BNA's

PATENT, TRADEMARK & COPYRIGHT

BNA Employee-Owned Since 1947

JOURNAL

Trade Secrets/Misappropriation

'Substantial Threat' of Trade Secret Disclosure Warranted Bar to Employment

Rejecting its own dicta from an earlier case, the U.S. Court of Appeals for the Third Circuit found that, under Pennsylvania law, a court may issue a preliminary injunction against the employment of a defendant by a competitor if the defendant bears a ''sufficient likelihood, or substantial threat'' of revealing trade secrets (*Bimbo Bakeries USA Inc. v. Botticella*, 3d Cir., No. 10-1510, 7/27/2010).

The Third Circuit also ruled that the non-technical nature of the trade secrets does not necessarily limit the power to enjoin, and found that a broad employment injunction was not inappropriate over a short period.

Resignation of Executive Triggers Injunction. Chris Botticella, working at the time as an executive for Bimbo Bakeries USA Inc., received an offer in September 2009 for a similar position at Hostess Brands Inc., a competing baked goods corporation. Botticella accepted the offer in October and would have begun employment on Jan. 18, 2010, but did not inform Bimbo of his planned departure until Jan. 4, and Bimbo was not informed that Botticella would work for a competitor until Hostess announced the hiring of Botticella on Jan. 12.

Botticella continued to have access to confidential Bimbo information until the company dismissed him on Jan. 13. That day, within minutes of learning of his imminent dismissal, Botticella accessed 12 confidential documents through his work laptop. Computer forensics also revealed similar access of sensitive files in the weeks prior to Botticella's dismissal, ''inconsistent with an ordinary usage whereby individual files are opened and either read or edited.''

Bimbo brought a diversity suit in the U.S. District Court for the Eastern District of Pennsylvania, believing Botticella's activity to constitute ''threatened misappropriation of a trade secret'' under the Pennsylvania Uniform Trade Secrets Act.

Finding that Botticella's initial explanations of his activity were ''not credible'' and that he was ''substantially likely'' to use his knowledge of Bimbo trade secrets at Hostess, Judge R. Barclay Surrick granted Bimbo Bakeries' motion for a preliminary injunction, enjoining Botticella from working at Hostess or divulging confidential information until the trial proper.

Botticella sought, and was granted, an interlocutory appeal of the injunction to the Third Circuit. The district court stayed the trial until the conclusion of the appeal.

Injunctions Not Limited to Technical Secrets. Botticella protested that precedent only allows an injunction from employment when the defendant possesses ''technical'' trade secrets. Because his knowledge consisted of business strategies, planned negotiations, and recipes, the court could not enjoin him from working for Hostess, Botticella argued.

Senior Judge Morton Greenberg disagreed. First citing case law that clearly placed commercial information within the realm of trade secrets, he then moved on to the statute itself, which allowed for injunctions against any misappropriation. The court also found that, although Pennsylvania courts will ''more readily'' enjoin employment based on technical secrets, they had not eliminated other kinds of secrets from the reach of injunctive remedy.

'Virtual Impossibility' Standard Rejected. Botticella also argued that the court had failed to apply the standard of *Air Products & Chemicals Inc. v. Johnson*, 442 A.2d 1114 (Pa. Super. Ct. 1982), as interpreted by the Third Circuit in *Victaulic Co. v. Tieman*, 499 F.3d 227 (3d Cir. 2007).

In *Air Products*, the trial court had found an injunction appropriate because it ''would be impossible'' for the defendant to work at his new position without using his knowledge of the plaintiff's trade secrets. The appellate court agreed that in the instant case such use was certain, but it distanced itself from the ''use of the term

inevitable,'' speaking instead of ''sufficient likelihood, or substantial threat'' of disclosure.

Nonetheless, Greenberg said, Pennsylvania courts continued to refer to the ''inevitable disclosure doctrine'' when applying the *Air Products* standard. Perhaps for that reason, in *Victaulic*, the Third Circuit, while quoting *Air Products*, stated that Pennsylvania's trade secret statute only allowed a broad injunction when it is ''virtually impossible'' for the defendant to work without using his knowledge of confidential information, the court noted. Citing *Victaulic*, Botticella argued that the district court had applied too weak a standard to his own case.

Re-examining those earlier rulings, however, the court ruled said that *Victaulic* misread the standard of *Air Products* and other Pennsylvania precedent. Further, although not meeting en banc and therefore unable to overrule its own precedent, it found that the ''virtually impossible'' interpretation was part of a hypothetical which was unnecessary to the holding of the case, and therefore a non-binding dictum.

It therefore applied the ''sufficient likelihood'' standard and allowed the district court's finding to stand.

Sufficient Evidence for Injunction. The court then examined the first of the four factors required for a preliminary injunction: the likelihood of success on the merits.

Botticella argued that the court had seen insufficient evidence of his planned duties at Hostess, making it impossible to determine even sufficient likelihood of trade secret use. However, the appellate court agreed with the trial court that Botticella's Bimbo and Hostess duties would likely be ''substantially similar,'' due to the comparable salaries and titles.

Botticella also objected that the district court had drawn an adverse inference from his choice not to testify. Rather than address whether such an inference was permissible, the appellate court merely responded that Botticella's secrecy before his dismissal and his access of confidential files created ''a solid evidentiary basis'' even without the inference.

It therefore found that the district court could have sufficient likelihood of success on the merits without abusing its discretion.

Defendant's Harm Is Temporary. Moving through the other injunction factors, the court first dismissed Botticella's argument that a narrower injunction would prevent any irreparable harm to Bimbo Bakeries. While ''the evidence at trial may show . . . that relief might be narrow yet adequate,'' it was not an abuse of the district court's discretion to err on the broad side at the preliminary stage.

The court recognized the harm to Botticella in ''prohibiting [him] from pursuing his livelihood in the manner he chooses.'' However, it found this harm limited because Botticella received eleven weeks of compensation for unused vacation time following his departure, which would have lasted through the originally scheduled trial date of April 12. It also found Botticella's harm ''temporary'' as opposed to the far more irreparable harm to Bimbo Bakeries should trade secrets be leaked.

Finally, the court decided that the public interest factor weighed protection against trade secret misappropriation over protection against temporary restrictions on hiring and employment.

The court therefore affirmed the injunction as not an abuse of discretion, and it remanded to the district court.

Judges D. Brooks Smith and D. Michael Fisher joined the opinion.

Michael L. Banks of Morgan Lewis & Bockius, Philadelphia, represented Bimbo Bakeries. Joseph Anclien of Schnader Harrison Segal & Lewis, Philadelphia, represented Botticella.

Lawyer Advises, Don't Be 'Coy' When Resigning. Kerry Bundy, a lawyer with the trade secret practice at Faegre & Benson, Minneapolis, spoke with BNA about the implications of the decision. Pennsylvania's trade secret statute, she noted, follows the model of the Uniform Trade Secret Act, which is also used in 45 other states. Therefore, she said, despite its apparent limitation to Pennsylvania law, the *Bimbo* standard could see far-reaching application, especially given the rarity of appellate-level cases on trade secrets.

However, Bundy said that courts following *Bimbo Bakeries* still have room to decide what point on the sliding scale of likelihood is ''sufficient'' or ''substantial'' enough for an injunction. The decision also left open the possibility of a narrower standard for permanent injunctions, although Bundy recognized that preliminary injunctions often lead to settlements rather than trial.

The specific facts of *Bimbo Bakeries* also provided practical lessons, Bundy said. For employees, she suggested not to be ''coy'' with their employers when planning to resign; in future cases, she expected impressions of dishonesty to have a strong effect on court decisions.

And for employers, she pointed to the importance of good forensics—the tracking of file access, flash drive use, and other computer activity—in gathering evidence that an employee is high on the ''likelihood'' scale.

BY CHRIS REAVES

Opinion at http://pub.bna.com/ptcj/101510July27.pdf

  PTCJ ISSN 0148-7965