Mercer Law Review

Volume 60
Number 2 *Articles Edition*

Article 3

3-2009

Protecting Trade Secrets and Confidential Information in Georgia

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Protecting Trade Secrets and Confidential Information in Georgia

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I. INTRODUCTION

To corporate and employment lawyers, it is a familiar conversation.

"I need your advice," says the General Counsel of one of your clients. "About a year ago we hired a new VP of R&D to oversee the development of a new product that we plan to launch next quarter. Unfortunately, just last week he gave us notice of his resignation, effective immediately. During his exit interview, he told our VP of HR that he plans to pursue some 'consulting' work. He was pretty vague about it, but I've since heard through the grapevine that he's planning to work as a consultant for one of our major competitors.

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Mr. Weirich and Mr. Hart gratefully acknowledge the assistance of Paul Hastings associate Camille West, who conducted the preliminary research for this Article as a summer associate in 2007.

Our management team is afraid that he's going to disclose confidential information about our new product before we even launch it. We're also afraid that some of our other top R&D people are going to follow him over there."

"To make things even worse, a few months ago one of our top sales guys left the company and is now working for a different competitor. During the time that he worked for us, he had access to all our confidential customer info. We suspect that he's using some of that info to solicit our customers on behalf of his new employer."

"If we keep losing our top people to our competitors, we just can't stay competitive in this market. *What can we do to ensure that our employees won't use our confidential information to compete against us?*"

New technologies and the emergence of a global economy have moved the United States from a manufacturing-based economy to an information-based economy. These and other economic and social trends also have made employees increasingly mobile. Now, more than ever, it is imperative that employers take appropriate steps to protect their valuable, confidential, and proprietary information *before* its security is threatened. This Article examines vehicles that are available for the protection of such information under Georgia law and gives some practical tips for avoiding common pitfalls.

II. PROTECTING TRADE SECRETS

Many types of confidential information can be protected through agreed-upon restrictive covenants. Information that qualifies as a "trade secret," however, receives a higher level of protection pursuant to the Georgia Trade Secrets Act of 1990 (GTSA).[1] Under the GTSA, employers can obtain both equitable and legal relief for misappropriation of their trade secrets.[2] Nearly identical to the Uniform Trade Secrets Act,[3] the GTSA employs an expansive definition of "trade secrets" that protects many more types of confidential information than those that

1. O.C.G.A. §§ 10-1-760 to -767 (2000).
2. O.C.G.A. §§ 10-1-762 to -764 (2000). In addition, theft of trade secrets can subject a former employee to criminal liability under the GTSA's counterpart criminal statute, O.C.G.A. § 16-8-2 (2007). *See* DuCom v. State, 288 Ga. App. 555, 559, 654 S.E.2d 670, 673-74 (2007) (affirming conviction of former employee under section 16-8-2 for theft of former employer's trade secrets).
3. UNIF. TRADE SECRETS ACT §§ 1-12, 14 U.L.A. 536 (2005).

were previously protected under Georgia common law.[4] Further, the GTSA establishes a carefully articulated enforcement scheme designed to protect such information.[5]

Nevertheless, the statute is not a one-size-fits-all solution for protecting confidential information. To state a claim for relief under the GTSA, a plaintiff must demonstrate both (1) that the confidential information in question constitutes a "trade secret" within the meaning of the statute and (2) that the opposing party misappropriated the trade secret.[6] As discussed below, each prong of this test can be difficult to prove.

A. *Trade Secrets*

The GTSA defines a "trade secret" as the following:

> [I]nformation, without regard to form, including, but not limited to, technical or nontechnical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a drawing, a process, financial data, financial plans, product plans, or a list of actual or potential customers or suppliers which is not commonly known by or available to the public and which information:
> (A) Derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
> (B) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[7]

Although this definition is comparatively expansive, the GTSA's protections are limited in two key ways. First, the GTSA does not

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4. Under the common law as developed by Georgia courts prior to enactment of the GTSA in 1990, confidential information constituted a trade secret if the information represented an idea that was: (1) novel, (2) disclosed to another individual in confidence, and (3) sufficiently concrete in its development to be usable. *See* Morton B. Katz & Assocs. v. Arnold, 175 Ga. App. 278, 280, 333 S.E.2d 115, 117 (1985). Although courts generally deemed formulae, manufacturing processes, and other products of research and development to be trade secrets, they rarely concluded that financial and customer information met this strict standard. *See, e.g.*, Howard Schultz & Assocs. of the Se., Inc. v. Broniec, 239 Ga. 181, 187, 236 S.E.2d 265, 269 (1977) (holding that lists with vendor information were not subject to protection as trade secrets). A trade secret is defined as "'a plan, process, tool, mechanism, or compound, known only to its owner and those of his employees to whom it must be confided in order to apply it to the uses intended.'" *Id.* (quoting Vendo Co. v. Long, 213 Ga. 774, 777, 102 S.E.2d 173, 174-75 (1958)).

5. *See* O.C.G.A. §§ 10-1-762 to -767 (2000).

6. Penalty Kick Mgmt. v. Coca-Cola Co., 318 F.3d 1284, 1290-91 (11th Cir. 2003).

7. O.C.G.A. § 10-1-761(4) (2000).

protect information—no matter how proprietary or confidential—unless the information in question was subject to "reasonable" efforts to maintain its secrecy.[8] Second, the statute does not protect some types of information regardless of the efforts that are undertaken to maintain its secrecy.[9]

1. "Reasonable" Efforts to Maintain Secrecy. Employers cannot prevail on a GTSA claim unless they demonstrate that they used "reasonable" efforts to protect the secrecy of the information in question.[10] Although employers taking appropriate precautions generally can satisfy this standard,[11] in some cases Georgia courts have dismissed misappropriation claims because the employer's efforts to ensure the secrecy of its purported trade secrets were inadequate.[12]

For example, in *Bacon v. Volvo Service Center, Inc.*,[13] an automobile repair company brought a GTSA action against its former employee for misappropriation of a confidential customer list. The employer alleged that its former employee, a repair technician, had, prior to quitting his employment, printed a list of the employer's customers from one of the employer's computers and then subsequently used the list to solicit customers on behalf of a new business that he started after he resigned.[14] The Georgia Court of Appeals determined that the company had not taken adequate precautions to maintain the confidentiality of the customer list because employees were not told that the information in the customer list was confidential, they were not asked to sign a confidentiality agreement, the list was available on two company computers and was not password-protected, and the same information could be gleaned from repair orders that employees were allowed to

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8. *See id.*
9. *See id.*
10. *See id.*
11. *See, e.g.*, *Penalty Kick*, 318 F.3d at 1291-92 (holding that the company took reasonable steps to maintain confidentiality of trade secrets by insisting that the client keep information confidential and requiring the client to enter into nondisclosure agreement); Tronitec, Inc. v. Shealy, 249 Ga. App. 442, 450, 547 S.E.2d 749, 757 (2001) (holding that the company took reasonable steps to maintain confidentiality of equipment it had developed for testing and repairing circuit boards; although the company did not have confidentiality agreements in place and allowed public tours of its facilities, it controlled access to its production floor and schematics and covered the machines when they were in the presence of strangers), *overruled on other grounds by* Williams Gen. Corp. v. Stone, 279 Ga. 428, 429, 614 S.E.2d 758, 760 (2005).
12. *See, e.g.*, Bacon v. Volvo Serv. Ctr., Inc., 266 Ga. App. 543, 597 S.E.2d 440 (2004).
13. 266 Ga. App. 543, 597 S.E.2d 440 (2004).
14. *Id.* at 543-44, 597 S.E.2d at 442-43.

retain indefinitely.[15] Accordingly, the court held that the customer list was not a trade secret under the GTSA.[16]

Likewise, in *Diamond Power International, Inc. v. Clyde Bergemann, Inc.*,[17] a misappropriation action brought by a manufacturer against its competitor and a former employee, the United States District Court for the Northern District of Georgia found that information about the components of one of the manufacturer's products was not a trade secret under the GTSA because the manufacturer failed to take reasonable efforts to maintain the secrecy of that information.[18] The manufacturer required its customers to refrain from opening the product (and, thereby, discovering the components of the product) at risk of voiding the manufacturer's warranty.[19] Nevertheless, the court determined that this step alone was insufficient to confer trade secret protection because the components that made up the product were commercially available and the manufacturer provided an information sheet to customers at their request that included the confidential information.[20] Thus, the court held that although the manufacturer's process or method of manufacturing the product may be subject to protection as a trade secret, the identity of the product's components was not subject to the same protection.[21]

In contrast, in *Stone v. Williams General Corp.*,[22] a former employer sued three of its former salespeople for trade secret misappropriation, alleging that prior to resigning, the employees copied confidential customer lists and later used the lists on behalf of a competing business.[23] The Georgia Court of Appeals held that the employer had taken reasonable steps to ensure the secrecy of the customer lists in

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15. *Id.* at 545, 597 S.E.2d at 443-44.
16. *Id.*, 597 S.E.2d at 444.
17. 370 F. Supp. 2d 1339 (N.D. Ga. 2005).
18. *Id.* at 1347.
19. *Id.* at 1343.
20. *Id.* at 1347.
21. *Id.* at 1347-48; *see also* Servicetrends, Inc. v. Siemens Med. Sys., Inc., 870 F. Supp. 1042, 1073-74 (N.D. Ga. 1994). In *Servicetrends*, the court held that the employer could not maintain a GTSA misappropriation claim against a competitor and a former employee when it had provided confidential technical information in question to both employees and customers. *Id.* at 1074.
22. 266 Ga. App. 608, 597 S.E.2d 456 (2004), *rev'd on other grounds*, 279 Ga. 428, 614 S.E.2d 758 (2005) (holding that the predicate acts necessary to prove a claim under the Georgia civil RICO Act must be established by a preponderance of evidence rather than by clear and convincing evidence and reversing the Georgia Court of Appeals decision with respect to the RICO claim).
23. *Stone*, 266 Ga. App. at 610, 597 S.E.2d at 458.

question.[24] Specifically, the employer had restricted employees' access to the customer lists, prohibited employees from leaving the building with them, and required employees to sign a restrictive covenant agreeing that for a period of one year after their termination or resignation they would not contact any customer whom they had contacted while with the company or give the names of these customers to any other individual or company.[25] Accordingly, the court held that sufficient evidence existed to support a jury's verdict in favor of the employer on the GTSA claim.[26]

As these cases demonstrate, employers cannot adequately protect their confidential and proprietary information merely by passively relying on the protections of the GTSA. Although there is no universal rule about what measures are sufficiently reasonable in all situations, at a minimum employers should restrict access to confidential and proprietary information (through, for example, the use of passwords and locked filing cabinets), should make such information available only to employees who have a legitimate need for the information, and should implement clear policies prohibiting employees from disclosing confidential or proprietary information with which they are entrusted. In addition, employers who are seriously concerned about the use of customer lists and other information that is difficult to secure should require employees to sign restrictive covenants agreeing that they will not disclose such confidential information or engage in specified competitive activities during their employment and for a finite period of time thereafter.[27]

2. Categories of Information that are Outside the Statutory Definition of "Trade Secret." Notwithstanding the broad language of the GTSA, some categories of information simply do not fall within the statutory definition of "trade secret," regardless of the efforts that are undertaken to maintain their secrecy. Among the notable examples of such information are "intangible" customer lists, which have been the

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24. *Id.* at 611, 597 S.E.2d at 459.
25. *Id.* at 609, 597 S.E.2d at 458.
26. *Id.* at 611, 597 S.E.2d at 459; *see also* Elec. Data Sys. Corp. v. Heinemann, 268 Ga. 755, 757, 493 S.E.2d 132, 135-36 (1997) (employer adequately protected secrecy of computer software programs through confidentiality agreements with employees and customers and with security measures at its offices). *But see* Equifax Servs., Inc. v. Examination Mgmt. Servs., Inc., 216 Ga. App. 35, 40, 453 S.E.2d 488, 493 (1994) (holding that the employer's confidentiality agreements with employees were not alone sufficient to ensure nondisclosure of confidential information and, therefore, the employer failed to show that it took reasonable steps to protect information in question).
27. Such restrictive covenants are discussed in greater detail in Part III of this Article.

subject of considerable litigation in Georgia over the past fifteen years. Although the GTSA expressly includes "a list of actual or potential customers or suppliers" in its definition of a trade secret,[28] it is unclear from the language of the statute whether trade secret protection applies not only to tangible customer lists that are written down or maintained in a database but also to the intangible collection of information contained within the list.

Shortly after the GTSA was first enacted, the Georgia Supreme Court addressed this question in *Avnet, Inc. v. Wyle Laboratories, Inc.*,[29] and made a very clear distinction between "handwritten, typed, printed or written information" and information concerning customers that was maintained in the minds of former employees.[30] Relying on the common law distinction between tangible and intangible customer lists that existed prior to enactment of the GTSA, the court held that although the former are protected as trade secrets, the latter are not.[31] Thus, the court pointed out that an employer wanting to protect intangible customer lists "must secure a non-competition restrictive covenant from his employees."[32]

Subsequent to *Avnet*, the Georgia General Assembly amended the GTSA in 1996 to add the phrase "without regard to form" to the GTSA's definition of trade secret.[33] At the time of the amendment, it was uncertain whether this new language would be interpreted to legislatively overrule the *Avnet* distinction between tangible and intangible customer lists.[34] The overwhelming majority of courts that have addressed the issue, however, have held that the 1996 amendments do *not* change the state of the law in Georgia and that intangible information about customers is still not subject to protection under the GTSA.[35]

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28. O.C.G.A. § 10-1-761(4).

29. 263 Ga. 615, 437 S.E.2d 302 (1993).

30. *Id.* at 618-19, 437 S.E.2d at 304-05.

31. *Id.*

32. *Id.* at 619, 437 S.E.2d at 305.

33. *See* 1996 Ga. Laws 894, 895 (codified at O.C.G.A. § 10-1-761(4)).

34. *See generally* C. Geoffrey Weirich & James R. Glenister, *The New Amendment To The Georgia Trade Secrets Act*, 2 GA. B.J. 24 (1996).

35. *See* Manuel v. Convergys Corp., 430 F.3d 1132, 1140-41 (11th Cir. 2005) (employee's personal knowledge of customer and business information did not constitute trade secret under the GTSA); AmeriGas Propane, LP v. T-Bo Propane, Inc., 972 F. Supp. 685, 697-98 (S.D. Ga. 1997) (stating that the 1996 amendments to the GTSA do not alter the *Avnet* distinction between lists containing customer information and former employee's knowledge of customer information); *Tronitec*, 249 Ga. App. at 446, 547 S.E.2d at 754 (2001) (explaining that the GTSA maintains the common law distinction between employer's customer lists and an employee's knowledge of customer information); Allen v. Hub Cap Heaven, Inc., 225 Ga. App. 533, 536, 484 S.E.2d 259, 263 (1997) (holding that only tangible

Thus, employers can only rely on the GTSA for protection of customer information when it is reduced to tangible form; employers who want to preclude employees from using their personal knowledge of customer information must rely instead on restrictive covenants.[36]

B. *Misappropriation*

Like its definition of "trade secret," the GTSA's definition of "misappropriation" is expansive. Specifically, "misappropriation" is defined under the statute as the following:

> (A) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means;[[37]] or
> (B) Disclosure or use of a trade secret of another without express or implied consent by a person who:
> (i) Used improper means to acquire knowledge of a trade secret;

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lists of customers and suppliers warrant protection as trade secrets; utilization of personal knowledge may be forbidden through use of restrictive covenants but not under the GTSA). *But see* Variable Annuity Life Ins. Co. v. Joiner, 454 F. Supp. 2d 1297, 1303-04 (S.D. Ga. 2006) (stating that customer information in both tangible form, such as existed in former employees' day planners, and in intangible form, such as existed in former employees' personal knowledge, was subject to protection as a trade secret).

36. Of course, if there is evidence that a former employee actually used an appropriately protected tangible customer list to contact customers (rather than merely contacting them using his or her own memory), an employer can obtain relief under the GTSA. *See, e.g.*, DeGiorgio v. Megabyte Int'l, Inc., 266 Ga. 539, 539, 468 S.E.2d 367, 368 (1996) (affirming trial court's interlocutory injunction against former employee who misappropriated customer and vendor lists from former employer but holding that the trial court improperly enjoined contact with all of employer's customers and vendors because the order effectively enjoined the employee from utilizing his personal knowledge of customer and vendor information); Hilb, Rogal & Hamilton Co. of Atlanta, Inc. v. Holley, 284 Ga. App. 591, 597, 644 S.E.2d 862, 867 (2007) (affirming denial of motion for summary judgment to the defendant/employee on the plaintiff/employer's trade secrets misappropriation claim; the evidence was sufficient to create a genuine issue of material fact about whether the employee misappropriated trade secrets because the record showed that upon resigning employment, the employee took an electronic organizer that contained confidential contact information regarding the employer's customers and then used the information in the organizer to contact customers after his resignation). *But see* Morgan Stanley DW, Inc. v. Frisby, 163 F. Supp. 2d 1371, 1378-79 (N.D. Ga. 2001) (denying a temporary restraining order against former employees who allegedly misappropriated the employer's client lists; the securities brokerage firm's client lists were not trade secrets because according to the standard and customary practices of the securities industry, client lists are not proprietary to a brokerage firm).

37. O.C.G.A. § 10-1-761(2)(A) (2000). "Improper means" is defined by the statute as including "theft, bribery, misrepresentation, breach or inducement of a breach of a confidential relationship or other duty to maintain secrecy or limit use, or espionage through electronic or other means." O.C.G.A. § 10-1-761(1) (2000).

(ii) At the time of disclosure or use, knew or had reason to know that knowledge of the trade secret was:
(I) Derived from or through a person who had utilized improper means to acquire it;
(II) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
(III) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
(iii) Before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.[38]

This expansive definition is broad enough to create a cause of action against both a former employee who discloses information constituting a trade secret and a competitor who receives the information from the former employee.[39] Nevertheless, establishing misappropriation under the GTSA can be just as difficult as establishing the existence of a trade secret. Indeed, proving that a misappropriation actually occurred often requires time-consuming and costly discovery and, as one would expect, is often the most difficult evidentiary hurdle to overcome in a GTSA misappropriation case.

Although not an employment-related case, the decision of the United States Court of Appeals for the Eleventh Circuit in *Penalty Kick Management v. Coca-Cola Co.*[40] illustrates the difficulty that plaintiffs may encounter in proving that a misappropriation actually occurred. A company called Penalty Kick Management (PKM) pitched a marketing idea to the Coca-Cola Company (Coca-Cola) that involved the use of a scrambled message on the inside of a beverage container that could be decoded and read only after the container was emptied. During meetings between PKM and Coca-Cola, PKM's representatives insisted that information about the concept was to remain confidential, and the parties executed an agreement not to disclose any confidential information shared during their discussions to any third party. Negotiations

38. O.C.G.A. § 10-1-761(2)(B) (2000).

39. *See generally* Essex Group, Inc. v. Southwire Co., 269 Ga. 553, 501 S.E.2d 501 (1998) (affirming a permanent injunction prohibiting a former employee from disclosing an employer's trade secrets to a competitor and a permanent injunction prohibiting a competitor from hiring the former employee for five years). *But see Equifax Servs., Inc.*, 216 Ga. App. at 40-41, 453 S.E.2d at 493-94 (holding that a competitor was not liable for conspiring to misappropriate trade secrets when although it was undisputed that former employees took and used their former employer's confidential information after going to work for the competitor, the competitor was an unwitting beneficiary of the former employees' actions and expressly told the former employees that they were to take nothing with them from their former employer).

40. 318 F.3d 1284 (11th Cir. 2003).

eventually broke down, and Coca-Cola hired a different company, ITW-Autosleeve (ITW), to develop a bottle label for a promotion. Perceiving ITW's final product to be strikingly similar to the concept that it had pitched to Coca-Cola, PKM filed a GTSA action against Coca-Cola in federal court, alleging that Coca-Cola had unlawfully misappropriated its concept. After extensive discovery, the federal district court granted summary judgment to Coca-Cola, finding that although PKM's concept was a trade secret, PKM failed to show that Coca-Cola had misappropriated the concept.[41]

On appeal, the Eleventh Circuit affirmed the district court's grant of summary judgment to Coca-Cola.[42] Notwithstanding the similarity between PKM's concept and the final product created for Coca-Cola by ITW, the Eleventh Circuit held that PKM failed to prove that Coca-Cola had misappropriated PKM's trade secrets when it employed ITW to develop the bottle label.[43] The court observed that in order to prove a misappropriation occurred, a GTSA plaintiff must show that the defendant (1) disclosed information that enabled a third party to learn the trade secret or (2) used a "substantial portion" of the plaintiff's trade secret to create an improvement or modification that is "'substantially derived' from the plaintiff's trade secret."[44] Such a showing, the court held, was absent in the case.[45] It was not enough for PKM to prove that it possessed a trade secret that was confidentially revealed to Coca-Cola and that Coca-Cola later employed a marketing tool, which was similar to the plaintiff's, without compensation to PKM.[46] In the court's view, this similarity did not constitute a misappropriation in the absence of concrete evidence that Coca-Cola's product was derived from PKM's trade secret.[47]

As *Penalty Kick* demonstrates, plaintiffs seeking to establish a claim of misappropriation under the GTSA have a difficult evidentiary burden to meet. In the employment context, it may be difficult to obtain evidence that a former employee is disclosing trade secrets to a competitor even if it is clear that the former employee has been hired by the competitor or has established a competing business.[48] An employer

41. *Id.* at 1286-90.
42. *Id.* at 1286.
43. *Id.* at 1295-96.
44. *Id.* at 1293.
45. *Id.* at 1296.
46. *Id.* at 1295-96.
47. *Id.* at 1296.
48. *See, e.g.*, Kitfield v. Henderson, Black & Greene, 231 Ga. App. 130, 130, 134, 498 S.E.2d 537, 539, 542 (1998) (affirming summary judgment to a former employee on the former employer's trade secrets misappropriation claim when, although it was undisputed

does not necessarily have to offer conclusive proof of misappropriation to obtain relief under the GTSA, particularly on an application for a temporary restraining order (TRO) or interlocutory injunction, which is intended merely to preserve the status quo of the parties pending a final adjudication of the case.[49] Nevertheless, to obtain a final judgment in its favor, the employer must present sufficient evidence by which a reasonable finder of fact could conclude that a misappropriation of its trade secrets actually occurred.[50]

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that the former employee established a competing business after termination of his employment with his former employer, the former employer failed to show that the information in question was a trade secret and failed to show that the former employee otherwise misappropriated its trade secrets).

49. *See, e.g.*, *DeGiorgio*, 266 Ga. at 539, 468 S.E.2d at 368-69 (affirming the trial court's grant of an interlocutory injunction against a competitor and former employee of plaintiff, but remanding to the trial court because the injunction was overly broad in its terms; the trial court had before it some evidence that the competitor and former employee misappropriated customer and vendor lists belonging to the plaintiff: the plaintiff showed that it could not find the customer list at the former employee's desk after he went to work for the competitor and also showed that it found a fax with a list of its vendors that apparently was sent to the president of the competitor by the former employee); Am. Bldgs. Co. v. Pascoe Bldg. Sys., Inc., 260 Ga. 346, 348-49, 392 S.E.2d 860, 863-64 (1990) (affirming grant of a TRO and an interlocutory injunction prohibiting a competitor from hiring the plaintiff's employees when the plaintiff alleged that its former employees could use its confidential information if hired by a competitor; the trial court did not abuse its discretion in granting an interlocutory injunction against the competitor even though there was conflicting evidence on whether the information in question constituted trade secrets). *But see* BEA Sys., Inc. v. WebMethods, Inc., 265 Ga. App. 503, 509-10, 595 S.E.2d 87, 91-93 (2004) (holding that the trial court abused its discretion in issuing an interlocutory injunction against both a competitor and a former employee of the plaintiff who was hired by the competitor and who allegedly misappropriated the plaintiff's trade secrets because, although the former employee was properly made a party to the action, the competitor had not been made a party to the injunctive action and the trial court had not determined whether the competitor acted in concert with the former employee). A TRO differs from an interlocutory injunction in that a TRO can be granted without a hearing but generally can last no longer than thirty days. *See* O.C.G.A. § 9-11-65 (2006). Once a TRO is ordered, the party that obtains the TRO must proceed with an application for an interlocutory injunction, which can be issued only upon notice to the adverse party and a hearing. *Id.*

50. *See, e.g.*, Capital Asset Research Corp. v. Finnegan, 160 F.3d 683, 685-87 (11th Cir. 1998) (reversing a final judgment for the plaintiff in a GTSA misappropriation action against a former employee and a competitor that hired the employee because there was insufficient evidence in the record to show that the misappropriation had occurred; although the plaintiff alleged that the former employee had misappropriated a computer diskette containing information that constituted a trade secret, no diskette was ever introduced in evidence and the plaintiff failed to show that the former employee and competitor otherwise made use of the confidential information at issue); Stargate Software Int'l, Inc. v. Rumph, 224 Ga. App. 873, 877, 482 S.E.2d 498, 502 (1997) (affirming summary judgment on the plaintiff's trade secrets misappropriation claim in favor of the competitor, the competitor's president, and former employees of the plaintiff; although the plaintiff

Thus, although the GTSA is a valuable tool for employers who seek to protect their confidential and proprietary information, it is not the only or even the most effective tool for doing so. As discussed below, employers should consider using restrictive covenants to supplement the protections provided by the GTSA.

III. UTILIZING RESTRICTIVE COVENANTS

Another legal option employers may use to protect themselves from illicit behavior by former employees is the restrictive covenant, which includes covenants not to compete, covenants not to solicit customers, covenants not to recruit employees, and covenants not to disclose confidential information. When used correctly, restrictive covenants can enable employers to protect their confidential and proprietary information.

There are many reasons for employers to rely on the contractual protections afforded by restrictive covenants. The use of restrictive covenants—particularly nondisclosure covenants—can provide additional evidence that an employer took reasonable measures to safeguard the secrecy of its proprietary information, as is required to establish trade secret status under the GTSA. In addition, restrictive covenants can be used to protect confidential information that does not constitute a trade secret. Moreover, it is often easier for employers to prove that their former employee violated a restrictive covenant than it is to prove that the individual misappropriated trade secrets within the meaning of the GTSA.

Nevertheless, restrictive covenants are subject to certain limitations. First, under the Georgia Constitution, contracts that have the effect of defeating or lessening competition are "unlawful and void."[51] Because

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alleged that the defendants disclosed its computer source code and that the source code was a trade secret, the plaintiff pointed to no evidence of such misappropriation). *But see Elec. Data Sys.*, 268 Ga. at 757, 493 S.E.2d at 135-36 (affirming a jury verdict in favor of the plaintiff on a GTSA misappropriation claim against former employees and the employees' new company when the plaintiff demonstrated that after starting a new company, the former employees launched competing products that worked the same as the plaintiff's products and that although the plaintiff had invested more than a year developing its product, the former employees had developed an operational version of their product within less than five months after starting a competing business; based on this evidence, the jury reasonably could conclude that misappropriation had occurred, notwithstanding the former employees' testimony that they developed their product from scratch after leaving employment with the plaintiff).

51. GA. CONST. art. III, § 6, para. 5(c). "The General Assembly shall not have the power to authorize any contract or agreement which may have the effect of or which is intended to have the effect of defeating or lessening competition, or encouraging a

restrictive covenants are considered to be a partial restraint on trade, Georgia courts do not uphold restrictive covenants unless, as a matter of law, they are deemed reasonable.[52] Second, unlike courts in some other states, Georgia courts cannot use the so-called blue pencil method of modifying restrictive covenants in the employment context to the extent necessary to make them enforceable.[53] Third, Georgia courts refuse to apply choice-of-law provisions if application of the chosen law would contravene Georgia's public policy regarding restrictive covenants.[54] Thus, even if a restrictive covenant is consistent with the law of another jurisdiction, it may be unenforceable in Georgia, notwithstanding the parties' agreement to apply the other jurisdiction's law to the restrictive covenant.[55] As discussed below, in the face of these limitations, employers must exercise great caution when formulating restrictive covenants that their employees will be required to sign.

A. *The Reasonableness Test*

Whether a particular restrictive covenant is reasonable—and, therefore, enforceable under Georgia law—is a question of law that is determined in light of the surrounding circumstances.[56] Georgia courts require the restrictive covenant to be reasonably limited as to temporal scope, geographic scope, and the scope of the activity that is restricted by the covenant.[57] Although this inquiry is highly fact-specific, there

monopoly, which are hereby declared to be unlawful and void." *Id.*

52. *See, e.g.*, Swartz Invs., LLC v. Vion Pharms., Inc., 252 Ga. App. 365, 367, 556 S.E.2d 460, 462 (2001) (stating that a restrictive covenant will be upheld only if the restraint imposed by a covenant is reasonable, founded on valuable consideration, reasonably necessary to protect the interests of the party in whose favor it is imposed, and does not unduly prejudice interests of public).

53. *See, e.g.*, Advance Tech. Consultants, Inc. v. RoadTrac, LLC, 250 Ga. App. 317, 320, 551 S.E.2d 735, 737 (2001) ("Georgia does not employ the 'blue pencil' doctrine of severability.") (citing Uni-Worth Enter., Inc. v. Wilson, 244 Ga. 636, 640, 261 S.E.2d 572, 575 (1979)). Note, however, that restrictive covenants that are ancillary to the sale of a business (rather than ancillary to an employment contract) may be "blue-penciled" so that they conform to applicable legal restrictions. *Id.* at 319, 551 S.E.2d at 736.

54. *See, e.g.*, Hulcher Servs., Inc. v. R.J. Corman R.R. Co., 247 Ga. App. 486, 489, 543 S.E.2d 461, 465 (2000) (rejecting a Texas choice-of-law provision because the Texas law on restrictive covenants "flagrantly contravenes the public policy of Georgia in this regard").

55. *See, e.g.*, Hostetler v. Answerthink, Inc., 267 Ga. App. 325, 328, 599 S.E.2d 271, 274-75 (2004) (invalidating a nonsolicitation agreement with a Florida choice-of-law provision because, although the agreement was consistent with Florida law, it was not enforceable under Georgia law).

56. *E.g., Swartz Invs.*, 252 Ga. App. at 370, 556 S.E.2d at 464.

57. *E.g., Hulcher Servs.*, 247 Ga. App. at 491, 543 S.E.2d at 466.

are a few generally applicable considerations that employers should keep in mind with respect to each of these criteria.

1. Scope of Geographic Restrictions. Generally, the geographic scope of a restrictive covenant is reasonable only if it is necessary to protect a legitimate business interest.[58] For example, a covenant not to compete that includes territory where the former employee did not perform work for the employer is "overly broad on its face" and will not be upheld "absent [a] strong justification," even if the employer does business throughout the restricted territory.[59] Employers, therefore, must take care to limit noncompete agreements to a geographic territory that is no broader than the area in which the employee performs his responsibilities for the employer, although the restricted territory need not be "precisely congruent" with the area in which the employee actually worked at the time of his or her termination or resignation.[60]

The territory, moreover, must be articulated in such a manner that the employee can comprehend the parameters of the restriction in advance. It is not sufficient for a noncompete agreement to vaguely state that an employee may not compete against his or her employer within any territory where the employee worked during the period of his or her employment.[61] Such territorial limitations that cannot be determined until the time of the employee's termination are improperly vague and, therefore, unenforceable.[62] Notwithstanding these restrictions on the territorial limitation of noncompete covenants, Georgia courts will

58. *See, e.g.,* Beacon Sec. Tech., Inc. v. Beasley, 286 Ga. App. 11, 12-13, 648 S.E.2d 440, 442 (2007) (holding that an eight-county noncompete agreement was overbroad and unenforceable because restrictions in the agreement went further than necessary to achieve the employer's legitimate business interests).

59. *Hulcher Servs.*, 247 Ga. App. at 491, 543 S.E.2d at 466 (holding that a noncompete agreement covering Georgia, Florida, Illinois, Ohio, and Tennessee was unreasonable when the restricted area exceeded the area within which the employee worked for the employer even though the employer conducted business throughout the territory).

60. *See* Habif, Arogeti & Wynne, P.C. v. Baggett, 231 Ga. App. 289, 293, 498 S.E.2d 346, 351 (1998) ("The law does not require exact precision; it forbids unreasonably broad territorial coverage.") (quoting Sysco Food Servs. of Atlanta, Inc. v. Chupp, 225 Ga. App. 584, 586-87, 484 S.E.2d 323, 325-26 (1997)).

61. Szomjassy v. OHM Corp., 132 F. Supp. 2d 1041, 1049-50 (N.D. Ga. 2001) (finding that a restrictive covenant was unenforceable because it purported to preclude the employee from competing in a geographic territory that included "any territory added during the 'Period of Employment'"; the employee could not determine the extent of prohibition with any certainty at the time he signed the agreement).

62. *Id.; see also* Kuehn v. Selton & Assocs., Inc., 242 Ga. App. 662, 664, 530 S.E.2d 787, 789-90 (2000) (holding that a noncompete agreement was unenforceable when the affected territory was not specified).

uphold an agreement not to disclose confidential information even if it lacks a geographic restriction.[63]

Customer nonsolicitation agreements must have either a clear territorial delineation or a limitation to customers with whom the employee had contact, or both. Thus, Georgia courts will uphold a customer nonsolicitation agreement that does not have a geographic restriction, but *only* if the agreement is limited to solicitation of customers with whom a former employee had actual contact during his or her employment with the employer.[64] Conversely, when there is a clearly articulated territorial limitation that is consistent with the former employee's working territory, the covenant need not be limited to customers with whom the employee had actual contact.[65] A customer nonsolicitation agreement is not enforceable, however, if it both lacks a geographic restriction and applies to customers with whom a former employee had no contact during his or her employment.[66]

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63. *See* Sunstates Refrigerated Servs., Inc. v. Griffin, 215 Ga. App. 61, 63, 449 S.E.2d 858, 860 (1994) ("'Unlike general noncompetition provisions, . . . specific nondisclosure clauses bear no relation to territorial limitations and their reasonableness turns on factors of time and the nature of the business interests sought to be protected.'") (ellipsis in original) (quoting Durham v. Stand-By Labor of Ga., Inc., 230 Ga. 558, 563, 198 S.E.2d 145, 149 (1973)). However, as discussed in greater detail below, an agreement not to disclose confidential information that is not a trade secret must have a reasonable temporal limitation. *See infra* Part III.A.3.

64. *See* W.R. Grace & Co. v. Mouyal, 262 Ga. 464, 467, 422 S.E.2d 529, 533 (1992) ("[W]here the former employee is prohibited from post-employment solicitation of employer customers which the employee contacted during his tenure with the employer, there is no need for a territorial restriction expressed in geographic terms.") (footnote omitted).

65. *E.g.*, Chaichimansour v. Pets Are People Too, No. 2, Inc., 226 Ga. App. 69, 71, 485 S.E.2d 248, 250 (1997) (noting that when a territorial term is strictly limited, Georgia courts enforce restrictive covenants that preclude competition even with respect to clients with whom the employee had *no* contact while working for the employer).

66. *See Advance Tech. Consultants*, 250 Ga. App. at 322, 551 S.E.2d at 738-39 (holding that a nonsolicitation agreement was overbroad when it prohibited an employee from soliciting any of the employer's customers or clients in a two-year period and did not include a geographic limitation). In one recent noteworthy decision, a three-judge panel of the Georgia Court of Appeals arguably expanded this rule by invalidating a nonsolicitation provision that prevented an employee from soliciting "[c]ustomers of Employer with whom Employee had contact (whether personally, telephonically, or through written or electronic correspondence) during the three (3) year period immediately preceding the [employee's] Separation Date *or about whom Employee had confidential or proprietary information because of his/her position with Employer*." Trujillo v. Great S. Equip. Sales, LLC, 289 Ga. App. 474, 476-77, 657 S.E.2d 581, 584 (2008). The court reasoned that the last clause of the provision ("about whom Employee had confidential or proprietary information because of his/her position with Employer") made the nonsolicitation provision unenforceable because the clause was not limited merely to those customers with whom the employee actually had contact. *Id.* at 477, 657 S.E.2d at 584.

The cases are somewhat unclear on whether a covenant not to recruit employees must be limited to employees within a particular geographic territory or to employees with whom the former employee had contact during his or her employment. Most courts addressing the issue have upheld nonrecruit covenants notwithstanding the lack of any geographic restriction when the covenant merely prohibits a former employee from recruiting the employer's present employees.[67] Notwithstanding these cases, a handful of courts in Georgia have held that nonrecruit covenants must be limited to a specific geographic territory or to employees with whom the former employee had contact.[68] Courts in other jurisdictions have followed a similar approach.[69] Thus, although the weight of Georgia authority supports the view that nonrecruit covenants need not be limited to a particular geographic territory,[70] cautious employers

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67. *See* Harrison v. Sarah Coventry, Inc., 228 Ga. 169, 170, 184 S.E.2d 448, 449 (1971) (upholding a nonrecruitment covenant that prohibited former employee from "solicit[ing] or in any manner attempt[ing] to induce [the employer's] salespeople or employees to leave the company" for period of two years, despite absence of territorial limitation); Sanford v. RDA Consultants Ltd., 244 Ga. App. 308, 309, 535 S.E.2d 321, 323 (2000) (enforcing a nonrecruitment clause prohibiting a former employee, for period of one year, from "attempt[ing] to employ or assist any other person in employing or soliciting for employment any employee employed by [the employer]"); Lane Co. v. Taylor, 174 Ga. App. 356, 360, 330 S.E.2d 112, 117 (1985) (holding that the trial court erred in granting summary judgment to a former employee on an employer's claim for breach of covenant when the covenant provided that the employee would not "hire or attempt to hire for another employer any employee of Employer or directly or indirectly cause any such employee to leave his employment in order to work for another").

68. *See* Capricorn Sys., Inc. v. Pednekar, 248 Ga. App. 424, 427, 546 S.E.2d 554, 558 (2001) (noting that because the restrictive covenant "had no definite geographic area limitations as to competition, solicitation of clients, or *recruiting of employees*," the covenant was unenforceable for being overbroad) (emphasis added); *Hulcher Servs.*, 247 Ga. App. at 492, 543 S.E.2d at 467 (holding that a customer and employee nonsolicitation covenant was unenforceable because "there [was] no restriction as to territory so that the restriction applies to all of North America, which is unreasonable because [the employee] had no contact with customers *or employees* outside his work area sufficient to establish a relationship with them") (emphasis added); *see also* MacGinnitie v. Hobbs Group, LLC, 420 F.3d 1234, 1238, 1242 (11th Cir. 2005) (citing *Hulcher* to hold that a restrictive covenant that prohibited a former employee from "[d]irectly or indirectly solicit[ing] for employment any person who is an employee of [employer]" was unenforceable under Georgia law; the provision impermissibly set no geographic or relationship restrictions but rather prohibited a former employee from soliciting any of the employer's employees regardless of place or prior relationship with the employee) (first alteration in original).

69. *See, e.g.*, Cap Gemini Am., Inc. v. Judd, 597 N.E.2d 1272, 1287 (Ind. Ct. App. 1992) (applying California law to invalidate an employee nonsolicitation clause that did not have reasonable geographic limitations; the covenant purported to restrict the former employee, who worked primarily in California, from soliciting employees in Indiana).

70. The *Capricorn* line of cases appears to be an aberration, particularly in light of the Georgia Supreme Court's contrary holding in *Harrison*. Indeed, in a handful of recent

should consider limiting nonrecruit covenants to employees within a particular geographic area or those with whom the restricted employee had contact during the course of his or her employment.

2. Scope of Restricted Activity. Just as a restrictive covenant is usually deemed unlawfully overbroad if it prohibits an employee from competing in a geographic territory beyond that in which he or she actually performed work for the employer, a covenant is also generally overbroad and unenforceable if it purports to prohibit a former employee from participating in activities other than those that he or she performed for the employer. For example, Georgia courts have invalidated restrictive covenants that purport to preclude a former employee from working for a competitor in *any* capacity (rather than merely in the capacity in which the employee worked for the employer).[71] The courts have held that such restrictions violate public policy because they hinder competition and are much broader than necessary to protect the legitimate interests of the employer.[72]

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decisions, Georgia courts—including a panel of the Georgia Court of Appeals that included one of the judges who decided *Capricorn*—have attempted to explain this anomaly by concluding that the decision in *Capricorn* involved a restrictive covenant that also included obligations regarding customer nonsolicitation and, therefore, that the covenant at issue in that case was unenforceable because it was broader than just an employee nonsolicitation agreement. *See* Palmer & Cay of Ga., Inc. v. Lockton Cos., 273 Ga. App. 511, 515, 615 S.E.2d 752, 756-57 (2005) (distinguishing *Capricorn* and upholding an employee nonrecruit covenant that lacked geographic restriction and prohibited solicitation of employees whom former employees never met), *rev'd on other grounds*, 280 Ga. 479, 629 S.E.2d 800 (2006) (reversing the Georgia Court of Appeals decision with respect to the customer nonsolicitation provision but not addressing the employee nonsolicitation provision); Celtic Maint. Servs., Inc. v. Garrett Aviation Servs., LLC, No. CV 106-177, 2007 WL 4557775, at *1, *5, nn.8 & 10 (S.D. Ga. Dec. 21, 2007) (distinguishing *Capricorn* and upholding a covenant in contract between two companies for outsourcing of maintenance work that prohibited parties from "directly or indirectly, solicit[ing], hir[ing], or contract[ing] for services with, any person employed by the other party"; the court noted the existence of other authorities upholding employee nonsolicitation provisions in employment agreements notwithstanding the absence of geographic limitation). Thus, although the decision in *Capricorn* has not been expressly overruled, Georgia courts generally have not followed the suggestion in *Capricorn* that employee nonsolicitation covenants are overbroad if they lack a geographic limitation.

71. *See, e.g.*, Stultz v. Safety & Compliance Mgmt., Inc., 285 Ga. App. 799, 802, 648 S.E.2d 129, 132 (2007) (holding that a noncompete agreement was overbroad when the agreement purported to prohibit the employee from competing "in any area of business conducted by [the employer]"); *Hulcher Servs.*, 247 Ga. App. at 492, 543 S.E.2d at 467 (invalidating a noncompete agreement that prohibited a former employee from "owning, managing, operating, controlling, being employed or connected with in any capacity any business" similar to that of former employer).

72. *See Hulcher Servs.*, 247 Ga. App. at 492, 543 S.E.2d at 467.

This consideration regarding the scope of the restricted activity applies to both covenants not to compete and covenants not to solicit customers. Customer nonsolicitation agreements are unenforceable if they purport to restrict a former employee from doing any business whatsoever with his or her former employer's customer.[73] Although a nonsolicitation agreement may preclude a former employee from actively soliciting the employer's customers, it may not preclude the employee from accepting unsolicited business from those customers.[74] Rather, the nonsolicitation provision must be limited to prohibiting affirmative action on the part of the employee to solicit the business of the employer's customers.[75]

3. Scope of Temporal Restriction. The duration of a restrictive covenant also must be limited to a time period necessary to protect the employer's legitimate interest so that a covenant is not used simply as a means to prevent competition. Georgia courts have held restrictive covenants unenforceable when the covenant's temporal duration is not clearly expressed in the agreement. For example, in *Kuehn v. Selton & Associates, Inc.*,[76] the Georgia Court of Appeals considered a noncompete agreement between a commercial real estate agent and his employer.[77] In that case, the noncompete agreement at issue purported to prohibit the employee from engaging in competitive activity for as long as a third party tenant of a commercial property (for whom the agent had negotiated a commercial lease agreement) "remains in the

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73. *See Baggett*, 231 Ga. App. at 295-96, 498 S.E.2d at 353 (holding that although a noncompete agreement may preclude an employee from accepting related business from an employer's customers, a nonsolicitation agreement may only preclude an employee from soliciting business from customers; a nonsolicitation agreement may not preclude an employee from accepting unsolicited business).

74. *Id.* at 296, 498 S.E.2d at 353; *see also* Hilb, Rogal & Hamilton Co. of Atlanta v. Holley, 284 Ga. App. 591, 596, 644 S.E.2d 862, 866 (2007) (holding that a restrictive covenant that precluded an employee from "accepting an entreaty" from known or prospective customers was overbroad and unenforceable).

75. *See* Akron Pest Control v. Radar Exterminating Co., 216 Ga. App. 495, 497, 455 S.E.2d 601, 603 (1995) (holding that a former employee did not violate a customer nonsolicitation provision merely by accepting business from an employer's customers; violation of the covenant "would require some affirmative action on [the employee's] part that could be considered a solicitation in the broadest possible sense"); *see also* Whimsical Expressions, Inc. v. Brown, 275 Ga. App. 420, 423, 620 S.E.2d 635, 638 (2005) (affirming that an employer could not show that a former employee violated a nonsolicitation provision when although the former employee did work for the employer's clients following termination of his employment, clients came to him).

76. 242 Ga. App. 662, 530 S.E.2d 787 (2000).

77. *See id.* at 662, 530 S.E.2d at 788-89.

building or project."[78] The court noted that the temporal duration of the covenant could not be determined from the contract since there was no way of determining how long the tenant would remain in the building leased by the employer.[79] Accordingly, the court held that the covenant was unenforceable.[80]

Even when a restrictive covenant clearly specifies a temporal limitation, the covenant will not be enforceable in Georgia if the temporal limitation exceeds the amount of time that a court determines is reasonable under the circumstances.[81] Generally, restrictive covenants of one to two years in duration have been considered reasonable by Georgia courts.[82] Nevertheless, because the reasonableness of a temporal limitation depends on the individual facts of each case, Georgia courts have on occasion invalidated restrictive covenants lasting two years or less.[83] Therefore, when drafting restrictive covenants employ-

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78. *Id.* at 663, 530 S.E.2d at 789.

79. *Id.* at 664, 530 S.E.2d at 789-90.

80. *Id.*, 530 S.E.2d at 790.

81. *See, e.g.*, *Swartz Invs.*, 252 Ga. App. at 370, 556 S.E.2d at 464-65 (holding that a five-year noncompete agreement was unenforceable).

82. *See, e.g.*, *Baggett*, 231 Ga. App. at 292, 297, 498 S.E.2d at 351, 354 (noting that a two-year duration for noncompete and nonsolicit covenants is often considered reasonable and upholding the same); *Griffin*, 215 Ga. App. at 63, 449 S.E.2d at 860-61 (upholding a two-year nonsolicitation agreement); U3S Corp. of Am. v. Parker, 202 Ga. App. 374, 378, 414 S.E.2d 513, 517 (1991) (upholding a two-year nonsolicitation agreement).

83. In a handful of reported cases, Georgia courts have held that two-year noncompete covenants were overbroad because at the time the employment of the individual subject to the restrictive covenant ended, he or she was not performing services for the employer in the geographic territory covered by the restrictive covenant. *See* Lighting Galleries, Inc. v. Drummond, 247 Ga. App. 124, 126-27, 543 S.E.2d 419, 421 (2000) (holding that a two-year noncompete agreement was unenforceable because the employee had not worked in a restricted territory for approximately one year before he left employment; given his long absence from area, it was unreasonable to impose the full two-year restriction); *cf.* Orkin Exterminating Co. v. Walker, 251 Ga. 536, 538, 307 S.E.2d 914, 916-17 (1983) (affirming that a noncompete agreement prohibiting an employee from competing in the Augusta area for two years following termination of employment was overbroad and unenforceable because the employee could be reassigned to a different territory before termination and the covenant could theoretically apply years after he performed work for the employer in the Augusta area). Although no Georgia court has suggested that these cases are no longer good law, the rationale employed by the courts in these cases is arguably inconsistent with the Georgia Supreme Court's reasoning in *Palmer & Cay of Georgia, Inc. v. Lockton Cos.*, 280 Ga. 479, 629 S.E.2d 800 (2006). In *Palmer & Cay*, the court upheld a customer nonsolicitation provision that precluded former employees, for a period of two years after their employment, from soliciting customers of their former employer whom they personally served on behalf of their former employer during their respective years of service, regardless of how long ago they had served the customers. *Id.* at 480-81, 629 S.E.2d at 802-03. Rejecting an argument by the former employees that the nonsolicitation provision was overbroad, the court reasoned that "the critical factor is whether the former employee

ers should use caution to ensure that the temporal duration of the covenant does not exceed an amount of time that is reasonably necessary to protect their business and confidentiality concerns.[84]

It should be noted that the temporal duration of covenants not to disclose confidential information poses some unique challenges for employers. Under the GTSA, a covenant not to disclose trade secrets is valid even in the absence of a temporal limitation as long as the information at issue remains a trade secret as defined by the statute.[85] In contrast, a covenant not to disclose confidential information that is *not* a trade secret is void if it lacks a reasonable temporal limitation.[86] As with other restrictive covenants, nondisclosure covenants of one to two years in duration generally are considered reasonable by Georgia courts.[87] Therefore, employers drafting nondisclosure covenants should distinguish between trade secrets and other confidential information that

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ever served the customer, not the length of time since he or she may have done so." *Id.* at 480, 629 S.E.2d at 802 (emphasis added). Accordingly, the court reversed a prior opinion by the Georgia Court of Appeals that had invalidated the nonsolicitation provision and remanded the case for further consideration. *Id.* at 484, 629 S.E.2d at 804-05. The court's reasoning in *Palmer & Cay* is difficult to reconcile with its prior reasoning in *Walker*. Under the *Palmer & Cay* rationale, the "critical factor" in *Walker* should have been whether the employee had ever, during his period of employment, performed services for his employer in the Augusta area, not the length of time that he had served the employer in that area. Nevertheless, because the Georgia Supreme Court has not expressly overruled *Walker*, employers should consider periodically reviewing and updating their restrictive covenants to ensure that the geographic limitations included in those agreements accurately reflect the geographic territory where the employees subject to those agreements are working.

84. In one case from a different jurisdiction, the United States District Court for the Southern District of New York invalidated a one-year noncompete provision in an employment agreement with the former executive of an internet-based IT company, finding that a one-year limitation was too long given the dynamic nature of the industry. *See* EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 313 (S.D.N.Y. 1999). Although no reported decisions in Georgia have cited this opinion, Georgia courts might find the opinion persuasive in restrictive covenant cases involving the internet and related technologies.

85. *See* O.C.G.A. § 10-1-767(b)(1) (2000).

86. *See* Wright v. Power Indus. Consultants, Inc., 234 Ga. App. 833, 837, 508 S.E.2d 191, 195 (1998) (stating that a nondisclosure clause with no time limit is unenforceable as to information that is not a trade secret), *rev'd on other grounds by* Advance Tech. Consultants, Inc. v. Roadtrac, LLC, 250 Ga. App. 317, 551 S.E.2d 735 (2001); Allen v. Hub Cap Heaven, 225 Ga. App. 533, 539, 484 S.E.2d 259, 265 (1997) (stating that a nondisclosure clause with no time limit is unenforceable as to information that is not a trade secret).

87. *See, e.g.*, Lee v. Envtl. Pest & Termite Control, Inc., 271 Ga. 371, 374, 516 S.E.2d 76, 78-79 (1999) (upholding a two-year nondisclosure agreement); Physician Specialists in Anesthesia, P.C. v. MacNeill, 246 Ga. App. 398, 408, 539 S.E.2d 216, 225 (2000) (upholding a two-year nondisclosure agreement); *Griffin*, 215 Ga. App. at 63, 449 S.E.2d at 860 (upholding a two-year nondisclosure agreement).

does not constitute a trade secret under the GTSA. Although the nondisclosure provision need not be subject to a temporal limitation as it relates to trade secrets, it should have a reasonable time limitation as it relates to other confidential information.

4. The Reasonableness Test in Non-Employment Restrictive Covenants. Although a full discussion of restrictive covenants in non-employment contexts is beyond the purview of this Article, attorneys counseling clients regarding employment-related covenants should be familiar with the Georgia courts' use of the reasonableness test in non-employment contexts because cases outside the employment context are often cited in litigation regarding employment covenants.

Traditionally, Georgia courts have divided restrictive covenants into three main categories to which they have applied different standards of reasonableness. On one side of this continuum are restrictive covenants ancillary to employment contracts. Such covenants are subject to strict scrutiny and, as discussed in greater detail below,[88] cannot be modified by the courts under the so-called blue-pencil theory of severability.[89] On the other side of this continuum are covenants ancillary to the sale of a business. Such covenants are subject to less scrutiny and can be blue-penciled by the courts.[90] Georgia courts have also recognized a middle level of scrutiny applicable to covenants found in professional partnership agreements.[91]

Although restrictive covenants contained in franchise agreements do not fit neatly anywhere on this continuum, Georgia courts have held that franchise agreements should be treated like employment contracts for purposes of analyzing restrictive covenants therein.[92] Thus, Georgia cases applying the reasonableness test to restrictive covenants in franchise agreements are potentially relevant to the courts' application of the reasonableness test in the employment context.

The recent Georgia Court of Appeals decision in *Atlanta Bread Co. International, Inc. v. Lupton-Smith*[93] is a particularly noteworthy example of a franchise case that potentially could have significant

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88. *See infra* Part III.B.

89. *E.g.*, Northside Hosp., Inc. v. McCord, 245 Ga. App. 245, 247, 537 S.E.2d 697, 699 (2000).

90. *Id.*

91. *Id.*

92. *See* Watson v. Waffle House, Inc., 253 Ga. 671, 672, 324 S.E.2d 175, 177 (1985) (citing Howard Schultz & Assocs. of the Se., Inc. v. Broniec, 239 Ga. 181, 236 S.E.2d 265 (1977); Richard P. Rita Personnel Servs. Int'l, Inc. v. Kot, 229 Ga. 314, 191 S.E.2d 79 (1972)).

93. 292 Ga. App. 14, 663 S.E.2d 743 (2008).

application in the employment context. In that case, Smith, a former franchisee of the Atlanta Bread Company (ABC), brought a suit for injunctive relief against ABC when ABC terminated his franchise agreement after discovering that he had opened up a competing coffee shop in alleged violation of the franchise agreement.[94] The franchise agreement at issue in that case included three restrictive covenants. First, the agreement contained an in-term restrictive covenant that prohibited Smith, during the term of the agreement, from "directly or indirectly engag[ing] in, or acquir[ing] any financial or beneficial interest in . . . any bakery/deli business whose method of operation is similar to that employed by store units within the [ABC] System."[95] Second, the agreement contained a post-term restrictive covenant that prohibited Smith, for one year following the termination of the agreement, from "directly or indirectly engag[ing] in, or acquir[ing] any financial or beneficial interest in . . . any bakery/deli business whose method of operation is similar to that employed by [store units] within the [ABC] System which is located within a twenty (20) mile radius of any store unit."[96] Third, the agreement contained a provision prohibiting Smith "at any time" from disclosing the trade secrets and confidential information of the ABC System.[97]

The trial court granted partial summary judgment to Smith, finding that the restrictive covenants in the franchise agreement were unenforceable under Georgia law.[98] Following an appeal by ABC, the court of appeals affirmed the trial court's ruling, reaffirming the rule in Georgia that restrictive covenants in franchise agreements are analogous to restrictive covenants in employment agreements and reasoning that the ABC restrictive covenants—including the in-term covenant—failed to meet the reasonableness test.[99]

Specifically, the court in *Atlanta Bread Co.* held that the post-term, noncompete covenant was unreasonable because it contained "'shifting and expanding' territorial restrictions"—that is, because the agreement prohibited Smith from competing within twenty miles of any store within the ABC System following the termination of the agreement, the actual territorial restriction could not be determined until the date of the

94. *Id.* at 14-15, 663 S.E.2d at 744-45.
95. *Id.* at 15, 663 S.E.2d at 745.
96. *Id.* at 16, 663 S.E.2d at 745.
97. *Id.*, 663 S.E.2d at 745-46.
98. *Id.* at 15, 663 S.E.2d at 745.
99. *Id.* at 19-21, 663 S.E.2d at 747-49.

franchisee's termination.[100] Likewise, the court held that the nondisclosure covenant was unreasonable because it had no time limit and therefore was unenforceable with respect to confidential information that does not constitute a trade secret.[101] Most significantly, however, the court held that the in-term, noncompete covenant was also unenforceable because it contained no territorial limitation and failed to "specify with particularity" the nature of the business activities in which Smith was forbidden to engage.[102]

The court's reasoning in *Atlanta Bread Co.* with respect to the in-term noncompete agreement is surprising and is potentially problematic to Georgia employers who are seeking to enforce noncompete agreements against current or former employees. Restrictive covenants in employment agreements typically are drafted to ensure that employees are prohibited, both during the period of their employment and for some limited period of time thereafter, from engaging in specific competitive activities to the detriment of their employer. Because the vast majority of employment relationships in Georgia are at-will, it is usually impossible to determine how long an individual's employment will continue. Thus, in-term restrictive covenants in employment agreements typically do not specify a particular temporal duration. Likewise, in-term restrictive covenants in employment agreements frequently do not specify any geographic limitation. Regardless of where a particular employee is employed, most employers legitimately expect that their employees will refrain from competing against them anywhere during the term of their employment. If Georgia courts apply the reasoning of the Georgia Court of Appeals in *Atlanta Bread Co.* to the employment context, employers and their counsel may need to reconsider this approach in drafting in-term restrictive covenants.

To be sure, the decision in *Atlanta Bread Co.* does not expressly state that in-term restrictive covenants in *employment* agreements must be subject to the same strict scrutiny to which post-term restrictive covenants are subjected, nor does the decision expressly state that its reasoning applies beyond the franchise context. Indeed, whatever the merits of the Georgia Court of Appeals reasoning in the franchise context, such reasoning is wholly unwarranted in the employment context because unlike franchisees, employees owe a common law duty of loyalty to their employers that justifies prohibiting them from engaging in any competitive activity to the detriment of their employer

100. *Id.* at 19, 663 S.E.2d at 748 (quoting New Atlanta Ear, Nose & Throat Assocs., P.C. v. Pratt, 253 Ga. App. 681, 685, 560 S.E.2d 268, 271 (2002)).

101. *Id.* at 20-21, 663 S.E.2d at 748-49.

102. *Id.* at 19, 663 S.E.2d at 747-48.

during the term of their employment.[103] Nevertheless, because the decision in *Atlanta Bread Co.* purports to apply the reasonableness test as it is applied in the employment context,[104] courts may be tempted to apply the same reasoning to in-term restrictive covenants in the employment context.[105]

B. The "Blue Pencil" Theory of Severability Does Not Apply to Restrictive Covenants Ancillary to Employment Contracts

As noted above, restrictive covenants are generally unenforceable in Georgia unless they are reasonably limited as to territory, duration, and the scope of the activity that they prohibit. Employers thus must draft restrictive covenants with precision to ensure their enforceability with respect to employees located in Georgia.

Indeed, such precision is especially important in Georgia because unlike courts in some other states, Georgia courts do not follow the so-called blue pencil method of modifying overly broad restrictive covenants in the employment context.[106] In other words, courts will not parse out and excise unenforceable elements of restrictive covenants to make the covenants enforceable because doing so would allow employers to draft intentionally overbroad agreements that might have an *in terrorem* effect on employees that is greater than is permitted under Georgia law.[107] Instead, an overly broad restrictive covenant is simply unenforceable.

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103. *See* Coffee Sys. of Atlanta v. Fox, 226 Ga. 593, 594, 176 S.E.2d 71, 73 (1970) (upholding a covenant that required the employee to "use his best efforts to the exclusion of all other employment" during the term of his employment); DeKalb Collision Ctr., Inc. v. Foster, 254 Ga. App. 477, 481, 562 S.E.2d 740, 745 (2002) (stating that under Georgia law, "'an employee owes a duty of loyalty, faithful service, and regard for an employer's interest.'") (quoting Crews v. Wahl, 238 Ga. App. 892, 901, 520 S.E.2d 727, 734 (1999)).

104. *See Atlanta Bread Co.*, 292 Ga. App. at 18, 663 S.E.2d at 747.

105. Following the Georgia Court of Appeals decision in *Atlanta Bread Co.*, ABC petitioned the Georgia Supreme Court to review the decision. The Georgia Supreme Court granted certiorari on October 6, 2008 and heard oral argument on January 12, 2009. The Georgia Supreme Court had not issued its decision by the date of publication of this Article. *See* Atlanta Bread Co. v. Lupton-Smith, No. S08G1815, 2008 Ga. LEXIS 925 (Oct. 6, 2008).

106. *E.g., Advance Tech. Consultants*, 250 Ga. App. at 319, 551 S.E.2d at 736 (holding that Georgia does not employ the blue pencil method of severability to restrictive covenants in employment contracts). Note, however, that restrictive covenants that are ancillary to the sale of a business (rather than ancillary to an employment contract) may be blue-penciled. *Id.*

107. *See Kot*, 229 Ga. at 317, 191 S.E.2d at 81 (declining to adopt the blue-pencil theory of severability because of the *in terrorem* effect that overbroad restrictive covenants might have on employees and competitors).

Moreover, if an employment agreement contains a noncompete or customer nonsolicitation covenant that is unreasonably overbroad, then any companion noncompete or customer nonsolicitation provisions in the agreement also will be deemed unenforceable.[108] For example, in *Ward v. Process Control Corp.*,[109] an action brought by an employer for injunctive relief against its former employee, the Georgia Supreme Court considered the enforceability of an agreement containing a customer nonsolicitation covenant and a separate noncompete covenant.[110] Reversing the superior court's order granting an injunction against the employee, the Georgia Supreme Court determined that the customer nonsolicitation covenant was unenforceable because it unreasonably purported to prevent the employee from transacting "any business" with any entity with whom the employer had transacted business during the twelve months preceding the termination of the defendant's employment.[111] The court further stated that "[i]f any covenant not to compete within a given employment contract is unreasonable either in time, territory, or prohibited business activity, then all covenants not to compete within the same employment contract are unenforceable."[112] Accordingly, because the covenant not to solicit was unenforceable, the court concluded that the companion covenant not to compete in the same agreement was also unenforceable.[113]

In light of this rule, employers should carefully draft every customer nonsolicitation and noncompete covenant in an employment agreement pertaining to a Georgia employee or risk the shortcomings of one covenant infecting and invalidating the other. Fortunately for employers, however, this nonseverability rule does not apply to covenants not to recruit employees or covenants not to disclose confidential information. Such covenants may still be enforced, notwithstanding the presence of an unenforceable covenant not to compete or solicit

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108. *See* Uni-Worth Enters., Inc. v. Wilson, 244 Ga. 636, 640, 261 S.E.2d 572, 575 (1979) (invalidating noncompete and customer nonsolicitation provisions in the same agreement; "if any of the sub-paragraphs of the restrictive covenant are invalid, the entire covenant must fall"); *see also Advance Tech. Consultants*, 250 Ga. App. at 320, 551 S.E.2d at 737 (holding that unenforceability of one noncompete or nonsolicit covenant in employment contract automatically renders unenforceable other noncompete or nonsolicit covenants in same contract).

109. 247 Ga. 583, 277 S.E.2d 671 (1981).

110. *See id.* at 583, 277 S.E.2d at 672.

111. *Id.*, 277 S.E.2d at 672-73.

112. *Id.* at 584, 277 S.E.2d at 673.

113. *Id.*

customers contained in the same agreement.[114] Thus, although employers would be prudent to ensure that every restrictive covenant in an employment agreement is drafted to be enforceable under Georgia law, the unenforceability of a noncompete or customer nonsolicitation provision does not necessarily invalidate otherwise enforceable nondisclosure and employee nonrecruit covenants in the same agreement.

C. *Choice of Law Provisions*

As a final consideration in drafting restrictive covenants, employers should be mindful that Georgia courts refuse to apply choice-of-law provisions if the chosen law contravenes Georgia's public policy regarding restrictive covenants.[115] In fact, the Georgia Supreme Court has held that notwithstanding the existence of a choice-of-law provision selecting the law of another jurisdiction, courts can invalidate restrictive covenants under Georgia law even without first determining that Georgia has a "materially greater interest" in applying Georgia law, rather than the law of the contractually selected forum.[116] Thus, even

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114. *See* Wiley v. Royal Cup, Inc., 258 Ga. 357, 359-60, 370 S.E.2d 744, 745-46 (1988) (enforcing a nondisclosure covenant despite the unenforceability of the customer nonsolicitation provision in the same agreement); Mathis v. Orkin Exterminating Co., 254 Ga. App. 335, 336, 562 S.E.2d 213, 214 (2002) ("We analyze anti-piracy clauses in employment agreements separately from nonsolicit and noncompete clauses and clauses dealing with clients of the former employer."); Johnstone v. Tom's Amusement Co., 228 Ga. App. 296, 297, 491 S.E.2d 394, 397 (1997) ("Nondisclosure and nonrecruit provisions in the same agreement rise or fall separately from the noncompete and nonsolicit provisions."); *Griffin*, 215 Ga. App. at 63, 449 S.E.2d at 860 (holding that the customer nonsolicitation provision in the employment agreement was unenforceable because the noncompete provision was overbroad and unenforceable, but also holding that the nondisclosure provision in the same agreement was enforceable; "Georgia's rejection of the 'blue-pencil theory of severability' does not require invalidation of the provisions concerning return of documents, disclosure of confidential business information and interference with employees' contractual relations."); *Lane Co.*, 174 Ga. App. at 359, 330 S.E.2d at 117 (holding that the nondisclosure and nonpiracy provisions were enforceable even though the customer nonsolicitation provision in the same agreement was unenforceable).

115. *See, e.g.*, Nasco, Inc. v. Gimbert, 239 Ga. 675, 676, 238 S.E.2d 368, 369 (1977) (affirming the trial court's refusal to honor a Tennessee choice-of-law provision concerning an employment agreement containing noncompetition, nondisclosure, and nonsolicitation covenants); *Hulcher Servs.*, 247 Ga. App. at 489, 543 S.E.2d at 465 (rejecting a Texas choice-of-law provision because Texas law on restrictive covenants "flagrantly contravenes the public policy of Georgia in this regard"). *But see* Iero v. Mohawk Finishing Prods., Inc., 243 Ga. App. 670, 670-71, 534 S.E.2d 136, 137-38 (2000) (enforcing a New York forum selection clause in an employment agreement with a noncompete provision; the plaintiff failed to carry the burden of showing that enforcement of the agreement would be unreasonable under the circumstances).

116. *See* Convergys Corp. v. Keener, 276 Ga. 808, 808-09, 582 S.E.2d 84, 85 (2003) (holding, on a certified question from the Eleventh Circuit, that Georgia courts need not

if the parties to a restrictive covenant have agreed that the covenant should be construed according to the law of a different jurisdiction, and even if the covenant at issue complies with the law of the chosen jurisdiction, the restrictive covenant may be invalidated by a Georgia court if it is applied to a Georgia employee and its substantive terms are unenforceable under Georgia law.

For example, in *Hostetler v. Answerthink, Inc.*,[117] a declaratory judgment action brought by an employee seeking to avoid a restrictive covenant in an agreement with his former employer, the Georgia Court of Appeals invalidated a nonsolicitation agreement with a Florida choice-of-law provision.[118] Although the agreement was consistent with Florida law, the agreement was not enforceable under Georgia law regarding restrictive covenants.[119] Moreover, although the Georgia Court of Appeals upheld the trial court's grant of declaratory and injunctive relief prohibiting the employer from enforcing the nonsolicitation covenant against the employee, the court held that the trial court improperly limited the effect of its final judgment and injunction to Georgia.[120] The court reasoned that

> [t]he final judgment in a declaratory judgment action, finding the restrictive covenants void and unenforceable, should also have injunctive relief to prevent the relitigating of such issue in other jurisdictions, because [the employer] can bring repeated actions in other jurisdictions to harass and to delay competition even though such actions are ultimately dismissed under the res judicata and collateral estoppel doctrines.[121]

Accordingly, the court concluded that the trial court should have issued an injunction prohibiting the employer from enforcing the nonsolicitation covenant anywhere.[122]

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ascertain whether Georgia has a "materially greater interest" in applying Georgia law, rather than the contractually selected forum's law, before electing to apply Georgia law to invalidate a noncompete agreement as contrary to Georgia public policy).

117. 267 Ga. App. 325, 599 S.E.2d 271 (2004).

118. *Id.* at 328, 599 S.E.2d at 274.

119. *Id.*, 599 S.E.2d at 274-75.

120. *Id.* at 329, 599 S.E.2d at 275.

121. *Id.*

122. *Id.* Citing the Georgia Court of Appeals decision in *Hostetler*, the Eleventh Circuit held in *Palmer & Cay, Inc. v. Marsh & McLennan Cos.* that federal courts exercising diversity jurisdiction in Georgia should issue declaratory judgments in restrictive-covenant disputes that are as broad as the scope of a judgment rendered by a Georgia state court and should not, therefore, limit declaratory judgments to Georgia. 404 F.3d 1297, 1310 (11th Cir. 2005). Notably, however, the Eleventh Circuit's decision in *Palmer & Cay* applied only to declaratory judgments, rather than to injunctions. *See id.* at 1307-10. With

The Georgia Court of Appeals decision in *Hostleter* illustrates the risk facing employers who rely on choice-of-law provisions to apply restrictive covenants to Georgia employees that are not otherwise enforceable under Georgia law. Employers must consider that notwithstanding the existence of a seemingly valid choice-of-law provision, a former employee who resides in Georgia may file a declaratory judgment action seeking to invalidate a restrictive covenant under Georgia law, which may thereby preclude the employer from enforcing the covenant against that employee in other jurisdictions.[123]

Given this risk, employers should not rely upon choice-of-law provisions to escape the limitations imposed by Georgia law. Rather, when drafting restrictive covenants that will apply to employees who work or reside in Georgia, employers should ensure that the restrictive covenants are enforceable under Georgia law, rather than rely on a choice-of-law provision applying the law of a different jurisdiction.

IV. CONCLUSION

The value of confidential business information is, to a large extent, dependent upon the ability to effectively deploy that information for use within the business organization. Hence, in performing their job duties, a wide variety of employees often are entrusted with valuable financial information, customer lists, and scientific processes and formulae. Because such information generally would be highly valuable to competitors, employers face a substantial risk that their valuable information will fall into the wrong hands if such employees go to work for a competitor.

Although it is never possible to eliminate this risk altogether, Georgia law provides employers with both statutory and contractual vehicles for minimizing such risk. As discussed above, employers should take affirmative steps to protect the security of their confidential and proprietary information by, at a minimum, restricting physical access to

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respect to injunctive relief, the Eleventh Circuit previously had held that federal district courts in Georgia that enjoin enforcement of overbroad restrictive covenants under Georgia law should limit their injunctions to Georgia, *Keener v. Convergys Corp.*, 342 F.3d 1264, 1269 (11th Cir. 2003), and the Eleventh Circuit reaffirmed this position in *Palmer & Cay*, 404 F.3d at 1308-09. Thus, although Georgia state courts will issue both declaratory judgments and injunctions with nationwide application when striking down restrictive covenants as overbroad under Georgia law, federal courts in the Eleventh Circuit striking down restrictive covenants under Georgia law must limit any injunctive relief to the State of Georgia.

123. This rule sometimes precipitates a "race to the courthouse" situation once a dispute arises, as the employer may seek to obtain a prior ruling validating the covenant in a more favorable jurisdiction.

the information, providing the information only to employees who have a legitimate need for the information, and implementing clear policies prohibiting employees from disclosing confidential or proprietary information with which they are entrusted. In addition, employers should consider requiring employees to sign restrictive covenants prohibiting them from disclosing confidential information or engaging in specified competitive activities for a reasonable period of time after the cessation of their employment. When narrowly tailored to the particularities of Georgia law and the unique circumstances of each situation, these restrictive covenants, coupled with the protections afforded by the GTSA, can be effective tools for maintaining a competitive edge in today's increasingly sophisticated and knowledge-driven markets.

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