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WHITE-COLLAR LAW

Easy Come, Not So Easy Go: *Recent Pa. Decisions Help Employers Stop Former Employees From Competing*

BY ERIC B. MEYER AND DAVID M. LAIGAIE
Special to the Legal

In prior columns, we have discussed how various employment and post-employment scenarios lead to trouble, including charges of theft of trade secrets and economic espionage. This column focuses on a related topic, namely the extent to which an employer can stop former employees from competing.

Picture the following scenario: Stacy Salesperson just landed a great job with ABC Co. She is going to be selling widget-makers to widget companies up and down the Eastern Seaboard. No doubt, this is a cushy job. Widgets are all the rage and manufacturers cannot get them on the shelves fast enough; demand for widget-makers is at an all-time high.

When Stacy starts her job with ABC, the company has her sign a contract. That contract contains a non-solicitation provision, which prevents Stacy from courting any existing or prospective customers of ABC's for a period of one year after her employment with ABC ends.

For the first few years, everything is peaches and cream for Stacy and ABC. She is selling widgets and the company is making money. Every year, ABC rewards Stacy with a big commission, a raise, and a bonus. Eventually, however, the widget market suffers and ABC is forced to take a hard look at its employee roster. There's Stacy. Sure, she's a great salesperson, but she is also costing ABC a lot in salary and overhead. And widgets aren't what they used to be. So ABC decides to cut costs and terminate Stacy's employment.

Fortunately for Stacy, her time on the unemployment line is short-lived. It seems ABC's number-one competitor, XYZ Inc., had been scouting Stacy for a long time. And despite the overall market downturn, because of technological advances and its overall savvy, XYZ managed to remain a profitable player in the widget business. So, it seemed only natural for XYZ to add a talent like Stacy to its sales force.

A week or two later, ABC hears through the widget-grapevine that Stacy has landed a job with XYZ. ABC has its lawyers draft letters to both Stacy and XYZ threatening litigation if Stacy solicits any existing or prospective ABC customers. Does ABC have a right to enforce the non-solicitation agreement Stacy signed even though it terminated Stacy's employment without cause?

According to the recent Pennsylvania Superior Court decision in *Missett v. Hub Int'l PA LLC*, the Stacy/XYZ marriage will be short-lived. According to the opinion in *Missett*, an employee, Christopher M. Missett, signed a series of non-solicitation agreements with his employer, a limited liability company. The LLC then sold its membership interests to another LLC. Two years later, the acquiring-LLC terminated Missett without cause, as part of a cost-cutting effort. Missett subsequently sued, seeking to enjoin the acquiring-LLC from enforcing the non-solicitation agreement and to obtain a declaratory judgment that the agreement is unenforceable.

After determining that the sale of the LLC did not void the non-solicitation agreement, the Superior Court addressed whether a termination without cause automatically nullifies a non-solicitation agreement. The answer is no. In fact, the court ruled that the circumstances of an employee termination are but one of many factors that a court should consider in determining whether to enforce a non-solicitation agreement. Other

ERIC B. MEYER *dedicates his practice to litigating and providing counsel to employers on labor and employment issues affecting the workplace, including collective bargaining, discrimination, employee handbook policies, enforcement of restrictive covenants, and trade secret protection. He can be reached at 215-575-7283 or emeyer@dilworthlaw.com. You can also follow him on Twitter at www.twitter.com/Eric_B_Meyer.*

DAVID M. LAIGAIE, *a partner at Dilworth Paxson, heads the corporate investigations and white-collar group. His areas of practice include health care fraud, securities fraud, tax fraud, export violations, pharmaceutical marketing fraud, municipal corruption, defense procurement fraud and public finance fraud. He regularly conducts internal corporate investigations. He can be reached at 215-575-7168 or dlaigaie@dilworthlaw.com.*

factors include: (a) the employee's access to proprietary information and its later use for a competitor; (b) the length of the restrictive covenant; (c) the number of restrictive covenants an employee signs over time; (d) the ability of the employee to earn a living (taking into account the size of the overall industry customer base); and (e) industry standard and custom. The Superior Court then remanded the matter for further proceedings to consider these facts and circumstances and others that may be relevant to a determination whether the non-solicitation clause is reasonable and enforceable.

The Superior Court's decision in *Missett* is clearly a win for employers. The recent 3rd U.S. Circuit Court of Appeals decision in *Bimbo Bakeries USA Inc. v. Botticella* is even bigger.

Bimbo Bakeries is the Pennsylvania-based maker of Thomas' English Muffins, among other products. According to the 3rd Circuit opinion, in 2009, the vice president of operations for Bimbo Bakeries, Chris Botticella, received a job offer from Hostess Brands Inc., a direct competitor of Bimbo Bakeries. When he received the Hostess offer, Botticella had access to many of Bimbo Bakeries' product formulas and processes, most notably, the recipe for Thomas' English Muffins' nooks and crannies. When Bimbo Bakeries found out about the Hostess offer, it sought an injunction to prevent its employee from leaving. One problem: Botticella never signed an agreement with Bimbo Bakeries prohibiting post-employment competition.

The court nevertheless held that Bimbo could temporarily stop its employee from going to work for a direct competitor. Noting that Botticella had acted suspiciously during the end of his employment with Bimbo Bakeries — he had accessed and copied proprietary information and had attended high-level meetings at which Bimbo Bakeries strategy was discussed — the court stopped Botticella from working for Hostess because Bimbo Bakeries was able to demonstrate a "substantial likelihood" that he would disclose Bimbo Bakeries' trade secrets to Hostess.

The lessons from these two cases are clear. First, if an employer wants to restrict a former employee from competing against it or poaching customers (or current employees), then it should have employees enter into restrictive covenants. Second, in the absence of a restrictive covenant, courts will protect sensitive company information from misuse only in extreme cases.

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In conclusion, when reviewing employment agreements, counsel should keep four things in mind:

• The *Bimbo* case is unusual. Generally, courts do not enjoin employees without non-competition agreements from working for a competitor.

• To prevent former employees from directly competing against you and soliciting your current and prospective customers, have them sign a non-competition/non-solicitation agreement when their employment begins. Only some states will enforce these agreements when signed after employment starts.

• Make sure the restrictive covenants are reasonable in both geography and scope. Some courts will revise overly broad agreements, but others will disregard them altogether.

• Be explicit that contractual restrictive covenants will apply in any separation of employment for any reason (resignation, termination without cause, termination for cause). Does that create an airtight agreement? No. For example, Pennsylvania courts acknowledge that an employer may not be able to enforce a non-competition agreement against an employee it fires for poor performance. However, in those situations in which the court applies a totality of the circumstances test — e.g., *Missett* — a restrictive covenant that the parties previously agreed will apply after any separation of employment will help. •