

Maintaining Your Trade Secrets and Enforcing Non-Competes after Termination/Expiration/Abandonment

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Trade Secrets and Non-Competes

Why Important?

- Protection of the franchise System which is licensed to franchisees to be replicated and used.

Trade Secrets and Non-Competes

Non-Compete Clauses – in Georgia

- In Georgia are subject to “strict scrutiny”
- “Strict scrutiny” means non-compete must:
 - Have reasonable time, territory and scope.
 - One unreasonable provision voids all other restrictive covenants.
- Court cannot “blue pencil,” i.e., modify, to make enforceable

Trade Secrets and Non-Competes

Post-Term Non-Compete Clause

- Reasonable time:
 - 1-2 years usually held valid
- Reasonable territory:
 - Must be ascertainable at time of contracting
 - Lack of any territorial limit ***always*** fatal
 - Tying territory to radius of franchises added during the term of agreement ***always*** fatal

Trade Secrets and Non-Competes

Post-Term Non-Compete Clause

- Reasonable scope of restricted activity
 - Subjective terms usually unenforceable:
 - “similar”
 - “competing business”
 - Objective criteria have chance of success:
 - “Competitive business means any business which derives X% of its revenues from the sale of...”
 - “Any capacity” clauses unreasonable

Trade Secrets and Non-Competes

In-Term Non-Compete Clause

- In Georgia – Atlanta Bread v. Lupton-Smith
 - Covenant at issue: “... bakery/deli business whose method of operation is similar to that employed by store units within the System...”
 - Court held: Unenforceable.
 - In-term non-compete subject to same strict scrutiny as post-term – must be reasonable as to time, scope, territorial limitation.
 - Did ***not*** invalidate all in-term non-competes

Trade Secrets and Non-Competes

In-Term Non-Compete Clause

- In Other States
 - Most permit restrictions against owning, operating, employed by, providing assistance to a competing business
 - Geography – often a wide latitude but if more narrowly tailored more likely to be upheld
- Consider a full-time best efforts provision

Trade Secrets and Non-Competes

Trade Secrets and Confidential Information

- Can prohibit disclosure or use of trade secrets and confidential information outside of franchised business
- Non-Disclosure Agreement
 - Required to prohibit use of confidential information that does not amount to trade secret
 - Time: 2-5 years after termination usually valid

Trade Secrets and Non-Competes

Trade Secrets and Confidential Information

- Trade Secrets
 - “information, without regard to form, ... which is not commonly known by or available to the public,”
 - derives actual or potential economic value from being not generally known to, or readily ascertainable by proper means by, other persons
 - is the subject of reasonable efforts to maintain secrecy
- Confidential Information: not commonly known by or available to the public

Trade Secrets and Non-Competes

Trade Secrets and Confidential Information

- Potential Franchisor Trade Secrets:
 - Unique business system, methods, and formats
 - Product information, recipes, formulas
 - Customer and supplier information
 - Business plans and marketing information

Trade Secrets and Non-Competes

Hypothetical In-Term Non-Compete

During Term. During the Term, Franchisee and its Owners will not, without Franchisor's prior written consent, either directly or indirectly, for themselves, or through, on behalf of, or in conjunction with any other person or Entity:

- (i) own, manage, engage in, be employed by, advise, make loans to, or have any other interest in, as a partner, owner, officer, executive, managerial employee, director, sales person or consultant for, any business that operates or licenses others to operate a restaurant, retail outlet, catering business, or any similar food business that primarily serves ice cream as the primary menu item, at any location within 5 miles of any Store in existence at the Effective Date or if permitted by law, in existence during the Term in the United States or by any means, including, without limitation, sales via the Internet or catalogs ("**Competitive Business**");



Trade Secrets and Non-Competes

Hypothetical Post-Term Non-Compete and Non-Solicitation

After Termination, Expiration, or Transfer. For two years after the expiration or termination of this Agreement or an approved Transfer to a new franchisee, Franchisee and its Owners may not, without Franchisor's prior written consent, **(i)** directly or indirectly own, manage, engage in, be employed by, advise, make loans to, or have any other interest, as a partner, owner, officer, executive, managerial employee, director, sales person or consultant, in any Competitive Business that is (or is intended to be) located within a 5-mile radius of Franchisee's Store or a 5-mile radius of any other Store open or under construction on the Effective Date, or if permitted by law, in existence at the time of expiration or termination, or **(ii)** solicit for employment any person who at any time within the immediate past 12 months has been employed by us, or our affiliates, or by any of our franchisees.

Trade Secrets and Non-Competes

Hypothetical Terms regarding Suppliers and Deliveries

Supplier Information. You must, upon our request, supply us with a written report of your purchases from each supplier for the preceding fiscal year.

Sales Only In Compliance With This Agreement. You agree that all deliveries of your products will be made only to the Store. You may not have products delivered to any other address. You may not offer for sale any products that you are authorized to sell under this Agreement at any address other than at your Store or otherwise in compliance with this Agreement.

Close Vendor Accounts. You must close all of your accounts with vendors which were opened in connection with the opening and operation of the Store. We have the right to notify your vendors that this Agreement has expired or been terminated and to require them to close your accounts, if you fail to do so.



Trade Secrets and Non-Competes

Update on Georgia Non-Compete Reform Bill

- Constitutional Amendment passed General Assembly; will be on November ballot.
- “Shall the Constitution of Georgia be amended so as to make Georgia more economically competitive by authorizing legislation to uphold reasonable competitive agreements”
- **VOTE YES**

Trade Secrets and Non-Competes

Update on Georgia Non-Compete Reform Bill

- Proposed revised law applies to franchisees, distributors, and certain types of employees
- In-term non-compete - presumptively permits:
 - Time period = duration of franchise relationship
 - Geography = franchisor's business area
 - Scope of competition = franchisor's business

Trade Secrets and Non-Competes

Update on Georgia Non-Compete Reform Bill

- Post-Term non-compete
 - Time limit presumptions
 - Employee – 2 years
 - Franchisee – 3 years
 - Sale of business – 5 years
 - Scope description: sufficient if activities referenced and qualified by “of the type conducted, authorized, offered or provided within two years prior to termination”
- Courts can “blue pencil” - modify overbroad restrictions to render enforceable

Trade Secrets and Non-Competes

Best Practices/Pointers

- In Georgia – must narrowly draft non-compete in areas of time, territory, scope of activities
 - In-term non-compete must include territorial limit
- Other alternatives:
 - Choose franchisee's home state as choice of law for non-compete (but careful of Georgia venue clause)
 - Full time/best efforts clause
 - Give right to terminate for engaging in competing business

Trade Secrets and Non-Competes

Best Practices/Pointers

- Regarding trade secrets/confidential information:
 - Identify categories in franchise agreement
 - Franchisee acknowledgements
 - Prohibit disclosure or use outside of franchise business and after termination
 - Take reasonable steps to preserve secrecy

Trade Secrets and Non-Competes

Best Practices/Pointers

- Consider these strategies:
 - Controlling real estate through lease rider, subleasing, or collateral assignments
 - Post-termination assignment or cancellation of phone numbers/listings
- Enforce rights through litigation/arbitration
 - Proof issues
 - Preliminary injunction



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THANK YOU

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