

# Intellectual Property and Trade Secrets Solutions in Franchising

## Creating Value For Our Clients

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Seyfarth Shaw LLP recognizes the importance that intellectual property and non-competition agreements play in maintaining and enhancing successful franchises. Trademarks, service marks, trade names, domain names, copyrights, trade secrets, trade dress, patents and other intellectual property are often some of the most important and valuable assets involved in franchises. Drafting appropriate agreements and documents to adequately protect these assets is often paramount to success. Similarly, when disputes arise with franchisees and third parties, the importance of these assets is often highlighted in litigation that can be both expensive and time-consuming, yet vital to the success of the franchise.

Seyfarth's dedicated team of franchise and dealer dispute, intellectual property, and trade secret/non-compete attorneys have helped franchisors protect their assets in this important area in a cost-effective manner for decades. We understand that these matters can involve high-stakes, bet-the-company issues, and we are prepared to take immediate, decisive, and efficient action to address them.

The Seyfarth team includes accomplished litigators who are skilled in effectively and efficiently representing franchise and distribution companies at the trial and appellate levels, as well as attorneys who can draft appropriate agreements and documents to adequately protect franchisors' intellectual property, including preparing trademark applications and non-competition agreements, as well as data privacy policies. Our attorneys have experience handling a broad array of disputes, including actions for:

- breach of contract
- earnings claims
- transfer issues
- enforcement of systems standards
- unpaid royalties and advertising fees
- trade secret misappropriation

- trademark and copyright infringement
- trade dress, state unfair competition, and Lanham Act claims
- patent infringement
- territorial disputes
- enforcement of termination rights, including restrictive covenants and registration
- disclosure and other statutory violations
- domain name disputes
- data privacy violations

Our attorneys tap the team's breadth and depth to solve franchisors' problems in this area. The problems can vary from assisting a franchisor in litigation to enforce a trademark and non-competition covenant against a former franchisee; advising a franchisor on its trade secret and other intellectual property protections, including the inclusion of restrictive covenants in its various agreements; or assisting a franchisor in navigating various intellectual property issues in opening international franchise locations.

With franchising growing at an unprecedented pace, litigation is also on the rise. The number and intensity of disputes between franchisors, franchisees, licensees, and

other third parties has grown, and franchise agreements have come under increased scrutiny by the courts.

Our attorneys are dedicated to staying on top of industry trends and factors affecting the competitive marketplace in order to provide the most strategic, efficient, and cost-effective advice and dispute resolutions to our clients. Seyfarth's team also embraces *SeyfarthLean*—our fresh approach to thinking about and executing on the delivery of legal services. Based on Lean Six Sigma principles, this new way of delivering client value provides greater efficiency and predictability to our franchisor clients.

## The Importance of Protecting Intellectual Property Assets

Our attorneys understand that intellectual property assets are often the core of a franchise.

Trademarks are central to a franchise and distribution network. A franchisor's brand is more than just a word or logo—it is an identity, a reputation, and ultimately a key to profitability. When a mark is endangered, as a result

### EFFICIENT LITIGATION APPROACH

We defended one of the nation's largest manufacturers and sellers of furniture in a dispute with a franchisee alleging, among others, claims for breach of contract, unfair competition, and violation of federal and state antitrust laws. We efficiently resolved the litigation through successful dispositive motion practice and worked creatively with franchisee's counsel to resolve the dispute in a manner that allowed the parties to maintain an ongoing mutually beneficial business relationship.

**Result:** Our client was satisfied with our ability to avoid costly litigation and to identify a solution that would enable continued business between the two parties.

### ENFORCING FRANCHISE STANDARDS

We represented a large restaurant franchisor in a case against a franchisee that was maintaining a restaurant far below health code standards and was delinquent in franchise payments. Our client wanted to ensure that the franchisee did not continue to use the brand name at a sub-standard establishment. Our team was able to obtain unequivocal promises regarding cleanliness, with severe penalties for violations, and an agreement to pay installments toward the outstanding amount owed.

**Result:** Our client was satisfied with the resolution of this dispute, as it was achieved without prolonged litigation.

of infringement, dilution, or used in ways a company never intended, it can have grave consequences. Copyrights, including literary creation or cutting-edge multimedia content, and patents can also be essential to a franchise. Creation and maintenance of a franchisor's on-line presence, including the registration and protection of domain names and proper data privacy practices, are also essential to a franchise's development.

Similarly, trade secrets in a franchise setting can be the life blood of the franchise, and often include financial, structural, technical, engineering, marketing, distribution techniques and documents, as well as formulas, recipes, business plans, operations manuals, and pricing information. In some franchise systems, customer lists are extremely important and often qualify for trade secret protection.

Franchisors also routinely develop, use and license confidential and proprietary computer software in the franchise system. Additionally, franchisees may develop improvements to the franchise and generate valuable business data, and the various agreements with franchisees, including the franchise agreement, should address the ownership and confidentiality of such information. Non-competition agreements and other restrictive covenants also play an important role

in protecting franchises in many jurisdictions. They provide the franchisor with the ability to restrict competition and protect its intellectual property assets after a franchisee departs.

Our team is especially experienced in instances when a franchisee continues to use the franchisor's intellectual property, or when key employees form their own business or go to work for a competitor and take with them valuable trade secrets. We have a proven record of success in obtaining temporary restraining orders, injunctions, and seizure orders in cases where every hour is crucial to the client's bottom line. Consistent with our client-focused strategy, these avenues often result in early settlement and less costly outcomes.

To avoid the theft of intellectual property and the costly litigation that can ensue, we regularly advise clients regarding best practices for drafting confidentiality, non-disclosure, and non-competition agreements with franchisees and key employees; investigate copyright ownership issues and conduct due diligence in corporate acquisitions involving copyright; provide training to management in how to avoid disputes among franchisees, employees, customers, and suppliers; and advise clients how to retain confidentiality by limiting access to trade secrets and other intellectual property. ■

## SUCCESSFUL TRANSACTIONAL ENGAGEMENT

We represented a large retail auto parts franchisor in an engagement concerning reviewing its non-competition and its trade secret protection agreements on a multi-state basis. Our client wanted to update its written agreements to ensure that it was complying with applicable law and utilizing the most legally permissible and advantageous competitive restrictions. We provided the client with a multi-state analysis and updated the language for its agreements.

**Result:** Our client was pleased with the result and incorporated the revisions into its latest agreements. The client now has a better understanding of its trade secrets and related intellectual property assets and has implemented effective processes to protect those assets.

## INTERNATIONAL INTELLECTUAL PROPERTY EXPERTISE

We assisted a large restaurant franchisor in opening numerous franchise locations internationally, including China, Hong Kong, South Korea, Indonesia, the Philippines, Japan, Malaysia, Mexico and the United Arab Emirates. We provided expertise in navigating the intellectual property laws that were applicable in the various countries.

**Result:** Our client was pleased with the ease with which the international intellectual property aspects of the franchise openings were facilitated.

# About Seyfarth Shaw

Seyfarth Shaw LLP (“Seyfarth”) was founded in 1945 by three lawyers and has grown to more than 800 lawyers across 13 markets in the U.S. and abroad. We handle issues for our clients in all key areas including labor and employment, litigation, construction, corporate, employee benefits, environmental, government contracts, intellectual property, commercial litigation, real estate, securities litigation, trade secrets, trusts and estates, and workouts and bankruptcy, among others.

Our success is the result of a constant, unrelenting focus on the needs of our clients. Our commitment to excellence and our belief in the strength of a team-based approach to the delivery of our services offers an atmosphere of creative and innovative thinking.

Our clients are our partners in business and we are committed to listening to their needs and to aligning the skills and abilities of our people to respond to those needs. Our clients range from *Fortune* 100 to midsize companies, and include publicly traded and privately held companies and various types of funds. We represent clients of all sizes across all industries and we are diligent in providing the same level of commitment to each client.



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