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BRIEFING ON INFORMATION TECHNOLOGY LAW

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The Georgia Trade Secrets Act and Nondisclosure Covenants in Employment Agreements
Part Three of a Three Part Series²

I. Introduction to Information Protection

Regardless of whether an employee has a written employment agreement, he is barred from using or disclosing outside the employment context information which satisfies the definition of a trade secret under Georgia law. In addition, the employer may require the employee to sign an employment agreement to further protect company information. Such an agreement may contain restrictions on use or disclosure of other confidential information which may not rise to the level of that protected by the Georgia Trade Secrets Act but which is nevertheless important to the employer's business. The employment agreement may also require the employee to return company documents when employment terminates. This article will address each of these information protections in turn.³

II. The Basics of the Georgia Trade Secrets Act

A. What is Protected as a Trade Secret

The Georgia Trade Secrets Act, O.C.G.A. §§ 10-1-760 *et seq.*, provides protection for information which (a) is the subject of efforts to maintain its secrecy and (b) derives its value from the fact that it is not generally known to the public. Trade secrets may be protected indefinitely, so long as they continue to comply with the aforesaid criteria. In addition, if a trade secret becomes generally known through some mechanism which was not the result of action or failure to act by the owner of the trade

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²Part One of this series addressed Noncompete Covenants in employment agreements and Part Two addressed Nonsolicitation Covenants in employment agreements.

³In some instances, the employer may also have available protections under federal copyright law. Such protections are beyond the scope of this article.

secret, statutory protection will remain in place. Examples of trade secrets include computer software, written customer lists, written supplier lists, formulae, compilations, programs, financial data, and product plans.

An employee's skill or general knowledge developed in the course of employment is not subject to trade secret protection. An employee's knowledge of who the employer's customers and suppliers are, or knowledge of unique information regarding those customers and suppliers which is not reduced to written form, is generally not subject to trade secret protection. This type of information will be addressed in Part III below in the discussion of nondisclosure covenants.

B. Protecting Trade Secrets From Disclosure

The information which the employer seeks to protect as a trade secret must be kept secure. For example, information which is kept on a computer should be protected by passwords, with passwords changing frequently. When an employee with password access terminates his employment, his password should be deactivated.

Other helpful protections include obtaining nondisclosure agreements from persons with access to the trade secrets, keeping trade secrets under lock and key, restricting employees with access to the information to those with a "need to know", and giving employees written notice of what information must be kept confidential. When the very core of the employer's business is at stake, even stronger protections may be called for.

C. Protections In the Event of Misappropriation of Trade Secrets

In the event that a trade secret is disclosed or used without the employer's authorization – "misappropriated" - the employer will be entitled to an injunction to prevent further misappropriation of the trade secret. Indeed, injunctive relief may in some instances be had even if the misappropriation is merely threatened, if the court is satisfied that such misappropriation is extremely likely absent an injunction. The injunction may be issued against any person or entity which has obtained unauthorized access to the trade secret.

The party misappropriating the trade secret may also be required to pay a reasonable royalty to the employer, representing a percentage of the income received from the unauthorized use or disclosure of the trade secret. Where a royalty cannot be calculated, compensatory damages equivalent to the trade secret owner's losses from the misappropriation may be awarded instead. In addition, attorney's fees and exemplary damages representing double the royalty or double the compensatory damages may be awarded.

III. Non-Statutory Information Protection

A. The Basics of Nondisclosure/ Anti-Piracy Covenants

1. Purpose

Employers often have a business need to protect information which fails to rise to the level of a trade secret. In such an instance, employees with access to such information may be asked to sign an agreement containing a restriction on the use and disclosure of confidential information and requiring the return of documents containing such information upon termination of employment. Such Nondisclosure Covenants in employment agreements are designed to prevent an employee from either disclosing private information to third parties or using such information outside the context of the employment.

2. Criteria

a. Confidential Information Must Be Clearly Defined.

Typically, an employment agreement will contain two separate provisions to protect information. The first will be a covenant which protects trade secrets. Such a covenant typically incorporates the statutory definition of trade secrets discussed in Part II, and serves the purpose of placing the employee on notice of the existence of trade secrets as well as on notice of the employee's obligations to protect the trade secrets.

The second "information protection" covenant typically found in an employment agreement will be a covenant that protects confidential information which may not satisfy the statutory definition of a trade secret, but which nevertheless needs protection from unauthorized use or disclosure. For example, such a covenant may include customer information which may not be in the form of a customer list protected by the Trade Secrets Act, but which is nevertheless crucial to the employer's business. The Nondisclosure Covenant, or Anti-Piracy Covenant, should specify with particularity the categories of information which are encompassed. It is helpful for counsel to have a detailed understanding of the nature of the information important to the employer's business prior to drafting such a Nondisclosure Covenant, so as to be able to adequately define the information to be protected.

b. Only Employer-Related Information May Be Protected

The Nondisclosure Covenant must be limited in scope to information obtained by the employee in the course of employment, or could be subject to attack for overbreadth.

c. The Covenant Must Have a Reasonable and Finite Term.

A Nondisclosure Covenant protecting non-trade secret information must have a finite term, or it will not be enforceable as to non-trade secret information. (Trade secrets will, however, still be protected by the Georgia Trade Secrets Act.) Typically, the Nondisclosure Covenant should be limited to a duration of two years or less, to ensure enforceability, although Nondisclosure Covenants with longer durations may be enforced if the employer is able to demonstrate that the nature of the confidential information protected

by the Covenant is such that a longer duration is necessary. Since Georgia courts are not authorized to “blue pencil”, or rewrite, Nondisclosure Covenants which have an unenforceably long duration, it is important to restrict the duration of any Nondisclosure Covenant to the length of time which the employer can demonstrate is reasonably necessary to protect its business.

B. Return of Confidential Materials

An employer may include a provision in the employment agreement requiring the employee to return all of the employer’s documents at termination of employment. Such a provision should specify clearly what documents are encompassed thereby. Such a provision will be useful in protecting trade secrets and other confidential information, because it can (1) require the return of documents containing trade secrets and other confidential information, and (2) provide further evidence to a court of efforts to protect trade secrets and confidential information from misappropriation.

C. Enforcement of Nondisclosure Covenants and Covenants Requiring Return of Documents

In the event an enforceable Nondisclosure Covenant or an enforceable Covenant requiring the return of confidential materials is breached, the former employer may seek to enforce these Covenants against both the employee and the employee’s new employer. In particular, the former employer may seek an injunction to prevent the employee from using confidential information or the former employer’s documents on behalf of the new employer and to prevent the employee from disclosing the confidential information to the new employer. In addition, the former employer may seek an award for compensatory damages arising from the violation of the Nondisclosure Covenant and the Covenant requiring return of company documents, with these damages assessable against the employee and, in some circumstances, the new employer.

Evidence of use of confidential information or documents to help form relationships with customers or suppliers on behalf of a new employer may also support a claim that the employee and new employer have tortiously, or improperly, interfered with the former employer’s contractual relationships with customers and suppliers.

About the Firm

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