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# Employment & Immigration Law

# The Nooks and Crannies of 'Inevitable Disclosure'

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A familiar scenario is playing out all over the country as the recession waxes and wanes, the job market tightens, and employees are forced to become more mobile. Employers learn that a key employee, usually high-ranking and armed with valuable competitive information, intends to join a direct competitor and feels free to do so in the absence of a noncompete agreement.

That's exactly what a senior vice president, equipped with the secret formula for making the "nooks and crannies" in Thomas' English muffins, recently attempted to do. His half-baked idea failed as the Third Circuit in *Bimbo Bakeries USA, Inc. v. Botticella,* 613 F.3d 102 (3rd Cir. 2010), recently held on interlocutory appeal that, under Pennsylvania's "inevitable disclosure" doctrine, a trial court "has discretion to enjoin a defendant from beginning new employment if the facts of the case demonstrate a substantial threat of trade secret misappropriation."

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*Bimbo Bakeries*' expansion of the inevitable disclosure doctrine invites the question whether New Jersey employers can use it, even without a noncompete agreement, to restrain former employees from joining competitors simply because they fear they might misappropriate trade secrets.

### What Is Inevitable Disclosure?

The inevitable disclosure doctrine first attracted national attention with the decision in *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). It applies when an employee has access to trade secrets of his employer and then defects to the competition, taking a new job with duties so similar to his former position that the court believes he cannot perform his new duties without making use of his former employer's trade secrets. *PepsiCo* involved these key facts: (1) Redmond had been one of PepsiCo's high-level managers, responsible for twenty percent of PepsiCo North America's U.S. profits; (2) His high-level position gave Redmond access to competitively sensitive information; (3) PepsiCo and Quaker Oats were engaged in fierce competition with respect to their sports drinks; and (4) Redmond had worked for PepsiCo for 10 years when Quaker Oats wooed him away to become vice president for its Gatorade division.

Less than a week after Redmond told PepsiCo that he was leaving to join Quaker Oats, PepsiCo filed suit to enjoin Redmond from disclosing PepsiCo's trade secrets and prohibiting him from assuming his duties at Quaker Oats. After hearing the evidence of PepsiCo's trade secrets, Redmond's access to and familiarity with those secrets, the similarity between his duties for PepsiCo and his duties for Quaker Oats, and Redmond's lack of candor, the court ruled that it was inevitable that Redmond would use or disclose PepsiCo's trade secrets. The court preliminarily enjoined Redmond from assuming his proposed position at Quaker Oats for six months and permanently enjoined Redmond from using or disclosing any PepsiCo trade secrets or confidential information.

While not the first inevitable disclosure case, *PepsiCo* is the most famous and, predictably, generated enormous debate among employers and employees alike, given its potential use as an after-the-fact noncompete never agreed to by the employee.

Like *PepsiCo, Bimbo Bakeries* involved a perfect recipe for trouble — secret formulas, direct competitors and clandestine actions by the departing employee. Bimbo Bakeries produces and distributes baked goods throughout the country under a number of popular brand names, including Thomas' English Muffins.

The defendant, Chris Botticella, had worked for Bimbo Bakeries for nine years as its vice president of cperations in California and was responsible for five production facilities. Thomas' English Muffins generate about half a billion dollars in annual sales for Bimbo Bakeries and there are three secrets for making their "nooks and crannies" texture. While most Bimbo Bakeries employees know only one of the secrets, Botticella was one of just seven people with knowledge of all three, thus enabling him to potentially replicate the secret formula.

While employed at Bimbo Bakeries, Botticella signed a confidentiality agreement and related agreements, governed by Pennsylvania law, but did not sign an agreement restricting where he could work after termination of his Bimbo Bakeries employment. The court nonetheless enjoined him from commencing work for Hostess Brands, Inc., a direct competitor of Bimbo Bakeries. The court did so, in large measure, because of Botticella's conduct and actions following his acceptance of an offer from Hostess, including his failure to disclose his plans to Bimbo Bakeries for several months, his participating in high-level meetings and staying at Bimbo Bakeries until the end of 2009 to receive his year-end bonus and to complete two projects.

To make matters worse, a computer forensic investigation of Botticella's company laptop revealed that a user logged on as Botticella and accessed confidential documents on a number of occasions. The District Court found Botticella's explanation of the surreptitious laptop use confusing and not credible and specifically stated: "Defendant's conduct before leaving Bimbo Bakeries, in not disclosing to Bimbo Bakeries his acceptance of a job offer from a direct competitor, remaining in a position to receive Bimbo Bakeries' confidential and trade secret information and, in fact, receiving such information after committing to the Hostess job, and copying Bimbo Bakeries' trade secret information from his work laptop onto external storage devices, demonstrates an intention to use Bimbo Bakeries' trade secrets during his intended employment with Hostess."

The court in *Bimbo Bakeries*, like the court in *PepsiCo*, was troubled by the former employee's clandestine actions. But *Bimbo Bakeries* goes further than *PepsiCo* and invokes the "inevitable disclosure" doctrine even though the threat of disclosure of a trade secret "need not amount to its inevitability." Noting that Pennsylvania law provides the right to enjoin "threatened" not just "actual" misappropriation of a trade secret, the *Bimbo Bakeries* court adopted a more flexible standard than "inevitability" in determining whether a substantial risk of disclosure or use of the trade secret exists. Applying the doctrine in *Bimbo Bakeries,* the court found "at least a substantial threat that defendant will disclose Bimbo Bakeries' trade secrets in the course of his employment at Hostess."

Can New Jersey employers similarly serve up the inevitable disclosure doctrine to prevent hungry employees from competing? Yes they can.

One New Jersey Appellate Division case has been frequently cited as adopting the theory of inevitable disclosure even though the case actually predated *PepsiCo*. In *National Starch and Chemical Corp. v. Parker Chemical Corp.,* 219 N.J. Super. 158, 530 A.2d 31 (App. Div. 1987), the court held that a former employer was entitled to a preliminary injunction to prevent the disclosure of alleged trade secrets by a former employee involved in product development, finding that a rational basis existed for the trial court to conclude that the employee knew trade secrets and that there was sufficient likelihood of inevitable disclosure. The employee signed an agreement that, upon termination of his employment, he would not disclose confidential information of the former employer. During his employment, the employee was intimately associated with the development of many sophisticated, highly technical envelope adhesives, and his knowledge was sufficiently detailed and extensive that he could duplicate certain formulas from memory.

The employee and new employer argued that injunctive relief was not warranted because only 5 percent of the employee's time and services would be related to envelope adhesives and "reverse engineering" left little room for secrets. Further, inasmuch as the employee was regarded as an ethical person, there was the added protection of his agreement not to disclose the former employer's trade secrets. The appeals court disagreed, finding there was "sufficient likelihood of 'inevitable disclosure'" concluding that the "circumstances here justify more than a 'mere suspicion'" of threatened harm.

The doctrine of inevitable disclosure has been defined and applied differently by different courts in different jurisdictions. The Third Circuit's recent ruling in *Bimbo Bakeries* builds on the inevitable disclosure principles highlighted in the earlier *PepsiCo* and *National Starch* cases. Together, these rulings provide guidance to New Jersey employers on the mix of ingredients common to cases where companies successfully enjoined an important former employee from joining a competitor, even in the absence of a noncompete agreement. These ingredients include the type of job the employee held, the access to information he had, his actions upon departing and his candor. Lack of candor is one ingredient in particular that can poison the pudding for a high-ranking employee trying to jump to a competitor.

The bottom line is that no matter how many promises and denials of use are made by the former employee, such promises and denials cannot overcome findings of deceptive conduct by the employee when leaving for a competitor. This lack of forthrightness is what toasted the muffin man in *Bimbo Bakeries,* despite his "Thomas' promises" not to divulge his knowledge to a competitor. Under the law of inevitable disclosure, actions speak louder than words and promises. ■