THE RECORDER
ESSENTIAL CALIFORNIA LEGAL CONTENT

Copyright 2011. ALM Media Properties, LLC. All rights reserved.
Page reprinted with permission from: *The Recorder*

Dos and Don'ts for In-House Counsel

Lisa Lawson
2011-03-04 10:14:26 AM

Part two of a two-part series on recent legal decisions that impact how companies manage their workforce.

As discussed in last week's article, the past year produced a number of cases expanding the scope of employer liability in numerous areas. The cases discussed last week and those cited below provide impetus for in-house counsel to re-examine their companies' employment law practices to ensure they are still consistent with the current state of the law in light of these recent developments.

6. Failing to provide an employee with a copy of AAA Arbitration Rules renders an arbitration agreement procedurally unconscionable and unenforceable. *Trivedi v. Curexo Tech. Corp.*, 10 C.D.O.S. 13366.

Facts: The plaintiff filed a complaint against his former employer for, among other things, race and national origin discrimination. The defendant employer moved to compel arbitration, based on an arbitration clause in the plaintiff's employment contract. The trial court denied the motion, and the court of appeal affirmed. In reviewing the "fundamental fairness" requirements of *Armendariz*, the court of appeal found the arbitration provision both procedurally and substantively unconscionable. To support the finding of procedural unconscionability, the court relied on just two facts: (1) the agreement was presented to the plaintiff on a "take it or leave it basis" (as is the very nature of most mandatory pre-dispute arbitration agreements), and (2) although the agreement referenced and incorporated AAA's employment dispute resolution rules, the plaintiff was not given a copy of them. The court found the agreement substantively unconscionable because it provided a mandatory attorneys' fee award to the prevailing party, which "put the plaintiff at greater risk" than if he had retained the right to bring the discrimination claim in court. The court also found the provision allowing a party to seek injunctive relief in court unfairly favored the defendant, who was the party most likely to benefit from such a provision.

What it means for in-house counsel: In general, the *Trivedi* case shows that employers continue to face an uphill battle in enforcing mandatory pre-dispute arbitration agreements. More disturbing, however, is the court's ruling that failing to provide an employee with a copy of arbitration rules incorporated into a mandatory pre-dispute arbitration agreement is an indicia of procedural unconscionability. It is unclear form *Trivedi* how the employer would have fared had it provided the employee with information on where to find the rules (such as a link to the rules on the AAA or JAMS website). Regardless, in light of *Trivedi*, counsel should reassess the pros and cons of incorporating arbitral forum rules into the company's mandatory pre-dispute arbitration agreement. In addition, given how rapidly the law on mandatory pre-dispute arbitration agreements is evolving post-*Armendariz*, counsel should regularly review such agreements to ensure they remain enforceable under current law.

7. E-mails between an employee and her attorney are not privileged when they are sent via employer's e-mail. *Holmes v. Petrovich Dev. Co.*, 11 C.D.O.S 560.

Facts: The plaintiff communicated with her attorney about potential legal action against her employer and supervisor using her employer's e-mail system. She subsequently sued both, and the e-mails were admitted into evidence at trial, over the plaintiff's objection that the e-mails were communications protected by the attorney-client privilege. The defendants used the e-mails to counter the plaintiff's allegations that she suffered severe emotional distress. The court of appeal found no error in the admission of the e-mails. The court ruled that no privilege attaches to e-mail communications between an employee and her employer where: (1) "the electronic means used for the communications belongs to the defendant; (2) the defendant has advised the plaintiff that communications using electronic means are not private, may be monitored, and may be used only for business purposes; and (3) the plaintiff is aware of and agrees to these conditions."

What it means for in-house counsel: The *Holmes* decision underscores the importance of having a well-crafted electronic communications policy. Companies should carefully explain in such policy what e-mails are permitted and not permitted on the company's e-mail system. Such policy should, at a minimum, explicitly inform employees that the e-mail system belongs to the company; the company may monitor any e-mails sent or received via the company's e-mail system; and employees have no right of privacy with respect to information sent via the company's e-mail system. Employers also should obtain employees' written acknowledgement of and agreement to the policy.

8. It is unlawful for an employer to terminate an employee in deference to an unenforceable non-compete agreement between the employee and previous employer. *Silguero v. Creteguard, Inc.*, 10 C.D.O.S. 9818.

Facts: The sales representative plaintiff signed a confidentiality agreement with a prior employer before working for the defendant. The agreement included an unenforceable non-compete clause that prohibited her from engaging in any sales activity for a period of 18 months following her termination or resignation. That employer terminated the plaintiff, and she quickly found employment as a sales representative with the defendant. When the prior employer learned of her new employment with the defendant, the prior employer sent a letter to the defendant requesting its cooperation in enforcing the non-compete. Shortly thereafter, the defendant informed the plaintiff it was terminating her because, although it believed that "non-compete clauses are not legally enforceable here in California," it desired "to keep the same respect and understanding with colleagues in the same industry." The trial court granted the defendant's demurrer, but the court of appeal reversed, holding that the plaintiff had stated a cause of action for wrongful termination in violation of public policy.

What it means for in-house counsel: Most California employers are aware that non-competes are generally unenforceable in California and have learned of the liability associated with attempting to enforce them. *Silguero* indicates that liability now extends not just to companies attempting to enforce such unenforceable provisions but also to companies that want to simply avoid implication in a dispute between an employee and his or her former employer over the enforceability of such provisions. Counsel for companies who receive "cease and desist" letters like the one the defendant received in *Silguero* should carefully review the letters and the agreement at issue before making any decisions that would affect an employee's employment with the company.

9. An employer is liable for retaliation based on reprisals against a fiancé or close associates of the complaining employee. *Thompson v. North Amer. Stainless*, 11 C.D.O.S. 971.

Facts: In *Thompson*, the plaintiff's fiancée filed a sex discrimination charge with the EEOC. Three weeks later, the plaintiff was fired. The plaintiff filed suit, alleging his termination was in retaliation for his fiancée's filing of an EEOC charge. The employer obtained summary judgment on the ground that third-party claims — like the plaintiff's — were not permitted under Title VII. The court of appeals affirmed *en banc*, and the U.S. Supreme Court reversed. The court drew heavily from its decision in *Burlington N. & S.F.R. Co. v. White*, 548 U.S. 53 (2006), in which the court found Title VII's anti-retaliation provisions prohibited any employer action that "well might have dissuaded a reasonable worker from making or supporting a charge of discrimination." The court found it "obvious that a reasonable worker might be dissuaded from engaging in protected activity if she knew that her fiancé would be fired." The court declined to articulate the type of relationship the coworker must have with the complainant to be covered by Title VII's anti-retaliation prohibitions: "We expect that firing a close family member will almost always meet the *Burlington* standard, and inflicting a milder reprisal on a mere acquaintance will almost never do so, but beyond that we are reluctant to generalize."

What it means for in-house counsel: Savvy employers have always kept their antennae up once an employee makes a complaint or otherwise engages in protected activity, knowing that any adverse action subsequently taken against such an employee could be construed as retaliation. The *Thompson* case indicates that companies now should extend the same caution to those close to the complainant. While the *Thompson* case involves retaliation under Title VII, plaintiffs likely will argue the holding should be extended to other federal laws prohibiting retaliation, as well as the anti-retaliation provisions of California's Fair Employment and Housing Act.

10. An employee may not have assigned rights to his "ideas" in executing a typical employee invention assignment agreement. Mattel, Inc. v. MGA Entm't, Inc., 10 C.D.O.S. 9316.

Facts: While employed by Mattel in the "Barbie Collectibles" department, Carter Bryant conceived of and began designing the "Bratz" dolls. While Bryant had entered into an invention assignment agreement with Mattel in connection with his employment, which assigned to Mattel all "inventions" he created during his employment with Mattel, he pitched his Bratz idea to Mattel's competitor, MGA. MGA hired Bryant as a consultant and produced the Bratz dolls. Mattel sued, arguing Bryant violated his employment agreement by offering MGA his Bratz idea instead of disclosing and assigning it to Mattel. The jury returned a $10 million verdict in favor of Mattel, and based on the jury's findings, the court ordered MGA to return to Mattel the entire Bratz portfolio. The Ninth Circuit reversed, finding error in the trial court's assumption that Bryant assigned to Mattel the "idea" of the Bratz dolls. The Ninth Circuit noted that, although Bryant had assigned to Mattel all of his "inventions" (which included a whole host of intellectual property, including "discoveries, improvements, processes, developments, designs, [and] know-how"), "ideas" were not specifically identified in the assignment agreement and therefore not necessarily assigned to Mattel. The court remanded the case for a trial on that issue and others.

What it means for in-house counsel: California law allows companies to require their employees to assign most inventions the employees create during their employment. The invention assignment agreement Mattel used was fairly typical of such agreements. However, because it was not tailored to the type of creative work the employee was performing, a jury will now decide who owns the intellectual property developed by the employee. A more detailed assignment provision might have avoided this result. Companies that have employees engaged in the development of intellectual property should be sure to have those employees execute a carefully drafted invention assignment agreement that is tailored to each employee's work and specifically covers all intellectual property an employer anticipates the employee might create. To maximize ownership of employee inventions, counsel should be certain the invention assignment agreement complies with labor code requirements.

Lisa Lawson is a co-founding partner of Pennington Lawson, a women-owned boutique law firm formed in 2010 and based in San Francisco. Her specialties include employment counseling and litigation, workplace training and investigations, negotiation of employment and separation agreements, and drafting of employment-related policies and documents. Lawson can be reached through the firm's website.

In Practice articles inform readers on developments in substantive law, practice issues or law firm management. Contact Vitaly Gashpar with submissions or questions at vgashpar@alm.com.