

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

BABN TECHNOLOGIES CORP.,	:	CIVIL ACTION
	:	
Plaintiff,	:	
	:	
v.	:	
	:	
ANTHONY BRUNO,	:	
	:	
Defendant.	:	NO. 98-3409

MEMORANDUM

Reed, J.

August 28, 1998

Presently before the Court are the objections of defendant Anthony Bruno (“Bruno”) (Document No. 21) to the Report and Recommendation of United States Magistrate Judge M. Faith Angell, the response of plaintiff BABN Technologies Corporation (“BABN”), and the reply of Bruno thereto. Magistrate Judge Angell recommended granting the motions for an expedited discovery schedule; dismissing as moot the temporary restraining order entered by the Montgomery County Court of Common Pleas; and entering a temporary restraining order enjoining defendant Bruno from performing certain types of work at Scientific Games Holding Corporation (“SGH”). After careful and independent review of the entire record, and for the following reasons, I will adopt the Report and Recommendation of Magistrate Judge Angell, with some modest modifications.

Also before the Court is the motion of BABN to strike the supplemental affidavit of Gerald Glenn Cornet (Document No. 24). Having considered all the briefs of the parties on this issue, I will strike that affidavit.

FACTS

The facts of this case are fully stated in the Report and Recommendation of Magistrate Judge Angell (Document No. 17) (and as amended in Document No. 19).¹ Because familiarity with these facts is assumed, I will summarize pertinent points only.

BABN is in the business of producing lottery tickets. BABN hired Bruno in January 1995 as a Pre-Press Technician at BABN's facility in Fort Washington, Pennsylvania. Bruno was promoted to a Pre-Press Supervisor when he moved to BABN's new facility in San Antonio, Texas. Upon his hire at BABN, Bruno signed a Confidentiality Agreement² agreeing, *inter alia*, that Bruno would not engage in activities similar to BABN when an employee (or other position) for another company for a period of twelve months following termination of employment with BABN. This agreement further provided that any litigation arising from a breach of the agreement would be governed by the laws of Pennsylvania and that the parties consented to the exclusive jurisdiction of Pennsylvania courts.

Some time after his transfer to Texas, Bruno interviewed for other jobs. He was hired by SGI, a direct competitor of BABN. Upon learning that Bruno was working for SGI, BABN filed a complaint and motion for special or preliminary injunction in the Court of Common Pleas, Montgomery County, Pennsylvania. The state court entered an order on July 1, 1998 temporarily enjoining Bruno from engaging in activities like he did at BABN with respect to lottery systems for twelve months and from disclosing trade secrets or any confidential

¹ The amendments are ministerial and have no significance to this adjudication.

² I refer, interchangeably, to the Confidentiality Agreement as the 'noncompetition agreement,' 'restrictive covenant,' and 'non-compete clause.'

information or proprietary materials of BABN. The state court order was to remain in until a hearing scheduled for July 7, 1998. Bruno removed this action to federal court on July 2, 1998, and consequently, the state court hearing did not take place.

This Court referred four motions to the Magistrate Judge for a hearing and Report and Recommendation (Document No. 5) pursuant to 28 U.S.C. § 636(b)(1)(B) and Local Rules of Civil Procedure 72.1, I(d)(1)(A) and (2) and Federal Rule of Civil Procedure 72(b): (i) plaintiff's (unopposed) Motion for Leave to Take Expedited Discovery and Schedule a Hearing on Plaintiff's Motion for Preliminary Injunction (Document No. 2); (ii) defendant's (unopposed) Motion for Leave to Conduct Expedited Discovery (Document No. 7); (iii) defendant's Motion to Dissolve the Temporary Restraining Order (Document No. 3); and plaintiffs Motion to Continue Temporary Restraining Order until a Ruling Is Made on Plaintiff's Motion for a Preliminary Injunction (Document No. 10).

Magistrate Judge Angell conducted a hearing during two days, July 16, 1998 and July 22, 1998. Both parties were afforded the opportunity to present and cross-examine witnesses, submit evidence, and make arguments. On July 24, 1998, Magistrate Judge Angell issued a Report and Recommendation ("R&R"), which was amended on July 28, 1998 (Document No. 19). The R&R recommended that this Court "grant the unopposed motions for expedited discovery, dismiss the motions to extend and dissolve the state TRO, grant a TRO in favor of BABN restricting Bruno from working for SGI, and schedule a preliminary injunctive hearing." (R&R at 18).

Bruno filed timely objections in relation to the injunctive relief³ as well as additional evidence consisting of the supplemental affidavit of Gerald Glenn Cornetet. BABN filed a response to the objections as well as a motion to strike the supplemental affidavit.

LEGAL STANDARD

Where a party files written objections to a report and recommendation, the district court must make a *de novo* determination regarding those portions of the report to which the objection is made. See United States v. Raddatz, 447 U.S. 667, 674-75 (1980). A *de novo* determination entails an independent review of the record which has been developed before the magistrate, and objections and responses to the magistrate's findings and recommendations. Id.; United States v. Tortora, 30 F.3d 334, 337 (2d Cir. 1994). A district court is not required to ignore the magistrate judge's findings or to rehear the contested testimony in making its determination. United States v. Ten Cartons Ener-B Nasal Gel, 888 F. Supp. 381, 390 (E.D.N.Y.), aff'd, 72 F.3d 285 (2d Cir. 1995) (quotations omitted).

DISCUSSION

A. Motion to Strike Supplemental Affidavit

Attached to his objections, Bruno submits the Supplemental Affidavit of Gerald Glenn Cornetet. This Affidavit contains several exhibits, including a letter ruling from the Open Records Division of the Texas Attorney General's Office dated May 27, 1998, an Oregon Lottery Proposal of BABN dated 1997, an Arizona Lottery Proposal of BABN (undated), and a Vermont

³ Neither party filed objections to the recommendation of the Magistrate Judge to grant the motions to expedite discovery. However, I will dismiss as moot these motions as expedited discovery is no longer necessary for purposes of a preliminary injunction.

Lottery Proposal dated 1997. BABN moves to strike the affidavit on the grounds that the Magistrate Judge sequestered Cornetet during the testimony of Claude Lambert, a witness of BABN, yet Cornetet refers to Lambert's testimony in his affidavit.

A district judge, in rendering a *de novo* determination may consider, but is not required to receive, additional evidence not before the Magistrate Judge. See Fed. R. Civ. P. 72(b). The supplemental affidavit is an effort of Bruno to address some of the deficiencies contained in Bruno's original evidence and arguments before the Magistrate Judge. Yet, Bruno never attempted to show good cause or seek permission of this Court to augment the record. Bruno fails to articulate any good cause why the affidavit and accompanying exhibits, including the ruling from the Texas Attorney General's Office, could not have been presented to the Magistrate Judge and Cornetet exposed to cross examination at least. The Attorney General's ruling was rendered in May 1998 and thus available prior to the hearing before Magistrate Judge Angell. I find that Bruno had ample opportunity to prepare and present evidence before and during the hearing and it would be fundamentally unfair to allow this unilateral expansion of the record here. On this ground alone, I reject this evidence and thus will grant the motion to strike.

To ensure completeness, however, I have reviewed the Supplemental Affidavit of Cornetet, as well as the exhibits attached thereto, and have determined it would not change my total agreement with the Magistrate Judge that injunctive relief be rendered.

B. TRO / Preliminary Injunction

There are two types of injunctions covered by Federal Rule of Civil Procedure 65: (i) preliminary injunctions (Rule 65(a)); and (ii) temporary restraining orders (Rule 65(b)). The standard for a temporary restraining order is the same as that for a preliminary injunction. Bieros

v. Nicola, 857 F. Supp. 445, 446 (E.D. Pa. 1994). The movant must demonstrate:

(1) a likelihood of success on the merits; (2) the probability of irreparable harm if relief is not granted; (3) that granting the relief will not result in greater harm to another party; and, (4) that granting the relief is consistent with the public interest. Id. (citing Frank’s GMC Truck Ctr., Inc. v. G.M.C., 847 F.2d 100, 102 (3d Cir. 1988)).

The distinguishing features between these two forms of injunctive relief are that temporary restraining orders may be issued *ex parte* without an adversary hearing and are of limited duration, whereas preliminary injunctions may be issued only after the opposing party receives notice and after some form of hearing, and last until to the completion of the trial on the merits. See Fed. R. Civ. P. 65; 11A Wright, Miller & Kane, Federal Practice and Procedure: Civil 2d § 2947, § 2951 (2d ed. 1987) (“When the opposing party actually received notice of the application for a restraining order, the procedure that is followed does not differ functionally from that of an application for a preliminary injunction and the proceeding is not subject to any special requirements.”).

Because a two-day hearing took place before the Magistrate Judge where both parties, with representation of counsel, fully participated and had the opportunity to present evidence and witnesses, and where both parties submitted comprehensive briefs and argument to the Magistrate Judge regarding the appropriateness of injunctive relief,⁴ I will construe the proceeding before the Magistrate Judge, along with the accompanying briefs of the parties, as a

⁴ I find that both parties fully briefed the merits of injunctive relief before the Magistrate Judge, including the likelihood of whether BABN could succeed on the merits (covering the applicable law, the enforceability and reasonableness of the non-competition agreement, protectible business interests and the existence of trade secrets), whether BABN could show irreparable harm, whether Bruno will suffer harm, and related public interests. (See Def. Mem. to Dissolve TRO; Pl. Mem. to Continue TRO (Document Nos. 3, 10)).

preliminary injunction hearing, rather than a temporary restraining order hearing. See Cuban Am. Bar Ass'n, Inc. v. Christopher, 43 F.3d 1412, 1421-22 (11th Cir.) (quoting McDougald v. Jenson, 786 F.2d 1465, 1472 (11th Cir. 1986)), cert. denied, 515 U.S. 1142 (1995). The mere labelling of the hearing before the Magistrate Judge, and the accompanying briefs, as a request for a temporary restraining order, does not detract from the true essence of what was actually litigated before the Magistrate Judge. My decision on the label or form of the relief in no way changes the fundamental nature of the proceedings before the Magistrate Judge or this reviewing Court and neither changes the scope of review, the form of or the substance of this Court's task from that expected and relied upon by the parties.

Magistrate Judge Angell found that the state TRO lapsed. I agree with this conclusion. I further agree with the R&R that the fact that the TRO expired does not limit the Magistrate Judge's jurisdiction to recommend the granting or denial of a TRO pursuant to 28 U.S.C. § 636(b)(1)(B). I part only with this recommendation to the extent that the injunctive relief presently at issue must be characterized as one for a preliminary injunction, and not for a TRO. Accordingly, I will adopt the recommendation of the Magistrate Judge to dismiss as moot the motions to extend or to dissolve the state TRO, and I will consider whether new relief, in the form of a preliminary injunction, is appropriate.

The objection of Bruno that the court has no jurisdiction to extend or renew a state court TRO that has already expired is unavailing. There is no extension or renewal of state court TRO taking place here. Rather, the Magistrate Judge and this Court has and is considering afresh, if you will, the appropriateness of preliminary injunctive relief at this time. In light of the request of BABN for a preliminary injunction hearing filed immediately after this case was

removed to this Court (Document No. 2), and the TRO issued in the state court, the parties were aware of the eventual litigation of and possible implementation of a preliminary injunction. I thus conclude that it is proper at this juncture to determine the merits of relief in the form of a preliminary injunction.

C. Choice of Law

Bruno objects to the application of Pennsylvania law, and not Georgia law, to the case. His arguments are again unavailing. I adopt, in full, the analysis, findings and recommendations set forth in the R&R regarding choice of law. I agree with Judge Angell's conclusion that Georgia does not have a materially greater interest than Pennsylvania in the outcome of this case, and that the differences between Georgia and Pennsylvania law with respect to the enforcement of restrictive covenants do not rise to the level of a fundamental state policy under a conflict of law analysis.

The noncompete agreement between Bruno and BABN was entered into in Pennsylvania where both parties were then located. Thus, Pennsylvania certainly has an interest in enforcing validly entered employment agreements. It is true Georgia has an interest in protecting the employment status of its citizens. However, this Court will not make the leap that Bruno has urged and declare that the interest of Georgia is materially greater than the interest of Pennsylvania.

Bruno further argues that Pennsylvania and Georgia have materially different approaches to enforceability of restrictive covenants, and that application of Pennsylvania law would violate a fundamental policy of Georgia. Both Pennsylvania and Georgia will enforce noncompetition agreements to the extent they are reasonable. As identified by the Magistrate

Judge, the primary difference between these states' laws is the extent to which the courts are permitted to modify, or "blue pencil" an unreasonable non-competition clause. Pennsylvania courts will modify in this fashion,⁵ whereas Georgia courts do not.⁶ I agree with the Magistrate Judge that this difference does not constitute a fundamental policy which would void the choice of law provision.⁷

In a final attempt to persuade this Court of the inapplicability of Pennsylvania law, Bruno cites Dentsply International, Inc. v. Benton to support the argument that forum selection and choice of law clauses in employment agreements between corporations and employees are unenforceable. The court in Dentsply refused to enforce the forum selection clause in an employment contract on the grounds that the employer-employee relationship is so inherently unequal. 965 F. Supp. 574, 579 (M.D. Pa. 1997). I distinguish this case on two vital grounds: (i) unlike the plaintiff in Dentsply who was asked to sign a noncompete covenant and choice of law provision in the midst of his employment (after three years of employment), Bruno signed the agreement at the beginning of his employment when consideration for the agreement was patent; and (ii) in Dentsply, the choice of law provision and forum selection clause were centered in Pennsylvania despite the fact that the plaintiff worked in Oklahoma and never even visited Pennsylvania on business, whereas, in our case, Bruno was hired in Pennsylvania, signed the

⁵ See Hilliard v. Medronic, Inc., 910 F. Supp. 173, 177 (M.D. Pa. 1995); Sidco Paper Co. v. Aaron, 351 A.2d 250, 254-55 (Pa. 1976).

⁶ See Ward v. Process Control Corp., 277 S.E.2d 671, 673 (Ga. 1981).

⁷ As discussed infra footnote 8, I adopt the recommendation of the Magistrate Judge that the non-compete agreement at issue here is reasonable both in temporal and geographic scope. Because there is thus no need for the Court to modify the non-compete provision, any difference between Georgia and Pennsylvania law over enforcement of unreasonable noncompetition clauses becomes less relevant to the choice of law analysis.

employment agreement in Pennsylvania, and worked (and presumably learned some of the details of his employer's operations) in Pennsylvania before his promotion and transfer to Texas a year later.

I decline to follow the holding of Dentsply where the employment agreement (with a choice of law/forum selection provisions) was executed in the beginning of the employment relationship, where there is no showing of coercive conduct on the part of the employer with respect to the signing of the agreement, and where the choice of law is consistent with the employee's place of hire and work, and the location where the agreement was entered. See Spradlin v. Lear Siegler Management Servs. Co., 926 F.2d 861, 867-69 (9th Cir. 1991) (enforcing forum selection clause in an employment contract entered into by employee in beginning of employment relationship).

D. Injunctive Relief

Bruno objects to the Magistrate Judge's findings that BABN has demonstrated a reasonable likelihood of success on the merits, that BABN will suffer irreparable harm, and that the balance of equities lies with BABN. Based on my independent review of the record before the Magistrate Judge, and even considering the affidavit of Cornetet, I find that BABN has sufficiently and credibly established these three elements necessary for injunctive relief.⁸

⁸ To the extent that Bruno does not object to the recommendation of the Magistrate Judge that the restraint does not unduly prejudice the public interest and that the scope of the non-compete agreement is reasonable both in geography and time, and having reviewed the record and applicable law, I adopt the recommendations in full. See Thomas v. Arn, 474 U.S. 140, 149-50 (1985); Henderson v. Carlson, 812 F.2d 874, 878 (3d Cir.), cert. denied, 484 U.S. 837 (1987).

1. Reasonable Likelihood of Success on the Merits

To enforce a noncompetition agreement, the agreement must be (i) ancillary to the taking of employment; (ii) supported by adequate consideration; (iii) reasonably limited in time and geographic scope; and (iv) reasonably designed to protect a legitimate employer interest. National Bus. Servs., Inc. v. Wright, 2 F. Supp.2d 701, 707 (E.D. Pa. 1998); Thermo-Guard, Inc. v. Chochran, 596 A.2d 188, 193-94 (Pa. Super. Ct. 1991). It is the fourth prong which Bruno challenges here. “Pennsylvania cases have recognized that trade secrets of an employer, customer goodwill and specialized training and skills acquired from the employer are all legitimate interests protectible through a general restrictive covenant.” Thermo-Guard, 596 A.2d at 193-94 (citing Morgan’s Home Equip. Corp. v. Martucci, 136 A.2d 838 (1957)); see Volunteer Firemen’s Ins. v. CIGNA Property and Cas. Ins. Agency, 693 A.2d 1330, 1337-38 (Pa. Super. 1997) (finding that insurance company had legitimate protectible interests in confidential information and trade secret data related to its specialized coverages and distribution system). Bruno argues that BABN failed to demonstrate that the information and materials sought to be protected constitute trade secrets or are confidential.

I find that the information and materials sought to be protected through noncompetition agreement constitute confidential information, proprietary interests, and/or trade secrets. Bruno has knowledge of the sequencing of inks and coatings used on BABN lottery tickets, specifically with respect to the numbers of layers of black and white latex coatings. (7/16/98 Tr. at 42 - Bruno’s Testimony). Bruno also has knowledge of how to set up and run the sequence as well as suggest better ways to perform the process. (7/16/98 Tr. at 42 - Bruno’s Testimony). This sequencing process used by BABN was not known by SGI. (7/16/98 Tr. at 44

- Bruno's Testimony). BABN considers information of the number of coatings and sequence by which they are applied in the production of the lottery tickets to be confidential. (7/22/98 Tr. at 30-31, 49-50 - Lambert's Testimony).

Bruno objects to the finding of the Magistrate Judge that the information contained in the proposal to the Texas Lottery Commission is considered "very confidential" by BABN. (R&R at ¶ 14). Bruno argues that this information cannot not be confidential or constitute a trade secret because the Texas Attorney General Office's ruled that BABN's proposal to the Texas lottery should be released and available to the public. (See Supp. Aff. of Cornetet, Ex. D). However, I find that the Texas lottery proposal did not contain all the information considered to be confidential by BABN. It contained an illustration of the sequencing process for foil laminated cardboard ticks and not for other products, such as cardboard and paper tickets. Certain details as to numbers and application of black and white scratch-off layers were omitted in the proposals. More important, the proposal to the Texas lottery, or the other state lotteries, did not reveal Bruno's knowledge of BABN's sequencing strategy. And, finally, the thrust of Bruno's arguments, that Bruno cannot prove that the information it seeks to protect is a trade secret and that the Texas Attorney General's Office declared that the information in the lottery proposal is not a trade secret, misses the point. Pennsylvania cases, such as those cited above, show that (and Bruno has not shown otherwise) legitimate protectible interests enjoy a broad reach and include confidential information despite its lack of status as trade secret.

Thus, I reject the argument of Bruno on the basis that the proposals to the state lotteries did not disclose the full confidential information sought to be protected by BABN

through the noncompete agreement. I conclude that BABN has legitimate business interests underlying the noncompetition agreement, including sequencing and product information.⁹

2. Irreparable Harm

Bruno objects to the Magistrate Judge's conclusion that "it would be nearly impossible for Bruno to set-up and operate SGI's film department without violating his restrictive covenant with BABN." (R&R at 16). Bruno asserts that his willingness not disclose any trade secrets of BABN to SGI Agreement plus his belief that the operations of lottery ticket production between SGI and BABN are fundamentally different diminish any harm to BABN. I have no doubt that Bruno harbors benign intent not to divulge purposefully any confidential information of BABN, but I agree with the Magistrate Judge that it is virtually inconceivable for Bruno to avoid utilizing confidential information (*e.g.*, sequencing strategies) that he learned at BABN. To the extent that there may be differences between the two operations, my agreement with the Magistrate Judge that BABN will suffer irreparable harm is not disturbed. Lambert, director of research and development at BABN, testified that the printing presses and processes used by SGI and BABN are very similar (Tr. 7/22/98 at 54 - Lambert's Testimony). Magistrate Judge Angell found this testimony credible as I do. I will not engage in a detailed point by point comparison of the two systems as it will not change my finding that the production processes between SGI and BABN overlap in some areas, and that Bruno's knowledge of confidential information gained while under the employ of BABN would apply to the production process at SGI.

⁹ Bruno also argues, in a brief paragraph with no case citations, that there has been a failure of proof as to the applicability of the restrictive covenant in Georgia. This argument is unpersuasive in light of my conclusion that the noncompete agreement is reasonable and that the nationwide reach of the covenant should be upheld. See supra footnote 7.

3. Balance of Equities

None of the objections and arguments launched by Bruno that the balance of equities lies in his favor persuade me to part with the Magistrate Judge's findings and recommendations. Bruno, while no doubt will endure significant burdens if unable to work for SGI, he can still seek employment opportunities that will not violate the Confidentiality Agreement. BABN is entitled to the enforcement of its reasonable noncompete agreement, at this stage in the litigation, especially in light of the highly competitive industry of lottery ticket production.

CONCLUSION

Having found that BABN has showed a reasonable likelihood of success on the merits, that BABN will suffer immediate and irreparable harm if Bruno is permitted to work for SGI in operations relating to sequencing of lottery tickets, that the balance of equities lies in favor of BABN, and that enforcing the Confidentiality Agreement is in the public interest, I accept the Report and Recommendation of the Magistrate Judge, with modest modifications, and will order preliminary injunctive relief.

An appropriate Order follows.

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA**

BABN TECHNOLOGIES CORP.,	:	CIVIL ACTION
	:	
Plaintiff,	:	
	:	
v.	:	
	:	
ANTHONY BRUNO,	:	
	:	
Defendant.	:	NO. 98-3409

ORDER

AND NOW, on this 28th day of August, 1998, pursuant to 28 U.S.C. § 636, this Court has considered the Report and Recommendation of the United States Magistrate Judge M. Faith Angell, the objections of defendant Anthony Bruno (“Bruno”) (Document No. 21), and the response of plaintiff BABN Technologies Corporation (“BABN”) thereto, and based upon my independent, *de novo* review of the records and proceedings, and for the reasons articulated in the foregoing memorandum, it is hereby **ORDERED** that:

- (1) the motions of both parties for leave to take expedited discovery are **DISMISSED AS MOOT**;
- (2) the Report and Recommendation is **APPROVED** and **ADOPTED** with modest modifications;
- (3) Defendant's Motion to Dissolve the Temporary Restraining Order (Document No. 10) is **DISMISSED AS MOOT**; and
- (4) Plaintiff's Motion to Continue Temporary Restraining Order is **DISMISSED AS MOOT**;

Having found that BABN has shown a reasonable likelihood of success on the merits, that BABN will suffer irreparable harm if Bruno is permitted to work at Scientific Games Holding Corporation (“SGI”) in the new pre-press operation, that greater injury will be inflicted upon BABN by denying injunctive relief than upon Bruno by granting such relief, and that

enforcing the Confidentiality Agreement entered into by the parties is in the public interest, **IT IS**

FURTHER ORDERED that preliminary injunctive relief is **ENTERED** as follows:

- (1) Bruno is enjoined from working for SGI in its new Film Department;
- (2) Bruno is enjoined from directly or indirectly entering into, or engaging in activities, identical or similar to BABN's with respect to lottery systems, whether as director, officer, employee, shareholder, partner, provider of loans, advisor or otherwise, except with the prior written consent of BABN's Board of Directors, and this in any territory where BABN's activities are carried on or its products or services are offered;
- (3) Bruno is enjoined from disclosing, divulging or revealing BABN's trade secrets, confidential information or proprietary materials; and
- (4) BABN shall file with the Registry of the Court security in the amount of \$20,000.00 pursuant to Federal Rule of Civil Procedure 65(c);

IT IS FURTHER ORDERED that the amended Report and Recommendation is incorporated herein and attached hereto.

IT IS FURTHER ORDERED that the motion to strike the affidavit of Gerald Glenn Cornetet (Document No. 24) is **GRANTED**.

LOWELL A. REED, JR., J.