

**SELECT
EMPLOYMENT ISSUES
FACING
TECHNOLOGY COMPANIES**

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Select Employment Issues Facing Technology Companies

All employers are faced with similar employment law issues: How should we conduct our hiring and screening process? When should an employee be disciplined or terminated? Can we conduct a pre-hire drug test? How should the employee be classified under the Fair Labor Standards Act for pay purposes? What types of conduct are prohibited in the workplace? What laws governing the workplace apply to us?

Technology companies, however, are confronted with several unique issues because of the rapid pace of innovation and change in the technology industry. Some of those issues include the retention of talented employees and the preservation of the company's most valuable assets -- the technology and intellectual property it is producing. Employee retention and the protection of a company's intellectual property are often addressed through restrictive covenants and invention agreements. The laws governing these types of agreements vary widely from state to state. This article provides a brief overview of the types of covenants and agreements typically utilized by technology companies and a description of how they are interpreted in Georgia.

I. What Is A Restrictive Covenant?

Restrictive covenants generally prevent employees from engaging in certain activities following the termination of their employment with a company. Such covenants come in many forms and can include an employee's agreement not to compete with their former employer, an agreement not to solicit the customers or employees of the former employer, or an agreement not to help others compete or solicit customers or employees.¹ Technology companies in particular typically want to protect the secrets behind their products and services and ensure that the technical know-how is not passed on to competitors or used by former employees to start competing entities.

Georgia courts typically take a dim view of restrictive covenants, which they view as interfering with a person's ability to make a living and inhibiting commerce. A court will uphold a restrictive covenants, however, if it determines that the restrictions are narrowly focused and no broader than reasonably necessary to protect the company's interests, impose no undue hardship on the employee bound by the covenant, and are not otherwise injurious to the public. An employer has a legitimate interest in protecting trade secrets, confidential customer lists, confidential information, and customer good will. An employer may also have a protectable interest under circumstances where the employee's services are special, unique or extraordinary, and the loss of which to a subsequent employer might expose the former employer to special harm. A restrictive covenant, therefore, must be *reasonable* as to the *time, area, and scope of activity* necessary to protect the *legitimate interests* of the employer. Because this is a fact-sensitive determination, the particular circumstances and context of each individual case will be examined closely.

¹ While employed, an employee owes a duty of loyalty to their employer, and should not compete with or take actions that harm the interests of their employer. The Georgia Trade Secrets Act also protects from the inappropriate use or disclosure of a trade secret by an employee or former employee. A trade secret is a process, method, plan, formula or other information unique to a manufacturer, which has value due to the market advantage over competitors it produces. Employers should not rely upon the Act alone, however, to protect their trade secrets and discourage former employees from competing or providing assistance to competitors.

For example, courts have been willing to uphold a long-term restriction on competition where required by the specific circumstances of the case. Courts may also permit a longer covenant duration within the context of a stock or asset acquisition than they may allow in the customary employer/employee relationship. Similarly, broad or unlimited geographic limitations have also been upheld where reasonable in light of the circumstances of the case. A provision prohibiting a former employee from contacting the employer's customers, wherever located, may be sufficient in place of a specific geographic limitation.

What is reasonable will vary depending upon the nature of the employer's business, the area in which the employer performs its business, and the position held by the employee. Courts must balance the sometimes competing tensions among the interests of the employer in being protected from unfair competition, the burden to the employee in being prevented from pursuing his or her livelihood, and the impact on the public's interest in free enterprise.

When a restrictive covenant is too broad in scope or duration, courts have taken different approaches. While Florida and South Carolina courts have some power to narrow or "blue pencil" covenant restrictions to make them sufficiently reasonable to enforce, Georgia courts do not. Accordingly, if a specific provision of a restrictive covenant is found to be unreasonable, the entire provision will be unenforceable in Georgia. Careful thought must be given to the drafting of restrictive covenants in Georgia to ensure their enforceability.

A. Covenant Not To Compete

A covenant not to compete is exactly that -- An agreement not to compete with the former employer. While a company cannot prevent ordinary competition, it does have a protectable interest in the customer relationships its former employee established at work and a right to protect itself from the risk that the former employee might use those contacts to appropriate customers. Such agreements typically prevent former employees from contacting any customers the employee came in contact with while employed, or any customers of the employer in a limited geographic area, regardless of whether the former employee came into contact with such customers. Companies can also prevent former employees from going to work for a competitor, but such restriction should be narrowly tailored to the type of work the former employee was doing for the employer.

Covenants not to compete also typically prevent a former employee from disclosing confidential information related to the former employer to competitors.

B. Non-Solicitation Agreement

Employment agreements not to solicit other employees or customers both during employment and following employment are valid under Georgia law. Generally, it is not illegal for a departing employee to announce their departure and the identity of his or her new employer. A former employee may also passively accept business from a former client or customer. Non-solicitation agreements prevent the former employee from actively soliciting current employees or customers in an attempt to lure them to the former employee's new employer.

II. What Is An Invention / Patent Agreement?

An invention or patent agreement obligates an employee to turn over all rights to inventions or patentable processes to the employer and confirms that all such inventions or patentable processes are the property of the employer.

Typically, such agreements require an employee to acknowledge their obligation to assign to the employer the rights to all inventions and patents that they conceive or develop while employed by the employer. Such agreements also require the employee to acknowledge their obligation to promptly report and fully disclose the conception and/or reduction to practice of potentially patentable inventions to the employer, and to execute any documents and do all things necessary to assign to the employer all rights, title, and interest therein and to assist the employer in securing patent or analogous protection thereon.

III. What Should I Do If I Am A Small Technology Start-Up?

A. Protect Your Trade Secrets

1. Identify your trade secrets and take reasonable steps to keep them secret.
 - a. Have an effective employee computer usage policy.
 - b. Have an effective electronic communication policy (particularly e-mail).
 - c. Have an effective document usage and retention policy.
 - d. Have an effective monitoring policy.
2. Use effective trade secret agreements.
3. Conduct exit interviews. Remind employees of their trade secret obligations.
4. At termination, request the return of all company property, including documents, files computer data, customer information and contacts lists.
5. Obtain copyright, patent and trademark protection.

B. Require Restrictive Covenants As A Condition Of Employment

1. Non-compete.
2. Non-solicit (customers and employees).

C. Require Employees To Sign Invention / Patent Agreements

D. Use Separation Agreements

1. If you plan to pay departing employees severance or separation payments, consider making those payments over time. This gives the departing employee an incentive to behave appropriately in the future.
2. Add protective language to such agreements to reaffirm the employee's obligations and consider providing for penalties for breaches of the agreement.

Select Employment Issues Facing Technology Companies -- Outline

- I. All employers are faced with similar employment law issues.
- II. Technology companies, however, are confronted with several unique issues
 - A. Retention of talented employees
 - B. Preservation of technology and intellectual property
 - C. Prevent employees from departing and taking secrets with them to competitors or starting their own entity
 - D. Often addressed through
 1. Restrictive covenants
 2. Invention / patent agreements.
 3. Laws governing these types of agreements vary widely from state to state.
- III. What Is A Restrictive Covenant?
 - A. Generally prevent employees from engaging in certain activities following the termination of their employment with a company.
 - B. Come in many forms
 1. Agreement not to compete with their former employer
 2. Agreement not to solicit the customers or employees of the former employer
 3. Agreement not to help others compete or solicit customers or employees.
 4. Current employees covered by
 - a. Duty of Loyalty
 - b. Georgia Trade Secrets Act -- not enough
 - C. Georgia courts typically do not like restrictive covenants
 1. Interfere with a person's ability to make a living
 2. Inhibit commerce.
 - D. Court will uphold, however, if restrictions are:

1. Narrowly focused
 2. No broader than reasonably necessary to protect the company's interests
 3. Do not impose an undue hardship on the employee bound by the covenant
 4. Not otherwise injurious to the public.
- E. Employer has a legitimate interest in protecting:
1. Trade secrets
 2. Confidential customer lists
 3. Confidential information
 4. Customer good will.
- F. Restrictive covenant therefore, must be:
1. *Reasonable* as to the *time, area, and scope of activity* necessary to protect the *legitimate interests* of the employer.
- G. Fact-sensitive determination
1. Particular circumstances and context of each individual case will be examined closely.
- H. Courts have been willing to uphold a long-term restriction on competition where required by the specific circumstances of the case.
- I. Courts may also permit a longer covenant duration within the context of a stock or asset acquisition than they may allow in the customary employer/employee relationship.
- J. Broad or unlimited geographic limitations have also been upheld where reasonable in light of the circumstances of the case. A provision prohibiting a former employee from contacting the employer's customers, wherever located, may be sufficient in place of a specific geographic limitation.
- K. Reasonable
1. Vary depending upon the nature of the employer's business,
 2. Area in which the employer performs its business, and the

3. Position held by the employee.

L. Balancing

M. FL / SC blue pencil, GA does not.

1. Careful thought must be given to the drafting of restrictive covenants in Georgia to ensure their enforceability.

IV. Covenant Not To Compete

A. Agreement not to compete with the former employer.

B. Company cannot prevent ordinary competition,

C. Does have a protectable interest in the customer relationships its former employee established at work and a right to protect itself from the risk that the former employee might use those contacts to appropriate customers.

1. A agreements typically prevent former employees from contacting any customers the employee came in contact with while employed, or any customers of the employer in a limited geographic area, regardless of whether the former employee came into contact with such customers.

D. Companies can also prevent former employees from going to work for a competitor, but such restriction should be narrowly tailored to the type of work the former employee was doing for the employer.

E. Covenants not to compete also typically prevent a former employee from disclosing confidential information related to the former employer to competitors.

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A. Employment agreements not to solicit other employees or customers both during employment and following employment are valid under Georgia law.

B. Generally, it is not illegal for a departing employee to announce their departure and the identity of his or her new employer. A former employee may also passively accept business from a former client or customer.

C. Non-solicitation agreements prevent the former employee from actively soliciting current employees or customers in an attempt to lure them to the former employee's new employer.

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- A. An invention or patent agreement obligates an employee to turn over all rights to inventions or patentable processes to the employer and confirms that all such inventions or patentable processes are the property of the employer.
- B. Typically, such agreements require an employee to acknowledge their obligation to assign to the employer the rights to all inventions and patents that they conceive or develop while employed by the employer.
- C. Such agreements also require the employee to acknowledge their obligation to promptly report and fully disclose the conception and/or reduction to practice of potentially patentable inventions to the employer, and to execute any documents and do all things necessary to assign to the employer all rights, title, and interest therein and to assist the employer in securing patent or analogous protection thereon.

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