The Legal Intelligencer

Did the Muffin Man Kill PA's Inevitable Disclosure Doctrine?

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11-02-2010

The "inevitable disclosure doctrine" allows a court to bar an ex-employee from working for a new employer even without a non-competition agreement. This injunction can issue even if the employee has expressly rejected any intention to use his prior employer's trade secrets in the new job. Such good faith is deemed irrelevant if the employee cannot perform the new job without using his prior employer's trade secrets.

The doctrine recently received some high-profile attention in California, where Hewlett-Packard sued Mark Hurd, its former CEO who had resigned in the midst of a sexual harassment investigation and discovery of inaccurate expense reports. The suit was filed a day after Hurd announced that he had joined Oracle as its "co-president." HP asserted that Hurd would not be able to do his job at Oracle without using HP's highly sensitive and confidential information.

In a state that statutorily bars enforcement of noncompetition agreements and whose courts have expressly rejected application of the inevitable disclosure doctrine, HP's attempt to block Hurd's employment seemed like a long shot. Yet, within a few weeks, the matter was settled, with Hurd agreeing to waive his right to a $30 million stock severance package in return for the right to work for Oracle and not use or disclose HP's trade secrets. By any measure, this would seem to have been a decent outcome for HP.

Unlike California, Pennsylvania is considered to have adopted the inevitable disclosure doctrine. In 2010, Pennsylvania practitioners also saw a high-profile case on the issue, one that may have rendered the doctrine effectively moot in Pennsylvania. Before discussing this 3rd U.S. Circuit Court of Appeals decision in Bimbo Bakeries v. Botticella, though, a little background is appropriate.

The seminal Pennsylvania case in this area is the 1982 decision in Air Products and Chemicals Inc. v. Johnson. There, the court affirmed a preliminary injunction barring an ex-employee (Johnson) from working in a specific job for his new employer, even though there was no evidence that Johnson had used or threatened to use any of Air Product's trade secrets. Indeed, Johnson had been specifically instructed by his new employer not to use or disclose such information, and the court acknowledged that he was "an honest man" and that "there is no dispute as to his integrity."

The Air Products opinion was ambiguous as to the applicable standard to be applied in such cases. It noted that the trial court had concluded that "it would be impossible [for Johnson] to perform his managerial functions in on-site work without drawing on knowledge of Air Products' confidential information" and concluded that "we are satisfied that this expression of its determination of the likelihood of disclosure was proper."

Yet, it also stated that it did "not adopt the reasoning of the trial court or its use of the term "inevitable" and pointed out that an injunction was appropriate where "employment is likely to result in disclosure of [trade secrets]."

Later court decisions have not been particularly consistent in applying the doctrine. Some cases have held that relief is justified only if it would be impossible for the employee to perform the new job without using the information, while others have applied a considerably more employer-friendly standard. To date, the Pennsylvania Supreme Court has not weighed in on any aspect of the doctrine or even acknowledged that it exists.

In 2004, the landscape in this area changed with the adoption of the Pennsylvania Uniform Trade Secrets Act (PUTSA). Under PUTSA, which displaced the common law in the area, a court is authorized to enjoin actual or threatened misappropriation of trade secrets. For the inevitable disclosure doctrine to apply under PUTSA, the definition of "threatened disclosure" under the act would presumably have to be applied in situations where no threat was actually made by the employee but where circumstances of the new employment make the threat an inherent and cognizable one.

Such an approach finds support in decisions from other jurisdictions which have adopted the Uniform Trade Secrets Act. Indeed, in the Hurd case noted above, HP, in one of its two counts, argued that Hurd's presence at Oracle presented an actual threat of disclosure and was thus actionable under California's Uniform Trade Secrets Act, even though the inevitable disclosure doctrine had been expressly rejected in California.

The Bimbo Bakeries case, a/k/a the "Muffin Man Case," was tried in the U.S. District Court for the Eastern District of Pennsylvania. The case focused on the inevitable disclosure doctrine and, specifically, the applicable standard to be applied under that doctrine. Bimbo Bakeries is one of the four largest companies in the baking industry in the United States. It sells products under brand names such as Thomas', Entenmann's, Stroehmann and Boboli.

Chris Botticella was a top executive for the company. He was one of a select group of executives who had access to all of Bimbo's code books — containing formulas and process parameters for its products — and "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."

In September 2009, Botticella accepted a position with Interstates Brands Inc., a competitor of Bimbo, which subsequently changed its name to Hostess Brands Inc. Botticella did not inform Bimbo of his new employment until January 2010, at which time he provided 11 days notice of his resignation. Several days later, when Bimbo learned that Botticella was going to work for Hostess, he was directed to leave the premises.

Although Botticella signed an agreement with Hostess in which he promised not to bring or disclose any of Bimbo's confidential information, the trial court noted suspicious behavior by him in accessing confidential documents and information prior to his leaving Bimbo. The court found his explanations for such conduct "confusing at best" and "not credible." The court determined that there was "a substantial likelihood, if not inevitability" that Botticella would use or disclose Bimbo's trade secrets. Following the grant of a preliminary injunction on Feb. 9, 2010, Botticella appealed to the 3rd Circuit.

On appeal, Botticella, relying on language from another recent 3rd Circuit case, Victaulic Co. v. Tieman, argued that the trial court had applied the wrong standard and that Bimbo, to justify the grant of an injunction, had to prove that it would be virtually impossible for Botticella to perform his job without using or disclosing trade secrets. This approach seemed fairly strong since the court in Victaulic had stated that "under Pennsylvania law, a broader injunction only lies when it is 'virtually impossible' for the employee to do his job without using or disclosing the trade secrets."

In affirming the trial court decision, the circuit court did not specifically rely on the language of PUTSA but, instead, sought guidance from the pre-PUTSA decision in Air Products. Rejecting the Victaulic analysis, it noted that decision "did not interpret Air Products in a way precisely consistent with Pennsylvania state precedents."

The court then expressly rejected the "virtually impossible" standard, "our suggestion to the contrary in Victaulic notwithstanding." The court pointed out that the language in Victaulic was not binding because that part of the opinion was only dictum and not dispositive of that decision.

The 3rd Circuit then determined that a plaintiff need only show "a sufficient likelihood or substantial threat of disclosure of a trade secret." The court found strong support for this approach in another pre-PUTSA case, the 1989 Superior Court decision in Den-Tal-Ez v. Siemens Capital Corp., where the court sustained an injunction preventing the defendant from acquiring one company upon collapse of acquisition discussions with that company's competitor.

The court, finding that there was "at least a substantial threat" that Siemens would provide information obtained in the prior discussions to the newly acquired company, determined that even without any evidence of actual disclosure, the proper inquiry was whether there is sufficient likelihood, or substantial threat, of the defendant using or disclosing the information in the future.

Perhaps the most intriguing part of the circuit court decision was its statement that an injunction without proof that disclosure is inevitable is not actually granted under the inevitable disclosure doctrine. This approach seems to sever the "inevitable disclosure doctrine" from PUTSA, with injunctions granted under PUTSA subject only to the "sufficient likelihood or substantial threat" standard, while those under the inevitable disclosure doctrine still require inevitability.

With this in mind, there exists a real question as to whether the inevitable disclosure doctrine, as previously believed to exist, functionally survives PUTSA and the standard articulated in Bimbo Bakeries. The rejection of Victaulic suggests that it does not. If a sufficient likelihood or substantial threat, not inevitability, of disclosure is all that is needed to obtain an injunction, parties are not likely to ever see a need to prove inevitability.

While there is little doubt that the term "inevitable disclosure" will likely continue to be used by courts, counsel and litigants, the practical reality is that the "Muffin Man" may indeed have killed the "inevitability" part of the doctrine. •

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