NONCOMPETE ENFORCEMENT TODAY: SLAM DUNK OR RED ZONE PROBLEM?

Michael R. Gray
Principal, Gray Plant Mooty
Minneapolis, Minnesota

and

Erin Conway Johnsen
Partner, Garner & Ginsburg, P.A.
Minneapolis, Minnesota

October 16 – 18, 2019
Denver, CO
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>II. HISTORICAL PERSPECTIVE</td>
<td>1</td>
</tr>
<tr>
<td>III. NEW AREAS OF SCRUTINY</td>
<td>2</td>
</tr>
<tr>
<td>A. Protectable Interest</td>
<td>2</td>
</tr>
<tr>
<td>B. Irreparable Harm</td>
<td>5</td>
</tr>
<tr>
<td>C. Scope of Restrictions</td>
<td>9</td>
</tr>
<tr>
<td>D. Bonds</td>
<td>14</td>
</tr>
<tr>
<td>E. Who is Bound</td>
<td>16</td>
</tr>
<tr>
<td>IV. ALTERNATIVES TO ACCOMPLISHING THE SAME RESULT</td>
<td>20</td>
</tr>
<tr>
<td>A. Confidentiality Clauses</td>
<td>21</td>
</tr>
<tr>
<td>B. Nonsolicitation Agreements, Control of Customer or Customer Data,</td>
<td>22</td>
</tr>
<tr>
<td>Telephone Assignments, and Control of Web Presence/Social Media</td>
<td></td>
</tr>
<tr>
<td>Presence</td>
<td></td>
</tr>
<tr>
<td>C. Lease Assignments</td>
<td>23</td>
</tr>
<tr>
<td>D. Trademarks/Trade Dress/Trade Secrets</td>
<td>24</td>
</tr>
<tr>
<td>E. Takeaway on Alternatives</td>
<td>24</td>
</tr>
<tr>
<td>V. CONCLUSION</td>
<td>25</td>
</tr>
</tbody>
</table>
I. INTRODUCTION

For as long as franchising has been a significant method of distributing of goods and services in the United States, there have been disputes involving efforts by franchisors to enforce noncompete obligations. The substantial body of case law on this topic goes back more than 60 years. While the majority of this case law concerns post-termination noncompete provisions, a smaller portion concerns in-term noncompete provisions. This paper will explore recent cases where a court has either denied enforcement or significantly curtailed the scope of enforcement in situations where either the franchisor failed to carry its burden or the franchisee called into question the existence of a protectable interest, irreparable harm, and entitlement to injunctive relief. What once was a slam-dunk has become more challenging for franchisors.

II. HISTORICAL PERSPECTIVE

Historically, franchisors found success enforcing noncompete obligations in the majority of states where these provisions are not unenforceable either by statute or franchise relationship laws. By controlling the language in the franchise agreement, the franchisor was able to extract admissions from franchisees that violation of the noncompete provision constituted irreparable harm and entitled the franchisor to injunctive relief. However, in the last 10 to 15 years, courts have been less likely to simply rubberstamp franchisors’ requests for injunctions based solely on the language in the franchise agreements and finding of likelihood of success on the merits. Instead, the courts have been more receptive to franchisees’ arguments that the franchise agreement language is not dispositive and that franchisors must demonstrate actual irreparable harm instead of relying on a presumption based on contract language.

The genesis for this trend may be the United States Supreme Court decision in eBay Inc. v. MercExchange, L.L.C. In this patent case involving a request for injunctive relief, the Supreme Court rejected the notion that an injunction should automatically follow a determination of a patent or copyright infringement, and reaffirmed the traditional four-factor test for injunctive relief, including proof of irreparable harm. Since this decision, several courts have held that the same analysis applies to claims of trademark infringement under the Lanham Act. Other courts

---

1 Michael Gray is a Partner in the Minneapolis office of Gray Plant Mooty and represents franchisors throughout the United States. Erin Conway Johnsen is a partner at Garner & Ginsburg, P.A. in Minneapolis, MN. She focuses her practice on representing franchisees and franchisee associations, assisting them in resolving disputes with franchisors. Michael Gray would like to acknowledge the assistance of Brooke Robbins, 2020 JD Candidate at The University of Minnesota Law School for her significant contributions to this paper. Erin Conway Johnsen would like to acknowledge the assistance of Kirsten Nordstrom, 2020 JD Candidate at The University of Minnesota Law School, for her research, editing and bluebooking support.


3 The general rule is noncompete agreements are enforceable. However, laws vary by state. Certain states, such as California, prohibit competitive restrictions on specific types of relationships. See Cal. Bus. & Prof. Code § 16600.


5 See id at 391–93.

6 See, e.g., Ferring Pharm., Inc. v. Watson Pharm., Inc., 765 F.3d 205, 206 (3rd Cir. 2014) (relying on eBay and concluding that “a party bringing a claim under the Lanham Act is not entitled to a presumption of irreparable harm”); Swarovski Aktiengesellschaft v. Bldg. No. 19, Inc., 704 F.3d 44, 53–54 (1st Cir. 2013) (finding a motion for preliminary injunction for a Lanham Act claim required a showing of irreparable harm).
have gone so far as to expressly eliminate the presumption of irreparable harm, even if the plaintiff has satisfied its burden of showing substantial likelihood of success on the merits.\(^7\) Although not cited directly in many of the cases discussed below, the concepts espoused in *eBay* are infiltrating more Lanham Act cases in the franchise context, thereby requiring franchisors to come forth with evidence of irreparable harm instead of relying on an outdated presumption based on language in their franchise agreements. The same concept appears to be moving into the world of noncompete enforcement.

### III. NEW AREAS OF SCRUTINITY

#### A. Protectable Interest

A noncompete agreement is intended to protect the franchisor's valuable protectable interests. Normally, these interests include the franchisor's goodwill associated with its trademarks any confidential information the franchisor shared with the franchisee during the course of the franchise relationship, the franchisor's ability to refranchise the territory, and the integrity of franchise system itself.\(^8\) Many courts recognize one or more of these protectable interests as the basis for enforcing noncompete agreements in the franchise context.\(^9\) Historically, so long as the franchisor is actively pursuing the sale of new franchises and is authorized and registered to do so in the state, most franchisors should be able to articulate protectable interests that support noncompete enforcement.\(^10\)

Additionally, most franchise agreements contain a provision stating the franchisee agrees that the noncompete is reasonable and necessary to protect the franchisor's valuable proprietary information and business interests.\(^11\) However, franchisors relying on this provision

---

\(^7\) See, e.g., *Herb Reed Enters., LLC v. Fla. Entm't Mgmt., Inc.*, 736 F.3d 1239, 1249 (9th Cir. 2013).


\(^9\) See, e.g., *U.S. Lawns, Inc. v. Landscape Concepts of CT*, LLC, No. 6:16-cv-929-Orl-41DAB, 2016 WL 9526340, at *6 (M.D. Fla. Oct. 31, 2016) (finding the noncompete agreement was reasonable because it protected the goodwill of the franchise system); *CiCi Enters., LP v. Four Word Motion*, LLC, No. 6:16-cv-1679-Orl-41KRS, 2016 WL 9244626, at *8 (M.D. Fla. Oct. 17, 2016) (enforcing the noncompete agreement when the former franchisee "acquired confidential and proprietary information" and the noncompete protected the franchisor's goodwill); *Sylvan Learning, Inc. v. Gulf Coast Educ., Inc.*, No. 1:10–CV–450–WKW[WO], 2010 WL 3943643 (M.D. Ala. Oct. 6, 2010) (holding the noncompete agreement was enforceable since the former franchisee continued to use the franchisor's goodwill, client lists and operation methods).

\(^10\) See cf. *Tantopia Franchising Co., LLC v. West Coast Tans of PA*, LLC, 918 F. Supp. 2d 407, 418 (E.D. Pa. 2013) (finding the franchisor "has an interest in being able to place a new franchise in the area where the goodwill has been created"); *Outdoor Lighting Perspectives Franchising, Inc. v. Home Amenities, Inc.*, No. 3:11–cv–0567, 2012 WL 137808, at *2 (W.D.N.C. Jan. 18, 2012) ("A franchisor's goodwill and reputation would be damaged if a terminated franchisee continued to operate a directly-competitive business . . . [because the franchisor] w[ould] be unable to reenter the market serviced.").

\(^11\) See, e.g., *Singas Famous Pizza Brands Corp. v. New York Advert. LLC*, 468 Fed. Appx. 43, 46 (2nd Cir. 2012) (concluding the noncompete agreement was reasonable since the former franchisee arguably admitted the restrictions were "reasonable and necessary for the protection of the proprietary interest" in the contract provisions); *Bad Ass Coffee Co. of Hawaii, Inc. v. JH Nterprises, L.L.C.*, 636 F. Supp. 2d 1237, 1241 (exemplifying the common contract language where a franchisee agrees the noncompete is reasonable and necessary to protect the franchisor's interests).
as an admission of fact are taking an unnecessary risk that they can carry their burden in an injunction proceeding by relying on the contract alone. Recently, several franchisees have challenged these provisions and the underlying presumption by demonstrating that the franchisor has insufficient or no protectable interest that supports injunctive relief.

For example, in Bennigan’s Franchising Co., L.P. v. Swigonski, the United States District Court for the Northern District of Texas denied Bennigan’s motion to enforce a noncompete agreement. The court found that the noncompete agreement did not protect Bennigan’s legitimate business interests in the region, since it was unreasonably restrictive and overbroad. The franchise agreement barred the former franchisee from operating “any casual dining or other restaurant that is in any way competitive or similar to Bennigan’s.” Although the franchise agreement contained a list of restaurants that qualified as “casual dining,” the court found Bennigan’s failed to identify a common thread to limit this term to Bennigan’s actual protectable interests. Further, Bennigan’s had no other franchises within 210 miles of the former franchisee’s establishment, so the court held the restrictions unnecessarily limited the former franchisee beyond Bennigan’s business interests and denied Bennigan’s motion to enforce the noncompete agreement. The lesson for franchisors from the Bennigan’s case is to tailor the specific noncompete provisions to actual, protectable interests based on the franchisor’s unique franchise system. When the scope, duration, and prohibited activities of the noncompete provision greatly exceed that necessary to protect the franchisor’s unique business concept, trouble ensues. Instead of choosing the longest time and largest geographic area the franchisor thinks it can get away with, the franchisor should tailor those provisions to actual market conditions and the unique aspects of its franchise system.

Another example of an overbroad provision is in Window Gang Ventures, Corp. v. Salinas, where the court held the noncompete restrictions were unnecessary to protect Window Gang’s legitimate business interests. The noncompete provision prohibited the former franchisee from engaging in any business that was “the same” or “similar to” Window Gang and its system, not simply “competitive” businesses. The court held this feature alone made the noncompete overbroad and unenforceable. Window Gang also failed to establish it had existing customers in the region. The court found Window Gang’s “bare-bones” customer base

---

13 Id. at *3.
14 Id.
15 Id.
16 Id.
17 Id. at *5.
19 Id. at *8.
20 Id.
21 See id. at *6.
showed there was insufficient goodwill that warranted protection. Additionally, the noncompete barred the former franchisee from working for prohibited businesses in any capacity. The court concluded this prohibition included working in roles that were potentially wholly unrelated to the franchisor’s legitimate business interests. Therefore, the court dismissed Window Gang’s claim due to the noncompete’s unreasonable restrictions that failed to protect the franchisor’s legitimate business interests. In a situation like this, the franchisor should consider tailoring the noncompete provision to prevent the former franchisee from soliciting or continuing to provide the same services to customers formerly serviced by the franchisee for a specific period. A customer based non-solicitation/noncompete agreement is focused exclusively on protecting the customer goodwill developed under the franchisor’s trademarks and does not prevent the former franchisee from performing “similar” work for other customers, regardless of geography. Such a noncompete provision would be narrowly tailored and presumably easier to enforce.

In *Allen v. Hub Cap Heaven, Inc.*, the Georgia Court of Appeals reversed the lower court’s decision granting Hub Cap Heaven’s motion to enforce the noncompete agreement. The former franchisee allegedly violated the noncompete agreement by operating a similar automotive accessories store. Hub Cap argued that its specific sales techniques for selling automotive trim pieces were unique and protectable. Hub Cap also claimed that information that allowed the former franchisee to contact suppliers was valuable and confidential, proprietary information. However, the court concluded that these sales techniques and supplier information were not protectable interests, because this allegedly “secret” information was commonly known. Again, the franchisor did not focus on the goodwill generated by the former franchisee, but on alleged confidential information and sales techniques that are easier to challenge. That is where the franchisor went wrong. Former franchisees continue operating competitive businesses in the same location because of the repeat business (goodwill) developed under the franchisor’s marks. Were that not the case, the former franchisee would quit the business altogether or operate in a different location. The fact that former franchisees continue to operate competing business in the same location is the best evidence of the value of the goodwill they are attempting to convert to the new independent business. Had the franchisor focused on these facts instead of alleged “secret” protectable information, it would have increased the chances of success in enforcing the post-termination noncompete agreement.

As these cases demonstrate, failing to tailor the scope of the noncompete provision to the unique aspects of the franchisor’s business opens the door for franchisee challenges.  

---

22 Id.

23 Id. at *8.

24 See id.

25 Id. at *9.


27 See id. at 261–62.

28 Id. at 263.

29 Id.

30 Id.
are the days where the franchisor merely demonstrated a breach of the noncompete provision in order to establish irreparable harm. The franchisor now must articulate how the former franchisee’s competitive activities are damaging to the franchisor’s goodwill, customer relationships, ability to refranchise the area, and/or the integrity of the franchise system in order to enforce the noncompete provision. The franchisor must also resist the temptation to make the noncompete provision as broad and expansive as possible, but instead articulate terms that are realistic based on the franchisor’s unique business system and method of operation.

Although franchisees have been successful challenging noncompete provisions in some recent decisions,31 a franchisor should be able to argue a breach of the noncompete agreement harms a protectable interest. As long as the scope, duration and prohibited activities reasonably relate to the franchisor’s unique protectable interests and the franchisor focuses on protecting goodwill, there should be a reasonable chance of success.

B. Irreparable Harm

The starting point of any effort to obtain injunctive relief is demonstrating the threat of irreparable harm, meaning the potential damage is not compensable through monetary remedies.32 Irreparable harm is an essential condition for granting injunctive relief.33 Historically, showing a breach of a valid noncompete agreement resulted in a presumption of irreparable harm.34 In fact, most franchise agreements include a provision where the franchisee admits that any breach of the noncompetition provisions will result in irreparable harm to the franchisor.35 However, as discussed above, the decision in eBay v. MercExchange36 caused a shift in the historical presumption. More recently, courts have been receptive to arguments that require the franchisor to demonstrate actual irreparable harm in order to obtain injunctive relief.

31 For additional cases where courts found the franchisor failed to demonstrate a protectable interest, see, e.g., Tutor Time Learning Ctrs., LLC v. KOG Indus., Inc., No. 1:12–CV–4129(NGG)(RER), 2012 WL 5497943, at *3 (E.D.N.Y. Nov. 13, 2012) (holding Tutor Time’s goodwill and desire to protect the franchise system did not provide a basis for finding valuable, protectable interests); Novus Franchising Inc. v. Brockbank, No. 1:16-CV-00078, 2016 WL 4734589, at *14 (D. Utah Sept. 9, 2016) (determining Novus’ repair processes and marketing techniques did not constitute protectable trade secrets); Outdoor Lighting Perspectives, Inc. v. Harders, 747 S.E.2d 256, 265 (N.C. Ct. App. 2013) (finding the franchisor had no legitimate business interest in precluding an ex-franchisee from operating an outdoor lighting business in regions where the franchisor or its affiliates engaged in completely unrelated business activities).

32 See Cate v. Oldham, 707 F.2d 1176, 1189 (11th Cir. 1983) (“An injury is ‘irreparable’ only if it cannot be undone through monetary remedies.”); cf. Wonder Works v. Cranium, Inc., 455 F. Supp. 2d 453, 460 (D.S.C. 2006) (“Where the harm suffered may be compensated by an award of money damages at judgment, courts generally have refused to find that harm irreparable.”).

33 See Fed. R. Civ. P. 65; see also City of Los Angeles v. Lyons, 461 U.S. 95, 111 (1983) (“[E]quitable remedy is unavailable absent a showing of irreparable injury.”).

34 See, e.g., Scotts Co. v. United Indus. Corp., 315 F.3d 264, 273 (4th Cir. 2002) (“[A] presumption of irreparable injury is generally applied once the plaintiff has demonstrated a likelihood of confusion.”); Church of Scientology, Int’l v. Elmira Mission of the Church of Scientology, 794 F.2d 38, 43 (2d Cir. 1986) (finding unauthorized use of a franchisor’s mark “invariably threatens injury to the economic value of the goodwill and reputation . . . demonstrat[ing] the requisite irreparable harm essential to obtaining a preliminary injunction”).


36 See supra Part II.
For example, in *7–Eleven, Inc. v. Grewal*, the United States District Court for the District of Massachusetts denied 7–Eleven’s motion for a preliminary injunction to enforce the noncompete agreement, due to lack of irreparable harm.\(^37\) The noncompete provision barred the defendants from operating a convenience store at the same location for one year after termination.\(^38\) Although the court recognized 7–Eleven would likely prevail on the merits of its breach of contract claim, the court held “a presumption of irreparable harm does not automatically follow from a finding that a plaintiff is likely to succeed on the merits of its motion to enforce a noncompete agreement.”\(^39\) The court concluded that it was not clear that delaying enforcement of the noncompete agreement until the trial on the merits would irreparably harm 7–Eleven.\(^40\) Apparently, the sheer size of 7–Eleven’s 50,000 franchise locations persuaded the court that lost profits associated with one store operating for one or two years would be “miniscule” in comparison to the company’s annual profits.\(^41\) The court also found that damages would be measurable and compensable.\(^42\) Finally, 7–Eleven did not demonstrate that harm to the franchisor outweighed the potential harm of injunctive relief upon the former franchisee.\(^43\) On that basis, the court found that 7–Eleven did not establish irreparable harm and denied 7–Eleven’s motion to enforce the noncompete provision.\(^44\) In this case, the court focused more on tangible financial elements of damage than the intangible elements of harm, such as, the inability to refranchise the location or loss of goodwill under the trademark at the specific location.\(^45\) By steering the inquiry to financial losses and the size of the franchisor, the franchisee was able to convince the court that the lost profits from one of 50,000 locations was insignificant compared to the potential harm to the franchisee from shutting down its store. In order to avoid being trapped in these types of arguments, the franchisor must emphasize the incalculable harm to its goodwill and inability to re-franchise the location instead of discussing lost profits from one location.\(^46\)

In *Tutor Time Learning Centers., LLC v. KOG Industries, Inc.*, the United States District Court for the Eastern District of New York also denied Tutor Time’s motion for a preliminary injunction to enforce a post termination noncompete agreement.\(^47\) The former franchisee, KOG,


\(^38\) See *id.* at 282.

\(^39\) *Id.* at 283.

\(^40\) See *id.*

\(^41\) See *id.*

\(^42\) *Id.*

\(^43\) See *id.* at 284.

\(^44\) *Id.* at 287.

\(^45\) In fact, the Court stated “[c]ustomers would have no reason to associate Defendants’ convenience store with the 7–Eleven brand after 7–Eleven’s marks are removed from the premises.” *Id.* at 283.

\(^46\) 7–Eleven did make these arguments, but the court rejected them. *Though the court, to some degree, credits 7–Eleven's argument regarding the increased difficulty of salvaging the profitability and consumer goodwill of the store . . . if the preliminary injunction is not granted, this potential for increased difficulty still does not outweigh potential harm to Defendants if the preliminary injunction is granted.* *Id* at 284 n.12.

violated the noncompete by operating similar childcare centers in the same locations after termination. In an effort to demonstrate irreparable harm, Tutor Time argued enforcement was necessary to prevent public confusion, harm to other franchisees and damage to its goodwill. Notably, the court rejected the proposition that irreparable harm can be presumed in breach of noncompete cases, instead finding that preliminary injunctive relief depends “on the factual particulars in each case.” In response to the loss of goodwill argument, the court concluded that termination of the franchise agreement ended Tutor Time’s relationship with the former franchisee’s geographic location and customers, because Tutor Time was not registered to sell franchises in the state of New York and had no prospect of putting a new franchisee in the former franchisee’s territory. Therefore, the court rejected Tutor Time’s claim of harm to its goodwill. With respect to the public confusion argument, the franchisee pointed out that there were no other Tutor Time locations within ten miles of the former franchise location, and Tutor Time failed to submit any evidence that enforcement of the noncompete agreement would result in customers taking their business to any other Tutor Time location. Finally, the court determined that any value to existing franchisees gained by enforcing the noncompete was too attenuated. Ultimately, the court concluded that Tutor Time failed to meet its burden to show irreparable harm.

In this case, the franchisor seemed to make all the right arguments. The court recognized that goodwill for a specific location is built over time and results in ongoing repeat customers who associate the location with the franchisor’s trademarks. Upon termination, that goodwill does not instantly evaporate. If the franchisee continues to operate at the location under a different name, customers will continue to come based on their past association with the location. In fact, the former franchisee is banking on it. Presumably, Tutor Time lost this case because it was not registered to sell new franchises in New York and could not argue that it was prepared to put a new franchisee in the territory in order to maintain the goodwill associated with the trademarks by servicing the former franchisee’s customers. Nor did Tutor Time submit any evidence that it attempted to recruit the former franchisee’s customers to other Tutor Time locations once it terminated the franchisee. These facts (or the lack thereof) convinced the court that Tutor Time failed to demonstrate irreparable harm absent injunctive relief.

Big O Tires, LLC v. Felix Bros. is an example of a dispute centered primarily around an in-term noncompetition provision where the franchisor similarly failed to show irreparable harm. In this case, Big O alleged that defendant franchisees violated still-operative franchise agreements by diverting customers to their formerly franchised store in violation of in-term noncompete covenants in the active franchise agreements. However, the United States

48 See id. at *1–2.
49 See id. at *3.
50 Id. at *6.
51 See id. at *4.
52 See id.
53 See id. at *5.
54 See id. at *5.
55 See id.
56 724 F. Supp. 2d 1107 (D. Colo. 2010).
57 Id. at 1111.
District Court for the District of Colorado found that Big O failed to show that it was likely to suffer irreparable harm in the absence of a preliminary injunction. The court based this decision on the franchisor’s failure to offer any proof of specific harm it was actually suffering, such as actual proof of diversion of customers, evidence that the franchisee was using confidential information at the non-franchised location to gain a competitive advantage, or evidence of harm to the Franchisor’s goodwill. Instead, the court found, Big O “simply identifies categories of harm it could theoretically suffer under a different set of circumstances.” This was not enough to justify injunctive relief.

In another in-term noncompete dispute, Winmark Corp. v. Brenoby Sports, Inc., a sporting goods franchisee violated the in-term noncompete by selling sporting goods online under a different brand name. The Franchisor demanded an audit of the unrelated companies and terminated the franchise agreement when the franchisee refused to submit to the audit. The franchisor sought a mandatory injunction to compel the audit. The United States District Court for the Southern District of Florida denied the mandatory injunction because the franchisor failed to show it would suffer irreparable harm in the absence of an immediate audit, noting “conjecture about a possibility of difficulties with damage computations is inadequate to support an injunction before trial.”

To establish irreparable harm, it is simply not enough to rely on franchisees’ admissions in the franchise agreement. As these cases demonstrate, franchisors must articulate specific elements of irreparable harm or risk an adverse ruling. For example, in Executive Home Care Franchising LLC v. Marshall Health Corp., the United States District Court for the District of New Jersey rejected the franchisor’s argument that the language in the franchise agreement established irreparable harm. According to the court, “language of the . . . [a]greement [should not be] taken into consideration as part of [the] analysis of irreparable harm.” The court determined that since the former franchisee was not using Executive Home Care’s proprietary materials or operating in the same location, Executive Home Care failed to establish irreparable harm. Any potential harm was deemed measurable, so the court denied Executive Home Care’s request to enjoin the former franchisee. The Third Circuit affirmed this decision.

---

58 Id. at 1122.
59 Id. at 1118–20.
60 Id. at 1120.
62 Id.
63 Id. at 1224 (quoting Northeastern Florida Chapter of the Assoc. of General Contractors v. City of Jacksonville, Florida, 896 F.2d 1283, 1286 (11th Cir.1990)).
65 Id. at *3.
66 See id. at *5.
67 See id. ("The value of the business lost is readily ascertainable through discovery.").
There are also other factors that can play a key role in determining whether a franchisor can establish irreparable harm, such as the passage of time. In *Elder Care Providers of Indiana, Inc. v. Home Instead, Inc.*, the court held that the franchisor’s twenty-month delay in seeking injunctive relief undercut the franchisor’s argument of irreparable harm.\(^{69}\) If a franchisor is truly experiencing irreparable harm, it should take prompt action to seek relief in order to prevent further injury. In this case, although the parties were attempting to resolve the dispute in the ensuing time period, the failure to take decisive action in the face of alleged irreparable harm significantly undermined the franchisor’s arguments when it moved for injunctive relief to enforce the noncompete agreement.

As these cases show, several franchisees have successfully challenged the presumption of irreparable harm in recent decisions that involve unique facts or a failure to focus on intangible damage to the franchisor.\(^{70}\) When the former franchisee is operating the same or substantially similar business within the same territory or location, the franchisor should be able to demonstrate that the former franchisee is trading off the goodwill developed under the franchisor’s trademarks and business system and is an impediment to refranchising the area or location. Properly demonstrating that a former franchisee is causing harm to the franchisor’s goodwill and other protectable interests should result in a finding of irreparable harm.\(^{71}\)

C. Scope of Restrictions

To enforce a noncompete agreement, its scope generally must be reasonable. The scope of a covenant is reasonable if it is not injurious to the public, no greater than reasonably necessary to protect the enforcing party’s legitimate business interest, and is not unduly harsh.


\(^{70}\) For a list of additional cases on irreparable harm, see, e.g., Maaco Franchising, LLC v. Ghirimoldi, No. 3:15-cv-99, 2015 WL 4557382, at *3 (W.D.N.C. July 28, 2015) (finding the franchisor did not make a clear showing of irreparable harm, since it waited over two years to attempt to enforce its rights); Novus Franchising, Inc. v. Dawson, 725 F.3d 885, 894–95 (8th Cir. 2013) (rejecting Novus’ arguments that it would be irreparably harmed and upholding the district court’s finding that Novus would not be irreparably harmed, since potential damages were compensable); Victory Lane Quick Oil Change, Inc. v. Hoss, No. 07-14463, 2009 WL 2461260, *6–7* (E.D. Mich. Aug. 10, 2009) (finding the franchisor failed to show it would be irreparably harmed since the franchisor already opened a competing franchise within three miles of the ex-franchisee before the franchise agreement expired); Bennigan’s Franchising Co., L.P. v. Swigonski, No. 3:06-cv-2300-g, 2007 WL 603370, at *4 (N.D. Tex. Feb. 27, 2007) (stating the franchisor failed to “show that some non-monetary right [was] in danger” in order to prove the franchisor would suffer an irreparable injury); Novus Franchising, Inc. v. Oksendahl, No. 07–1964, 2007 WL 2084143, at *4–5 (D. Minn. July 17, 2007) (holding the franchisor could not establish irreparable harm for unnecessarily restrictive noncompete provisions that did not relate to the franchisor’s protectable interests); Pirtek USA v. Zaetz, 408 F. Supp. 2d. 81, 85 (D. Conn. 2005) (denying the franchisor’s motion for a preliminary injunction since the franchisor failed to show it would be irreparably harmed by consumer confusion).

\(^{71}\) See, e.g., IHOP Rests. LLC v. Moeini Corp., No. 17-00570-KD-M, 2018 WL 762343, at *7–8 (S.D. Ala. Feb. 7, 2018) (finding IHOP met its “burden of persuasion” to show irreparable harm by presenting evidence of customer complaints that harmed IHOP’s goodwill and brand); Complete Nutrition Franchising, LLC v. J. Howell, LLC, No. 8:17-CV-3170, 2018 WL 1174206, at *2 (D. Neb. Mar. 6, 2018) (finding the franchisor had shown a threat of irreparable harm due to the threat to its goodwill and reputation); McDonald’s Corp. v. Robertson, 174 F.3d 1301, 1309–10 (Fed. Cir. 1999) (holding the former franchisee’s unauthorized use of McDonald’s trademark irreparably harmed McDonald’s goodwill).
and oppressive on the party against whom it is asserted. However, as shown below, courts have differed in their determinations of what types of restrictions meet these requirements. Many franchisors have post-termination restrictions in their franchise agreements preventing franchisees from operating the same or similar types of businesses for a period of time (often between one and two years) in the territory where their franchised business operated and, often, within a designated distance (e.g., 10 miles) from any other franchise in the franchisor’s system. Historically, restrictions of this type have been widely enforced. However, some courts have recently struck down provisions of this type for being unreasonable in scope.

In some cases, courts look to the size and reach of the franchisor’s presence to determine whether post-termination restrictions on franchisees outside of their former franchise territories are reasonable. For example, in Unlimited Opportunity, Inc. v. Waadah, a former Jani–King franchisee, Waadah, began operating a competitive janitorial business after termination of the parties’ franchise agreement. The franchise agreement’s noncompete clause prohibited Waadah “from operating for 2 years the same or a similar business within the territory of the agreement.” It also prohibited Wadaah “from operating for a period of 1 year a competing business in any other territory in which a Jani–King franchise operates.”

In the district court, Jani–King alleged that Waadah breached the two-year noncompete agreement, but the court issued a ruling for Waadah. The court held that it was unreasonable to restrict competition outside of the area in which Waadah actually conducted business. Since the one-year restraint limited Wadaah from operating a competing business “in any other territory in which a Jani–King franchise operates,” and Jani–King operated in numerous countries throughout the world, the court found the agreement was unreasonable in geographic scope. Following this determination, the court relied on H & R Block Tax Services, Inc. v. Circle A Enterprises, Inc., finding it was unnecessary to address the remaining parts of the noncompete clause, because “it is not the function of the courts to reform a covenant not to

---


73 See, e.g., Singas Famous Pizza Brands Corp. v. New York Advent. LLC, 468 F. App’x 43, 46 (2d Cir. 2012) (finding pizza shop franchisor’s noncompete clause with ten-mile geographic restriction was reasonable); Winmark Corp. v. Brenoby Sports, Inc., 32 F. Supp. 3d 1206, 1219 (S.D. Fla. 2014) (holding a noncompete restricting competition for one year from date of termination of agreement and within eight mile radius of franchised location was reasonable in time and scope); Ledo Pizza Sys., Inc. v. Singh, 983 F. Supp. 2d 632, 642 (D. Md. 2013) (finding geographic and durational scope of a noncompete “reasonable on its face” where provision prohibited operation of a dine in or carry-out restaurant within 10 miles of the restaurant for two years); Carvel Corp. v. Eisenberg, 692 F.Supp. 182, 186 (S.D.N.Y.1988) (upholding a provision “limiting the [former franchisee's] ability to operate an ice cream store within two miles of their present location for three years”).

74 861 N.W.2d 437, 440 (Neb. 2015).

75 Id. at 439–40.

76 Id.

77 Id. at 440.

78 Id.

79 693 N.W.2d 548 (Neb. 2005) (affirming rejection of the blue pencil rule and finding that separate paragraphs of a covenant not to compete were not severable, so that if any portion of the covenant was invalid and unenforceable, the remainder of it was unenforceable as well).
compete in order to make it enforceable.” On appeal, the Supreme Court of Nebraska agreed, and found the entire noncompete agreement unenforceable. Here, the plain language of Jani-King’s one-year noncompete provision was itself not unusually broad. However, given the scope of the franchisor’s operations, this provision that may have otherwise been reasonable was struck down. Franchisors with many outlets should reconsider tying the geographic scope of their noncompetition provisions to the locations of all franchises in the system. Instead, franchisors should consider confining the geographic scope to the area where the former franchisee actually operated and/or where its natural customer base was located.

In other cases, courts have considered the nature of the franchisee’s business when it operated under the franchisor’s marks to determine whether the scope of a noncompete provision is reasonable in context. In *Dry Cleaning To-Your-Door, Inc. v. Waltham Liability Co.*, the noncompete provision in question prevented the franchisee from operating a residential dry cleaning pick-up and delivery business that competes with the franchisor or any of its franchisees. The noncompete had a term of two years after the expiration of the franchise agreement, and geographic scope encompassing the franchisee’s former territory and the territories of all other franchisees, together with a 25-mile radius around such territories. In considering the reasonability of these restrictions, the court noted that the dry cleaning business at issue was highly territorial in nature, and the history of the former franchisee’s operations showed that they were limited entirely to within its franchise territory. Taking these factors into consideration, the court limited the application of the noncompete provision to the franchisee’s former territory and a five-mile radius around it. Here, the court looked to how the former franchisee’s business operated in practice and the market from where the business drew its customers. While a franchise system providing freight services, for example, might draw its customers from a large area, most people are unlikely to go significantly out of their way to get their clothing dry cleaned. The specific nature of this pick-up and delivery business, then, factored heavily into the court’s decision. Where the scope of the business’s operations and that of the noncompetition provision are in stark contrast, restrictive covenants are less likely to be enforced, or may be subject to re-writing by courts. Franchisors generally consider the nature of the business being offered, and the area in which a specific franchisee will be operating,

---

80 *Unlimited Opportunity*, 861 N.W.2d at 440.

81 *Id.* at 444.

82 This attention to the scope of the franchisor’s operations is not dissimilar to the court’s analysis in *7–Eleven, Inc. v. Grewal*, 60 F. Supp. 3d 272, 283 (D. Mass. 2014). As discussed above, in Grewal, the court looked to the size of the 7–Eleven franchise system and the franchisor’s annual profits in determining whether the franchisor would suffer irreparable harm absent an injunction. These cases suggest that there may be different outcomes in cases involving noncompete enforcement, based on the size of the franchisor’s system. A larger franchisor may have a higher burden to meet to show that enforcement of its noncompete is necessary in comparison to a smaller or startup franchisor.


84 *Id.* at *1.

85 *Id.* at *3.

86 *Id.*

87 As these cases show, the impact on the parties when a court rejects an overly-restrictive noncompete can be vastly different in jurisdictions that favor blue penciling contract provisions as compared to those that refuse to blue pencil contracts.
when determining the size of a new franchisee’s territory. Franchisors should likewise consider these factors when setting the scope of their noncompete provisions.

In constructing noncompete provisions, franchisors should also consider the types of activities in which franchisees should be restricted from engaging. In *Outdoor Lighting Perspectives Franchising, Inc. v. Harders*, the contractual language at issue incorporated two separate geographical restraints. The first prohibited the franchisee from operating an outdoor lighting business within a 100-mile buffer surrounding the area in which it had previously operated, and the second prohibited the franchisee from operating a competitive business within the territory assigned to any of the franchisor’s franchisees or affiliates. The franchisor indicated, through affidavit, that it would not seek to enforce the 100-mile buffer provision and suggested instead revising the provision to only prohibit the franchisee from operating “any Competitive Business within the Territory or any other franchisee's Franchisor's or Affiliates’ territory.” Nevertheless, the court found that the contractual language, even as modified, was problematic in its application to the franchisor’s affiliates because the franchisor had two affiliates that were engaged in businesses totally unrelated to outdoor lighting. The court concluded that such a restriction was excessively broad, given that the franchisor had no legitimate basis to preclude the former franchisee from competing with franchisees or affiliates of the franchisor that were not engaged in the outdoor lighting business. As such, the court of appeals upheld the trial court’s denial of the franchisor’s request for a preliminary injunction against the franchisee. The franchisor in this case appears to have first put itself on the court’s bad side with the overly restrictive 100–mile buffer. In addition, Franchisors with multiple brands should avoid language extending the restrictive covenant to “affiliates” whose businesses are unrelated to those offered by the franchised business.

Similarly, in *Window Gang Ventures, Corp. v. Salinas*, as discussed above, the court found that the franchisor’s claim for breach of the noncompete failed as a matter of law because the restriction was not necessary to protect the legitimate interests of the franchisor. This was because the noncompete terms restricted activities beyond simply those that are “competitive” with the franchisor, and was overly restrictive in the types of roles the former franchisee could hold in such businesses. As discussed in more detail below, franchisors should consider carefully tailoring their confidentiality, non-disclosure and non-solicitation provisions to protect against franchisees using their proprietary information or soliciting former customers, in lieu of an overly restrictive noncompete.

---

88 Michael Gray of Gray Plant Mooty represented Outdoor Lighting Perspectives Franchising, Inc. in this matter.


90 See id. at 258.

91 Id. at 265.

92 Id.

93 Id.

94 Id. at 268.


96 See id. at *7–8.
Even if a franchisor crafts a noncompete provision that seems sufficiently targeted geographically and to the activities restricted for the average franchisee, franchisors may need to also consider specific circumstances of individual franchisees on a case-by-case basis. In *Aamco Transmissions, Inc. v. Romano*, a former AAMCO franchisee opened an automotive and transmission repair business five months after the amicable termination of its franchise agreement.\textsuperscript{97} This business was located more than ninety miles from their prior AAMCO franchise location, but in close proximity to another AAMCO franchise.\textsuperscript{98} The court determined that AAMCO had a legitimate and protectable business interest in its franchise brand that could be protected by a noncompete provision.\textsuperscript{99} However, it also found that the noncompete provision at issue prohibiting the Romanos from engaging in transmission repairs within a ten mile radius of any AAMCO center anywhere for two years was unreasonably broad in geographic scope.\textsuperscript{100} Noting the ubiquity of AAMCO franchises in Florida where the Romanos reside, the court found the ten-mile restriction from any AAMCO franchise anywhere to be unduly burdensome and overly broad.\textsuperscript{101} Accordingly, the court modified the covenant not-to-compete, limiting the geographic scope of the provision to a ten-mile radius only from the location of the Romanos’ former AAMCO franchise.\textsuperscript{102}

In coming to this decision, the court noted the following facts particular to the former franchisee: (1) they completely relinquished their share of the transmission repair business in Hollywood, Florida; (2) they relocated ninety miles away and did not take any of their customers with them; (3) their new business did not compete with their former AAMCO franchise or any AAMCO franchise in the Hollywood, Florida area; (4) there was no evidence, and no allegation, that the Romanos used AAMCO’s name, mark, or goodwill to solicit business; (5) the Romanos committed significant time, effort, and resources to maintain their business at its current location; and (6) the Romanos demonstrated at trial that their knowledge and experience in automotive and transmission repairs predated their relationship with AAMCO.\textsuperscript{103} Here, though the Franchisor made the right arguments, the individual franchisee’s facts and circumstances, combined with the nature of the automotive industry, factored heavily into the court’s decision.

When crafting noncompete provisions, the franchisor should carefully tailor the scope of those provisions with respect to geographic distance, types of activities restricted, and nature of the franchisee’s and franchisor’s businesses. In addition, when deciding whether to seek an injunction against a former franchisee, franchisors should consider whether there are additional


\textsuperscript{98} Id. at *3.

\textsuperscript{99} Id. at *7.

\textsuperscript{100} Id. at *6.

\textsuperscript{101} Id.

\textsuperscript{102} Id. at *7.

\textsuperscript{103} Id. At *6–7. This case was later rendered moot when the Romanos closed their new business. The court granted the franchisor’s motion to vacate and dismiss on the basis that the former franchisees had closed their business and ceased conducting transmission repairs in early March 2016. Once the case became moot, the Court’s initial decision became unreviewable. See Aamco Transmissions, Inc. v. Romano, No. CV 13-5747, 2016 WL 7374544, at *3 (E.D. Pa. June 27, 2016).
factors specific to the franchisee in question that might sway the court when determining whether the provision is unduly burdensome in scope for that franchisee.

D. Bonds

Most franchise agreements include provisions that state it shall not be necessary for the franchisor to post a bond in order to obtain injunctive relief against the franchisee. However, franchisors should not rely on the enforceability of these contractual provisions when considering seeking injunctive relief to enforce a noncompete provision against a former franchisee.

For example, in Petland, Inc. v. Hendrix, the court granted a franchisor’s request for a preliminary injunction, but conditioned the injunction on the franchisor posting a $1,500,000 bond. In determining to grant the injunction, the court found the franchisor was extremely likely to succeed on its claims, it would suffer irreparable harm in the absence of an injunction, and granting the injunction served the public interest. The court did note, however, that if issued improperly, the injunction would likely cause the franchisee significant harm. The court repeatedly noted that the injunction would likely cause the franchisee to file for bankruptcy, prevent them from being able to defend against the lawsuit and render them completely unable to satisfy any monetary judgment in favor of the franchisor. The court first decided to disregard a provision in the franchise agreement that stated that no security bond should be required, and instead required a bond roughly equal to the franchisee’s debts associated with operating the franchise, or $1,500,000. In setting aside the franchise agreement provision relating to bonds, the court noted that “the Franchise Agreement does not override the Federal Rules” or the court’s own “inherent equitable power.” The franchisor did not post the bond, therefore rendering the preliminary injunction toothless.

Likewise, in Tantopia Franchising Co., v. West Coast Tans of PA, LLC, the court required a bond even though the franchisor was all but certain to prevail on its claims, and even though the former franchisees were not sympathetic characters. Though the former

---


106 Id. at *9.

107 Id. at *10.

108 Id.

109 Id.

110 Id.


112 918 F. Supp. 2d 407, 421–22 (E.D. Pa. 2018). Though the former franchisees claimed not to have any involvement in the new, competing business, the evidence clearly showed that the former franchisees secured the
franchisees disputed that they had in any way breached the post-termination noncompete provision, the court did not find that argument persuasive, and noted that their actions “amount[ed] to nothing more than mere subterfuge to avoid their obligations under the Non-Compete Covenant.” 113 Despite this finding, the court conditioned the injunction on a $30,000 bond. 114 In doing so, the court noted that the Third Circuit does not view the bond requirement as discretionary, absent circumstances where there is no risk of harm to the defendant. 115 The court stated that the “plaintiff's likelihood of success on the merits . . . [was] high,” but found [n]onetheless, there [was] still a financial risk to defendants from the preliminary injunction. 116 Therefore, the court mandated a bond. 117 As there was no testimony as to the franchisee's potential lost profits, the court determined that a $30,000 bond would be sufficient, representing one-half of the amount of the loan taken out by the former franchisees to fund the expenses of starting the competing business. 118

Two additional cases, *Mister Softee, Inc. v. Amanollahi*, 119 and *Dry Cleaning To–Your–Door, Inc. v. Waltham Liability Co.* 120 involve similar factual scenarios where the courts took very different approaches when setting bond amounts. Specifically, each court considered the plaintiff's likelihood of success when setting the bond amount. In *Mister Softee*, an ice cream truck franchisee breached the franchise agreement by moving his ice cream trucks to an area not authorized by the franchise agreement, failing to make payments to the franchisor, and abandoning his franchises. 121 The franchisor sent the franchisee a termination notice, but the franchisee continued to use the franchisor's trademarks in order to sell ice cream. 122 The court granted the franchisor's motion for a preliminary injunction, finding that the franchisor was likely to prevail on its claims, the franchisor would be irreparably harmed without an injunction, any harm to the franchisee was of his own creation, and the public interest was best served by granting an injunction. 123

---

113 *Id.* at 417.
114 *Id.* at 422.
115 *Id.* at 421–22.
116 *Id.* at 421.
117 *Id.* at 421.
118 *Id.* at 422.
122 *Id.* at *3.
123 *Id.* at *14-15.
Similarly, the court in *Dry Cleaning* also chose to grant an injunction after finding that all four factors favored the franchisor— although the court did choose to limit the geographic scope of the noncompete agreement as it was unreasonable.124

In *Mister Softee*, the court decided to weigh the potential harm to the defendant against the likelihood that the injunction was incorrect.125 Although not fully explained, it appears that the court chose to discount the franchisee’s potential harm due to the low probability that the franchisee would succeed with his defenses against the franchisor’s claims.126 Conversely, the court in *Dry Cleaning* chose to require a bond that would cover all of the franchisee’s possible lost income and litigation costs for the remainder of the noncompete term, without taking into account the franchisee’s slim chance of prevailing in the litigation.127 From a franchisor’s perspective, the *Mister Softee* approach likely makes sense — why require the franchisor to post a massive bond when the franchisor is all but certain to prevail on its claims? From the franchisee’s perspective, however, the franchisor’s likelihood of success is already contemplated in deciding to grant the injunction, and a bond should be designed to cover the franchisee’s actual costs and lost profits. Discounting the bond based on likelihood of success defeats the purpose entirely, thereby making the *Dry Cleaning* approach more appropriate.

E. Who is Bound?

Franchisees often believe that only parties that signed the franchise agreement are bound by the noncompete provision. However, franchisees should not be able to do indirectly that which they cannot do directly. Through spouses, family members or straw men, franchisees often attempt to evade post termination noncompete obligations by operating by, through or in conspiracy with, family members or other “controlled” individuals who did not sign the franchise agreement. Sitting in equity, the court should look past the machinations of the former franchisee to the reality of the situation. If a franchisee is terminated or ceases operations and shortly thereafter, a family member or other “controlled” person or entity acting in concert with the former franchisee begins operating the same or similar business at the same location, the court should enjoin the controlled individual or entity as someone acting in concert or participation with the former franchisee. There are numerous examples of courts enjoining individuals in these situations, including spouses,128 children,129 parents,130 entities131 and

---


126 The franchisor asked the court to set the bond at $1,000. While the franchisee did not respond to this, but court noted that “that dollar amount seems very low” and set the bond at $50,000. id. at 15.

127 *Dry Cleaning*, 2007 WL 4557832, at *4 (“Potential damages include the loss of profit or income from operating Defendants’ business. The evidence suggests that Defendants will be deprived of almost $10,000 a month by reason of the injunction . . . [and] only slightly more than one year of the original two-year period of the covenant remains. Accordingly, a bond of $150,000 should be reasonable security to cover the potential loss of income and normal litigation costs.”).

128 See, e.g., Norlund v. Faust, 675 N.E.2d 1142, 1158 (Ind. Ct. App. 1997) (enjoining the signatory’s wife, since she assisted in breaching the noncompete); Kasco Servs. Corp. v. Benson, 831 P.2d 86, 91 (Utah 1992) (finding the lower court erred in not enjoining the signatory’s wife, since she was “aiding or assisting in violating [the] restrictive covenant”).

129 See, e.g., Golden Krust Patties, Inc. v. Bullock, 957 F. Supp. 2d 186, 201 (E.D.N.Y. 2013) (holding the signatory’s son was an agent of the former franchisee and was therefore enjoined from operating a competing business); Madison v. La Sene, 268 P.2d 1006, 1012–13 (Wash. 1954) (finding the signatory’s son could not engage in business at the same location as his father’s business or under the same name).
business associates. In federal court, Fed. R. Civ. P. 65(d)(2)(C) supports this result. It states that an injunction order binds “other persons who are in active concert or participation with” the enjoined party. Most state courts have equivalent language in their Rules of Civil Procedure.

However, this rule is not universal. In some instances, courts have denied efforts to enjoin non-parties to a noncompete agreement. In Winmark Corp. v. Brenoby Sports, Inc., the United States District Court for the Southern District of Florida had no trouble enforcing the noncompete agreement against the former franchisee, but declined to enjoin the following individuals from competing: (1) the former franchisee’s girlfriend; (2) the former franchisee’s son; or (3) the person who purchased the former franchisee’s assets. Shortly after the termination, the former franchisee sold the assets of the store to an unrelated individual. That person opened a nearly identical store in the same location as the former franchisee and hired the former franchisee’s son to co-manage the new store. Winmark argued these non-signatories aided and abetted the former franchisee’s noncompete violation. However, the court held there was insufficient evidence to support this finding and determined the non-signatories were not alter egos or under control of the former franchisee. Specifically, the court classified the former franchisee’s son as “merely an employee” of the new owner with no ownership interest in the business. The girlfriend alleged that she had no involvement with new store. Winmark produced no evidence to the contrary. Finally, Winmark could not establish that the new store was under the former franchisee’s control, a corporate fiction, or otherwise being used to aid and abet the former franchisee in violating the noncompete agreement. Therefore, the court found Winmark failed to establish a likelihood of success against these non-signatories. Enforcing noncompete agreements against non-signatories involves a fact intensive inquiry into the relationships between the former franchisee and the

---

130 See, e.g., Jackson Hewitt, Inc. v. Barnes, No. 10–cv–05108(DMC)(JAD), 2011 WL 181431, at *1 (D.N.J. Jan. 18, 2011) (enjoining the signatory’s father, who planned to open fifteen competing locations, to the post-termination obligations); West Shore Rest. Corp. v. Turk, 101 So. 2d 123, 129 (Fla. 1958) (finding the signatory’s father “should be enjoined from aiding and abetting . . . in violating [the] covenant”).

131 See, e.g., Las Vegas Novelty, Inc. v. Pernandez, 787 P.2d 772, 774 (Nev. 1990) (subjecting the corporation to the injunction, even though the corporation was a non-signatory).

132 See, e.g., Day Cos. v. Patat, 440 F.2d 1343, 1345 (5th Cir. 1971).


134 Id. at 1217.

135 Id.

136 See id. at 1217–18.

137 See id. at 1221.

138 See id.

139 Id. at 1222.

140 Id.

141 See id.

142 Id.
current owners/operators. In this case, it appears that sufficient evidence did not exist to tie the non-signatories to the former franchisee such that Winmark could establish the requisite collaboration between the parties to evade the terms of the noncompete agreement.

In Novus Franchising, Inc. v. Brockbank, Novus sought to enforce the noncompete agreement against the former franchisee’s wife and stepson. The franchise relationship between Novus and Brockbank spanned more than 30 years, and there was conflicting evidence as to whether Brockbank was operating a “repair” and/or “replace” glass business during various parts of the relationship. Brockbank’s wife and stepson had worked with him for many years in the glass repair and replacement business, but never signed a Novus franchise agreement. Shortly after Novus terminated Brockbank, his wife and stepson opened their own glass replacement business under the name “You Know Us Auto Glass.” The wife and stepson claimed that they have lived in the area for their entire life and that people knew them. The wife and stepson used a different tagline, never received Novus training or instruction, never read the Novus operations manual and denied using Novus products in their new business. They also claimed that they were unaware of any person who confused “You Know Us Auto Glass” with the former Novus franchise business.

In addressing Novus’ request for injunctive relief, the court first examined whether Brockbank’s franchise agreements included the glass replacement business. Given the conflicting testimony about multiple franchise agreements and amendments, the court could not find that Novus had made a strong showing that Brockbank’s glass replacement business was a part of the franchise agreements. Without a franchise agreement prohibiting this activity post-termination, Novus could not demonstrate that the wife and stepson were aiding Brockbank’s violation of a glass replacement prohibition. As for the glass repair business, the court found that Brockbank had no ownership interest in the corporate entity operating “You Know Us Auto Glass” and was unpersuaded by Novus’ argument that Brockbank’s status as landlord of the building where the wife and stepson operated was sufficient interest in the competing business. Nor did the fact that Brockbank leased three vehicles to the competing business persuade the court.

144 See id. at *1–2.
145 See id. at *3.
146 See id.
147 See id.
148 See id. at *4.
149 See id.
150 See id at *8.
151 See id.
152 See id. at *9.
153 See id.
In denying Novus motion, the court emphasized that neither the wife, nor stepson “received or benefited from training or support from Novus.”154 Additionally, the non-signatories did not appear to be privy to any of the proprietary information associated with the glass replacement business and would be financially devastated by an injunction preventing them from operating “You Know Us Auto Glass.” 155 The court found that due to the differences between the two businesses, the non-signatories could not have aided Brockbank in circumventing the noncompete. 156 From the franchisor’s perspective, Novus made all the right arguments in this case. Other than the confusion relating to multiple franchise agreements and amendments, it is clear that the wife and stepson picked up where Brockbank left off. It appears that the court gave no weight to the fact that the non-signatories benefited greatly from the ongoing goodwill generated by the operation of the business over several decades prior to the time that they stepped into and continued operating. The goodwill generated by repeat customers directly benefited their ongoing operations. The franchisee’s wife and stepson did not suddenly decide to get into the automotive glass replacement business. They were involved in Brockbank’s business for many years and simply took over operations under a different name after the termination. By overlooking this “coincidence,” the court failed to acknowledge or recognize the franchisor’s damage to goodwill and the misappropriation of that goodwill by the franchisee’s wife and stepson.

In Everett v. Paul Davis Restoration, Inc., the United States District Court for the District of Wisconsin found the former franchisee’s wife was not bound by an arbitration decision enforcing the post-termination noncompete agreement, because she not was not a signatory to the franchise agreement.157 The former franchisee sold his ownership interest of the business to his wife.158 The court held in order to prove the wife was bound by the agreement, the franchisor “must demonstrate that she knowingly and directly benefitted from the [a]greement.”159 Because the district court found the wife did not directly benefit from the franchise agreement, she was not bound by the agreement’s arbitration clause or the arbitration award.160 However, on appeal, the Seventh Circuit reversed this decision, stating the former franchisee’s wife was bound by the franchise agreement under the doctrine of direct benefits estoppel and was therefore bound the arbitration award enforcing the noncompete provision.161

In Goddard Sys., Inc. v. Gondal, the franchisor sought an injunction against a franchisee and non-parties to the franchise agreement in connection with the franchisee’s alleged violation of the in-term noncompete provision.162 Goddard may have been doomed from the start on its argument as to the non-signatories, given that the court declined to issue an injunction even

---

154 See id.
155 See id. at *11.
156 See id. at *7–8.
158 Id. at *3.
159 Id. at *6.
160 Id. at *10.
against the franchisee, who was a party to the franchise agreement. However, the court went out of its way to note that even had the Court decided to enjoin Defendants, it would not have enjoined non-party Interveners from doing anything.\textsuperscript{163} This was because the non-parties to the franchise agreement were also not parties in the lawsuit and there was insufficient evidence that they were in “active concert and participation” with the Defendants.\textsuperscript{164}

Historically, courts have been willing to enjoin non-parties to prevent franchisees from circumventing noncompete agreements through other “controlled” persons. In certain circumstances, courts refused to enjoin non-parties to the franchise agreement when the franchisor failed to establish that the former franchisee acted in concert with the non-signatories or otherwise conspired with them to evade the terms of the noncompete agreement. These fact-intensive inquiries often require expedited discovery before the injunction hearing. In order to increase the chances of success, franchisors must be prepared to provide detailed evidence of the relationship between the former franchisee and the non-signatory and strong evidence of collusion or coordination of efforts in order to circumvent the noncompete agreement.

\textbf{IV. ALTERNATIVES TO ACCOMPLISHING THE SAME RESULT}

Many courts in multiple jurisdictions have recognized that the only way to protect the franchisor’s goodwill established through repeated customer interactions is to prevent a former franchisee from continuing to operate any competitive business at the same location or with the same customers after termination of the franchise relationship.\textsuperscript{165} This position allows former franchisees to operate competitive businesses outside a specific geographic area or with customers not previously serviced while a franchisee, and thus provides some protection for a franchisee’s interest in continuing to earn a living.

Other provisions in franchise agreements may be sufficient to protect a franchisor’s legitimate interests, while being less restrictive on the future earning ability of former franchisees than traditional noncompete provisions. These include, but are not limited to, confidentiality clauses, non-solicitation agreements, provisions providing for franchisor control over customer data, lease assignments, telephone assignments, provisions providing for franchisor control over franchisees’ web and social media presences, and franchisor protection of trademarks, trade dress, and trade secrets. Franchisors must still demonstrate the relevant criteria to obtain

\textsuperscript{163} Id. at *32.

\textsuperscript{164} Id.

\textsuperscript{165} See, e.g., Prop. Mgmt. Bus. Sols. v. Averitte, No. 2:18-CV-552, 2018 WL 4327922, at *5 (D. Utah Sept. 10, 2018) (granting preliminary injunction for franchisor and noting, in part, “[t]he two-year noncompete period [was] reasonable and necessary to ‘allow[] the public and RPM’s customer base adequate time to stop identifying a former franchisee with the RPM brand’”); Allegra Network LLC v. Cormack, No. 11-13087, 2012 WL 3583618, at *2 (E.D. Mich. Aug. 20, 2012) (granting preliminary injunction for franchisor where the former franchisee was operating a competitive business at the exact location of their former franchised business, continuing to use the franchisor’s marks and goodwill, advertising their competitive business as a former franchise of the franchisor, and continuing to use the same telephone number); Medi-Weightloss Franchising USA, LLC v. Medi-Weightloss Clinic of Boca Raton, LLC, No. 8:11-CV-2437-T-30MAP, 2012 WL 260902, at *10 (M.D. Fla. Jan. 3, 2012), report and recommendation adopted, No. 8:11-CV-2437-T-30MAP, 2012 WL 260776 (M.D. Fla. Jan. 30, 2012) (“Medi seeks enforcement of its competitive restrictions to protect its ability to sell its franchises; its right to ensure continued compliance with its agreements by other franchisees; its maintenance of the strength of the Medi–System and the value of its confidential information; its association of the locations where Dr. Martinez’s competitive business is operating to Medi clinics; and the goodwill associated with its marks in the geographic region.”).
injunctive relief to enforce these provisions, including irreparable harm. However, where this analysis involves balancing of harms between the franchisor and franchisee, the franchisee will have a more difficult time arguing that they needed to use a specific aspect of the franchisor’s trade dress, for example, than they would arguing that they must be able to earn a living in a given field. As such, the balance of harms is more likely to sway in favor of the franchisor when enforcing alternatives to noncompete provisions.

A. Confidentiality Clauses

Confidentiality clauses can prevent franchisees from using the franchisor’s information for any purpose other than as expressly permitted by the franchisor. Confidentiality clauses should designate the franchisor's proprietary information and systems as confidential and prevent franchisees from using such information outside of the operation of their franchised business. Without the ability to use the franchisor’s information, the franchisor should suffer less harm from a competing former franchisee. In fact, some courts have noted that where a former franchisee is not using the franchisor’s proprietary information or materials, the franchisor may not be able to show irreparable harm. In cases such as Outdoor Lighting Perspectives Franchising, Inc. v. Harders, and Window Gang Ventures, Corp. v. Salinas, discussed above, the noncompete provisions at issue were found to be overly broad and unenforceable where they prohibited the franchisees from engaging in businesses beyond those that were directly competitive with the franchisor. In cases such as these, while the franchisors could not enforce their noncompete provisions, they could likely still prevent the franchisee from using any proprietary or confidential information in their competitive businesses through enforcement of confidentiality provisions.

In some limited circumstances, non-signatories may also be able to use confidentiality provisions to their benefit when a franchisor seeks to enforce a noncompete provision against them. Following the court’s reasoning in Novus Franchising, Inc. v. Brockbank, the non-signatories may have a defense if they can show that they did not receive or benefit from

166 See, e.g., Leary v. Daeschner, 228 F.3d 729, 736 (6th Cir. 2000) (citing McPherson v. Michigan High Sch. Athletic Ass'n, 119 F.3d 453, 459 (6th Cir. 1997) (en banc)) (In determining whether to issue a preliminary injunction, the Court must examine four factors: (1) whether the movant has shown a strong likelihood of success on the merits; (2) whether the movant will suffer irreparable harm if the injunction is not issued; (3) whether the issuance of the injunction would cause substantial harm to others; and (4) whether the public interest would be served by issuing the injunction).

167 Compare Bennigan’s Franchising Co., L.P. v. Swigonski, No. 3:06-CV-2300-G, 2007 WL 603370, at *5 (N.D. Tex. Feb. 27, 2007) (denying Bennigan’s motion to enforce the noncompete agreement because restrictions unnecessarily limited the former franchisee beyond Bennigan’s business interests) with Emerging Vision, Inc. v. Main Place Optical, Inc., 10 Misc. 3d 1071(A), 814 N.Y.S.2d 560 (Sup. Ct.), on reconsideration, 11 Misc. 3d 1057(A), 815 N.Y.S.2d 494 (Sup. Ct. 2006) (enjoining former franchisees from using the franchisor’s trade name, trade and service marks, signs and other commercial symbols, from using the franchise’s telephone number and listing, and from operating a non-Sterling Optical store at the former franchise location).

168 See, e.g., Exec. Home Care Franchising LLC v. Marshall Health Corp., 642 Fed. Appx. 181 (3d Cir. 2016) (finding where the former franchisee was not using franchisor’s proprietary materials or operating in the same location, the franchisor failed to establish irreparable harm).


training or support from the franchisor, were not privy to any of the proprietary information associated with the franchised business, and there is a confidentiality provision in the franchise agreement binding the former franchisee.

B. Nonsolicitation Agreements, Control of Customer or Customer Data, Telephone Assignments, and Control of Web Presence/Social Media Presence

While confidentiality provisions may provide adequate protection for franchisors' proprietary systems and information, part of the value generated by an operating franchise business is the value of customer goodwill. Franchisors can protect their interest in goodwill in numerous ways, including using non-solicitation agreements and provisions to provide franchisor control over customer data, phone numbers and web and social media presences. For instance, in Window Gang Ventures, Corp. v. Salinas,172 and Unlimited Opportunity, Inc. v. Waadah,173 despite the courts' finding that the noncompete provisions were unenforceable, the franchisors likely were not without recourse entirely. These franchisors could still rely on provisions in their franchise agreements preventing the former franchisee from soliciting customers of the former franchised business to protect the customer goodwill developed under the franchisor's trademarks.174 Relying on these provisions instead could help franchisors avoid the sometimes dicey determination of how to tailor a noncompete provision to achieve this goal while allowing the franchisee some ability to earn a living after the franchise agreement ends or terminates.

In addition to preventing former franchisees from actively soliciting customers of the former franchised business, provisions that give the franchisor control over customer data allow the franchisor to continue to cultivate those customer relationships and goodwill. For instance, in Unlimited Opportunity, the franchisor’s access to the former franchisee’s customer list would allow the franchisor to “reassign” those accounts to other franchisees for their cleaning service needs.175 Alternatively, the franchisor could offer a discount or other incentive for the disruption to these customers caused by the former franchisee’s departure. These actions, taken as soon as possible after a franchisee breaches the franchise agreement or otherwise ceases as a franchisee, can help keep customer loyalty and goodwill intact.

Some types of franchise systems, such as dog walkers or small fashion boutiques, often communicate with their customers over social media as a form of building goodwill. When a customer sees their own dog on Instagram during the workday wagging its tail on a walk with its dog walker, or gets real-time updates about what new clothes are in stock for the fall season through Facebook, the customer develops loyalty and goodwill associated with those social media accounts. When a franchisee leaves the franchise system, the franchisor’s ability to control those accounts can be crucial to maintaining the goodwill built by these online interactions. Franchisors can use provisions in franchise agreements to provide the franchisor


173 861 N.W.2d 437 (Neb. 2015).

174 The opinion in Unlimited Opportunity did not discuss whether such a provision exists in the franchise agreement independent of the noncompete. See Unlimited Opportunity, 861 N.W.2d at 437. In Window Gang, however, the opinion notes that there was a “non-solicitation provision in the . . . Franchise Agreement, which precluded solicitation of certain Window Gang customers.” Window Gang, 2019 WL 1471073, at *14.

175 See Unlimited Opportunity, 861 N.W.2d at 439.
with control over franchisees’ web and social media presences to ensure such accounts do not carry over to the franchisee’s competing future business.\textsuperscript{176} Similarly, though phone numbers may not be able to generate the same warm and fuzzy feelings as puppy pictures and new fall sweaters, the inclusion of telephone number assignments in franchise agreements can further solidify the franchisor’s hold on the customer base of a former franchise location.\textsuperscript{177}

Franchisees, in turn, can argue that enforcement of a noncompete provision would be unnecessary and burdensome, when provisions in the franchise agreement cover nonsolicitation, customer data, and social media presence. These provisions provide the franchisor with more than sufficient protection against the former franchisee continuing to trade on the franchisor’s goodwill, without hamstringing the former franchisee’s economic opportunities.

C. Lease Assignments

Even when a franchisee cannot actively solicit former customers, and the franchisor has control over customer data and all social media accounts, there are still some interactions that occur spontaneously that these protections may not touch. For example, an automotive repair business or a convenience store may have customers who show up simply because the business is conveniently located and familiar. A change in ownership or signage at such a business may not deter these customers from continuing to frequent the same location after it is no longer associated with a franchisor’s marks. In these situations where location is crucial, franchisors often incorporate lease assignments into their franchise agreements that allow the franchisor to step into the franchisee’s lease upon termination or expiration of the franchise agreement.\textsuperscript{178} In both Tutor Time Learning Centers., LLC v. KOG Industries, Inc.,\textsuperscript{179} and 7–Eleven, Inc. v. Grewal,\textsuperscript{180} the ability to refranchise a specific location was integral in determining whether it was appropriate to enforcement the noncompete provision. Where all, or a significant portion of goodwill is wrapped up in the specific franchise location, protecting lease rights, rather than enforcing a noncompete provision, should be the franchisor’s ultimate goal. Franchisees, in turn, can argue that when goodwill is highly tied to the location of the former franchised business, enforcement of a lease assignment, rather than a noncompete provision, is the appropriate remedy. Courts have indeed pointed to the fact that a former franchisee is no longer

\textsuperscript{176} In C.D.S., Inc. v. Zetler, for example, where the relevant contract showed that software development company owned the marks and that former president had set up social media accounts and controlled them in his capacity as president of the company, former president was required to turn over to company passwords and administrator access codes for social media accounts after he was terminated. His failure to do so constituted conversion under New York law. 298 F. Supp. 3d 727 (S.D.N.Y. 2018), appeal withdrawn, No. 18-1318, 2018 WL 3689978 (2d Cir. June 1, 2018).

\textsuperscript{177} See, e.g., Conroy’s, Inc. v. Hejazi, No. C 06-01684 JW, 2006 WL 8442694, at *5 (N.D. Cal. July 18, 2006) (“[T]he Court finds Defendants’ interest in disassociating from Plaintiffs’ brand requires that they relinquish their store’s phone number to Plaintiffs pursuant to the terms of the Franchise Agreement.”).

\textsuperscript{178} See Pearle Vision, Inc. v. Adler, No. 1:07CV321, 2008 WL 2704407, at *1 (S.D. Ohio July 3, 2008) (finding based on lease assignment provision in the parties’ franchise agreement, the franchisee should be preliminarily enjoined from seeking an assignment of his lease to any third party unless and until he first offered to assign the lease to the franchisor, and ordering franchisee within thirty days from the date of the court’s order to seek landlord’s approval to assign the lease to franchisor).


\textsuperscript{180} 60 F. Supp. 3d 272, 284 (D. Mass. 2014).
operating in the same location as a factor in decisions not to enforce noncompete provisions.\textsuperscript{181} Some franchisors take the control of real estate a step further by either owning it or holding a master lease, with subleases to their franchisees.

\section*{D. Trademarks/Trade Dress/Trade Secrets}

Finally, and likely most importantly, franchisors must protect their trademarks, trade dress, and trade secrets through franchise agreement provisions, patent and trademark protections, and monitoring for unlawful use of any of this intellectual property. By pursuing former franchisees who use the franchisor’s marks after termination or expiration without the franchisor’s permission, franchisors can ensure that this intellectual property remains valuable.\textsuperscript{182} However, where former franchisees are not infringing on trademarks, trade dress, or trade secrets, franchisors may have more difficulty convincing a judge that enforcing the noncompete provision is necessary and appropriate.\textsuperscript{183}

\section*{E. Takeaway on Alternatives}

As discussed above, in \textit{Aamco Transmissions, Inc. v. Romano}, the court considered the following, among other factors, when determining not to enforce a noncompete provision: (1) the former franchisees had no ongoing interest in the former franchised business; (2) the franchisees relocated and were no longer servicing former customers of the franchised business; (3) the former franchisees were not competing in their former territory; and (4) the former franchisees were not using the franchisor’s marks or goodwill.\textsuperscript{184}

From the franchisee perspective, \textit{Aamco Transmissions} might be just the right balance of interests. When selling franchises, franchisors pitch their systems to prospective franchisees as unique, their confidential information as integral to a franchisee’s success, and their marks as valuable. If these representations are indeed true, then restrictive covenants preventing

\textsuperscript{181} In \textit{Exec. Home Care Franchising LLC v. Marshall Health Corp.}, the United States District Court for the District of New Jersey determined that since the former franchisee was not using Executive Home Care’s proprietary materials or operating in the same location, Executive Home Care failed to establish irreparable harm. No. 15-760(JLL), 2015 WL 1422133, at *2 (D.N.J. Mar. 26, 2015).


\textsuperscript{183} See, e.g., \textit{Novus Franchising, Inc. v. Brockbank}, No. 1:16-cv-00078, 2016 WL 4734589, at * 10–11 (D. Utah. Sept. 9, 2016) (ruling that there was no basis for an injunction absent facts showing that a former franchisee would infringe on the franchisor’s trademark, use the franchisor’s trade secrets, or unlawfully solicit the franchisor’s customers); \textit{Aamco Transmissions, Inc. v. Romano}, No. 13-5747, 2016 WL 792498, at *7 (E.D. Pa. Mar. 1, 2016) (finding that the noncompete as written was overbroad because there was no evidence that the franchisee was infringing on the franchisor’s trademarks); \textit{Window Gang Ventures, Corp. v. Salinas}, No. 18 CVS 107, 2019 WL 1471073, at *8 (Super. Ct. N.C. Apr. 2, 2019) (holding that the noncompete was unenforceable because it was not narrowly tailored to protect the franchisor’s legitimate business interests); \textit{Outdoor Lighting Perspectives Franchising, Inc. v. Harders}, 747 S.E.2d 256, 267 (N.C. Ct. App. 2013) (holding that the noncompete was overbroad because it prohibited the franchisee from engaging in activities that did not directly compete with the franchisor).

\textsuperscript{184} \textit{Aamco Transmissions}, 2016 WL 792498, at *6–7.
franchisees from using this information and the marks outside of the system should provide sufficient tools for franchisors seeking to protect their systems. Given the importance to franchisors of retaining goodwill generated by franchisees, however, additional provisions in franchise agreements granting sole ownership of customer data and the means of interacting with customers to the franchisor can provide additional protections for franchisors. From the franchisee perspective, there is no need for a noncompete provision where a former franchisee: (1) is not using the franchisor’s marks or intellectual property; (2) is not taking advantage of the former franchise’s location, phone number, or social media accounts; (3) cannot solicit former customers of the former franchise; and (4) is bound by confidentiality provision not to use or disclose the franchisor’s intellectual property.

From the franchisor perspective, the inclusion of each of these alternative provisions in a franchise agreement is a common sense way to protect the franchise system, marks, and goodwill against bad actor former franchisees. Logistically, it would be difficult for any franchisor to tailor noncompete provisions to each of the requirements set forth by the courts in these cases. For example, while the terms of a noncompete provision might be enforceable for a startup franchisor without many franchise locations, that same provision could later be found to be unenforceable as overly restrictive if the same franchise system experiences rapid growth. It would also be difficult or impossible for a successful franchisor with many franchisees to tailor its noncompete provision to each individual new franchisee in its system. As such, any franchisor’s noncompete provision potentially could be found unenforceable. Given this, the presence of alternative restrictions in the franchise agreement may enable franchisors to protect their system and goodwill, regardless of whether noncompete enforcement is becoming a red zone problem.

V. CONCLUSION

The cases discussed in this paper may not signal an impending departure from decades of noncompete case law. Indeed, franchisors and franchisees may find that in the majority of cases, courts will continue to rely on boilerplate admissions in franchise agreements as proof of the enforceability of noncompete provisions and irreparable harm to the franchisor. However, franchisors would be wise not to overlook the trend toward stricter scrutiny in these cases. Franchisors should prepare their preliminary injunction papers carefully, identifying all the ways in which violation of the noncompete is causing irreparable harm. They should also consider ways to narrowly tailor their noncompete provisions, and make sure that they have included in their franchise agreements or otherwise alternative provisions for protecting their systems. Franchisees, on the other hand, may look to the cases discussed above for guidance on how best to challenge overly restrictive noncompete provisions in their franchise agreements.
Michael R. Gray is a Partner in Minneapolis office of Gray Plant Mooty. He brings 33 years of experience representing franchisors, companies and individuals in trial, arbitration and other civil proceedings throughout the United States. He is lead litigation counsel for several national franchise companies and has litigated, arbitrated and mediated all manner of franchise and intellectual property disputes in state and federal courts in over 38 states.


Mike is currently on the Governing Committee of the ABA Forum on Franchising where he served as Finance Chair from 2016 through 2019. Mike has been recognized by Chambers USA for Franchising, named as one of the “Best Lawyers in America” by Woodward/White, a "Super Lawyer" by Minnesota Law & Politics, a "Legal Eagle" by Franchise Times, is listed in The International Who’s Who of Franchise Lawyers and is a “Certified Franchise Executive” by The International Franchise Association. Mike is admitted to practice in Minnesota and Wisconsin as well as numerous Federal District and Appellate Courts throughout the United States.

Erin Conway Johnsen is a partner at Garner & Ginsburg, P.A. in Minneapolis, MN. She focuses her practice on assisting franchisees and franchisee associations resolve their disputes with franchisors. Erin has assisted franchisees in all stages of their franchise relationships throughout the country.

Erin currently serves as an editor of The Franchise Lawyer, has had multiple articles published in the Franchise Law Journal and The Franchise Lawyer, and has presented in the past at the ABA Forum on Franchising and the American Association of Franchisees and Dealers Franchisee Leadership Summit. In 2016, she was awarded the American Bar Association Forum on Franchising’s Chair’s Award for Substantial Written Work for an article she co-authored on joint employer and minimum wages issues. In 2013, Erin received the Rising Scholar Writing Competition Award from the Forum for an article on the enforcement of disclaimer provisions in franchise documents.

Erin is a 2012 graduate of the University of Minnesota Law School, where she served as an editor of the Minnesota Law Review. She did her undergraduate work at Duke University.