A Company and Its Secrets

Korn/Ferry Alleges Theft Of Confidential Client Data By a Former Star Recruiter

By JOANN S. LUBLIN
Staff Reporter of THE WALL STREET JOURNAL

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Executive recruiter David Nosal became Korn/Ferry International's top biller in 2001, just five years after the executive search-industry leader hired him. A charismatic workaholic known for making 50 calls an hour, he ultimately earned about $2 million annually before he quit last October.

Today, Mr. Nosal is the central figure in the alleged theft of about 32,500 candidate and client records from Korn/Ferry by four former colleagues. Some of these colleagues used purloined files after they left to collect fees and complete executive searches awarded to Korn/Ferry, the Los Angeles concern charged in a recent lawsuit filed in a Redwood City, Calif., state court.

The trade-secrets case has prompted a federal criminal probe -- and is rocking an industry whose livelihood depends on costly stockpiles of sensitive personal data. Search-industry executives say there never has been a trade-secrets theft of this magnitude in their business, and legal experts say it's unusual for any industry.

To prevent a recurrence, "we have put in place further safeguards to protect our confidential and proprietary trade secrets," said Paul Reilly, Korn/Ferry's chairman and chief executive officer, in an email to all employees earlier this month. The litigation contends Mr. Nosal, who left on his own, and his four ex-associates created a competing company with their stolen data.

The 47-year-old recruiter has said the alleged misdeeds "didn't happen." In an interview, he accused Korn/Ferry of trying to hurt his plans to open a business this November whose infrastructure he says he is building legitimately from his Danville, Calif., home. He incorporated Nosal GP LLC, an executive-recruitment firm, last November, state records show.

In another interview, he pointed out that Korn/Ferry officials brought suit two days after "they were supposed to deposit a significant amount of money in my account." The search firm owes Mr. Nosal a roughly $2 million bonus for the year ended April 30, according to someone familiar with the situation.

A Korn/Ferry spokesman says, "In line with Mr. Nosal's separation agreement, we have filed for arbitration to resolve the dispute" over the bonus payment.

Mr. Nosal already was a veteran Silicon Valley headhunter when Korn/Ferry wooed him from rival Heidrick & Struggles International Inc. One of Korn/Ferry's three biggest billers for all of his nearly nine years there, he conducted more than 100 CEO searches during that time, says his attorney, Joe Russoniello, a partner at Cooley Godward in San Francisco. He eventually led Korn/Ferry's CEO practice for the Americas.

Colleagues attribute Mr. Nosal's success partly to his 18-hour workdays and aggressive style. He often chatted on two cellphones simultaneously. His voicemail urged callers to reach him at home until 2 a.m.

Mr. Nosal also personally rewarded his cadre of youthful lieutenants during tough times. "It was not uncommon for him to pay bonuses [to colleagues] out of his own pocket," Mr. Russoniello says. One former Korn/Ferry executive remembers Mr. Nosal telling him in late 2002: "I'm having trouble keeping my team together so I'm going to write my people a check."

However, it has long been "against company policy to pay employee bonuses out of your own pocket," says Don Spetner, Korn/Ferry's chief marketing officer. Mr. Russoniello declined to comment further.

Korn/Ferry alums say one recipient of Mr. Nosal's largess was his executive assistant, Jacqueline Froehlich-L'Heaureaux. He hired her in December 1997. Another team member was Becky Christian, who rose from researcher in 1999 to client partner last year.

Korn/Ferry named both women in the Aug. 2 suit and fired Ms. Froehlich-L'Heaureaux later that day. Her attorney declined to comment. Ms. Christian's lawyer didn't return calls. She resigned Jan. 21, 17 days after incorporating executive-search firm Christian & Associates LLC in California, state filings show.

Korn/Ferry grew suspicious about possible trade-secrets theft following the Feb. 28 resignation of another defendant, Michael Louie, an information-technology coordinator. The concern operates Searcher, a proprietary database of job candidates, assignments and clients that it says costs tens of millions of dollars a year to develop and maintain. Its "Custom Reports" feature allows staffers to pinpoint prospects easily.

A fifth defendant, Mark Jacobson, resigned March 1 as a senior associate. His lawyer didn't return calls either.

Before Ms. Christian, Mr. Louie and Mr. Jacobson quit, they "created and downloaded large numbers of Executive Custom Reports from the Searcher database grossly disproportionate to the number" previously created, the suit alleges. Mr. Louie downloaded just over 200 records during his four years there until his final two weeks -- when he downloaded more than 7,500 records, the suit says. (Mr. Louie's attorney didn't return calls.)

Korn/Ferry quickly detected that download but didn't launch a full-scale investigation until its legal department received an anonymous email in early March urging a look at Mr. Nosal and close associates, recalls one person familiar with the situation.

The company then retrieved months of emails and hard-drive information deleted from defendants' office computers. After Ms. Froehlich-L'Heaureaux left work each night, investigators scanned her computer to gain "an image of every step she did" that day, according to the knowledgeable individual.

Such sleuthing uncovered Mr. Nosal's mid-December email to other defendants about their budding search firm, the suit says. It read, in part: "We ARE in business!!!!!" The problem: Mr. Nosal inadvertently communicated his triumph to Ms. Froehlich-

L'Heaureaux via Korn/Ferry's system. "David, you sent this to me at my KF email. PLEASE be careful," she responded, the suit states.

Mr. Nosal and Ms. Christian used the allegedly stolen data to "wrongfully conduct numerous new executive searches" and collect fees for placing candidates at certain Korn/Ferry clients, the suit also contends.

One example cited involved UTStarcom Inc. The Internet protocol networking concern in Alameda, Calif., hired Korn/Ferry for a board search last August. While still at Korn/Ferry, Mr. Nosal arranged interviews with prospects, who included Jeff Clarke and Allen Lenzmeier. The suit states UTStarcom paid Korn/Ferry $75,000 after Mr. Clarke, chief operating officer of Computer Associates International Inc., joined its board last December.

Mr. Lenzmeier, a Best Buy Co. vice chairman, took his directorship in March. The suit contends UTStarcom didn't pay the $70,000 promised Korn/Ferry for placing him. "The company engaged Christian & Associates LLC, a professional search firm, with respect to the identification of candidates that included Mr. Clarke and Mr. Lenzmeier," UTStarcom's proxy says. The company and another attorney for Mr. Nosal, Richard H. Frank, decline to comment.

Alarmed over the alleged extensive data theft, Korn/Ferry alerted federal authorities. LaRae Quy, a spokeswoman for the Federal Bureau of Investigation in San Francisco, confirms the criminal probe and related search warrants.

The FBI "carried out raids, confiscated property and conducted interrogations on August 2" of four defendants, Mr. Frank said in an Aug. 10 court filing. He wants Korn/Ferry's suit postponed until the criminal investigation ends. Otherwise, his filing says, "Mr. Nosal will be forced to choose between his basic constitutional right to remain silent and his practical ability to defend himself in this case."

Write to Joann S. Lublin at joann.lublin@wsj.com2