

Employee Relations

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Recent Federal Third Circuit Case Sheds Light on Possible Enforceable Non-Competes in California: Lessons from *Bimbo Bakeries v. Botticella*

Rod S. Berman and Barbra A. Arnold

Notwithstanding everything known about how courts cannot prevent California employees from working for the competitor of a former employer under California Business & Professions Code Section 16600, the Court of Appeals for the Third Circuit has affirmed an injunction preventing a California executive from working for a competitor of his former employer.

California courts have long held that California Business & Professions Code Section 16600 (Section 16600) prohibits blanket non-compete clauses from being applied to California employees and creates a strong public policy in favor of employee mobility. California courts, however, have not stopped at prohibiting clear-cut, non-competition agreements; they have even used Section 16600 to prohibit *de facto* restraints on employee mobility by rejecting the infamous “inevitable disclosure” doctrine.

In *Whyte v. Schlage Lock Company*,¹ the seminal California case on the inevitable disclosure doctrine, the Fourth District California Court of Appeals unequivocally rejected the inevitable disclosure doctrine. There, Schlage attempted to prevent a former Vice President of Sales from working in a similar position for a competitor, arguing that by so doing, the employee would inevitably disclose and use Schlage’s trade secrets. The *Whyte* court rejected Schlage’s argument and held that the doctrine of inevitable disclosure was contrary to California law and policy because it creates an after-the-fact covenant not to compete contrary to Section 16600. The *Whyte* court’s decision nailed the coffin for non-compete agreements in California and distinguished California from the majority of other jurisdictions which have a more permissive view of non-competes and accept the inevitable disclosure doctrine.

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BIMBO BAKERIES V. BOTTICELLA

A recent decision by the United States Court of Appeals for the Third Circuit may show some light at the end of the tunnel for employers concerned about former high-level executives using trade secret information to the benefit of a competitor. In *Bimbo Bakeries USA, Inc. v. Botticella*,² the Third Circuit affirmed a Pennsylvania district court's injunction prohibiting a California employee from working for a Bimbo competitor in Texas.

During his nine years of employment, Chris Botticella, Bimbo's Vice President of Operations for California, had access to a broad range of confidential and trade secret information including code books containing the formulas and parameters for all of Bimbo's products. In fact, as the court noted, "Botticella was one of only seven people who possessed all of the knowledge necessary to replicate independently Bimbo's popular line of Thomas' English Muffins, including the secret behind the muffins unique 'nooks and crannies' texture."³ During his employment, Botticella signed a non-disclosure agreement in which he agreed not to use or disclose any of Bimbo's confidential or proprietary information during or after his employment with Bimbo. The non-disclosure agreement contained Pennsylvania choice of law and venue provisions, but did not restrict Botticella's employment after termination from Bimbo.

While Botticella was still employed by Bimbo, he was offered a similar job as Vice President of Operations by Hostess, a direct competitor of Bimbo. Botticella accepted Hostess' job offer, but continued to work for Bimbo for a period of three and a half months, during which time he still had access to Bimbo's trade secret information. Botticella then gave Bimbo his two weeks' notice without informing Bimbo that he has accepted a job with Hostess. The district court determined that shortly before his departure, it appeared that Botticella had accessed a number of highly sensitive computer files that would be damaging to Bimbo if they fell into the hands of a competitor and may have downloaded them to an external drive.

Applying Pennsylvania law, the court of appeals affirmed the district court's decision that "Botticella's employment with Hostess would lead to a 'sufficient likelihood or substantial threat of disclosure of a trade secret.'"⁴ The court held that Botticella's prospective position at Hostess was "substantially similar" to his former position at Bimbo. Notably, the court of appeals affirmed the district court's use of a "sufficient likelihood" of disclosure standard as opposed to the more stringent standard of "inevitable disclosure" or the even stricter "virtual impossibility" standard used by some courts requiring a showing that it would be "virtually impossible" for a former employee to avoid disclosing trade secrets in the employee's new position.⁵

Ultimately, the Third Circuit held that “[w]e are satisfied in the facts of this case that the public interest in preventing the misappropriation of Bimbo’s trade secrets outweighs the temporary restriction on Botticella’s choice of employment.”⁶

Both the district court and the court of appeals decisions were likely swayed by the high profile nature of the trade secrets at issue in the case, including the Thomas’ English muffin recipe and several Orowheat recipes. The decision was also likely informed by what the district court deemed Botticella’s “confusing at best” and “not credible” explanation for his access to sensitive documents shortly before his departure.

LIMITATIONS ON THE USE OF *BIMBO BAKERIES V. BOTTICELLA* FOR CALIFORNIA EMPLOYERS

The Third Circuit’s decision enjoining a California employee from working for a competitor of his former employer, while enlightening on the state of the “inevitable disclosure doctrine” in other jurisdictions, likely offers little hope for California employers or for out-of-state employers employing California residents, particularly for cases brought in California.

In *Bimbo Bakeries*, the Third Circuit applied Pennsylvania law pursuant to the terms of the parties’ non-disclosure agreement. As such, employers might interpret *Bimbo Bakeries* to hold that including a Pennsylvania choice of law provision in their non-disclosure agreements or even in non-compete agreements would allow them to similarly enjoin high-level executives from working for competitors. Such an interpretation, however, is highly suspect. As set forth above, California law on the inevitable disclosure doctrine and on the enforceability of non-compete agreements is fairly well settled in favor of employee mobility. In addition, California courts have routinely held that choice of law provisions requiring the application of the law of another state which violate California’s strong public policy prohibiting broad non-competition covenants are void. Therefore, a California resident, even if working for a non-California company, is likely still protected by California’s public policy and Section 16600.

It is unclear whether Botticella moved for a change of venue or for the application of California law, instead of Pennsylvania law. He may have fared better if he had. On the other hand, in drafting an employment agreement for high-end employees represented by counsel, consideration should be given to employing Pennsylvania’s (or another pro inevitable disclosure state’s) choice of law provision, particularly if the employer and/or employee has a reasonable connection to the state whose law applies, providing for all disputes to be venued in such jurisdiction, and requiring the employee to provide advance written notice to the employer before the employee files suit against the employer outside the jurisdiction.

Of course, it should be appreciated that California public policy under Section 16600 is very strong and notwithstanding the foregoing, it is quite likely that a California court would refuse to recognize an injunction issuing from a non-California court prohibiting a California employee from gainful employment in California under the inevitable disclosure doctrine. However, if the employment agreement is long term and the employee is relocated out of California, a non-California court might recognize such an injunction thereby giving some hope for the application of the inevitable disclosure doctrine.

NOTES

1. 101 Cal. App. 4th 1443 (2002).
2. 613 F. 3d. 102 (3d.C. 2010).
3. *Id.* at 105.
4. *Id.* at 114.
5. California applies an even stricter standard. Recent California cases have followed the *Whyte* court's lead in requiring that evidence of actual misappropriation, threatened misappropriation, imminent harm, or ongoing wrongdoing are required in order for an injunction to issue. In *Flir Systems, Inc. v. Parrish*, a high-level executive and technological creator downloaded technological data onto a portable hard drive shortly before leaving his employer to start his own business with a coworker. The Second District California Court of Appeals affirmed California's rejection of the inevitable disclosure doctrine, stating that "speculation that a departing employee may misappropriate and use a trade secret in a startup business will not support an injunction." *Flir Systems, Inc. v. Parrish*, 174 Cal. App. 4th 1270, 1277 (2009). The court of appeals further stated "Appellants claim that the hard drive download is a 'threatened' misappropriation under the California Uniform Trade Secrets Act. This is a restatement of the inevitable disclosure doctrine which is not the law in California." *Id.* at 1279.
6. *Id.* at 119.