

# Jumping Ship or Walking the Plank? Drafting and Enforcing Non- Compete Agreements and Other Restrictive Covenants

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# Let's Start with the Basics ...

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**Restrictive covenants come in three forms:**

- Non-Compete Agreements
- Non-Solicitation Agreements (Customers & Employees)
- Non-Disclosure or Confidentiality Agreements

# Initial Considerations

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- What are you trying to protect?
  - Customer relationships
  - Good will
  - Trade secrets/confidential information
  - Investment in your employees
- Use these factors to decide which of your employees you will ask to sign restrictive covenants

# Initial Considerations (con't)

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- Is the restrictive covenant enforceable in the state or states in which you are likely to file suit to enforce it?
- Is the restrictive covenant supported by sufficient consideration?
- Is the scope of the restrictive covenant (both geographic and temporal) broad enough to protect your business, but reasonable enough to be enforced?

# Georgia's Law – Shifting Seas

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O.C.G.A. §§ 13-8-50-59

Before November 2010 - Hostile



- Georgia's Constitution prohibited restraining trade
- Courts placed very strict restrictions on enforceability of RCs
- If one part was unreasonable, entire covenant void
- Results – either very conservative, non-restrictive covenants or covenants with any teeth often struck down

## Shifting Seas Con't.

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- In 2009, HB 173 signed into law and codified at O.C.G.A. §§ 13-8-50-59

- Provides guidance for enforceability of RCs



- Law would become effective pending voter approval to constitutional revision in November 2010
- Voters approved, but law failed to state an effective date



# The Seas are Clear

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- New bill introduced to clarify effective date – May 11, 2011
  - New Statute Applies to All RCs entered after this date
- What about contracts entered between November 2010 and May 2011?
  - Georgia Courts have not addressed this issue, but Eleventh Circuit did
    - *Becham v. Synthes USA*, 482 Fed. Appx. 387 (11th Cir. 2012)
    - Old law applies to contracts entered prior to May 11, 2011
    - New law applies May 11, 2011 forward
    - Not binding on Georgia Courts

# Key Points of Law - Employee

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- O.C.G.A. § 13-8-51(5)
  - An executive employee
  - Employee/Independent Contractor who has confidential information important to business, or selective or specialized skills developed during employment
  - Franchisee, distributor, lessee, licensee, or party to a partnership agreement or a sales agent, broker, or representative in connection with franchise, distributorship, lease, license, or partnership agreements.

Does **NOT** include employee

“who lacks selective or specialized skills, learning, or abilities or customer contacts, customer information, or confidential information.”



# Key Points of Law – What Can Be Protected

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- O.C.G.A. § 13-8-51(9)
- “Legitimate business interest”
  - trade secrets
  - valuable confidential information
  - substantial relationships with customers and vendors
  - customer good will
  - extraordinary or specialized training



# Key Points of Law - Limitations

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- Time
  - Presumption that two years is reasonable
- Nonsolicitation of customers
  - material contact/competitive services
- Scope/Geography
  - Territorial limitation and scope may be generalized but must provide fair notice of maximum reasonable scope and a good faith estimate of the restriction
  - Limitations need not be identified at time contract entered, but can only limit geography or activities employee actually involved in within a reasonable time prior to termination



# Key Points of Law – Blue Pencil

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O.C.G.A. § 13-8-53(d) allows court to reform an otherwise unenforceable RC

- modification cannot be more restrictive than what was originally intended by Parties
- court can only grant relief reasonably necessary to achieve the original intent of the contracting parties to the extent possible



# Recognized Protectable Interests

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- *Specialized Training*
  - General skill, knowledge and general job training is *not* protectable
  - Important considerations are the amount of time involved in the training and the company's monetary investment in the training



# Recognized Protectable Interests

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- Trade Secrets and/or Confidential Information
  - Customer information readily ascertainable from public sources is *not* entitled to protection
    - For example, information that can be gleaned from the yellow pages, Google searches or publicly available lists
  - Access to all of an employer's clients + knowledge of pricing schedules and terms of contracts = protectable interest

# Recognized Protectable Interests

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- Customer Relationships/“Face of the Company”
  - Key Employee: may arise in the context of sales people or executive-level employees
  - Personal contact may not be enough, especially when product quality drives the customer’s decision
  - Close contact over a long period of time, money spent developing the relationship, and other, similar factors weigh in favor of the relationship being protectable
  - If you can prove the former employee’s contacts that were developed during his employment with you would give him an unfair advantage, then such contacts could be protectable

# Adequate Consideration

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- Under the old law, continued employment is sufficient consideration
- New law silent on this issue.
- Likely that the common law remains in place, but no court has addressed this yet.

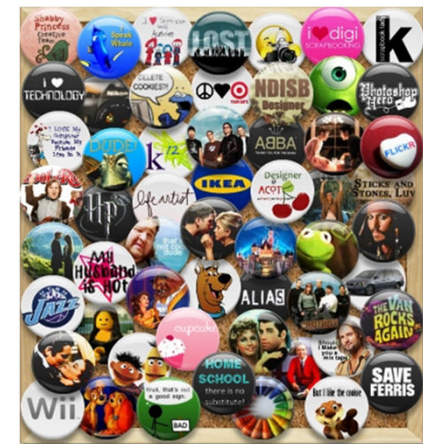




## Pop Quiz –Drafting

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Sarah works as director of marketing and strategic planning at Chotschkie's, a fun-filled restaurant focusing on affordable food and good times with its HQ located in Georgia. Servers wear “flair,” goofy hats and work hard to deliver good food and a good time. Weekly food and drink specials target office workers. Chotschkie’s seeks to create a “get-away-from-it-all” feel.





# Chotschkie's Wants Sarah Bound By RC

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- What factors do we want to know
  - which state's law applies/where will the covenant be enforced
  - what does Sarah do in her job as director of marketing
    - contacts with customers, vendors, etc.?
    - access to Trade Secrets/confidential information?
    - special skills learned or developed at Chotschkie's?

## Sarah Most Likely Can Be Bound by RC – Now What?

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- How long will she be restrained?
  - two years is presumptively ok
  - look at specific facts to determine if longer time period is necessary to protect the employer's interest

# Chotschkie's Protected Territory

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- where does Chotschkie's do business
- where does Sarah do business on behalf of Chotschkie's



# Scope of Protected Activities

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- What is Chotschkie's legitimate business interest?



- flair?
- specials?
- menu items?
- marketing?
- customers?
- vendors?
- advertising campaign?

# **NONDISCLOSURE AND CONFIDENTIALITY AGREEMENTS**

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## **Strategies for Protecting Trade Secrets and Confidential Information**

# Identify Your Trade Secrets

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- ✓ Technical Information
- ✓ Production and Processing Information
- ✓ Vendor and Supplier Information
- ✓ Quality Control Information
- ✓ Sales and Marketing Information
- ✓ Financial Information
- ✓ Internal Administrative Information

# Managing Tangible Trade Secrets

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- Identify an appropriate storage system, including appropriate storage media, systems and devices
- Identify appropriate storage locations
- Document all of this



# Restricting Access

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- Establish company policies and regularly review/update them
- Establish specific security procedures and regularly review/update them
- Regularly conduct audits of these policies and procedures





## Restricting Access (con't)

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- Develop procedures for correcting inadvertent disclosures
- Establish a policy of pursuing theft of trade secrets and other confidential information
- Develop a document retention/destruction policy



## Restricting Access (con't)

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- Assign a specific employee the responsibility for managing your trade secrets (*i.e.*, a “trade secret czar?”)
- Consider whether a multi-disciplinary committee is appropriate to assist your “trade secret czar”
  - Include employees from IT, Operations, R&D, HR, Legal ...

# “Walk the Talk”

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- Written agreements, policies and procedures are very helpful ...
- But, *actions* are often more important than words
- Consider the following strategies to increase your chances of protecting your company’s trade secrets

# Non-Disclosure Strategies

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- Identify employees who have a “need to know”
- Regularly train these “need to know” employees
- Develop strict policies and procedures for *remote access* by these employees



# Promote a Culture of Confidentiality

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- Regularly discuss confidentiality obligations in employee meetings?
- Review confidentiality obligations during employee performance reviews?
- Avoid disclosing confidential information through electronic communications, website postings, marketing materials, etc.
- Take advantage of “teaching moments” when mistakes are made

# Damage Control Strategies When Employees Resign

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- An employee tenders her resignation. You're concerned about protecting your company's trade secrets
- What do you do?



# First Steps

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- Identify whether the departing employee had access to trade secrets
- Inventory all sensitive documents and things to which the employee had access



# Next Steps

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- Inventory all electronic data to which the employee had access, including software source code
  - Note “last edit” dates and “edited by” information
- Access the employee’s e-mail account and look for suspicious activity
- If you suspect theft of data, immediately order a forensic imaging of the employee’s hard drive



# Conduct an Exit Interview

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- Include an HR representative and the employee's manager
- Present the employee copies of her non-competes, restrictive covenants, policy acknowledgments and/or applicable policies
- Ask the employee to confirm that she intends to honor her agreements and the company's policies
- Communicate the company's expectations
- Ask about the employee's plans for future employment and press for details



# The Cease and Desist Letter

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- Consider sending a “cease and desist” letter to the former employee *and* her new employer (if applicable)
- Include copies of the resigning employee’s non-compete, restrictive covenants, policy acknowledgements and applicable policies
- Make your intentions clear
- Threaten litigation and prepare to follow through



# Litigation Cons

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- It will be expensive
- It can take longer than you had hoped
- It can be time consuming and disruptive for your employees
- The results can be hard to predict and you may walk away disappointed



# Litigation Pros

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- It “sends a message” to your competitors
- It “sends a message” to your employees
- The value of putting an end to unfair competition or the theft of your trade secrets may be worth the costs
- It may be the only sure way to stop unfair competition or theft of your trade secrets



## PREVENTATIVE MEASURES

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# Hiring Strategies to Reduce Your Risk of Being Sued by a Competitor

# Pre-Offer Steps

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- Instruct the candidate in writing to remain loyal to their current employer as long as they are still employed by them
- Instruct the candidate in writing that he shall not share his current or former employer's business data with your company
- Request a written acknowledgement that the candidate is not bound by any non-compete, non-solicitation or similar agreement

# Offer or Post-Offer Steps

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- Clarify in writing that the employment offer is contingent on the new employee's pre-employment disclaimer of any non-compete or non-solicitation agreements with their former employer or their promise to honor the restrictive covenants with their former employer
- Develop a strategy for monitoring the new employee's compliance with these commitments

# QUESTIONS?

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