work as a sales representative of a competitor. See *id.* at 377-378. In his new job, the sales representative solicited the same customers he had called on while employed by plaintiff. See *id.* at 387. The competitor, aware that a non-competition covenant existed be-
Ninth Circuit found that a salary increase of less than 20% was commensurate with the employees' specialized programming skills, such that the increase was not evidence of predatory hiring intent. Thus, evidence that the hiring employer "bought" the employees of its competitor may be used to infer a predatory hiring intent.

Although California state courts have not addressed these types of wrongful conduct, they likely would adopt the rules articulated by the Ninth Circuit and the other federal and state courts when evaluating claims under both antitrust law and common law, because these rules are consistent with a pro-competition policy. For example, the courts' "sole purpose" requirement furthers California's interest in allowing competitors to solicit each other's employees. The sole purpose requirement is sensible for several reasons. It permits the hiring of a competitor's employees even if such hiring results in economic injury to the competitor. When an employee leaves, the former employer must expend resources to find and train a replacement. Thus, without the "sole purpose" requirement, employers could never hire experienced employees because doing so would undoubtedly injure the employees' prior employers. In addition to articulating the "sole purpose" test, the Universal Analytics court identified evidence that could be used to defeat a predatory hiring charge, such as whether the employee is put to use. Because employees usually change jobs to seek career advancement, they would not accept new jobs where their knowledge, skills and experience are not put to use. Thus, employees' interests in their own mobility and betterment, together with market forces, ensure efficient utilization of employees.

79. See Universal Analytics, 914 F.2d at 1259.
80. See Metro Traffic Control Inc. v. Shadow Traffic Network, 22 Cal. Rptr. 2d 573, 577 (Ct. App. 1994) ("Competitors may solicit another's employees if they do not use unlawful means or engage in acts of unfair competition."); Diodes, Inc. v. Franzen, 67 Cal. Rptr. 19, 26 (Ct. App. 1968) (a company commits no wrong in hiring away its competitor's employees because "[t]he interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interests of the employers"); Muggill v. Reuben H. Donnelly Corp., 398 P.2d 147, 149 (Cal. 1965) (employment contracts which prohibit an employee from working for a competitor are invalid "unless they are necessary to protect the employer's trade secrets"); Buxbom v. Smith, 145 P.2d 305, 310 (Cal. 1944) ("It is ordinarily a tort to hire the employees of another for use in the hirer's business.")
81. See supra notes 71-79 and accompanying text (discussing targeted recruiting and unreasonably high job offers).
82. One can argue that the employees would accept such a job if they are paid a significant amount of money. However, "buying" employees to drive their prior employer out of business also violates the law. See supra notes 77-79 and accompanying text (discussing unreasonably high level of compensation).
Furthermore, determining whether an employee is used effectively or efficiently would force the court to second-guess the employer’s business decision. Because the sole purpose rule makes sense, California courts should require a plaintiff claiming predatory hiring under either antitrust law or common law to prove that a defendant has no interest in using the employees’ talents, and that, instead, defendant’s sole purpose in hiring away plaintiff’s employees is to destroy plaintiff’s business.

Accordingly, competitors may hire away another’s employees if they do not use in the hiring process such unfair means as targeted recruiting or offering excessive monetary rewards for the sole purpose of driving their competitors out of business.

B. Breach of Fiduciary Duty

Because the employees’ conduct may implicate the employer in wrongdoing, the employer must understand what types of conduct are considered unacceptable.

Corporate officers and directors owe fiduciary duties to their employer. 83 Non-officer employees may have similar duties of loyalty to their employer under the principles of agency law. 84 Thus, it is unacceptable for a departing employee to transfer his loyalty to a new employer while still employed by his current employer. 85

The mere fact that an employee or officer makes preparations to compete against his current employer before resigning is insufficient to constitute a breach of fiduciary duty. 86 On the other hand, helping one’s new employer to recruit one’s co-workers by supplying their salary information to the new employer would constitute a breach. 87

In Bancroft-Whitney Co. v. Glen, Glen, the president of Bancroft-Whitney, accepted an offer of employment from Bender, a rival company. 88 Before leaving his employment with Bancroft-Whitney, Glen approached a number of Bancroft-Whitney’s employees about accepting employment also with Bender. 89 He revealed their names and salaries to Bender and caused

84. See Balboa Ins. Co. v. Trans Global Equities, 267 Cal. Rptr. 787, 798 n.21 (Ct. App. 1990). “[A]n agent is subject to a duty to his principal to act solely for the benefit of the principal . . . .” Id. (citing RESTATEMENT (SECOND) OF AGENCY §§ 387-39). No California case has expressly recognized such fiduciary duties for non-officer employees.
86. See Bancroft-Whitney, 411 P.2d at 936; Fowler, 539 Cal. Rptr. at 543.
87. The California Supreme Court has held that “salaries paid by a corporation to its employees are not matters of common knowledge . . .” and may not be revealed to a competitor to facilitate the recruitment of the corporation’s personnel. See Bancroft-Whitney, 411 P.2d at 939.
88. See id. at 924, 927.
89. See id. at 928.
Bancroft-Whitney to delay giving raises to its employees so that Bender could offer these employees higher salaries. Ultimately, Glen managed to recruit 13 employees to leave Bancroft-Whitney simultaneously and accept employment with Bender. The California Supreme Court held that Glen had breached his fiduciary duty to Bancroft-Whitney because he used his position as the president, and information to which he was privy due to his position, to facilitate the solicitation of Bancroft-Whitney's employees. Moreover, the court found Bender guilty of unfair competition because it participated in and reaped the benefit of Glen's action. Accordingly, helping one's prospective employer to exploit one's current employer can constitute a breach of fiduciary duty.

Although a non-officer employee may be held to a lesser fiduciary standard, he still owes his prior employer a fiduciary duty. Participating in one employer's operation while still employed by another employer constitutes a wrongful transfer of loyalty. In Fowler v. Varian, the court held that the departing manager breached his duty of loyalty because he discussed the possibility of joining a new company with the new company's founders; offered ideas and suggestions about the new company's business; discussed the capital structure of the new company; discussed the new company's product, which would compete directly with his current employer's product; attended meetings with investors and assured them that he would join the new company; and when confronted by the employer, would not reveal his association with the new company. The court seemed to be concerned with the departing employee's heavy participation in his prospective employer's business as well as his deception of his current employer. Accordingly, under Fowler, it is a breach of fiduciary duty for employees to participate in their new employers' operations and for officer-employees to help their new employers recruit their current co-workers before they resign from their current employment.

90. See id. at 936-41.
91. See id. at 926-33.
92. Id. at 936-37.
93. See id. at 939-41.
94. See Balboa Ins. Co., 267 Cal. Rptr. at 798 n.21 (suggesting that a fiduciary duty may exist under the agency doctrine).
96. See id. at 540-44.
97. See id. at 543-44.
C. Trade Secret Misappropriation

As a result of technical advances and greater employment mobility, trade secret misappropriation has grown more important in the employment arena. In the Silicon Valley, the importance of trade secret law is magnified because intellectual properties are among the most valuable assets to Silicon Valley companies. As competition becomes more heated in the Silicon Valley, businesses have become more concerned with the prospect of losing their intellectual properties via departing employees. Thus, to maintain their competitive edge, Silicon Valley firms have increasingly resorted to the legal protection of their intellectual properties under trade secret law. Despite its proliferation, the trade secret misappropriation claim remains burdensome for a plaintiff to establish. Even if plaintiff has shown that the alleged misappropriated information qualifies as a trade secret, plaintiff has only won half the battle. To successfully establish a trade secret claim, plaintiff must also prove that the information: (1) derives independent economic value from not being generally known; (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and that (3) the employee used improper means to misappropriate the trade secrets.

In the employment arena, trade secret law prohibits employees from disclosing or using the trade secrets learned during their employment. Where an employee changes jobs, the new employer may be liable to the prior employer if it knows or has reason to know that the new employee is using or disclosing his prior employer’s trade secrets and stands to

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98. The California Civil Code defines “trade secret” as:

(I)Information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and

(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

CAL. CIV. CODE § 3426.1(d) (West Supp. 1997).

While this Note offers some guidelines regarding the types of information not qualified as trade secrets, it does not offer an analysis of the statutory language defining trade secrets. Thus, whether the information derives independent economic value and is guarded as a secret is beyond the scope of this Note.

99. See DiFronzo, supra note 30.
100. See id.
101. See id.
102. See § 3426.1(d).
103. See § 3426.1.
104. See id.
105. See § 3426 (prohibiting misappropriation of trade secrets).
benefit from such use or disclosure. The courts impose a duty on the employer to inquire into the employee's conduct to determine whether the employee is using his prior employer's trade secrets in certain circumstances.

(I) Duty to inquire

An employer has a duty to inquire once it acquires constructive or actual knowledge that its new employee is using trade secrets of the previous employer. An employer has "constructive notice," under the California Civil Code, when the employer has "actual notice of circumstances sufficient to put a prudent man upon inquiry as to a particular fact, [which] constitutes constructive notice of the fact itself in all cases in which, by prosecuting such inquiry, one might have learned such fact." After an honest inquiry to determine if the new employee is in a position to disclose the former employer's trade secrets, an employer may reasonably rely upon the result of his investigation. Whether reliance is reasonable depends on the employer's experience, intelligence, and business environment.

Ralph Andrews Productions, Inc. v. Paramount Pictures Corp. offers a valuable analysis of the scope of an employer's duty to inquire. The plaintiffs in that case, Ralph Andrews Productions, Inc. ("RAP") and Ralph Andrews, were established producers of television game shows. Bernstein, a vice president of RAP, was in charge of developing new concepts for television shows. After RAP had developed a game show titled "Anything For Money," Andrews suggested that Bernstein present the idea of this game show to Paramount. Rather than presenting the idea on behalf of RAP, Bernstein told Paramount that he had ownership rights to the show. Paramount then hired Bernstein to

108. CAL. CIV. CODE § 19 (West 1982).
109. See Ralph Andrews Prods., 271 Cal. Rptr. at 800.
110. See id. at 801-802; Bagdasarian v. Gragnon, 192 P.2d 935, 937-38 (Cal. 1948) (plaintiff's reliance on defendant's misrepresentation was reasonable because plaintiff was not a vinyardist and knew nothing about growing grapes).
111. See 271 Cal. Rptr. at 799-802.
112. See id. at 798.
113. See id. at 797-98.
114. See id. at 798.
115. See id.
produce the show, knowing that Bernstein had worked for RAP.116 The court held Paramount liable for trade secret misappropriation because it had constructive notice that the game show belonged to RAP rather than to Bernstein.117 The court noted that although Paramount asked Bernstein for a letter verifying the ownership of the right, Paramount failed to follow up with this request when Bernstein did not produce the verification.118 The court believed that further inquiry by Paramount would have revealed that the concept belonged to RAP.119 The court held that Paramount was not entitled to rely on Bernstein's misrepresentation because the Paramount representative who dealt with Bernstein was an experienced and sophisticated executive in this type of business transaction.120

Thus, as *Ralph Andrews Productions* reveals, employers have a duty to monitor their new employees to ensure that the employees are not using trade secrets of their prior employer.

(2) General concepts

Because not all proprietary information qualifies as a trade secret,121 an employer should preliminarily evaluate the information the new employee brings to his new job to identify unprotectable information so that the employer may immediately take advantage of its competitor's unprotectable information. For instance, the Ninth Circuit has declared that ultimate goals and general concepts do not constitute trade secrets. General concepts cannot be claimed as an employer's trade secrets because they are "general . . . principles in the public domain and part of the intellectual equipment of technical employees."122 In *Winston Research Corp. v. Minnesota Mining & Mfg. Co.* after the research phase for a new precision tape producer, Johnson left Mincom's employment.123 Fourteen months later, at his new employment, Johnson completed a machine having the same desirable characteristics as the Mincom machine.124 The court held that the general approach to the technical concept in question did not qualify as a trade secret because it "was dictated by well-known principles of physics."125 However, the device's specifications of the basic mechanical elements and their relationship to each

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116. *See id.* at 799.
117. *See id.* at 799-802.
118. *See id.* at 799.
119. *See id.* at 800-01.
120. *See id.* at 801-02.
123. *See id.* at 137.
124. *See id.*
125. *See id.* at 139.
other were trade secrets because they were not publicly known, and Min-
com discovered these concepts after painstaking research and extensive
trial and error.126 Thus, concepts consisting of general principles such as programming
principles do not qualify as trade secrets.127

(3) Knowledge, skills and expertise

Similarly, courts generally refuse to extend trade secret protection to
the knowledge, skills and expertise of an employee.128 The leading Cali-
ifornia case on this topic is Metro Traffic Control, Inc. v. Shadow Traffic
Network.129 The defecting employees in this case were initially reporters
and producers for Metro Traffic Control, a company that contracted with
radio stations to gather and broadcast local traffic information.130 When
the radio station KFWB, an important customer of Metro, did not renew
its contract, the employees left Metro and went to work for Shadow Traf-
fic Network.131 Metro sued Shadow for trade secret misappropriation,
alleging that the employees’ qualities, sound, and personalities, as well as
their knowledge of the likes, fancies and characteristics of KFWB, were
Metro’s trade secrets.132 The court disagreed and held the employees
only took their knowledge and talents, which they could use as they
pleased.133 Accordingly, Metro Traffic Control reveals that an em-
ployee’s talent, knowledge, skills and experience are not trade secrets
belonging to his employer.134

Similarly, expertise developed by applying one’s knowledge and in-
telligence is not a trade secret.135 Although an employee may have begun

126. See id.
127. See id.; see also SCM v. Union Camp Corp., 169 U.S.P.Q. (BNA) 140, 144 (D. Fla.
1970) (holding that defendant’s use of plaintiff’s five-step process to produce myrcene did not
constitute misappropriation of trade secrets because the process was well known in the industry,
and defendant’s method of practicing the five well-known steps at his new company was sub-
stantially different from that of plaintiff).
128. See Metro Traffic Control, Inc. v. Shadow Traffic Network, 27 Cal. Rptr. 2d 573,
578-79 (Ct. App. 1994) (explaining that “a stable of trained and talented at-will employees does
not constitute an employer’s trade secret”).
129. 27 Cal. Rptr. 2d 573 (Ct. App. 1994).
130. Id. at 574-75.
131. Id. at 577.
132. Id. at 578-79.
133. Id.
134. Id.
135. See e.g., King v. Pacific Vitamin Corp., 64 Cal. Rptr. 486, 489 (Ct. App. 1967)
(stating that enhancements in an employee’s general knowledge and experience are not trade
secrets no matter how extensive); Vekamaf Holland B.V. v. Pipe Benders, Inc., 211 U.S.P.Q.
(BNA) 955, 984 (D. Minn. 1981), aff’d, 696 F.2d 608, 612 (8th Cir. 1982) (explaining that
“experience was not a trade secret”).
as an inexperienced worker, the knowledge and skills he gains by working and training in his employer’s business belong to him. Confidential information of an employer loses protection after it has been merged into the employee’s “own faculties, skill and experience.” Thus, a junior engineer trained at the expense of his employer and who, after having acquired valuable general knowledge of the trade, leaves the employer and goes to work for a competitor, commits no wrong. Accordingly, most jurisdictions have determined that an employee is free to draw upon his general knowledge, experience, memory and skills upon termination of employment.

(4) *Inevitable disclosure theory*

Although the majority of courts do not view employees’ knowledge, experience and skills as the employers’ trade secrets, a minority of courts outside California, and outside the Ninth Circuit, have held that, under certain circumstances, information that has been merged into the employee’s “own faculties, skills and experience” can be deemed a trade secret. This minority rule is based on the “inevitable disclosure” the-

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136. Ridley v. Krout, 180 P.2d 124, 130 (Wyo. 1947) (explaining that knowledge acquired by an employee in his employer’s shop where the employee performed lock work of all sorts, including key making, opening of safes, and changing lock combinations, did not constitute trade secrets of his employer); Welex Jet Services, Inc. v. Owen, 325 S.W.2d 856, 858 (Tex. Ct. App. 1959) (stating that employees need not forgo the exercise of their inventive powers even when inspired by knowledge and experience gained during previous employment).


138. See Official Aviation Guide Co., Inc. v. American Aviation Assocs., 150 F.2d 173, 178 (7th Cir. 1945) (holding that an employer cannot prevent its employee from using skill and intelligence acquired through the course of employment even if the employee uses the skills and intelligence for the benefit of the employer’s rival); Club Aluminum Co. v. Young, 160 N.E. 804, 806 (Mass. 1928) (explaining that a previous employer cannot contractually prevent an employee from using skill and intelligence acquired or increased during employment).

139. See e.g., GTI Corp. v. Calhoon, 309 F. Supp. 762, 771 (S.D. Ohio 1969) (holding that defendants “had every right” to utilize their general knowledge and experience upon termination of their employment”). An employee often gains information during an earlier job which enables the employee to succeed in subsequent employment. Thus, courts cannot compel employees who change employment to “wipe clean the slate of their memories.” Moss, Adams & Co. v. Shilling, 224 Cal. Rptr. 456, 458-59 (Ct. App. 1986); Futurecraft Corp. v. Clary Corp., 23 Cal. Rptr. 198, 210 (Ct. App. 1962).

In practice, however, the trade secret jurisprudence fails to provide a guideline for employers and employees to distinguish meaningfully between an employee’s education, skill and experience, and the employer’s protectable trade secrets. See Spanner, supra note 43, at 47 (characterizing this area of litigation as a “roll of the dice”). As a result, the issue of whether certain information constitutes an employee’s knowledge and skill—or an employer’s protectable trade secrets—seems to be resolved on a case-by-case basis.

140. See e.g., PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1271 (7th Cir. 1995) (relying on the “inevitable disclosure” doctrine and enjoining a marketing executive from performing a similar function for a competitor); Carborundum Co. v. Williams, 468 F. Supp. 38, 41-42
The premise of this theory is that there are rare circumstances where it would be impossible for a key employee to accept a particular position with a competitor and faithfully perform his or her new duties without necessarily calling upon trade secrets learned by virtue of the prior employment.

Silicon Valley employers who have lost employees to rival firms have advanced the inevitable disclosure theory in the California courts. Indeed, the Superior Court of Santa Clara County in *Advanced Micro Devices v. Hyundai Electronics America* is expected to determine whether the inevitable disclosure theory conforms to California law. Therefore, it is important for prospective employers to recognize and understand this potential liability if the California courts choose to adopt the inevitable disclosure theory.

The modern seminal case of the inevitable disclosure theory is the Seventh Circuit case of *PepsiCo, Inc. v. Redmond*. In *PepsiCo*, Redmond, the general manager of the California operations of PepsiCo, accepted an offer to become a vice president of the beverage division of Quaker Oats Company. Due to his position at PepsiCo, Redmond had an intimate knowledge of PepsiCo's strategic marketing information for its "All Sport" sports drink. One of Redmond's first responsibilities at Quaker Oats Company was to integrate the distribution of Quaker's "Gatorade" sports drink with its "Snapple" beverage product line. PepsiCo sued Redmond and Quaker to enjoin Redmond from assuming his duties at Quaker and to prevent him from using PepsiCo's marketing information for "All Sports." The court of appeals upheld the order

(E.D. Tenn. 1978), aff'd, 590 F.2d 334 (6th Cir. 1978) (mem.) (relying on the "inevitable disclosure" doctrine and granting preliminary injunction forbidding former employee from divulging to his new employer any information learned while working for plaintiff); Weed Eater, Inc. v. Dowling, 562 S.W.2d 898, 902 (Tex. Ct. App. 1978) (relying on the "inevitable disclosure" doctrine, upholding one-year injunction against employee thereby preventing him from working for Plaintiff's competitor); Sybron Corp. v. Wetzel, 385 N.E.2d 1055, 1059-60 (N.Y. 1978) (relying on the "inevitable disclosure" doctrine and reversing a summary dismissal of complaint against the employee because disclosure of the former employer's trade secrets by the employee was highly probable).

141. *PepsiCo, Inc.* 54 F.3d at 1268-69.
142. Such information is often so ingrained in the employee's memory that it cannot be unlearned or ignored by even the most ethical employee engaged in directly competitive employment.
143. See Luan v. Superior Ct., No. S053879 (S.J. App. 1996) (leaving in place a preliminary injunction, thus precluding five engineers from assuming new positions); Cataldo, supra note 29 (reporting the status of *Advance Micro Devices v. Hyundai Electronics America*).
144. Cataldo, supra note 29.
145. 54 F.3d 1262.
146. Id. at 1264.
147. Id. at 1265-66.
148. Id. at 1266.
149. Id. at 1265.
that enjoined Redmond from assuming his new position at Quaker for six months.150 The court reasoned that Redmond, in his new position at Quaker, would not be able to refrain from relying on PepsiCo's trade secrets as he planned the new distribution strategy for Gatorade and Snapple. The court explained:

PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game. Quaker and Redmond's protestation that their distribution systems and plans are entirely different from [PepsiCo's ] are thus not really responsive.151

However, PepsiCo and the inevitable disclosure theory are problematic. In granting the injunction, the district court in PepsiCo had relied on IBM Corp. v. Seagate Tech., Inc., a case that was later vacated on remand.152 Moreover, the inevitable disclosure doctrine is actually a disguised non-competition covenant, which is unenforceable in California.153 First, in preventing an employee from assuming a position with another employer which will require the employee, intentionally or otherwise, to call upon his or her previously acquired knowledge, this doctrine prohibits a former employee not only from disclosing secrets but also from taking certain jobs.154 Indeed, in FMC Corp., a district court in North Carolina recently rejected the inevitable disclosure theory because such a law would effectively make the employee an "indentured servant" of his prior employer.155 Prohibiting an employee from accepting comparable employment is beyond the scope of trade secret law.

Furthermore, California law only prohibits misappropriation of trade secrets and does not prohibit accepting similar responsibilities with a new employee.156 Unlike other states, California specifically prohibits covenants not to compete.157 Thus, an employee is free to accept an identical job with a competitor. Furthermore, California requires a plaintiff in a trade secret misappropriation suit to identify the information allegedly stolen.158 Consequently, the court may enjoin an employee from disclosing identified items, instead of enjoining the employee from taking the job to prevent trade secret misappropriation.

150. Id. at 1272.
151. Id. at 1270.
154. Id.
156. DiBoise & Berger, supra note 153, at 44.
158. See CAL. CIV. PROC. CODE § 2019(d) (West 1997).
The inevitable disclosure doctrine, therefore, seems inconsistent with California law because it authorizes enjoining the employee from assuming the job for which he was hired. Given California’s strong public policy in protecting competition, it is unlikely that the California courts will adopt the inevitable disclosure theory. Nevertheless, companies that hire employees from a direct competitor, and then assign them to a project that is identical to one that they worked on for their prior employer, should be aware of the potential liability if the California courts choose to adopt the inevitable disclosure theory.

(5) Breach Of Employment Contract

In addition to breach of fiduciary duty and misappropriation of trade secrets, an employee’s breach of employment contract with his prior employer can also implicate his new employer. A typical employment contract may contain four types of restrictions: (1) a restriction against soliciting other employees ("non-solicitation"); (2) a restriction against disclosing proprietary information ("non-disclosure"); (3) a restriction against competing with the employer ("non-competition"); and (4) a restriction against using an invention conceived during employment ("invention assignment").

A non-solicitation provision precludes an employee from soliciting the departure of her co-workers when she leaves to join another company. A California court upheld such a provision in an employee’s termination agreement that restrained the employee from “disrupting, damaging, impairing or interfering” with his former employer by “raiding” its work-staff after termination. In Loral, the defendant Moyes resigned from his position as the president of a subsidiary of Loral and accepted an offer from a competitor, Aydin. Moyes’ termination was
accompanied by an agreement under which he agreed not to “raid” Loral’s employees.\textsuperscript{163} Once at Aydin, however, Moyes recruited a large number of employees from Loral.\textsuperscript{164}

Although the court held that the non-solicitation agreement was enforceable, it construed the agreement narrowly as prohibiting only affirmative solicitation of employees by a former employee.\textsuperscript{165} The court reasoned that the agreement did not significantly restrain trade or business because employees were still free to seek employment with the competitor; they only lost the option of being contacted by the departed employee.\textsuperscript{166} Thus, the \textit{Loral} court seemed to draw the line between protected and unprotected competition on a factual question—who calls whom first regarding the job opportunity.

Accordingly, if the employee had signed a non-solicitation agreement with the prior employer, the new company should require the employee to refrain from \textit{actively recruiting} his former employer’s personnel until the contract expires. Nevertheless, according to the \textit{Loral} court, the company is free to talk to those employees who approach the company on their own initiative. It may be a sound practice for the company to have any job-seekers sign a declaration stating that they were not enlisted by the departed employees, and that they themselves initiated the contact.

Non-disclosure provisions, on the other hand, prohibit employees from disclosing proprietary information to outsiders, including, but not limited to, trade secrets.\textsuperscript{167} Non-disclosure agreements, however, do not, in practice, extend the scope of protection beyond trade secrets. They only protect what is already protected under existing trade secret law.\textsuperscript{168} Thus, if the new employee signed a non-disclosure agreement with his prior employer, the hiring employer should only be concerned about disclosure of trade secrets.

The most restrictive contractual provision is the non-competition agreement. A non-competition agreement prohibits an employee from competing with his former employer or imposes penalties for such unauthorized competition.\textsuperscript{169} Non-competition agreements are unenforceable in California unless drafted narrowly to protect trade secrets or other

\begin{itemize}
\item \textsuperscript{163} \textit{Id.}
\item \textsuperscript{164} \textit{Id.}
\item \textsuperscript{165} \textit{Id.} at 279-80.
\item \textsuperscript{166} \textit{Id.} at 279.
\item \textsuperscript{167} \textit{See, e.g.,} \textit{Metro Traffic Control, Inc. v. Shadow Traffic Network, 27 Cal. Rptr. 2d 573, 577 (Ct. App. 1994).}
\item \textsuperscript{168} \textit{Moss, Adams & Co. v. Shilling, 224 Cal. Rptr. 456, 459 (Ct. App. 1986).}
\item \textsuperscript{169} \textit{See Muggill v. Reuben H. Donnelley Corp., 398 P.2d 147, 149 (Cal. 1965).}
\end{itemize}
Non-competition agreements include all contracts designed to penalize the employee for accepting employment with a competitor. In Chamberlain v. Augustine, the Court declared invalid an agreement requiring the employee to pay liquidated damages of $5,000 if the employee worked for a competitor. The Court reasoned that because of the liability, the employee was "not as free" to choose employers as he would have been without the agreement. Accordingly, non-competition agreements are unenforceable in California because they restrain the employee's freedom in choosing employment.

In addition to the above agreements, technical employees are routinely required to sign an invention assignment agreement. This type of agreement requires the employee to disclose and assign any contributions and inventions relating to the employer's business conceived or made during the employment period to the employer. Such contractual assignments of inventions are subject to certain statutory restrictions. Notwithstanding this restriction, invention assignment agreements expand the employer's proprietary rights beyond what is afforded under existing

170. See Cal. Bus. & Prof. Code § 16600 ("[e]very contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extent void."); Muggill, 398 P.2d at 149 (invalidating the provision that forfeited plaintiff's pension rights if he worked for a competitor).


173. Id.

174. A typical invention assignment agreement reads as follows:

This agreement concerns contributions and inventions conceived or made by me, alone or with others

A. while I am employed by the company whether or not during working hours and

B. that relate to the business of the company or to any reasonable expansion of such business, or result from my work for the company.

I agree:

1. To disclose them promptly in writing to the company.

2. That all such contributions and inventions are to become the property of the company whether or not patent applications are filed thereon.

The California Labor Code section 2870(a) prohibits an employer from requiring an employee to assign rights to inventions that are unrelated to employment. Cal. Lab. Code § 2870(a) (West 1989 & Supp. 1997). Thus, an employer cannot require an employee to assign any of the employee's rights in an invention that the employee develops entirely on his own time, without using the employer's equipment, supplies, facilities, or trade secret information. Id.

175. Cal. Lab. Code § 2870 (requiring a prior employer looking to claim ownership of an invention under an assignment contract to establish that the invention relates to the employer's business or demonstrable anticipated research or development, or results from any work performed by the employee for the employer).
patent and trade secret laws. Thus, departing technical employees and hiring employers must pay additional attention to the restrictions imposed by these assignment agreements, because even inventions that were merely conceived during prior employment could belong to that former employer.

Like all contracts, an invention assignment agreement must be supported by consideration. Condition of employment is one common way to satisfy this consideration requirement. Thus, an invention assignment agreement is enforceable if signed on the first day of employment. However, if signed during mid-employment, the provision must be supported by new consideration.

Many agreements also include a "trailer clause," requiring the employee to assign any invention he creates during a period following the termination of the employment relationship. Most courts limit the scope of trailer clauses to cover only trade secrets and other protectable proprietary information. Some courts, however, have extended the cover-
age of the trailer clause to "highly specialized, current information not
generally known in the industry, created and stimulated by the research
environment furnished by the employer, to which the employee has been
'exposed' and 'enriched' solely due to his employment."\footnote{Marc B. Hershovitz, Unhitching The Trailer Clause: The Rights of Inventive Employees and Their Employers, 3 J. INTELL. PROP. L. 187, 202 (1995).}

Even if an invention assignment agreement is valid, a prior employer
seeking to claim ownership of an invention under the assignment contract
must establish that the invention: (1) relates to the employer's business or
the employer's actual or demonstrable anticipated research or develop-
ment, or results from any work performed by the employee for the em-
ployer,\footnote{Ingersoll-Rand, 542 A.2d at 894.} and (2) was conceived during the employment period.\footnote{CAL. LAB. CODE § 2870 (West 1989 & Supp. 1997).} Although California courts have not addressed the second issue, federal jurisprudence provides some useful guidelines for determining when con-
ception occurs. Under federal law, conception is the time when the idea
crystallizes in the employee's mind.\footnote{Gunter v. Stream, 573 F.2d 77, 80 (C.C.P.A. 1978) See supra note 174 (typical invention assignment agreement).} Although patent law provides that
conception occurs when the inventor has a "specific, settled idea, [or] a
particular solution to the problem at hand" which can be described with
particularity, under contract law, "conception" takes on a broader mean-

Because it is impossible to tell when an idea crystallizes in an em-
ployee's mind, the courts have used circumstantial evidence such as the
level of difficulty of conceiving the idea, the length of employment, and
the length of time between the termination of employment and the subse-
veloped new monomers that would yield an oxygen-permeable contact lens
material.\footnote{Id. at 275.} Four days after resigning from his job, the defendant pre-
pared a patent disclosure statement which revealed the discovery of addi-
tional novel siloxane monomers for use in making gas permeable lens
material.\footnote{Id. at 275.} Despite the defendant's claim that this new discovery was
prompted by his having reviewed an article on silicone chemistry some-
time after leaving Syntex, the court held that the defendant conceived the
new invention while employed by the plaintiff.  Perhaps the court was convinced by the fact that the defendant copied, almost verbatim, 100 pages of process sheets which he had used while employed at Syntex to prepare his new patent application.  Similarly, in General Signal Corp., the defendant worked for the plaintiff for 22 years, advancing from the position of draftsman to that of Products Development Manager.  The defendant signed a contract agreeing to assign to the plaintiff all inventions and ideas, patentable or not, made or conceived by the defendant, while employed by the plaintiff and for six months thereafter (the "trailer clause").  The defendant subsequently left the plaintiff's employ.  Five days after the invention assignment agreement expired, the defendant recorded the conception of a universal flow meter which he later patented.  The court granted the plaintiff equitable assignment of the universal flow meter patent because the idea was conceived during the defendant's employment period.  The court reasoned:

The perfection of a flow meter proved to be a painstakingly intricate process involving extensive testing. It is therefore difficult to believe that after a long and distinguished career with Plaintiff, [Defendant] in his musing five days after the trailer clause expired for the first time came up with the idea for the [invention]. Although the word "Eureka!" has allegedly been uttered by more than one inventor over the years, the concept at issue does not lend itself to such sudden discovery. The Court finds that the concept of the [patent at issue] must have existed in [Defendant's] mind before his employment with [Plaintiff] ended. . . . [Furthermore,] [t]he essential physical difference between the [previous] patent and the [patent at issue] is that the internal edges of the valve of the [previous] patent are sharp whereas the edges of the valve of the [patent at issue] are rounded. It is difficult to believe, and the Court does not believe, that [Defendant] did not conceive of a flow meter so similar to the [previous flow meter] until after he left [Plaintiff].

Thus, whether an invention was conceived during the employment period is a fact-intensive inquiry and guided in many ways by common sense. Typically, the more complex the invention, and the shorter the period between employment termination and the announcement of the in-

190.  Id. at 279.
191.  Id. at 275.
193.  Id. at *1-2.
194.  Id. at *2.
195.  Id. at *4.
196.  Id.
vention, the more likely it is that the court will find that the invention was conceived before the employee started his new job.\textsuperscript{197}

In California, a strong policy interest in open competition\textsuperscript{198} has curtailed the employer's ability to contractually restrain employees from pursuing comparable employment. So long as the hiring employer does not condone or participate in the new employee's breach of fiduciary duty or breach of contract, or misappropriation of trade secrets, it will not incur liability. Moreover, the California courts have struck down non-competition agreements and severely limited the scope of protection of non-disclosure agreements.\textsuperscript{199} In furthering the pro-competition policy, the California courts would probably follow the federal courts and scrutinize an employer's ownership claim of an invention pursuant to an invention assignment agreement because this type of agreement expands the employer's proprietary right beyond what is afforded under patent and trade secret law.\textsuperscript{200} Accordingly, an employer considering hiring away its competitor's employees faces very few restrictions in California.

II. Application of Potential Causes of Action

To illustrate the impact of California law on the hiring practices of companies in the Silicon Valley, this part of the Note applies the foregoing legal rules to situations typically faced by hiring employers in the Silicon Valley. It will analyze the potential liability of the hiring employer and the departed employees.

A. Hypothetical

Due to recent expansion, Alpha company needs an additional software vice president to manage its new division. Alpha advertises the position in the newspapers, trade journals, and on the internet. Alpha also lists the job opening with recruiting firms. After a few weeks, the recruiting firms present to Alpha several qualified candidates who are currently employed at various companies. Alpha eventually makes an offer to Vince Peters, a vice president of Beta, Alpha's direct competitor. Alpha entices Peters by offering him a thirty percent increase in salary and stock options. To Alpha's delight, Peters accepts the position.

\textsuperscript{197} See generally, id.; Syntex Ophthalmics, Inc. v. Novicky, 214 U.S.P.Q. 272, 279 (N.D. Ill. 1982).

\textsuperscript{198} See Howard v. Babcock, 6 Cal. 4th 409, 416 (1993) (explaining that a person has a substantial interest in the unrestrained pursuit of his or her livelihood and must be allowed to change employers and compete for available business and customers).

\textsuperscript{199} See supra notes 169-73 and accompanying text.

\textsuperscript{200} See supra note 174 and accompanying text.
Prior to his departure from Beta, Peters tells his closest engineers that he is leaving to join Alpha because Alpha has the most amazing state-of-the-art projects and is very profitable. Shortly after Peters’ arrival at Alpha, Carl Evans, one of the chief engineers who worked under Peters at Beta, faxes his resume to Alpha. Peters recommends that Evans is a “must hire” and vouches that Evans is the best engineer Peters has ever met. Although Alpha does not have an engineering opening, it invites Evans in for an interview. Evans shines during the interview. Impressed with Evans’ performance and track record, Alpha creates a position for, and makes an offer to, Evans. To increase its chance of success in hiring Evans, Alpha invites Evans to attend some of its technical meetings to give Evans a chance to observe the workplace dynamics between Alpha’s technical employees. Alpha’s efforts pay off, and Evans accepts the position.

Evans turns out to be even better than Alpha has anticipated. Only six months after joining Alpha, Evans perfects a revolutionary idea that will significantly increase Alpha’s product performance.

Alpha’s rosy future is not without obstacles, however. Beta files suits against Alpha, as well as Peters and Evans. Beta seeks damages and equitable relief to enjoin Peters from performing as the vice president, and Alpha from implementing the revolutionary idea perfected by Evans. Facing these lawsuits, Alpha finds out that both Peters and Evans had signed employment contracts with Beta, agreeing not to (1) use or disclose Beta’s proprietary information; (2) compete with Beta for six months following employment termination; and (3) to recruit other Beta employees for six months following employment termination. They also agreed to assign to Beta all inventions made by them while employed and six months following termination.

B. Analysis

(1) Unfair Competition

The first step in analyzing Alpha’s potential liability is to determine whether Alpha has engaged in predatory hiring, a common unfair competition claim. Alpha’s liability under the predatory hiring claim depends on whether Alpha’s sole purpose for hiring Peters and Evans was to destroy Beta’s business.²⁰¹ Alpha hired Peters to manage a new division of its business due to recent expansion. Although Alpha hired Evans when it did not have an opening, it created a position where Evans proved to be most productive. Indeed, Evans conducted a research and development

²⁰¹. See supra notes 62-82 and accompanying text (analyzing the sole purpose requirement).
project which resulted in a revolutionary idea. Accordingly, Alpha’s main purpose in hiring Peters and Evans seems to be the utilization of their expertise, not the destruction of Beta. In fact, there is no evidence that Alpha sought to destroy Beta, unlike the “we wound UAI again” memo in *Universal Analytics*.

Furthermore, putting the new employees to use is evidence of non-predatory hiring. Once on board, Peters assumed the vice presidential responsibilities and Evans assumed the engineering responsibilities. Thus, Alpha did not hire Peters away just to drive Beta out of business. Accordingly, any injury Beta suffered from losing Peters was purely incidental, and thus, insufficient to establish that Alpha had a predatory intent.

The court, however, may infer a predatory intent from circumstantial evidence such as targeted recruiting efforts or an unreasonably high employment compensation offer. Alpha advertised the vice president position in the newspapers, trade journals, and on the internet. Furthermore, Alpha listed the position with more than one employment agency and, like the hiring employer in *Universal Analytics*, did not direct the agencies to target Beta. In fact, the head-hunting agencies presented Alpha with vice presidential candidates from a variety of companies. This evidence shows that Alpha’s primary motivation was to find a vice president with appropriate experience and talent. Likewise, the hiring of Evans did not indicate that Alpha intended to injure Beta by raiding its employees. Since Alpha did not have an engineering position open, it did not recruit Evans. Evans applied to Alpha on his own initiative. Accordingly, Alpha did not single Beta out by directing all recruiting efforts at Beta.

In addition to targeted recruiting, significant monetary rewards disproportionate to the new employee’s skills and experience are also evidence of predatory hiring. In this hypothetical, the courts would have to consider whether a thirty percent salary increase for a high-tech executive such as Peters is commensurable with the skills and experience Peters would bring to a new company. Given the intensive competition for skilled technical employees in the Silicon Valley, a thirty percent increase in salary, albeit higher than the twenty percent increase in *Univer-

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202. Even with the memo, the court did not find the defendant liable because wounding the plaintiff was not the defendant’s sole purpose. *See* *Universal Analytics, Inc. v. MacNeal-Schwendler Corp.*, 914 F.2d 1256, 1259 (9th Cir. 1990).

203. *Id.*

204. *See supra* notes 70-82 and accompanying text (analyzing circumstantial evidence of predatory intent).

sal Analytics, 206 is well within the norm of offers made to technical personnel. 207 Accordingly, Alpha's attractive salary offer to Peters does not help Beta in establishing its predatory hiring claim. Because it did not appear that Alpha hired Peters and Evans solely to destroy Beta's business, Alpha is probably not liable for predatory hiring.

(2) Breach Of Fiduciary Duty

Next, the court should determine whether Peters and Evans breached their respective fiduciary duties to Beta. Alpha may also be implicated in wrongdoing if it condoned and benefited from Peters' or Evans' breach of fiduciary duty toward Beta. It is a breach of fiduciary duty for an officer-employee to solicit the departure of other employees before resigning. 208 Having been a vice president for Beta, Peters would be held to a higher fiduciary standard than that of non-officer employees. 209 Thus, Peters' fiduciary duty to Beta precludes him from soliciting the departure of other employees before leaving Beta. In this hypothetical it is questionable whether Peters solicited Evans' departure from Beta. Peters' conversation with the engineers about Alpha's exciting projects and profitability is in no way similar to the active recruitment by the president of Bancroft-Whitney. 210 Peters did not ask Evans to leave Beta and join Alpha. Peters, however, may have indirectly enticed Evans by telling him about the positive aspects of Alpha. Thus, Peters arguably played a part in Evans' decision to leave Beta. The court, however, draws the line of liability on the basis of affirmative solicitation. 211 Because Evans initiated the hiring process by faxing to Alpha an unsolicited resume, the court probably would not hold Peters liable for breaching his fiduciary duty.

Although Evans would be held to a lesser standard because he was not an officer-employee of Beta, he still owed Beta a duty of loyalty. Participating in one employer's operation while still employed by another employer constitutes a wrongful transfer of loyalty. 212 Whether Evans breached his fiduciary duty when he went to Alpha's meetings before leaving Beta depends on the degree of his participation in these meetings. Alpha invited Evans to its technical meetings to observe the working relations between the members of Alpha's technical staff after it had ex-

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206. The court found the twenty percent increase in salary commensurable with the employees' experience levels. Universal Analytics, Inc., 914 F.2d at 1259.
207. Interview with Do Bui, Regional Director of Vital Link Computing (a recruiting firm based in the San Francisco Bay Area), at his office (Aug. 2, 1996).
208. See supra notes 87-97 and accompanying text.
209. Id.
210. See supra notes 89-91 and accompanying text.
211. See supra notes 88-90 and accompanying text.
tended a job offer to Evans. Alpha used the invitation as a selling tool to increase its chances of luring Evans. Evans, on the other hand, did not need to impress Alpha at the meetings because he had received Alpha's offer. Thus, the court would probably hold that Evans did not transfer his loyalty from Beta to Alpha.

Because Peters and Evans did not transfer their loyalty to Alpha before their departure from Beta, they did not breach their fiduciary duties. Peters did not affirmatively solicit Evans' departure, and Evans likely did not contribute information at the meeting. Accordingly, Peters and Evans did not breach their fiduciary duty. Therefore, Alpha would not be held liable for breach of fiduciary duty under California law.

(3) Trade Secret Misappropriation

At issue under the trade secret misappropriation claim is Evans' revolutionary idea that he completed six months after joining Alpha. To successfully claim ownership of this idea and to preclude Alpha from implementing it under trade secret law, Beta would be required to show that the goals, as well as the means, of the idea were completed by Evans before he left Beta's employ.213 Moreover, Beta would have to establish that the idea did not consist solely of general programming concepts.214

Here, the concepts that Evans brought with him to Alpha were not trade secrets because they were not specific ideas accompanied by methods of implementation. Indeed, it took Evans six months after joining Alpha to conceive and perfect the idea. To do this, Evans undoubtedly used general programming methods and engineering principles that he had learned at Beta. However, he is not liable for trade secret misappropriation because general methods and principles do not qualify as trade secrets. Furthermore, the expertise, skills, and knowledge that Evans gained as a result of his tenure at Beta are not trade secrets owned by Beta. Thus, Peters and Evans were free to draw upon their general knowledge, experience, memory, and skill to perform their duties in their new positions at Alpha. Accordingly, Evans and Peters did not misappropriate Beta's trade secrets.

Although the above outcome would result under the majority rule that knowledge and skills of an employee are not trade secrets of his em-


214. See supra notes 122-27 and accompanying text (analyzing Winston Research Corp. and SMC Corp).
ployer, the minority rule of inevitable disclosure would yield a different result. The minority rule holds that an employee's knowledge is a trade secret of his former employer if the employee cannot perform his new job's duties without necessarily calling upon trade secrets learned during his prior employment. Because Peters' and Evans' positions at Alpha were similar to those held at Beta, they may be liable under this minority view which has been embraced by a few courts outside California.

Similar to Redmond in *PepsiCo.*, Peters and Evans came from Alpha's direct competitor to assume a comparable position. While serving as Beta's software development vice president, Peters undoubtedly acquired knowledge of Beta's software development plans. Likewise, Evans undoubtedly gained technical knowledge while at Beta. Thus, under the inevitable disclosure theory, it is conceivable that the court would enjoin Peters and Evans from continuing their responsibilities at Alpha, and Peters and Evans would probably be held liable for trade secret misappropriation.

Assuming that the inevitable disclosure theory applies, Alpha could also be held liable for trade secret misappropriation. It is likely that Alpha knew, or had reason to know, that Peters and Evans used their knowledge and experience derived from their employment at Beta. Because Alpha and Beta are direct competitors, any knowledge or experience that an employee has about one company's technology would be highly relevant to the other company's business. Additionally, Peters and Evans assumed positions that were similar to those they held at Beta; thus, they inevitably would use their knowledge and experience gained from working at Beta in their new jobs.

These facts are probably sufficient to impose a duty on Alpha to investigate whether Peters and Evans have violated trade secret laws. Because Alpha failed to halt Peters' and Evans' actions, it would also be implicated in the trade secret misappropriation. However, the discussion of the liability under the inevitable disclosure theory is academic because the California courts would likely reject this theory.

(4) Breach Of Employment Contract

Next, the court should determine whether Peters and Evans breached their employment contracts with Beta, because such breaches could implicate Alpha in unfair competition. Peters and Evans signed (1) a non-competition provision; (2) a non-disclosure provision; (3) a non-

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215. See *supra* notes 140-58 (analyzing the inevitable disclosure theory).
216. See *id*.
217. However, one court has left in place a preliminary injunction under this theory. See *supra* notes 140-58 and accompanying text.
solicitation provision; and (4) an invention assignment provision. Because non-competition agreements are generally unenforceable under California law,\textsuperscript{218} Alpha, Peters, and Evans may safely dismiss this provision as being nothing more than a scarecrow.

In addition to the non-competition provision, Peters and Evans also agreed not to use or disclose Beta’s proprietary information. Non-disclosure agreements do not afford an employer protection beyond trade secrets.\textsuperscript{219} Thus, the resolution of this breach of contract claim under the non-disclosure provision depends on whether Peters and Evans have misappropriated Beta’s trade secrets, as analyzed above. Accordingly, the confidentiality provision should not cause Alpha, Peters, or Evans any additional concern.

The non-solicitation provision, on the other hand, is more troublesome. It precludes an employee from soliciting his co-workers’ departures for a defined period after the employee’s termination or resignation.\textsuperscript{220} It is questionable whether Peters solicited Evans’ departure from Beta. Although Peters did not ask Evans to leave Beta and join Alpha, Peters may have enticed Evans indirectly by telling Evans that Alpha was working on the most advanced state-of-the-art technology and was very profitable. The \textit{Loral} court, however, emphasized that only affirmative solicitation is prohibited.\textsuperscript{221} The court seemed to define the scope of liability based on who calls whom first about the employment opportunity.\textsuperscript{222} Because Evans initiated the hiring process by faxing to Alpha an unsolicited resume, the court probably would not hold Peters liable for breaching the non-solicitation provision.

Lastly, the invention assignment provision may have serious implications for Alpha. If the court finds that the idea belongs to Beta under the invention assignment contract, Alpha not only loses the opportunity to commercialize the idea, but it also loses the idea to its direct competitor. Thus, the court would need to determine whether this invention assignment provision is enforceable; and if enforceable, whether it covers the idea. An invention assignment agreement is enforceable if the employment is conditioned on its execution.\textsuperscript{223} Beta, like most high-tech employers, probably has its new employees sign this agreement as part of the job acceptance, or on the first day of employment. Assuming this is

\begin{itemize}
\item \textsuperscript{218} \textsc{Cal. Bus. \\ \\ & Prof. Code} §§ 16600-02 (stating covenants not to compete are typically unenforceable).
\item \textsuperscript{219} See \textit{supra} notes 167-68 and accompanying text.
\item \textsuperscript{220} See \textit{supra} notes 160-66 and accompanying text.
\item \textsuperscript{221} See \textit{Loral Corp.}, 219 Cal. Rptr. at 843.
\item \textsuperscript{222} Id.
\item \textsuperscript{223} The condition of employment is one way to satisfy the contract consideration requirement. \textsc{Cubic Corp. v. Marty}, 185 Cal. App. 3d 438, 448 (1986).
\end{itemize}
the procedure Beta used when it hired Evans, he is bound by the terms of
the invention assignment provision.

According to the terms of the employment contract, only inventions
relating to Beta's business that Evans conceived during the employment
period would have to be assigned to Beta. Because Alpha and Beta are
direct competitors, an invention benefiting Alpha would likely relate to
Beta's business. Thus, Beta could easily establish the first requirement of
the agreement. Although the first factor is met, Beta still must prove that
the idea was conceived while Evans was still in its employ. Unlike the
employees in Syntex Ophthalmics, Inc. and General Signal Corp,224 who
claimed to have conceived an invention approximately five days after the
expiration of the assignment agreement, it took Evans six months to per-
fet the idea. This can hardly be characterized as a "sudden flash of in-
genuity." Also, given the fast pace of technological progress in the Sili-
con Valley, a six-month old idea probably would have become obsolete.
It is therefore highly improbable that the idea had "crystallized" in Ev-
ans' mind before he left Beta's employ. Consequently, the court would
likely rule that the idea was conceived after Evans joined Alpha, and find
that Evans did not breach the invention assignment agreement.

Evans’ invention assignment provision also contains a trailer clause,
requiring him to assign inventions that he makes within six months of his
departure from Beta. Given California’s pro-competition stance, the
California courts probably would follow the majority rule and limit the
scope of the trailer clause to protect only trade secrets. Thus, whether
Evans violated the trailer clause turns on whether Evans appropriated
Beta’s trade secrets.

In this hypothetical, which presents a typical hiring scenario in the
Silicon Valley, the hiring employer and the new employees would not be
liable to the employees’ prior employer.

III. Best Practices

Below is a list of recommended practices that will help an employer
avoid liability.

A. The Recruiting Stage:

1. DO advertise the position in appropriate publications. Evidence
that the company advertises the position and uses employment agencies
shows that the company’s primary motivation is to find employees with

224. See supra notes 186-196 and accompanying text (discussing Syntex Ophthalmics, Inc.
and General Signal Corp.).
appropriate experience and talent, and not to injure a particular competitor.

2. DO NOT target one company for recruits. Targeting the recruiting effort at one company may be circumstantial evidence of an intent to "raid."

3. DO NOT direct employment agencies to recruit employees from one particular competitor. Directing employment agencies to target one competitor for recruits may be evidence of a conspiracy between the employer and the agencies to drive the competitor out of business by usurping its crucial employees.

4. DO NOT accept confidential information regarding the employee’s former co-workers (such as salaries) from the new employee. Revealing such confidential information before terminating current employment is a breach of fiduciary duty. If the company accepts such information, it would be deemed to have participated in the employee’s breach, and thus would be guilty of unfair competition.

5. DO NOT encourage employees of a competitor to leave “en-masse.” Mass termination of employment may be used as circumstantial evidence showing a predatory intent.

6. DO NOT hire a competitor’s employees to drive the competitor out of business. Hiring one’s competitor’s employees solely to destroy competition is forbidden.

7. DO NOT drive a competitor out of business in order to hire its employees. Doing so may be deemed as unlawful, egregious conduct.

8. DO pursue colleagues of the new employee who, on their own initiative, approach the company regarding employment opportunities. Have them sign a declaration, stating that they initiated the contact with the company and were not enlisted by their ex-co-worker. The company is always free to hire potential employees who approach the company on their own initiative.

B. The Offer / Acceptance Stage

1. DO NOT make offers that are disproportionately high in comparison with the employee’s skills and experience. Such offers may be used as circumstantial evidence of predatory intent.

2. DO include a provision in the offer letter that prohibits the employee from disclosing his prior employer’s trade secrets and confidential information. This provision should be signed concurrently with job acceptance. Such a provision would put the new employee on notice that the hiring company does not condone such action. Moreover, if the employee does use his prior employer’s trade secrets, the provision would serve as evidence that the company did not participate in the employee’s wrongful conduct.
3. DO review the employment contract between employee and his/her prior employer. The company may have a duty to inquire into the new employee’s contractual obligations to his prior employer.

4. DO require the employee to refrain from actively recruiting his former employer’s personnel until the contract expires, if the employee signed an agreement with the prior employer which contained a non-solicitation provision. The company will be guilty of unfair competition if it participates in, and benefits from, its new employee’s breach of contract with his prior employer.

C. Employment Stage

1. DO put the new employees to work immediately after they are hired. Non-use is circumstantial evidence of predatory intent.

2. DO prohibit new employees from taking any written or electronic materials from their former employers. This will put the employee on notice that the company does not condone the use of another company’s proprietary information.

3. DO investigate the types of projects and the projects’ status if the employee had signed an invention assignment agreement. This is a precautionary measure to guard against the use of the employee’s former employer’s protectable information.

4. DO NOT place the employee in a position where he feels pressured to use his former employer’s protectable trade secrets or confidential information. This is a precautionary method to prevent the employee from disclosing forbidden information.

5. DO investigate the ownership of a contribution by an employee if there is a reason to suspect that the employee may be using his previous employer’s trade secrets. The company is under a duty to investigate if it has constructive notice that its new employee may be using trade secrets belonging to his prior employer.

Conclusion

It is abundantly clear that California has a very strong public policy of open competition. For example, while many states uphold covenants restraining employees from competing against their former employers, California passed a statute declaring that such covenants are unenforceable.225 Similarly, California courts have repeatedly stated that competi-

225. See CAL. BUS. & PROF. CODE § 16600 ("[E]very contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.")
tors are free to solicit each other's employees.226 There are only a few forbidden actions: hiring a competitor's employee to steal trade secrets or confidential information, or to hinder competition. Notwithstanding the recent proliferation of lawsuits against employers who hire their competitors' employees, the California courts should continue the pro-competition tradition. Thanks to this tradition, technology firms in the Silicon Valley have flourished by building on one another's efforts. To depart from this tradition is to undermine the foundation of Silicon Valley. With the support of the courts, employers with a genuine need for technical talents and expertise may continue to compete for employees.