

The logo for Astrachan Gunst Thomas features a stylized, swirling blue graphic to the left of the firm's name. The name is written in a clean, sans-serif font, with 'astrachan' in lowercase and 'gunst thomas' in title case.

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## Midnight Snacks: Don't Let Employees Nibble On Your Business

By: Julie R. Rubin, Esq.

As I tugged against the suction of the refrigerator door, I was reminded of Nigella Lawson. Every episode of the Food Network's *Nigella Feasts* concludes with a nightgown-clad Nigella standing halfway inside her refrigerator munching on leftovers. The audience is supposed to believe this is her midnight snack and, but for her perfect hair and lipstick pout, I might believe it. With a clean scrubbed face and swathed in my ratty bathrobe, I did not favorably compare to Nigella. It was about two in the morning and I was having one of those "everyone-in-the-world-is-asleep-except-me" nights. Thank goodness for pickled watermelon rind. If you're asking what a nice Jewish girl who lives in Canton is doing eating pickled watermelon rind, you clearly have never had the pleasure. Get thee to the farmer's market.

On my way back to bed, I caught glimpse of the telltale blinking light on my crackberry. I was bored to tears, so I opened and clicked. I had received an email from Jim Sands, who recently had been referred to me for basic employment law services for his engineering company. In simple terms – which is to say, in terms I am capable of understanding as a non-science type – Jim's company is composed of two central engineering departments, the electrical and computer engineering side and the mechanical engineering side. His clients are inventors, manufacturers and developers from a broad spectrum of fields that hire Jim's company to fabricate or partner in the development of everything from electronics and computer software to robotic machines used in manufacturing plants.

Jim's company had been in business for nine years and, so far, had managed to stay afloat in the dreadful economy thanks to company-wide salary reductions and a reduced workweek. Jim wanted to keep his company buttoned-up, so we scheduled non-discrimination training for his management level employees and he wanted me to update the personnel manual. But Jim's email wasn't about any of that. Instead, Jim needed my help in handling a serious problem that had legs to grow into a full on business disaster.

In response to pay cuts and implementation of a 30-hour workweek, several of Jim's employees had taken to moonlighting and freelancing to make ends meet. Jim didn't really like

the idea that his employees would be doing outside work, but he knew he had to be flexible given the wage and hour cuts he'd been forced to make. So long as outside work didn't interfere with his employees' responsibilities for his company, he was okay with it. Until now.

For the past eight weeks, without Jim's knowledge, Albert Flannery, a manager in Jim's electrical and computer engineering department, had been freelancing for a company developing automotive foul weather response technology. One of Jim's biggest clients was its chief competitor. When Jim's client caught wind that Albert had been working for the competition, all hell broke loose. This wasn't simply a matter of bad business or a mere embarrassment. This was the stuff of lawsuits.

Jim received a letter from his client's lawyer terminating their services contract and threatening to sue Jim's company in federal court for breach of contract, trade secret misappropriation and copyright infringement. Albert received a similar letter. That evening, I received Jim's email.

Early the next morning, bleary eyed from insomnia coupled with concern for Jim's business, I met Jim at my office. His company was surviving the economy, but legal fees and liability exposure, together with the loss of a major client, could shut the company's doors in a span of six months. It was damage control time.

As you would expect, at the beginning of their business relationship, Jim's company signed a non-disclosure agreement to protect the client's trade secrets and other proprietary information that it shared with Jim's company, including Albert, who had been the chief engineer doing the client's work. Throughout their relationship, the client had disclosed hundreds of pages of its trade secret technology developments to Albert and others in Jim's company. Moreover, the services contract between Jim's company and his client expressly stated that all copyright and other property interests in the computer software, computer code and other engineering work performed by Jim's company belonged exclusively to the client. That's what the client was paying for.

Although I couldn't yet say whether Albert had shared the client's trade secrets with the competition, or that Albert had given the competition the technology testing software that he had created for Jim's client, it certainly looked bad. I imagined Albert pitching himself for the job: "Yeah, I've done this type of work before, so I can get this up and running for you in no time." I didn't know Albert from Adam, but I had an awfully hard time believing he was unaware of the harm that could come from his freelance work. He was no dolt and he was no kid. Albert knew how client relationships work and that they need to be protected and nurtured. He also knew enough not to mention it to Jim even though Jim's flexible freelancing policy was well known. That strongly suggested to me that Albert was up to no good. Money makes people do bad things, stupid things. Maybe he was just desperate.

"How did they find out?" I asked Jim. "Albert went to the trade show last week and my client saw him yucking it up with an in-house guy from the competition. My client went right on up to the guy and asked him how he knew Albert." (Maybe I take that "he's no dolt" comment back.)

Immediate first steps included firing Albert, letting the client know we fired him and confirming in writing that Jim's company had no involvement or knowledge of Albert's freelancing activities, and had no part whatsoever in any possible wrongdoing. But it mattered not and the lawsuit came. And it came and it came some more. The client aggressively protected its interests as much for public image as to recover the actual losses that it alleged it had suffered. The client sued Jim's company, Albert personally and the competitor.

Four months later, I am preparing for Jim's deposition and my office has become a repository for all things tire technology. Jim is handling it fairly well, but I can't say as much for his company. It's still operating, but the outlook is poor. Getting sued by your best client for what amounts to theft of trade secrets is a business killer if others learn of it. The lawsuit promises to be extremely expensive, regardless of its merit, and settlement overtures have fallen on deaf ears. At this point, the most persuasive reason I can give the plaintiff to want to settle is that, by the end of the lawsuit – even if the plaintiff prevails, my client will likely be judgment proof. Judgments are nice, but collecting is better.

As with every case, the plaintiff's case has its holes and we have our defenses, but the bottom line is this: even if I win at trial – or, better yet, resolve it without the expense and risk of a trial – Jim has to pay to get there. He has to pay in legal fees. He has to pay in worry. And he has to pay in the distraction from business as usual. Although every employer at one time or another will have in its midst the rogue employee, the bad apple, the apple with no judgment, there are two things Jim could have done to rescue himself from this money pit before it was ever dug.

First, Jim should have had a contract with Albert (and all other employees) in which Albert promised 1) not to act contrary to the interests of company clients, including a promise not to steal or disclose client trade secrets or other confidential information; and 2) to indemnify the company in the event Albert gets the company sued. Second, Jim should have had a written policy, on which Albert (and everyone else) signed off on, that employees are not entitled to freelance or moonlight absent written advance permission from the company. True, Albert might still have skulked around working for the competition, and, true, an indemnification obligation is only as valuable as Albert's pocket is deep. But there can be no question that, had these documents been in place, the company's defenses would be stronger, settlement would therefore be more attractive to the plaintiff, and my client's legal bills would be, at least in part, paid by Albert.

In this economy, employees can hardly be blamed for picking up extra cash where they can. But a general policy that freelancing work is okay so long as it doesn't interfere with the employees' work for you doesn't cut it. And it doesn't pay my fee. If you suspect your employees may be moonlighting, get the stars out of your eyes.