

Noncompete News: Georgia Supreme Court Reverses Injunction On Unenforceable Noncompete, But Upholds Injunction Based On Trade Secrets Protection

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In this edition of Noncompete News, we remind our readers that Georgia affords companies trade secret protection, even in the absence of an enforceable agreement. Earlier this month, the Georgia Supreme Court addressed an injunction entered against an employee that prohibited him from marketing certain software in competition with his former employer. On appeal, the employee contended that the lower court erred in enforcing the noncompete clause that was contained in a software development agreement into which he entered with his former employer.

The employer is a medical practice specializing in retina surgery ("TREC"), and the employee ("Coleman") is a software engineer who was hired by the medical practice. Prior to his employment by TREC, Coleman wrote and marketed a medical billing program. While employed by TREC, Coleman, with the assistance of the doctors who work for TREC, modified the medical billing program to develop a computer application that was specific to the retinal practice. The modified software program undisputedly contained TREC's trade secrets.

Later in his employment, Coleman and TREC entered into a software agreement that addressed the rights to this modified software program developed by the parties. While the software agreement stated Coleman owned the original software and that TREC only had a non-exclusive license to use and sell the software, Paragraph 8 of the agreement provided that "Coleman will not distribute, vend or license to any ophthalmologist or optometrist the [modified] software or any computer application competitive with the [modified] software without the written consent of TREC." Thereafter, Coleman left the employment of TREC and attempted to distribute, vend or license to other ophthalmologists the original and modified software. TREC filed suit against Coleman alleging breach of contract and violation of the Georgia Trade Secrets Act. The trial court granted a temporary restraining order and then entered a preliminary injunction enforcing the non-compete clause of the software agreement. The injunction further enjoined Coleman from continuing to retain and use the various source code and access codes of the software in the modified software.

The Georgia Supreme Court reversed in part and upheld in part the injunction. As to the noncompete, the Georgia Supreme Court, without analysis, likened the software agreement to an agreement contained in employment contract. Accordingly, it analyzed the provision under a strict scrutiny analysis. In so doing, it held the noncompete provision was unenforceable because it contained no time restriction and

no territory. Because noncompete agreements ancillary to an employment agreement cannot be blue-penciled, or revised by the court, it was held to be unenforceable and void as a matter of law.

However, this did not end the Supreme Court's inquiry. Even without an express and enforceable noncompete, TREC could still prohibit Coleman from marketing the modified software because, in Georgia, "in no event shall a contract be required in order to maintain an action or to obtain injunctive relief from misappropriation of a trade secret." Therefore, regardless of the fact that the non-compete clause in the software agreement was unenforceable, the court upheld the injunction to the extent it prohibited Coleman from using the modified software to compete with TREC because the modified software contained TREC's trade secrets. The court reversed the part of the injunction, however, that previously restricted Coleman from using and marketing his own version of the software, which was undisputedly his own property.

This case is a reminder that Georgia courts continue to narrowly approach whether a noncompete is enforceable. But to the extent that trade secrets are involved in the post-employment competition, Georgia courts will prohibit competition to the extent that competition relies on misappropriated trade secrets.

If you have any questions regarding this decision or non-compete agreements in general, please contact the Ford & Harrison attorney with whom you usually work or the author of the Noncompete News, Jeff Mokotoff, jmokotoff@fordharrison.com or 404-888-3804.