



Stealing the System:

Trade Secret Battles
After Franchise
Termination

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LEGAL

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Max DeLeon
Cheng Cohen LLC

Ronald Coleman
Bradley Arant Boult Cummings LLP

Himanshu Patel
Zarco Einhorn Salkowski, P.A.

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Trade Secret Strategy

What?
Elements

Why?
Strengths &
Weaknesses

How?
Strategic
Considerations

The Franchisor's Toolkit

- **Lanham Act** → Protects the *marks*
- **Contract (Noncompete)** → Stops *everything* for a limited time in a limited area
- **Trade secret law (DTSA / UTSA)** → Protects specific *information*

What is a Trade Secret Claim?

Elements: What Can Be a Trade Secret?

Any kind of business/technical information that:

- Has economic value *because* it is not generally known or readily ascertainable
- Is subject of reasonable efforts to maintain secrecy

What Can Be a Trade Secret?

Customer
Data

Pricing
Models

Operations
Manuals

Software
Tools

Recipes/
formulas

Vendor/
Supply
Chain Info

Independent Value

- What confidential info gives our business a *competitive advantage*?
- How is it *different* from what is generally known in the industry?
- How hard would it be for a competitor to *replicate*?
- How could a competitor *use it against us*?

“[T]he inclusion of some information in compilations which could have been obtained from public sources does not mean the compilations were not trade secrets, and that trade secrets may be found, even as to that information, when it would have been immensely difficult to collect and compile it in the form in which it appeared in the compilation.”

Allstate Ins. Co. v. Fougere, 79 F.4th 172, 187–96 (1st Cir. 2023)

“Reasonable Measures” of Protection

Contracts + Controls + Consistency

- Contracts (NDAs, franchise agreements)
- Access controls (passwords, tiered access)
- Operational discipline + training
- Policing + monitoring compliance

Elements: Misappropriation

- Improper acquisition
- Duty to keep secret
- Knowledge of breach of duty*

**Can apply to non-signatories*



“[B]ecause direct evidence of theft and use of trade secrets is often not available, courts routinely allow a plaintiff to rely on circumstantial evidence to *prove* misappropriation by drawing inferences from perhaps ambiguous circumstantial evidence.”

JTH Tax LLC v. Grabowski, 2021 WL 3857794, at *6–8 (N.D. Ill. Aug. 30, 2021)

Speed to market | Overlap / commonality | Suspicious behavior

Should I Bring a
Trade Secret
Claim?

Benefits of a Trade Secret Claim



- DTSA gives federal court jurisdiction
- Can support or fill gaps in noncompete claims
- Additional remedies

Challenges of a Trade Secret Claim



- Higher litigation effort and expense
- Uncertainty re court findings
 - Risk of creating bad precedent
 - Exposure to attorney fees for bad-faith or baseless claims
- Risk of disclosure
- Limited relief

Remedies – DTSA or UTSA

- Injunctions – preliminary and permanent (DTSA: seizure)
- Damages or alternatives
 - Unjust enrichment
 - Reasonable royalty
- Extra relief for “willful” misappropriation
 - Double damages (even for royalty or unjust enrichment)
 - Attorneys’ fees - discretionary

Strategic Considerations

Pre-Dispute
Protections

Early Investigation

Early Disputes

Preliminary
Injunction

Discovery

Summary Judgment

Pre-Dispute Protections

Draft Protections

- Franchise agreements
- Operations manuals
- Employee NDAs



Identify + Protect

- What information is valuable enough to merit special protections?
- Structure information flow through software and vendors
- Password protect intranets
- Train and police requirements

Early Investigation

Audit trails

Access to branded emails

Talk to business and marketing coaches

Know the business model

Early Disputes

Venue – Federal or State Court

Pleading trade secrets with specificity

Whether to sue additional parties?

Preliminary Injunction

Likelihood of
success

Irreparable
harm

Private &
public harms

Discovery
beforehand?

Upshot of a
win?

Discovery Issues

By franchisor

- Misappropriation
 - Forensic Investigation
 - Circumstantial evidence
 - Third parties
- Damages support

By franchisee

- Overreach
 - Detailed ID
 - Evidence of value
- Protection gaps
- Info used by others

Protective orders

- AEO
- Experts
- In camera review
- Sealing exhibits

Summary Judgment

For franchisor

Need specific definition of trade secrets at issue

Evidence re how trade secrets are different from info generally known

Evidence creating inference of use or disclosure (not just possession)

For franchisee

Attack specificity of trade secret definitions

Show failure to protect confidentiality

Attack uniqueness of info – known or used in industry

Evidence that franchisee had or knew info through other sources

Questions?



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