

## YOUR NEW COMPETITOR IS YOUR EX-EMPLOYEE

What can you do if your employee (perhaps an executive director) resigns one day and competes with you the next day? Maybe they started a new business or perhaps they joined an established competitor of yours.

### The rule

As a rule, not much. The policy of the law is to promote competition, including competition by former employees.

### The exceptions

There are exceptions if:

- the ex-employee learns of the specific commercial opportunity by reason of being your employee and then exploits it personally
- the employment agreement (oral or written) contains a promise (express or implied) preventing the ex-employee from competing with you after the employment – to be valid, the restraint must be reasonable in scope of activities, duration and geographical reach
- the employment agreement (oral or written) contains a promise (express or implied) preventing the ex-employee from misusing your confidential information (even if kept in a personal diary or personal records)
- the ex-employee misuses your trade secret (a sub-class of confidential information) in contravention of their *Corporations Act* duty and their fiduciary duty (sometimes called a duty of fidelity), both of which duties do continue after the employment
- the ex-employee steals your document, electronic storage media, prototype, jig, die or similar – the criminal theft of goods (as distinct from any information recorded on or in the goods, because in law mere information cannot be stolen)
- the ex-employee infringes your copyright in a work (say by photocopying a client list)
- the ex-employee infringes your trade mark (registered or not) or patent.

### Third parties

If you have a remedy against an ex-employee, you may also have a remedy against their current employer or partner in business if:

- the third party knowingly induced the ex-employee to breach the employment agreement with you
- the third party knew, or ought reasonably to have known, that the ex-employee was misusing your trade secrets
- the third party is in possession of stolen goods
- the third party and the ex-employee conspired to compete against you unfairly.

### Evidence

If you suspect wrongdoing, evidence can be hard to come by but you might look for these:

- applications to government to register a company, business name or trade mark while still an employee
- applications to banks for finance while still an employee
- negotiations with a landlord of business premises while still an employee
- the files (paper and electronic), emails, business telephone account, business mobile phone account for when still an employee
- approaches made to other employees
- approaches to a supplier (of goods or services) or customer of yours.

If you have some credible evidence of wrongdoing, you may have grounds for a court order allowing you to make a surprise inspection of locations where the ex-employee may be keeping items of interest and that might otherwise be moved (or destroyed) if your inspection was forewarned.

## Remedies

Your first and best remedy might be for you, or your lawyer, to write to the ex-employee about the suspected wrongdoing and pointing out their statutory, contractual or general law duties. Your hope is that the ex-employee makes good the wrongdoing, and undertakes not to continue with it. You might copy that letter to the ex-employee's current employer or partner in business, but be alert to the libel laws.

If letters fail, you can go to court where a court might award you:

- damages for loss
- payment over to you of profits made by the ex-employee from their breach of duty
- an injunction prohibiting future illegal behaviour and compelling the return to you of your property.

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