American Bar Association
33rd Annual Forum on Franchising

# FUNDAMENTALS 201: STOP THAT RIGHT NOW – PREPARING FOR, AND WINNING, INJUNCTIONS

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October 13 - 15, 2010
The Hotel Del Coronado
San Diego, CA

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# FUNDAMENTALS 201: STOP THAT RIGHT NOW – PREPARING FOR, AND WINNING, INJUNCTIONS

## I. INTRODUCTION

A request for injunctive relief is a powerful and oft-utilized tool in a franchise lawyer's toolbox. A successful application -- and sometimes even an unsuccessful application -- for a temporary restraining order or preliminary injunction will often lead to an early resolution of the case. Even if it does not, it will invariably set the stage for the balance of the proceedings.

This paper is intended to serve as a primer for a reasonably experienced litigator with some background in franchise litigation. To that end, this paper will discuss:

- General information regarding motions for injunctive relief;
- The four traditional factors that courts must consider in determining whether to grant injunctive relief;
- Defenses that are commonly advanced in opposing motions for injunctive relief;
- Preliminary strategic procedural considerations, including the pros and cons of seeking injunctive relief and when to do so; and
- Factual scenarios that are often the subjects of motions for injunctive relief in the franchise context and relevant case law.

## II. GENERAL BACKGROUND

### A. FED. R. CIV. P. 65[1]

An injunction is an equitable remedy "by which a court tells someone what to do or not to do."[2] The "basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies."[3] Whether there is a *right* to injunctive relief is a matter of substantive law. The general *procedures* for obtaining such relief are governed by Rule 65 of the Federal Rules of Civil Procedure. Whether to grant such relief is subject to a district court's discretion exercised in conjunction with traditional principles of equity.[4] Rule 65 does not confer either personal or subject matter jurisdiction on the court. Thus, there must be an independent basis for asserting either federal question or diversity jurisdiction, and the person against whom the injunctive relief is sought must be subject to personal jurisdiction.[5]

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[1] This paper addresses requests for injunctive relief within the context of the Federal Rules of Civil Procedure.

[2] *Nken v. Holder*, 556 U.S. ——, 129 S. Ct. 1749, 1757, 173 L. Ed. 2d 550 (2009).

[3] *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982).

[4] *Inland Steel Co. v. United States*, 306 U.S. 153, 156 (1939); *Deckert v. Independence Shares Corp.*, 311 U.S. 282, 290 (1940).

[5] 11A CHARLES ALAN WRIGHT, ARTHUR R. MILLER & MARY KAY KANE, FEDERAL PRACTICE AND PROCEDURE: CIVIL 2d § 2941, at 35 (hereinafter "WRIGHT & MILLER").

## B. Types of Injunctions

There are basically three types of injunctions and they are for the most part distinguished by their duration: (i) a temporary restraining order, which as its name suggests, is of limited duration; (ii) a preliminary injunction, which issues after notice to the party to be enjoined and remains in effect until a trial on the merits; and (iii) a permanent injunction, which issues after a trial on the merits or, as if often the case in the franchise context, as part of a settlement.[6] All three are enforceable by contempt proceedings.

### 1. Temporary Restraining Orders

A temporary restraining order ("TRO") is typically issued without notice or with limited notice to the adverse party or its attorney. A TRO is designed to preserve the status quo until there is an opportunity to hold a hearing on a noticed motion for preliminary injunction.[7] The issuance of an *ex-parte* TRO "is an emergency procedure and is appropriate only when the applicant is in need of immediate relief."[8] Thus, a TRO will only be issued if: "(A) specific facts and an affidavit or a verified complaint clearly show that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition; and (B) the movant's attorney certifies in writing any efforts made to give notice and the reasons why it should not be required."[9] A TRO may not exceed 14 days, but upon a showing of "good cause," may be extended up to an additional 14 days.[10] In the event a TRO is issued without notice, the hearing on the motion for preliminary injunction must be set "at the earliest possible time, taking precedence over all other matters except hearings on older matters of the same character."[11]

### 2. Preliminary Injunctions

Broadly speaking, the purpose of a preliminary injunction is to preserve the "status quo" and protect a party from imminent "irreparable harm" pending a final decision on the merits. Harm that is merely "speculative" or that may occur at some indefinite point in the future is not enough.[12] Likewise, alleged past harm does not warrant injunctive relief, unless there is a likelihood that the harm will be repeated.[13] It is often said that a preliminary injunction is an "extraordinary" or "drastic" remedy.[14] A preliminary injunction should not be granted if the

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[6] This article only addresses the first two types of injunctions.

[7] *Granny Goose Foods, Inc. v. Brotherhood of Teamsters & Auto Truck Drivers Local No. 70 of Alameda County*, 415 U.S. 423, 439 (1974).

[8] 11A WRIGHT & MILLER, § 2951, at 256-57.

[9] FED. R. CIV. P. 65(b)(1).

[10] FED. R. CIV. P. 65(b)(2).

[11] FED. R. CIV. P. 65(b)(3).

[12] *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. ——, 129 S. Ct. 365, 375, 172 L. Ed. 2d 249 (2008) ("a preliminary injunction will not be issued simply to prevent the possibility of some remote future injury") (*quoting* 11A WRIGHT & MILLER, § 2948.1, at 154-55).

[13] *City of Los Angeles v. Lyons*, 461 U.S. 95, 102 (1983).

[14] *Winter*, 129 S. Ct. at 376 ("A preliminary injunction is an extraordinary remedy never awarded as of right."); *see also McDonald's Corp. v. Robertson*, 147 F.3d 1301, 1306 (11th Cir. 1998) ("[a] preliminary injunction is an extraordinary and drastic remedy not to be granted unless the movant clearly established the 'burden of persuasion' as to the four requisites") (citations omitted); *Noodles Develop., LP v. Ninth Street Partners, LLP*, 507 F. Supp. 2d

moving party has an adequate legal remedy -- *i.e.*, the moving party's injury can adequately be compensated for by an award of monetary damages.[15] Unlike a TRO, a preliminary injunction may only be issued "on notice to the adverse party."[16] In light of its significance and potential impact on the party being enjoined, an order granting, continuing or modifying a preliminary injunction is immediately appealable.[17]

### C. Prohibitory v. Mandatory Injunctions

Injunctions are either prohibitory or mandatory. A prohibitory injunction "restrains" a party from taking further action, while a mandatory injunction requires a party to "take action."[18] Thus, a prohibitory injunction is intended to maintain the *status quo* pending a trial on the merits, whereas a mandatory injunction alters the *status quo* by requiring affirmative action or conduct. Mandatory injunctions are generally disfavored and subject to heightened scrutiny, and may require "that the movant demonstrate a greater likelihood of success."[19] The "status quo" is often defined as "the last peaceable, uncontested status of the parties which preceded the actions giving rise to the issue in controversy."[20]

The presumed differences between prohibitory and mandatory injunctions, as well as whether they are observed in practice or are warranted, has been the subject of much debate. As one court observed:

> The distinction between mandatory and prohibitory injunctions is not without ambiguities or critics. Determining whether the status quo is to be maintained or upset has led to distinctions that are 'more semantic [ ] than substantive.' (Citations omitted.) An injunction that prohibits a party from refusing to permit some act may, as a practical matter, alter the status quo. . . . Many mandatory injunctions can be stated in seemingly prohibitory terms.
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1030, 1034 (E.D. Mo. 2007) ("a preliminary injunction is an extraordinary remedy, and the burden of establishing the propriety of an injunction is on the movant") (citations omitted).

[15] 11A WRIGHT & MILLER, § 2948.1, at 149-51.

[16] FED. R. CIV. P. 65(a)(1).

[17] 28 U.S.C. § 1292(a)(i). Note, however, that a party seeking to appeal an order *denying* the issuance of a preliminary injunction must also show a "'serious, perhaps irreparable, consequence,' and that the order can be 'effectively challenged' only by immediate appeal." *Stringfellow v. Concerned Neighbors in Action*, 480 U.S. 370, 379 (1987).

[18] *Meghrig v. KFC Western, Inc.*, 516 U.S. 479, 484 (1996).

[19] *Tom Doherty Assocs. v. Saban Entm't., Inc.*, 60 F.3d 27, 34 (2d Cir. 1995); *see also Sunward Electronics, Inc. v. McDonald*, 362 F.3d 17, 24 (2d Cir. 2004) (A party seeking an injunction "must show a 'clear' or 'substantial' likelihood of success where the injunction sought is mandatory -- *i.e.*, it will alter, rather than maintain, the status quo."); *Dahl v. HEM Pharmaceuticals Corp.*, 7 F.3d 1399, 1403 (9th Cir. 1993) (a mandatory injunction "should not be issued unless the facts and law clearly favor the moving party"); *but see United Food & Commercial Workers Union, Local 1099 v. Southwest Ohio Reg'l Transit Auth.*, 163 F.3d 341, 348 (6th Cir. 1998) ("the difference between mandatory and prohibitory injunctive relief does not warrant application of differing legal standards").

[20] *Praefke Auto Elec. & Battery Co., Inc. v. Tecumseh Products Co.*, 123 F. Supp. 2d 470, 473 (E.D. Wis. 2000).

> Confusion in breach of contract cases as to whether an injunction is mandatory or prohibitory may stem from the meaning of "status quo." A plaintiff's view of the status quo is a situation that would prevail if its version of the contract were performed. A defendant's view of the status quo is its continued failure to perform as the plaintiff desires. To a breach of contract defendant, any injunction requiring performance may seem mandatory.[21]

Given this confusion, it is not surprising that courts often refer to a preliminary injunction as preserving the status quo even when requiring affirmative action or conduct on the part of a franchisee or franchisor (*e.g.*, requiring a franchisee to comply with health and safety standards or requiring a franchisor to reinstate a terminated franchise or dealership).

### D. Security

Pursuant to Rule 65(c), a court may issue a preliminary injunction or temporary restraining order *only* if the moving party provides "security in an amount that the court considers proper to pay the costs and damages sustained by any party found to have been wrongfully enjoined or restrained."[22] The purpose of requiring security prior to the issuance of an injunction "is to enable a restrained or enjoined party to secure indemnification for the costs, usually not including attorney's fees, and pecuniary injury that may accrue during the period in which a wrongfully issued equitable order remains in effect."[23] Damages recoverable for the wrongful issuance of a preliminary injunction are limited to those actually and proximately resulting from the effect of the injunction itself, as opposed to any damages that are independent of the injunction -- *i.e.,* damages flowing from any claims being pursued by the enjoined party.[24] A wrongfully enjoined party's recovery is limited to provable damages up to the amount of the bond.[25]

The amount of the bond is within the trial court's discretion.[26] Despite Rule 65(c) being phrased in mandatory terms, courts have dispensed with the requirement of security when the party to be enjoined fails to demonstrate that it is likely to suffer harm if it is subsequently determined that the injunction was wrongfully issued or when the injunction was issued "to aid and preserve the court's jurisdiction over the subject matter involved."[27] Additionally, a bond

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[21] *Tom Doherty Assocs.*, 60 F.3d at 34.

[22] FED. R. CIV. P. 65(c). A party is "wrongfully enjoined when it had a right all along to do what it was enjoined from doing." *Global NAPs, Inc. v. Verizon New England, Inc.*, 489 F.3d 13, 22 (1st Cir. 2007); *see also Nintendo of Am., Inc. v. Lewis Galoob Toys, Inc.*, 16 F.3d 1032, 1036 (9th Cir. 1994) ("a party has been wrongfully enjoined within the meaning of Rule 65(c) when it turns out the party enjoined had the right all along to do what it was enjoined from doing").

[23] 11A WRIGHT & MILLER, § 2954, at 287.

[24] 11A WRIGHT & MILLER, § 2954, at 292; *Matek v. Murat*, 862 F.2d 720, 733 (9th Cir. 1988), *abrogated on other grounds, Holden v. Hagopian,* 978 F.2d 1115 (9th Cir. 1992).

[25] *W.R. Grace & Co. v. Local Union 759, Int'l Union of United Rubber, Cork, Linoleum & Plastic Workers of Am.*, 461 U.S. 757, 770 n.14 (1983) ("A party injured by the issuance of an injunction later determined to be erroneous has no recourse for damages in the absence of a bond."); *see also Continuum Co., Inc. v. Incepts, Inc.*, 873 F.2d 801, 804 (5th Cir. 1989).

[26] 11A WRIGHT & MILLER, § 2954, at 291; *Doctor's Associates, Inc. v. Stuart*, 85 F.3d 975, 985 (2d Cir. 1996) ("the District Court is vested with wide discretion in the matter of security . . .").

[27] *See, e.g., Doctor's Associates, Inc. v. Distajo*, 107 F.3d 126, 136 (2d Cir. 1997) (franchisees enjoined from pursuing state cases pending contractual arbitration; Second Circuit upheld district court's holding that franchisor was

may not be required where the parties contractually agreed that an injunction may be issued without a bond[28] or the parties otherwise agree.[29]

### E. Form, Content and Scope of Injunction

Pursuant to Rule 65(d), a preliminary injunction or restraining order must: "(A) state the reasons why it was issued; (B) state its terms specifically; and (C) describe in reasonable detail . . . the act or acts restrained or required."[30] To avoid confusion, the order must be self-contained and, thus, may not refer to the complaint or incorporate by reference other documents in setting forth the scope of the injunction.[31]

A preliminary injunction or TRO only binds those individuals who receive *actual notice* of it by personal service or otherwise, and is limited to: (i) the parties; (ii) the officers, agents, servants, employees and attorneys of the parties; and (iii) third persons "who are in active concert or participation with" the parties or the parties' officers, etc.[32] The requirement that third parties are only bound by a preliminary injunction or TRO if they have actual notice of it *and* are in "active concert or participation" with the parties is generally strictly construed.[33]

Rule 65(d) also requires that the preliminary injunction or TRO be specific. The general rationale behind this requirement is that "vague or general injunctive or restraining orders cannot be obeyed easily and therefore cannot be enforced effectively; the result is likely to be an order that is either oppressive or ineffectual."[34] Thus, "it is necessary to compose very explicit injunctive orders to avoid evasion or confusion."[35]

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not required to post bond because franchisees failed to establish irreparable harm and injunctive relief was in aid of the district court's federal jurisdiction); *Stuart*, 85 F.3d at 985 (same); *Dunkin' Donuts, Inc. v. Albireh Donuts, Inc.*, 96 F. Supp. 2d 146, 151 (N.D.N.Y. 2000) (franchisees enjoined from violating Dunkin' Donuts' health, sanitation and safety standards; district court dispensed with a bond because the injunction "should not cause [the franchisees] any unnecessary expense or loss and certainly not subject them to any costs beyond that which they seemingly should now be spending to safely operate their shop").

[28] *See, e.g., Hacienda Mexican Rest. of Kalamazoo Corp. v. Hacienda Franchising Group, Inc.*, 569 N.E.2d 661, 671 (Ind. Ct. App. 1991); *but see Petland, Inc. v. Hendrix*, 2004 WL 3406089, at *10 (S.D. Ohio Sept. 14, 2004) (court refused to enforce bond waiver provision and ordered that franchisor post $1,500,000 bond).

[29] *Helene Curtis v. Nat'l Wholesale Liquidators, Inc.*, 890 F. Supp. 152, 160-61 (E.D.N.Y. 1995) (defendant distributor waived requirement that plaintiff manufacturer post a bond in exchange for plaintiff's waiver of any limitation of damages resulting from wrongful issuance of injunction).

[30] FED. R. CIV. P. 65(d)(1).

[31] *Id.* ("Every order granting an injunction . . . must . . . describe in reasonable detail -- and not by referring to the complaint or other document -- the act or acts restrained or required."); 11A WRIGHT & MILLER, § 2955, at 330-31 (Rule 65(d) "makes it clear that incorporation by reference cannot be used to satisfy the requirement that the enjoined acts be described").

[32] FED. R. CIV. P. 65(d)(2).

[33] *See, e.g., Doctor's Associates, Inc. v. Reinert & Duree, P.C.*, 191 F.3d 297, 303-06 (2d Cir. 1999) (franchisor sued franchisees to compel arbitration and to enjoin those franchisees' state court cases against franchisor; Second Circuit vacated an injunction issued by the district court which barred *non-party franchisees* from pursuing their own state court suits because the non-party franchisees were not aiding or abetting the party franchisees, and the record did not establish that the party franchisees were the "virtual representatives" of the non-party franchisees even though both the party and non-party franchisees were represented by the same law firm).

[34] 11A WRIGHT & MILLER, § 2955, at 316-17.

[35] *Id.* at 320.

## III. REQUIREMENTS

### A. General Overview of the Relevant Factors

In *Winter v. Natural Res. Def. Council, Inc.*, the United States Supreme Court recently re-confirmed the four traditional factors that federal district courts are to consider when determining whether an injunction should be granted -- "A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest."[36]

#### 1. Likelihood of Success on the Merits

The first factor in the preliminary injunction calculus is whether the moving party is "*likely to succeed on the merits.*"[37] "[A] preliminary injunction is customarily granted on the basis of procedures that are less formal and evidence that is less complete than in a trial on the merits. A party thus is not required to prove his case in full at a preliminary injunction hearing."[38] Notwithstanding the Supreme Court's efforts to provide guidance, there remains some degree of confusion as to what "likely to succeed" actually means. Indeed, as some commentators have noted, "[t]he courts use a bewildering variety of formulations of the need for showing some likelihood of success."[39] In the Sixth Circuit, a likelihood of success has been defined as "more than a mere possibility of success."[40] In the Fifth Circuit, the moving party's likelihood of success "must be more than negligible . . . and the preliminary injunction should not be granted unless the question presented by the litigant is free from doubt."[41] In the Seventh Circuit, the moving party "need only demonstrate that he or she has a 'better than negligible' chance of succeeding on the merits to justify injunctive relief."[42] Despite these variations, "the verbal differences do not seem to reflect substantive disagreement."[43]

#### 2. Likelihood of Irreparable Injury

The second factor a moving party must establish is that it is likely to suffer "*irreparable harm*" in the absence of injunctive relief.[44] Generally, "[a] party seeking a preliminary injunction must demonstrate that they will suffer an irreparable injury if the injunction is not granted for which they have no adequate remedy at law."[45] It has been said that:

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[36] 555 U.S. ——, 129 S. Ct. at 374, 172 L. Ed. 2d 249 (2008).

[37] *Id.*

[38] *University of Texas v. Camenisch*, 451 U.S. 390, 395 (1981).

[39] 11A WRIGHT & MILLER, § 2948.3, at 184-85.

[40] *Certified Restoration Dry Cleaning Network, L.L.C. v. Tenke Corp.*, 511 F.3d 535, 543 (6th Cir. 2007).

[41] *Bennigan's Franchising Co., L.P. v. Swigonski*, 2007 WL 603370, at *2 (N.D. Tex. Feb. 27, 2007).

[42] *Int'l Kennel Club v. Mighty Star, Inc.*, 846 F.2d 1079, 1084 (7th Cir. 1988) (internal quotation marks omitted).

[43] 11A WRIGHT & MILLER, § 2948.3, at 187-88.

[44] *See, e.g., California v. American Stores, Co.*, 495 U.S. 271, 110 S. Ct. 1853 (1990) (granting a preliminary injunction to government); *see also Engines, Inc. v. MAN Engines & Components, Inc.*, 2010 U.S. Dist. LEXIS 76541 (D.N.J, July 29, 2010) (granting a preliminary injunction to franchisees); *Krispy Kreme Doughnut Corp. v. Satellite Donuts, LLC*, 2010 U.S. Dist. LEXIS 73913 (S.D.N.Y. July 21, 2010) (granting a preliminary injunction to franchisor).

[45] *Re/Max North Cent., Inc. v. Cook*, 272 F.3d 424, 432 (7th Cir. 2001).

> Speculative injury is not sufficient; there must be more than an unfounded fear on the part of the applicant. Thus, a preliminary injunction will not be issued simply to prevent the possibility of some remote future injury. A presently existing actual threat must be shown. However, the injury need not have been inflicted when application is made or be certain to occur; a strong threat of irreparable injury before trial is an adequate basis.[46]

In *Winter*, the Supreme Court clearly expressed that a moving party must demonstrate that "irreparable injury is *likely*" in the absence of an injunction; a *mere possibility* of irreparable harm is not sufficient.[47] However, the Court left unresolved the issue of whether the four traditional factors must be established independently of each other, or whether a "sliding scale" approach can be applied. Under the sliding scale approach, previously utilized in a number of the Circuits, a district court can adjust the weight of each factor. For example, an injunction may issue when "the required degree of irreparable harm increases as the probability of success decreases" or vice-a-versa.[48] *Winter* has lead to much confusion, and despite Justice Ginsberg's statement in her dissent that she did not believe the Court was rejecting the sliding scale approach, many of the circuit courts now require that each of the four traditional factors be established independently.[49]

### 3. Balance of Hardships

The next step in the process of determining whether to issue an injunction is a balancing test to be administered by the court -- *i.e.*, "*balancing the hardship*" to the parties. Courts "must balance the competing claims of injury and must consider the effect on each party of the granting or withholding of the requested relief."[50] "[W]hether to grant preliminary relief involves an evaluation of the severity of the impact on defendant should the temporary injunction be granted and the hardship that would occur to plaintiff if the injunction should be denied."[51]

### 4. Public Interest

The final factor to be considered is the affect the injunction will have on the "*public interest.*" "In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction."[52] The public interest factor is generally not as important as the other factors considered in awarding preliminary injunctive relief in actions involving only private interests, but it can be an important

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[46] 11A WRIGHT & MILLER, § 2948.1, at 153-56; *see also Nemer Jeep-Eagle, Inc. v. Jeep-Eagle Sales Corp.*, 992 F.2d 430, 435 (2d. Cir. 1992) (holding that "a 'threat to the continued existence of a business can constitute irreparable injury'").

[47] *Winter*, 129 S. Ct. at 375-76 (rejecting Ninth Circuit "alternative" test that when a plaintiff demonstrates a strong likelihood of prevailing on the merits, a preliminary injunction may be granted based only on a *"possibility"* of irreparable harm).

[48] *Prudential Real Estate Affiliates, Inc. v. PPR Realty Co.*, 204 F.3d 867, 874 (9th Cir. 2000) (citations and quotations omitted).

[49] *See* Section III(B), *infra*.

[50] *Amoco Production Co. v. Village of Gambell*, 480 U.S. 531, 542 (1987).

[51] 11A WRIGHT & MILLER, § 2948.2, at 166-67.

[52] *Winter*, 129 S. Ct. at 376-77 (*quoting Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982)).

factor where the matter could have a significant impact on the public interest.[53] In assessing the public interest, the district court may also consider the potential impact on any non-parties from issuing or denying an injunction.[54]

### B. Recent Developments re the Preliminary Injunction Standards

As the Court in *Winter* pointedly observed, the "frequently reiterated standard requires plaintiffs seeking preliminary relief to demonstrate that irreparable injury is *likely* in the absence of an injunction."[55] This pronouncement is significant in that several circuits -- the Second, Seventh, Eighth and Ninth -- had developed (i) an "alternative test", which permitted the issuance of a preliminary injunction upon a lesser showing of harm (a mere "*possibility*" of irreparable harm), and/or (ii) a "sliding scale test", which allowed a preliminary injunction based on a lower likelihood of harm when the likelihood of success was very high or, conversely, when the likelihood of harm was very high even if the likelihood of success on the merits was less likely. The Court in *Winter* expressly rejected the so-called alternative test which permitted the issuance of a preliminary injunction upon a showing of the *possibility* of irreparable harm (rather than a *likelihood* of irreparable harm).[56] It did not, however, address the continued viability of the sliding scale test. In her dissent, Justice Ginsberg commented that "[t]his Court has never rejected [the sliding scale test], and I do not believe it does so today."[57] Whether the sliding scale test remains viable will ultimately remain for determination by the Supreme Court on another day. In the meantime, however, it is up to the lower courts to divine the state of the law.

Five circuits have quoted *Winter* directly in adopting the following language as the Circuit's standard for determining whether to issue a preliminary injunction:

> A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.[58]

The First and Eleventh Circuits have not expressly adopted the Supreme Court's language in *Winter*, but instead continue to cite the standard established by their own case law.[59] As a

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[53] *Yakus v. United States*, 321 U.S. 414, 441 (1944) ("Courts of equity may, and frequently do, go much further both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved.").

[54] *Girl Scouts of Manitou Council, Inc. v. Girl Scouts of the U.S. of Am., Inc.*, 549 F.3d 1079, 1086 (7th Cir. 2008); *Stormans, Inc. v. Selecky*, 586 F.3d 1109, 1138-39 (9th Cir. 2009).

[55] *Winter*, 129 S. Ct. at 367 (emphasis in original; citations omitted).

[56] *Id.*, 129 S. Ct. at 375.

[57] *Id.*, 129 S. Ct. at 392 (Ginsburg, J., dissenting).

[58] *See PB Brands, LLC v. Patel Shah Indian Grocery*, 2009 WL 1610150, at *2 (3d Cir. June 10, 2009); *Real Truth About Obama, Inc. v. Fed. Election Comm'n*, 575 F.3d 342, 346 (4th Cir. 2009), *cert. denied, judgment vacated*, 130 S. Ct. 2371, 176 L. Ed. 2d 764 (2010), *and adhered to in part sub nom.*, 607 F.3d 355 (4th Cir. 2010); *Pendergest-Holt v. Certain Underwriters at Lloyd's of London*, 600 F.3d 562, 568-69 (5th Cir. 2010); *Langley v. Prudential Mortgage Capital Co., LLC*, 554 F.3d 647, 648 (6th Cir. 2009); *Attorney Gen. of Oklahoma v. Tyson Foods, Inc.*, 565 F.3d 769, 776 (10th Cir. 2009).

[59] *Gonzalez-Droz v. Gonzalez-Colon*, 573 F.3d 75, 79 (1st Cir. 2009) ("In considering a motion for a preliminary injunction, a district court must consider: '(1) the plaintiff's likelihood of success on the merits; (2) the potential for irreparable harm in the absence of an injunction; (3) whether issuing an injunction will burden the defendants less

practical matter, there does not appear to be any meaningful difference between the standards applied in these circuits and the *Winter* standard.

The Eighth Circuit has yet to examine the standard for issuing injunctions since the Supreme Court's decision in *Winter*, but some district courts within the Eighth Circuit have quoted the language from *Winter* as the standard.[60] However, other of the district courts within the Eighth Circuit continue to cite to the *Dataphase* case, which sets forth a sliding scale approach to establishing the four factors.[61]

The Seventh Circuit has continued to apply a sliding scale approach to the four factor test, suggesting that the stronger a case is on the merits (*i.e.*, the more likely plaintiff is to succeed on the merits), the less need there is for the balance of harm to weigh in the moving party's favor. In other words, "[h]ow strong a claim on the merits is enough depends on the balance of harms: the more net harm an injunction can prevent, the weaker the plaintiff's claim on the merits can be while still supporting some preliminary relief."[62]

The Second Circuit has also continued to apply a sliding scale approach: To obtain a preliminary injunction in the district court [in the Second Circuit], the moving party must show: "(a) irreparable harm and (b) either: (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of the hardships tipping decidedly toward the party requesting the preliminary relief."[63] The Second Circuit has characterized the sufficiently "serious questions" standard as both "flexible" and "as a means of assessing a movant's likelihood of success on the merits," and has refused to interpret *Winter* as barring this standard.[64] Ultimately, the Supreme Court has said there must be a likelihood of success on the merits, and it is unclear whether there is any real difference between the *Winter* standard and the Second Circuit's serious questions standard or if the additional language is merely surplusage.

Finally, and perhaps predictably, the most confusion lies within the Ninth Circuit, where two conflicting court of appeals decisions have caused a split among the district courts as to whether the sliding scale approach is still appropriate in the wake of *Winter*. One panel in the Ninth Circuit rejected the "serious questions" standard and adopted the *Winter* four factor test,

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than denying an injunction would burden the plaintiffs; and (4) the effect, if any, on the public interest.'"); *Johnston v. Tampa Sports Auth.*, 530 F.3d 1320, 1325 (11th Cir. 2008) ("A party seeking a preliminary injunction must demonstrate that: (1) he has a substantial likelihood of success on the merits; (2) irreparable injury will be suffered absent an injunction; (3) the injury to the movant outweighs the injury the proposed injunction would cause to the opposing party; and (4) the proposed injunction would serve the public interest.").

[60] *See, e.g., Aviva Sports, Inc. v. Fingerhut Direct Mktg., Inc.*, 2010 WL 2131007, at *1 (D. Minn. May 25, 2010); *Travel Tags, Inc. v. UV Color, Inc.*, 690 F. Supp. 2d 785, 798 (D. Minn. 2010); *Merrick v. Stifel Fin. Corp.*, 2009 WL 1161481, at *2 (E.D. Mo. Apr. 29, 2009).

[61] *Dataphase Sys., Inc. v. C L Sys., Inc.*, 640 F.2d 109, 113 (8th Cir. 1981) (en banc) ("[W]here the movant has raised a substantial question and the equities are otherwise strongly in his favor, the showing of success on the merits can be less."); *see, e.g., Sierra Club v. Clinton*, 689 F. Supp. 2d 1123, 1129 (D. Minn. 2010); *Summit Res. Group, Inc. v. JLM Chemicals, Inc.*, 2008 WL 5423447, at *2 (E.D. Mo. Dec. 29, 2008).

[62] *Hoosier Energy Rural Elec. Coop., Inc. v. John Hancock Life Ins. Co.*, 582 F.3d 721, 725 (7th Cir. 2009).

[63] *Citigroup Global Mkts., Inc. v. VCG Special Opportunities Master Fund, Ltd.*, 598 F.3d 30, 35 (2d Cir. 2010) (expressly holding that the Second Circuit's "serious questions" test remains viable after *Winter*); *see also Int'l Bus. Machines Corp. v. Johnson*, 2009 WL 3416154, at *1 (2d Cir. Oct. 22, 2009) (*citing Green Party of N.Y. State v. N.Y. State Bd. of Elections*, 389 F.3d 411, 418 (2d Cir. 2004).

[64] *Citigroup Global Markets,* 598 F.3d at 35-38.

stating: "[t]o the extent that our cases have suggested a lesser standard, they are no longer controlling, or even viable."[65] Some district courts in the Ninth Circuit appear to be in line with this decision.[66] However, another panel in the Ninth Circuit recently distinguished the earlier Ninth Circuit decision and specifically held that the "serious questions" version of the sliding scale test is still viable.[67] It is thus not surprising that other district courts within the Ninth Circuit have continued to apply the sliding scale approach and serious questions standard.[68]

So, what does this all mean in the franchise context? Has the Court's ruling in *Winter* changed the landscape in a way that will impact franchisors and franchisees alike in seeking or opposing requests for injunctive relief? While it is too soon to definitively answer these questions, it seems unlikely that *Winter* will have any material impact on requests for injunctive relief in franchise cases. Most circuits were already effectively applying the standard articulated in *Winter*. In the other circuits -- both those that have expressly rejected the sliding scale approach and those that continue to apply it -- the question is whether there are factual circumstances that would have previously warranted injunctive relief under the sliding scale that would no longer qualify for such relief. While it is certainly possible that some motions will be decided differently in the circuits that are no longer applying the sliding scale approach, motions for injunctive relief in the franchise context often arise out of predictable and reasonably straightforward circumstances that are not such "close calls" -- *e.g.*, a franchisee's post-termination use of the franchisor's trademarks -- that a modest re-alignment of the preliminary injunction factors would make a difference.

### C. Petroleum Marketing Practices Act

The Petroleum Marketing Practices Act ("PMPA") has its own standard for the issuance of injunctive relief, the purpose of which is to protect franchisees "not only from arbitrary and discriminatory termination or nonrenewal, but also from the harmful effects of threatened termination or nonrenewal" by investing in district courts "the power to preserve the status quo between the parties during the pendency of the litigation (*i.e.*, the existing terms of the franchise relationship)."[69] The PMPA "was *designed* to benefit the small retailer and its standard for preliminary injunctions was intentionally drawn to facilitate the grant of injunctive relief."[70] Under the PMPA, the court *"shall"* grant a preliminary injunction if:

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[65] *Am. Trucking Associations*, 559 F.3d at 1052.

[66] *See, e.g., Water Wheel Camp Recreational Area, Inc. v. LaRance*, 2009 WL 5175191, at *1 (D. Ariz. Dec. 18, 2009) ("Courts in the Ninth Circuit now apply the standard [from *Winter*].").

[67] *Alliance for Wild Rockies v. Cottrell*, —— F. 3d ——; 2010 WL 2926463, at *4-7 (9th Cir. July 28, 2010) ("[W]e join the Seventh and Second Circuits in concluding that the "serious questions" version of the sliding scale test for preliminary injunctions remains viable after the Supreme Court's decision in *Winter*."); *see also Greater Yellowstone Coalition v. Timchak*, 2009 WL 971474, at *1 n.1 (9th Cir. Apr. 10, 2009) ("[T]his Court has consistently applied an alternative 'sliding-scale' test under which a preliminary injunction may be granted where the plaintiff "demonstrates *either* a combination of probable success on the merits and the possibility of irreparable injury *or* that serious questions are raised and the balance of hardships tips sharply in his favor.").

[68] *See, e.g., Save Strawberry Canyon v. Dep't of Energy*, 2009 WL 1098888, at *2 (N.D. Cal. Apr. 22, 2009) (*citing Greater Yellowstone*, 2009 WL 971474, at *1 n.1).

[69] *Desch Energies, Inc. v. Shell Oil Co.*, 314 F.3d 846, 863 (7th Cir. 2002).

[70] *Barnes v. Gulf Oil Corp.*, 824 F.2d 300, 306 (4th Cir. 1987).

> (A) the franchisee shows--
>
> (i) the franchise of which he is a party has been terminated or the franchise relationship of which he is a party has not been renewed, and
>
> (ii) there exist sufficiently serious questions going to the merits to make such questions a fair ground for litigation; and
>
> (B) the court determines that, on balance, the hardships imposed upon the franchisor by the issuance of such preliminary injunctive relief will be less than the hardship which would be imposed upon such franchisee if such preliminary injunctive relief were not granted.[71]

Thus, "the PMPA's requirements stand in marked contrast to the usual standard, under which the moving party must demonstrate a likelihood of success on the merits and irreparable harm to its interests from the denial of relief before a preliminary injunction may be granted."[72] However, "[w]hile the purpose of the PMPA may have been 'to make preliminary injunctions easier to obtain than they otherwise would be, . . . this is not to say that they will be issued as a matter of course . . . .'"[73] While a franchisee is not required to demonstrate irreparable harm to obtain a preliminary injunction under the PMPA, a franchisor must meet the traditional requirements for injunctive relief.[74]

The question of what constitutes "sufficiently serious questions going to the merits" to warrant litigation has, predictably, been the subject of much litigation. The standard is generally described as requiring that the moving party show something less than a likelihood or probability of success on the merits -- *i.e.*, something less than what is traditionally required for the issuance of a preliminary injunction. One of the first and seminal cases addressing the PMPA noted that:

> Clearly, although Congress wanted and designed an act to protect the franchisee from overbearing franchisors, it did not desire to impose upon the courts needless litigation. The use of the terms 'serious question' and 'fair ground' indicates that it intended a significant showing of something that would constitute some reasonable chance of success even though it could not be shown that there was a likelihood of probability of success as is required in the ordinary preliminary injunction matter.
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> . . .

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[71] 15 U.S.C. § 2805(b)(2).

[72] *Hilo v. Exxon Corp.*, 997 F.2d 641, 643 (9th Cir. 1993).

[73] *Malone v. Crown Cent. Petroleum Corp.*, 474 F. Supp. 306, 312 (D. Md. 1979) (*quoting Saad v. Shell Oil Co.*, 460 F. Supp. 114, 117 (E.D. Mich. 1978)).

[74] *Nassau Blvd. Shell Serv. Station, Inc. v. Shell Oil Co.*, 875 F.2d 359, 364 (2d Cir. 1989) ("Although 'it is easier for a franchisee to obtain a preliminary injunction under [section 2805], than in the usual case,' the PMPA contains no comparable provisions which lessen the burdens on franchisors."); *Shell Oil Co. v. Altina Assocs., Inc.*, 866 F. Supp. 536, 541 (M.D. Fla. 1994) (a franchisor "must meet the traditional requirements for a preliminary injunction").

> Instead of a 'strong showing' or 'probability' of success, the terms 'serious question' and 'fair ground for litigation' suggests merely a reasonable chance of success, something far less than the probability or likelihood required by *Virginia Petroleum Jobbers, supra*, and *Corning Glass Works v. Lady Cornella Inc.*, 305 F. Supp. 1229, 164 U.S.P.Q. (BNA) 432 (E.D. Mich. 1969).[75]

The lesser standard for injunctive relief under the PMPA has resulted in a correspondingly disproportionate amount of litigation.

## D. Defenses

### 1. Merits-Based Defenses

A common defense of a franchisee in connection with a franchisor's action to terminate a franchise agreement is that the franchisor's motive to terminate was pre-textual, sought in bad faith and was not actually based upon the contractual breach or other malfeasance alleged by the franchisor in its pleading.[76]

### 2. Equitable Defenses (laches, unclean hands)

A franchisee may assert a procedural defense such as the doctrine of waiver, laches and/or unclean hands, in opposition to a franchisor's application for preliminary relief to enforce the termination of its franchise location or to enjoin its post-termination actions. To successfully assert the defense of "unclean hands," a defendant must demonstrate fraud, unconscionability, or bad faith on the part of the plaintiff."[77] A court may apply the standard maxim that a party who seeks equity must do equity.[78] In the context of a franchise dispute, where a court deems the application of the unclean hands defense appropriate, it will refuse to award any equitable relief to a franchisor that has acted in bad faith in connection with the franchise agreement and/or relationship.[79] A court may also find that a franchisor, or a master franchisee acting as a franchisor, has waived its right to terminate for breach of the franchise contract where the

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[75] *Saad v. Shell Oil Co.*, 460 F. Supp. 114, 116-17 (E.D. Mich. 1978).

[76] *See Dunkin Donuts v. Shree Dev Donut LLC*, 152 F. Supp. 2d 675, 678 (E.D. Pa. 2001) (permitting defendant franchisee, accused of bribery, to assert defense and counterclaim related to alleged bad faith of franchisor in seeking to terminate the franchise in order to re-acquire and re-sell the defendant, franchisee's locations to a third-party); *Cf. Dunkin' Donuts v. Liu*, 2002 U.S. Dist. LEXIS 12270, *4 (E.D. Pa. June 25, 2002) (distinguishing the matter from *Shree Dev, supra*, since franchisee was alleged to have consistently under-reported its sales based on QRSA, as opposed to allegations of bribery, and there was no evidence that Dunkin' Donuts fraudulently used QRSA against the defendant franchisee).

[77] *S & R Corp. v. Jiffy Lube Int'l, Inc.*, 968 F.2d 371, 377 (3d Cir. 1992).

[78] *See, e.g., Bd. of Regents of Univ. Sys. Of Ga. V. Buzas Baseball, Inc.,* 176 F. Supp. 2d 1338, 1348 (N.D. Ga. 2001) (*citing Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co,* 324 U.S. 806, 814 (1945)) (noting that doctrine of unclean hands means that "he who comes into equity must come with clean hands" and the party seeking equity must have acted fairly and without fraud or deceit as to the controversy in issue).

[79] *See, e.g., First Ascent Ventures, Inc.. v. DLC Dermacare, LLC*, 2006 U.S. Dist. LEXIS 77945, *17-18 (D. Az. Oct. 24, 2006) (holding that since defendant franchisor acted in bad faith in "performing or failing to perform" in connection with the parties franchise agreements and by driving plaintiff franchisees out of its franchise system, defendant franchisor was equitably barred from enjoining the franchisees from operating competing businesses); *but see Liu,* 2002 U.S. Dist. LEXIS 12270, at *25 (declining to bar award of equitable relief to franchisor based upon doctrine of unclean hands since the franchisee did not present "any evidence which a reasonable juror could find rises to fraud, unconscionability or bad faith on the part of Dunkin'").

franchisor has granted permission for or acquiesced in the allegedly violative activities.[80] A franchisee may also seek to bar a franchisor from asserting a claim under a franchise agreement based upon the doctrine of equitable estoppel. The elements of the estoppel defense are as follows: 1) material misrepresentation; 2) reliance; and 3) resultant damage.[81] However, in the absence of any evidence that the franchisor made a material misrepresentation or failed to disclose material information, this defense cannot be successfully asserted.[82]

## IV. THE PAPERS

While the local rules in various jurisdictions may differ slightly, in general, injunctive relief is properly sought through the filing of a verified complaint and an order to show cause, a legal brief (or memorandum of law) setting forth the applicable standard to obtain the relief sought and any additional supporting case or statutory law, and any and all certifications, declarations, and/or affidavits and accompanying exhibits the moving party deems necessary to establish the facts and circumstances necessitating injunctive relief.

The party opposing the injunctive relief sought is typically ordered by the court to file an answer to the verified complaint within a prescribed time period, and typically files a memorandum of law in opposition to the injunctive relief sought, as well as any certifications, declarations, and/or affidavits it deems necessary to dispute the facts alleged by the moving party. For instance, where a franchisee seeks to enjoin a termination of its franchise agreement, a franchisor will typically submit evidence to show that the franchisee engaged in conduct requiring its termination (*i.e.*, failure to pay royalties, failure to meet a sales quota, commission of fraud on the consumer public) and that the franchisee has no legitimate likelihood of success on the merits. The party seeking injunctive relief will typically be provided with the opportunity to reply to the opposition papers prior to the scheduled hearing on the order to show cause.

## V. THE HEARING

### A. Discovery

A court may be inclined to provide the parties with a limited interval for discovery after issuing a TRO and in advance of a hearing on a preliminary injunction. A court will likely require that the parties specifically set forth the particular issues that they believe necessitate the exchange of written discovery, and the particular facts alleged to be in dispute which relate to the discovery sought.[83] For example, if a franchisor seeks termination of the franchisee's

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[80] *Pumphrey v. Pelton*, 245 A.2d 301, 305-06 (Md. 1968) (holding that plaintiff, master franchisee in Dairy Queen franchise had impliedly waived defendant, franchisee's technical breach of the parties' contract by selling non-Dairy Queen products at his location. The plaintiff had testified that he verbally assented to the sale of the products during the course of the parties' business relationship, despite the written contract precluding the sales of these products).

[81] *See, e.g., Starter Corp. v. Converse, Inc.*, 170 F.3d 286, 294 (2d Cir. 1999).

[82] *See ASI Sign Systems, Inc. v. Architectural Systems, Inc.*, 1999 U.S. Dist. LEXIS 11531, at *21-22 (S.D.N.Y. July 29, 1999) (district court declining to bar equitable relief of termination sought by franchisor based upon equitable estoppel defense where no evidence existed that franchisee relied to its detriment upon any false representation made by franchisor in operating extra-territorial sales office forbidden by express terms of the parties' franchise agreements).

[83] *Bray v. QFA Royalties, LLC*, 486 F. Supp. 2d 1237, 1241 (D. Colo. 2007) (where the parties negotiated a temporary restraining order allowing plaintiffs to continue operations in the short term by continuing delivery of products by the approved vendors while certain limited discovery was conducted in preparation for the preliminary injunction hearing).

business for failure to keep accurate books and records, or to properly follow its procedures, and this fact is disputed, the court may allow discovery into the franchisee's record-keeping practices, or call for a formal accounting or audit of its business, to determine whether the subject of the dispute is genuine or if the franchisee has clearly breached its obligations under the franchise agreement.

Such a factual dispute requiring additional discovery of empirical data was present in *Semmes Motors, Inc. v. Ford Motor Co.*, a landmark decision stemming from a decision issued by the Southern District of New York. In *Semmes*, the Second Circuit upheld the decision of the district court refusing to vacate injunctive relief enjoining termination of plaintiff's dealership.[84] Defendant Ford argued that plaintiff fraudulently maintained customer records, while plaintiff maintained that the results of Ford's internal audit were based on a biased sample.[85] Ford argued that since plaintiff's records were doctored, it was required to investigate the actual vehicles plaintiff serviced to further examine the alleged fraudulent activity. Based upon the evidence presented up and until its decision, the court was inclined to grant Ford that latitude.[86]

### B. Live Testimony

FED. R. CIV. P. 65's notice requirement is in place to provide the party opposing a preliminary injunction with a "fair opportunity to oppose the application and to prepare for such opposition."[87] While the rule requires that these goals are met, it does not explicitly require that an evidentiary hearing be held. That is left to the discretion of the trial court. Whether FED. R. CIV. P. 65 *implicitly* requires a district court to hear oral testimony, rather than merely relying on affidavits and other proofs, in determining whether to grant a preliminary injunction "reflects a tension between the need for speedy action and the desire for certainty and complete fairness."[88]

There are three basic scenarios which inform a court's decision on whether or not oral testimony is necessary to render a decision on an injunction application. First, in cases where material facts are not in dispute, the holding of an evidentiary hearing is not ordinarily required; rather, oral argument of the attorneys is all that the court will typically deem necessary to render its decision.[89] In the second scenario, where the facts are not seriously disputed, but instead there is an issue regarding the inferences to be drawn from the facts, an evidentiary hearing "should be held whenever practicable."[90] Finally, in cases "where everything turns on what happened and that is in sharp dispute; in such instances, the inappropriateness of proceeding on affidavits attains its maximum and, even if the plaintiff's need is great, it will normally be

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[84] 429 F.2d 1197, 1205.

[85] *Id.* at 1208.

[86] *Ibid.*

[87] *Granny Goose Foods,* 415 U.S. at 432 n.7.

[88] *Sec. & Exch. Comm'n v. Frank*, 388 F.2d 486, 490 (2d Cir. 1968).

[89] *See, e.g., McDonald's Corp.*, 147 F.3d at 1311-12 (affirming district court's decision to enjoin defendant franchisee from continuing to operate McDonald's franchise and rejecting franchisee arguments, finding that the district court acted within its discretion in declining to hold an evidentiary hearing as no material facts were in dispute and McDonald's had readily established all of the prerequisites necessary for a preliminary injunction).

[90] *Frank*, 388 F.2d at 490.

possible for the judge within the allotted time to conduct a hearing *that will illuminate the factual issues*[.]"[91]

In general the circuit courts appear split as to whether a trial court should require hearing live testimony at an injunction hearing. For instance, the Third Circuit has suggested that material factual disputes in a preliminary injunction proceeding should be resolved through the use of live testimony, rather than merely through affidavits and other hearsay proofs. In *Sims v. Greene*, the Third Circuit opined strongly in favor of the use of live testimony in this context, where applicable:

> The allegations of the pleadings and affidavits filed in the cause are conflicting. Such conflicts must be resolved by oral testimony since only by hearing the witnesses and observing their demeanor on the stand can the trier-of-fact determine the veracity of the allegations by the respective parties. *If witnesses are not heard the trial court will be left in the position over preferring one piece of paper over another.*[92]

Certain courts have held that a court's refusal to hear live testimony where disputed factual grounds exist can be grounds for reversal of an injunction.[93] However the circuits appear split on the relative import of live testimony at injunction hearings. Indeed, the Ninth Circuit has held that live testimony is rarely allowed during preliminary injunction proceedings, even in light of disputed facts.[94]

The underlying principle from this spectrum of case law is that it is within a court's discretion to permit live testimony on a motion for preliminary injunction and that the court's decision will be reversed only if it abuses that discretion.[95]

Additionally where the court indicates its preference for live testimony, the litigant seeking the injunction should provide such testimony. For instance, in *Motorola Credit Corp. v. Uzan*, the court granted plaintiff's requested injunction where defendants chose to submit affidavits in lieu of appearing at the injunction hearing, noting in its decision: "Although the Court had previously indicated its preference for live testimony over affidavits, none of the defendants elected to appear in person to testify at the preliminary injunction hearing."[96]

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[91] *Id.* at 491.

[92] 161 F.2d 87, 88 (3d Cir. 1947).

[93] *See, e.g., SEC v. G Weeks Secur., Inc.* 678 F.2d 649, 651 (6th Cir. 1982) (reversing a preliminary injunction, holding that the district court abused its discretion by resolving factual questions in favor of the plaintiff without first hearing the defendant's live testimony. *Cf. Sentinel Trust Co. v. Namer*, 1998 US App LEXIS 31170, at *6-7 (6th Cir. Dec. 9, 1998) ("*Weeks*, however does not stand for the proposition that a court must always hear live testimony before issuing an injunction . . . *Weeks* only states that when there is a disputed issues of fact and the documentary record is insufficient to resolve it).

[94] *See Keneally v. Lungren* 967 F.2d 329, 334-35 (9th Cir. 1992) *cert. denied*, 506 U.S. 1054 (1993) (holding that the trial court can exercise its discretion to decline to hear testimony "even when facts are controverted.")

[95] *See, e.g. Stanley v. University of S. Cal.* 13 F.3d 1213, 1326 (9th Cir. 1994) ("In this circuit the refusal to hear oral testimony at a preliminary injunction hearing is not an abuse of discretion if the parties have full opportunity to submit written testimony and argue the matter.").

[96] 274 F. Supp. 2d 481, 514 (S.D.N.Y. 2003).

Despite the differing opinions throughout the circuit courts as to whether live testimony should be required and whether the failure to hear it constitutes reversible error, the analysis remains highly fact-sensitive. As a practice guide, in determining whether or not you should present your witnesses through live testimony or by affidavit only depends on which party is moving as well as which facts are in dispute. For instance, franchisees moving for an injunction might be better served by permitting their witnesses to testify in order to clearly explain the severity of their situation in the event they are not granted injunctive relief or if they are enjoined. Indeed, where a franchisee seeks to enjoin the termination of a franchise relationship, a court may also seek testimony to ascertain the particular circumstances surrounding the termination and the harm a franchisee alleges it will sustain as a result of the termination.[97]

Where a franchisor seeks to enforce a termination of a franchisee based upon the franchisee's breach of express contractual obligations (*i.e.*, non-payment of royalties), it is likely that material facts are not in dispute as to whether the monies were paid, and the franchisor's arguments are based upon their legal right under the parties' agreement. Conversely, where the continued use of a franchisor's marks post-termination is the basis for the injunction, the court may seek live testimony in further support of the evidence of the actions of the former franchisee that threaten to irreparably harm the franchisor's brand, or as to the particular conduct that persisted post-termination.[98]

## VI. PRELIMINARY STRATEGIC AND PROCEDURAL CONSIDERATIONS/ISSUES

### A. Some Pros and Cons

#### 1. Pros

##### a. Speed, Surprise and Potential Settlement

A major advantage of seeking injunctive relief is that potentially protracted litigation may be short-circuited since many "wrongful termination" lawsuits are often resolved by way of settlement during, or after, the preliminary injunction determination. Although the court's decision on a preliminary injunction can be "reversed" after a trial on the merits, often times a court's "first" impression is also its "last" impression. Since the losing party may feel that the court has already made up its mind, many cases settle at this point. Moreover, an emergent application, particularly where a TRO is sought, may make effective use of the element of surprise. If a TRO is granted, the non-moving party will be required to obtain or contact counsel quickly and must prepare an application to dissolve the TRO on short notice. Similarly, where preliminary injunctive relief is sought, a court will typically set a "tight" briefing schedule, which will require the non-moving party to file an answer to a verified complaint, a brief in opposition to the injunctive relief sought and any necessary certifications and exhibits within a relatively brief timeframe. Obviously, a party that is caught off-guard by the emergency application will be

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[97] *See, e.g., Fink v. Amoco Corp.*, 55 F. Supp. 2d 350 (W.D. Pa. 1999) (district court heard testimony from 14 franchisee plaintiffs seeking to enjoin the termination of their respective franchise agreements by Amoco. Testimony was heard regarding: 1) the franchisees' length of time in the Amoco system; 2) the amount of their respective franchise investments and the manner in which they financed the same and, in some cases; 3) the additional sums spent on improving the appearance and operation of their franchise locations. In granting the preliminary relief sought, the district court determined that these particular franchisees, who testified on their own behalf, demonstrated that they would suffer irreparable harm if their franchises were terminated.).

[98] *See generally Am. Speedy Printing Ctrs. v. AM Mktg., Inc.*, 69 Fed. Appx. 692 (6th Cir. 2003) (awarding franchisor past due royalties, lost future profits/royalties, and finding that the franchise owners were unauthorized users for purposes of the Lanham Act).

forced to scramble to defend itself and to incur potentially significant attorneys' fees and costs in the process.

### b. Potentially Case Dispositive if Successful

A generally recognized benefit of seeking injunctive relief is the potential to obtain a de facto decision on the merits of the ultimate issue in dispute. For instance, if a franchisor is successful in seeking to enforce a termination for a franchisee's non-payment of royalties or failure to meet an expressly agreed-upon sales quota, the court will have decided that, despite the irreparable harm sustained by a franchisee in losing its business, the franchisor has convincingly demonstrated a likelihood of success on the merits of its claim that the franchisee has breached its express contractual obligation under the franchise agreement. In such a scenario, the court may expedite a trial on the merits.

### c. Expedited Discovery and/or Trial

In addition to ordering pre-trial discovery, the court has the ability to consolidate the preliminary injunction hearing with a trial on the merits:

> Before or after beginning the hearing on a motion for a preliminary injunction, the court may advance the trial on the merits and consolidate it with the hearing. Even when consolidation is not ordered, evidence that is received on the motion and that would be admissible at trial becomes part of the trial record and need not be repeated at trial. But the court must preserve any party's right to a jury trial.[99]

There are clearly both advantages and disadvantages inherent in a potential expedited trial, dependent on the parties' respective positions. For a franchisee facing a termination, or the discontinuance of a business alleged to violate a non-compete, the specter of an expedited trial may greatly change their settlement position. However, from a cost perspective, the parties can avoid a long, drawn out trial and be afforded an opportunity to receive a swift and efficient adjudication on the merits.

### d. Right to Appeal

In the event a preliminary injunction is denied, the movant has the ability to appeal the lower court's decision. For instance, if a court determines that a franchisee has not demonstrated that the loss of its business constitutes irreparable harm, such a decision goes against the generally accepted precedent in state and federal court that the loss of a franchise business or distributorship does, in fact, constitute irreparable harm. Alternatively, a franchisor that loses an application seeking to enjoin a franchisee from further trademark infringement can use the threat of an appeal to pressure a franchisee into settlement, since many franchise agreements contain fee-shifting provisions requiring the losing party to pay attorneys' fees. Thus, if the franchisor is ultimately successful in obtaining the requested relief, the franchisee is left with an obligation to pay its own and the franchisor's significant attorneys' fees.

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[99] FED R. CIV. P. 65(a)(2).

## 2. Cons

### a. Costs (attorneys' fees and bond)

The preparation of an application for injunctive relief is labor-intensive and expensive, requiring dedicated attorney time at what can best be described as an accelerated pace. Indeed, the pleadings and moving papers are driven by the immediacy of the damage to the plaintiff, so as to justify extraordinary relief being sought on an extremely accelerated basis. As suggested above, the hearing on the motion for preliminary injunction can turn into a mini trial on the merits, with live testimony and, for all intents and purposes, full trial preparation which must be developed in short order and at a hectic pace.

Any party to a franchise dispute, particularly a franchisee, cannot ignore the incidental costs and inherent risks of seeking preliminary injunctive relief. The security requirement raises two principal issues for a plaintiff's counsel. First, can the plaintiff afford to post a bond or other security? Second, can the client afford to pay for costs and damages to the defendant in the event the court later determines the defendant was wrongfully enjoined? These issues create substantial financial exposure for a plaintiff. For instance, if the preliminary injunction causes the defendant to change its name, its marketing, and related business activities, the court will generally require a substantial bond.

If a plaintiff is unable to post the bond, the injunction will not issue. In addition, if significant assets are posted, those assets may be lost if the defendant can later establish that the preliminary injunction should not have been granted. This may require a separate trial on damages caused by the injunction.[100] In general, a single-unit franchisee is likely to be more greatly impacted by its own attorneys' fees than is the franchisor, who in most cases is a large company with a designated litigation budget.

Indeed, the attendant cost and expense of preparing a complaint and accompanying motion papers and certifications seeking emergent relief in a constrained time period, as well as one or more required appearances by attorneys at motion and/or testimonial hearings are certain to be a costly proposition for any litigant, particularly a struggling franchisee. Moreover, many franchise agreements contain provisions that in any litigation, whether or not injunctive relief is sought, the losing party shall bear the cost of the prevailing party's attorneys' fees. Clearly, if a litigant takes an aggressive position and seeks the remedy of emergent relief, the impact from a cost perspective could be potentially devastating.

Moreover, pursuant to FED. R. CIV. P. 65(c): "no restraining order or preliminary injunction shall issue except upon the giving of a security by the applicant" in the event that the party against whom the injunction is sought is "ultimately determined to have been wrongfully restrained."[101] Moreover, "when setting the amount of security, district courts should err on the high side."[102] The policy behind the setting of security in this manner is "because the damages

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[100] *See* FED. R. CIV. P. 65(c), 65.1.

[101] *Fergusen-Kubly Industrial Services, Inc. v. Circle Environmental, Inc.*, 409 F. Supp. 2d 1072, 1079 (E.D. Wis. 2006) (district court granted preliminary injunction in favor of plaintiff enjoining termination of license/dealership agreement but requiring plaintiff to post bond pursuant to FED. R. CIV. P. 65(c)); *see also Fink*, 55 F. Supp. 2d at 356 (enjoining defendant franchisor from terminating franchise agreements of plaintiffs, franchisees but requiring plaintiffs to post bond in the sum of $25,000).

[102] *Mead Johnson & Co. v. Abbott Lab.*, 201 F.3d 883, 888 (7th Cir. 2000).

for an erroneous preliminary injunction cannot exceed the amount of the bond."[103] Thus, a bond set by a court "acts as ceiling on [a party's] recoverable damages in the event they are found to have been wrongfully enjoined."[104]

### b. Limited Preparation Time

Due to the emergent nature of the relief sought and, particularly from the franchisee's perspective, the limited time to present its argument to the court to enjoin a particular action (*i.e.*, termination) from taking place, litigants in franchise disputes must remain mindful of the inevitable time limitations associated with this type of relief. Timeliness served as a glaring issue in the matter of *Nassau Boulevard Shell Service Station, Inc. et al. v. Shell Oil Company*[105]. Here, the Second Circuit granted the franchisee's motion for a stay of the district court's decision denying the franchisee's motion for a preliminary injunction to stop the termination of its franchise location.[106] While the Second Circuit granted the requested stay, the court nevertheless cautioned other franchisees in like circumstances that applications for preliminary relief should ordinarily not be granted, where, as in this matter, the franchisee fails to timely seek the relief despite "having knowledge for weeks or months of the franchisor's intention to terminate [and] waits until the very eve of termination to seek such relief."[107] While the court chastised the franchisee and its counsel for failing to bring the application until three months after a formal notice of termination was issued, the court determined it would be inequitable to deny the relief of a stay based upon a "delay tactic" used by the attorney in filing the injunction application.[108] Nonetheless the Second Circuit emphatically stressed the importance of a timely filing and opined:

> In the future, however, franchisees seeking preliminary relief in disputes with their franchisors should move for such relief within a reasonable time after notice of termination of their franchise agreements and should seek an expedited adjudication of the merits. If they do not do so, they should be prepared to suffer the loss of their business while they litigate the merits.[109]

### c. Right to Appeal

If a party is successful in obtaining a TRO or a preliminary injunction, the losing party may appeal the decision on an interlocutory basis.[110] During the time period from the filing of an

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[103] *Id.*

[104] *Fergusen-Kubly Industrial Services, supra*, 409 F. Supp. 2d at 1080 (*citing Diginet, Inc. v. Western Union ATS, Inc*,. 958 F.2d 1388, 1394 (7th Cir. 1992)).

[105] 869 F.2d 23 (2d Cir. 1989).

[106] 869 F.2d at 23.

[107] *Id.*

[108] *Id.* at 24. The franchisee had knowledge for weeks or months of the franchisor's intention to terminate and waited until the very eve of termination to seek preliminary relief. *Id.* at 23.

[109] *Id.* at 24.

[110] *See, e.g., Costandi v. AAMCO Automatic Transmissions, Inc.*, 456 F.2d 941, 942-43 (9th Cir. 1972) (holding, on interlocutory appeal, that trial court did not abuse its discretion in entering an injunction *pendente lite* ordering plaintiff, franchisee to "discontinue use of the proprietary name 'AAMCO Automatic Transmissions', or any similar names and marks containing the designation 'AAMCO'" since its franchise agreement had been terminated and that franchisee was not entitled to continue using the marks pending the ultimate outcome of the lawsuit).

appeal and the appellate court's decision on whether or not to hear the appeal, the party to whom injunctive relief has been granted will have posted a bond or security, which remains posted during the pendency of the matter. This may significantly complicate matters for a franchisee, the party typically in a less than ideal financial situation, particularly where its business is on the brink of a potential termination. The threat of an appeal can be used by either party to foster further settlement discussions, and can be used as leverage especially if it has identified a particularly compelling basis for appeal (*i.e.*, reversible error committed by the trial court below.)

### B. Impact of Arbitration Clauses

Despite the oft-cited Seventh Amendment right to a trial by jury, courts have enforced arbitration clauses contained in franchise agreements where they are deemed voluntary and knowing waivers of this fundamental constitutional right.[111] However, the fact that a franchisor and franchisee may have agreed to arbitrate a matter and a court has accordingly transferred a matter to arbitration "does not deprive a court of the power in the interim to preserve the *status quo ante*."[112] The policy underlying the court's ability to hear applications for preliminary injunctive relief, even where the court has enforced the parties' arbitration agreement was clearly explained by the Southern District of New York in *Albatross S.S. Co. v. Manning Bros.*:

> It would be an oddity in the law if the Court, after compelling a party to arbitrate, had to stand idly by during the pendency of the arbitration which it has just directed and permit him to assert his right to breach a contract and to substitute payment of damages for non-performance. The stay is an incident of the power to enforce the agreement to arbitrate.[113]

### C. When to Seek Injunctive Relief

When a franchisee is faced with the loss of its entire franchise investment, by "striking first" and immediately moving for temporary restraints and/or a preliminary injunction to enjoin a threatened termination, a franchisee may successfully focus the court's attention on what is perhaps its best argument: that without the grant of an injunction it will be irreparably injured by

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[111] *See, e.g.*, *Blimpie Int'l, Inc. v. Butterworth*, 2005 U.S. Dist. LEXIS 5445 (S.D. Ind. Mar. 9, 2005) (holding that broad arbitration provision between the primary parties to a franchise agreement was fully enforceable and further finding that agreement to arbitrate reached all claims tangentially related to the franchise agreement); Christopher R. Drahozal, *"Unfair" Arbitration Clauses*, 2001 U. ILL. L. REV. 695 (2001) (examining a sample of seventy-five franchise agreements from leading franchisors); *see also Cottman Transmission Sys. v. McEneany*, 2007 U.S. Dist. LEXIS 1892 (E.D. Pa. Jan. 4, 2007) (upholding a jury trial waiver provision because the provision was conspicuously set out in the licensing agreement, one franchisee acknowledged the existence of the provision in a pre-licensing interview, and a gross disparity in bargaining power did not exist); *Bishop v. GNC Franchising, LLC*, 2006 U.S. Dist. LEXIS 57947, at *5 (W.D. Pa. Jan. 13, 2006), *aff'd*, 248 Fed. Appx. 298 (3d Cir. 2007) (finding plaintiff franchisees knowingly and voluntarily waived their right to a jury trial by signing the franchise agreements that contained clear and conspicuous jury trial waiver provisions); *Bonfield v. Aamco Transmissions, Inc.*, 717 F. Supp. 589, 596 (N.D. Ill. 1989) (finding plaintiff franchisee did not present sufficient evidence to demonstrate that he did not understand that he was waiving a jury trial, and that plaintiff's failure to have his counsel review the agreement was by his own election and his decision may not adversely affect Aamco's rights).

[112] *Janmort Leasing, Inc. et al. v. Econo-Car Int'l, Inc.*, 475 F. Supp. 1282, 1294 (E.D.N.Y. 1979) (noting that "preliminary relief is particularly appropriate where . . . 'arbitration may be futile . . . if the *status quo* is not preserved pending the arbitrator's determination'" (*quoting Erving v. Virginia Squires Basketball Club,* 349 F. Supp. 716, 719 (E.D.N.Y.), *aff'd* 468 F.2d 1064, 1067 (2d Cir. 1972)).

[113] 95 F. Supp. 459, 463 (S.D.N.Y. 1951) (internal quotations omitted).

having its franchise effectively cancelled, losing its business, and forfeiting its investment. A second benefit of filing an emergent application is that, in some cases, a potentially drawn-out litigation can be "short-circuited" since many wrongful termination cases are resolved after a decision granting a preliminary injunction. When the court rules that a franchisee is likely to succeed on the merits of its claim, the franchisor may perceive that the court is suggesting that the franchisee will also be successful at trial. Conversely, it is critical that a franchisee's attorney assess the relative strength of its ultimate position on the merits in deciding whether to whether to file an application for injunctive relief. An unsuccessful result in a preliminary injunction application suggests that the court is largely unimpressed by a franchisee's ultimate likelihood of success on the merits at trial despite the fact that the loss of a franchisee's business may constitute irreparable harm.

### D. Whether to Seek a TRO or a Preliminary Injunction

The decision whether to seek injunctive relief in a franchise matter depends on the particular facts at issue. For both franchisors and franchisees, the stakes are high when moving for an injunction, as the court is hearing many of the facts the moving party or opposing party will ultimately rely upon in their efforts to prove or defend the case. As such, the decision to seek an injunction needs to be seriously evaluated because the success or failure of the initial application can severely impact the ultimate likelihood of success. For instance, for a franchisee facing termination, it is necessary to seek an injunction if the franchisee wishes to continue operating its business, pending a resolution of the circumstances underlying the termination of the franchise agreement. However, in certain instances, particularly where the relationship between the parties is so poor as to render continued operation unfeasible, the franchisee may wish to forego seeking to remain operating and merely seek monetary damages.[114]

From the perspective of a franchisor, efforts to enjoin a franchisee from violating contractual post-termination restrictions (*i.e.*, operating a competing business within a defined territory), if unsuccessful, may be used as precedent by other franchisees in the system who wish to operate competing businesses.[115] Therefore, franchisors need to consider in particular the wide-spread impact of an adverse decision of seeking an injunction versus the necessity to protect the brand.

Seeking a TRO carries with it even more risk. While a preliminary injunction motion can still be presented, the denial of a TRO carries with it findings of fact which will generally be unfavorable to the success of a subsequent preliminary injunction motion. Thus it is critical that a franchisor or franchisee ascertain the relative strengths of their argument in support of temporary restraints prior to moving for this relief, in order to maintain the *status quo* pending the outcome of a preliminary injunction. In response to an application for a TRO, a court is likely to assess the emergent nature of the relief sought in the application; that is, whether it is

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[114] *Quiznos Franchising II, LLC v. Zig Zag Restaurant Group, LLC,* 2008 WL 7226132 (Colo. Dist. Ct. Dec. 31, 2008) (where franchisee determined not to seek injunction to remain operating but was ultimately awarded monetary damages for Quiznos' unfair termination of its franchise location).

[115] The issue of territorial restrictions is frequently at issue in the injunction context. By analogy and example, while not involving an injunction application, the Supreme Court of Georgia in *Atlanta Bread Co., Int'l v. Lupton-Smith* declared that the in-term restrictive covenant contained in the parties' franchise agreement was unreasonable as to time, territory and scope and was, therefore, unenforceable. 285 Ga. 587, 591 (2009). Franchisors seeking to enforce similar terms by injunction run the risk of a court declaring the very term upon which they seek to enforce a legal right to be invalid and unenforceable.

necessary to restrain the non-moving party from taking any action during the pendency of the proceedings.

An example of when a TRO may be necessary includes where a franchisor is seeking to terminate a franchisee for violating its own health and safety standards or other safety standards imposed by law. The franchisor may argue that the conduct of the franchisee impacts not only the franchise system but also the general public, requiring that it be enjoined from operating until the court decides whether to grant the injunction.[116] Similarly, emergent relief may be appropriate when a franchisee seeks to enjoin a termination and the best strategy may be to seek a TRO in order to argue it would be irreparably harmed if it is terminated pending a decision on the merits, and to allow it to continue operating in the interim to preserve the status quo.[117]

## VII. REQUESTS FOR INJUNCTIVE RELIEF IN FRANCHISE CASES

### A. Relief Requested by Franchisor

#### 1. Trademark Infringement, False Advertising and Unfair Competition Under the Lanham Act

Injunctive relief is appropriate to prevent violations of section 32 of the Lanham Act (15 U.S.C. § 1114) or to prevent unfair competition and false advertising pursuant to section 43(a) of the Lanham Act (15 U.S.C. § 1125(a)). The Lanham Act specifically empowers a court to:

> [G]rant injunctions according to the principles of equity and upon such terms as the court may deem reasonable to prevent the violation of any right of the registrant of a mark registered in the Patent Trademark Office or to prevent a violation under section 1125(a) of this title.[118]

To establish trademark infringement under the Lanham Act, a plaintiff must establish that: (i) its mark is protectable, used in commerce and is being used without the registrant's consent, and (ii) the defendant's use of the mark is likely to cause confusion, deceive or result in mistake.[119] As under section 32 (trademark infringement), the test under section 43(a) (unfair competition and false advertising) is whether the prohibited conduct creates a likelihood of confusion.[120]

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[116] *See e.g., McDonald's Corp.*, 147 F.3d at 1309 (holding that franchisee's consistent failure to comply with McDonald's "QSC" [Quality, Safety and Cleanliness] and food safety standards constituted a material breach of the franchise agreement sufficient to justify termination; *see also Beermart, Inc. v. Stroh Brewery Co.*, 804 F.2d 409 (7th Cir. 1986) (holding the termination of a beer distributor who sold products past their expiration date was justified); *NOVUS Dunkin' Quebec, Inc. v. NOVUS Franchising, Inc.*, Bus. Franchise Guide (CCH) ¶10,823 (D. Minn. 1995) (finding good cause for termination where an area franchisee failed to enforce franchisor's uniformity and quality standards with respect to its franchisees).

[117] *See, e.g., Semmes Motors, Inc. v. Ford Motor Co.*, 429 F.2d 1197, 1205 (2d Cir. 1970) (granting injunctive relief to franchisee and holding that "the right to continue a business...is not measurable entirely in monetary terms; the [franchisees] want to sell automobiles, not to live on the income from a damages award").

[118] 15 U.S.C. § 1116(a).

[119] *See, e.g., McDonald's Corp.*, 147 F.3d at 1307; *Sunward Electronics*, 362 F.3d 17 at 25; *Opticians Ass'n of Am. v. Indep. Opticians of Am.*, 920 F.2d 187, 192 (3d Cir. 1990).

[120] *Int'l Kennel Club*, 846 F.2d at 1084; *Two Men and a Truck/Int'l. v. Two Men and a Truck/Kalamazoo, Inc.*, 949 F. Supp. 500, 503-04 (W.D. Mich. 1996).

Thus, conduct constituting trademark infringement in violation of the Lanham Act also constitutes unfair competition under the Act.[121]

### a. Likelihood of Success

In order to establish a likelihood of success, a franchisor must first make "*some*" type of showing that its franchisee is no longer authorized to use the franchisor's trademarks -- *i.e.*, that the franchisee was properly terminated.[122] In the context of motions to enjoin a franchisee's continued use of the franchisor's trademarks, franchisee claims that the franchise agreement was improperly terminated are generally unsuccessful.[123] Moreover, as many cases have held, a franchisor's ulterior or improper motive for terminating a franchise agreement is generally irrelevant and will not defeat a motion for preliminary injunction.[124] Thus, "a franchisor's right to terminate a franchisee exists independently of any claims a franchisee might have against a franchisor [and] the franchisor has the power to terminate the relationship where the terms of the agreement are violated."[125]

With respect to the second element of a trademark infringement claim, courts routinely find that a so-called "holdover" franchisee's continued use of its franchisor's trademarks is likely

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[121] *Dunkin' Donuts, Inc. v. Donuts, Inc.*, 2000 WL 1808517, at *7 (N.D. Ill. Dec. 6, 2000).

[122] *See, e.g., McDonald's Corp.*, 147 F.3d at 1308 (as part of meeting its burden of demonstrating a likelihood of success on the merits for purposes of obtaining injunctive relief, the franchisor must "make some type of showing" that it properly terminated the franchise agreement); *S & R Corp. v. Jiffy Lube Int'l, Inc.*, 968 F.2d 371, 375 (3d Cir. 1992) (a franchisor is entitled to a preliminary injunction "if it can adduce sufficient facts indicating that its termination of [the] franchise[s] was proper"); *but see Jake Flowers, Inc. v. Kaiser*, 2002 WL 31906688, at *5 (N.D. Ill. Dec. 31, 2002) ("The Seventh Circuit has held that legal termination of a franchise agreement is not a condition precedent to an action for infringement.").

[123] *See, e.g., McDonald's Corp.*, 147 F.3d at 1307-08; *Original Great Am. Chocolate Chip Cookie Co. v. River Valley Cookies, Ltd.*, 970 F.2d 273, 276-82 (7th Cir. 1992); *S & R Corp.*, 968 F.2d at 375; *Gorenstein Enterprises, Inc. v. Quality Care USA, Inc.*, 874 F.2d 431, 433-34 (7th Cir. 1989); *but see Dunkin' Donuts Franchised Restaurants LLC v. Mehta*, 2007 WL 2688710, at *11 (W.D. Pa. Sept. 11, 2007) (franchisor's motion for preliminary injunction denied, in part, because termination was improper).

[124] *See, e.g., McDonald's Corp.*, 147 F.3d at 1309 ("it does not matter whether McDonald's possessed an ulterior, improper motive for terminating the franchise agreement"); *Original Great Am. Chocolate Chip Cookie Co.*, 970 F.2d at 279 ("The fact that the Cookie Company may . . . have treated other franchisees more leniently is no more a defense to a breach of contract than laxity in enforcing the speed limit is a defense to a speeding ticket . . . Liability for breach of contract is strict."); *Donuts, Inc.*, 2000 WL 1808517, at *8 ("[a]s long as sufficient cause existed for termination, 'it does not matter whether [plaintiff] also possessed an ulterior, improper motive for terminating the [defendant's] franchise agreement'"; summary judgment and permanent injunction granted in favor of franchisor); *but see* IOWA CODE § 537A.10(a) (good cause for termination of a franchise "includes the failure of the franchisee to comply with any material, lawful requirement of the franchise agreement, provided that *the termination is . . . not arbitrary or capricious")* (emphasis added); HAW. REV. STAT. § 482E-6 (franchise may not be terminated "except for good cause or in accordance with the current terms and standards established by the franchisor then equally applicable to all franchisees, unless . . . *franchisor satisfies the burden or proving that any classification of or discrimination between franchisees is reasonable, is based on proper and justifiable distinctions . . . and is not arbitrary")* (emphasis added).

[125] *McDonald's Corp.*, 147 F.3d at 1309 (*quoting S & R Corp.*, 968 F.2d at 375); *see also The Quizno's Master, LLC v. Kadriu*, 2005 WL 948825, *5 (N.D. Ill. Apr. 11, 2005) (*quoting Gorenstein,* 874 F.2d at 435) (Notwithstanding any potentially legitimate claims against the franchisor, once "the owner of a trademark has broken off business relations with a licensee . . .continued use of the trademark is . . . a violation of trademark law."); *Donuts, Inc.,* 2000 WL 1808517, at *7 ("Even if Dunkin' breached the Agreements and sublease, [the franchisee's] continued use of the marks and trade name is unlawful."); *McDonald's Corp. v. Underdown*, 2005 WL 1745654, *3-4 (M.D. Pa. Jan. 21, 2005) ("[T]he parties' pre-termination disputes do not excuse [the franchisee's] failure to pay the monies owed to McDonald's" and "are not relevant to infringement under the Lanham Act.").

to cause confusion, to deceive or result in mistake.[126] Indeed, it seems obvious that the "likelihood of confusion is inevitable when the identical mark is used concurrently by unrelated entities."[127] Some courts have found that the likelihood of confusion exists as a matter of law when a franchisee continues to use the franchisor's trademarks after termination.[128] As the Eleventh Circuit concluded in *Burger King Corp. v. Mason*, a holdover franchisee's use of its former franchisor's trademarks creates an especially compelling risk of confusion:

> Common sense compels the conclusion that a strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor's trademarks. A patron of a [ ] adorned with [the former franchisor's] trademarks undoubtedly would believe that [the former franchisor] endorses the operation of [ ]. Consumers automatically would associate the trademark user with the registrant and assume that they are affiliated. Any shortcomings of the franchise therefore would be attributed to [the former franchisor]. Because of this risk, many courts have held that continued trademark use by one whose trademark license has been canceled satisfied the likelihood of confusion test and constitutes trademark infringement.[129]

**b. Irreparable Harm**

In some jurisdictions, once a reasonable likelihood of trademark infringement or unfair competition under the Lanham Act has been established, the threat of irreparable harm is *presumed* because "it is virtually impossible to ascertain the precise economic consequences of intangible harms, such as damages to reputation and loss of goodwill."[130] A terminated franchisee's infringement of its former franchisor's marks causes irreparable harm, both because of the franchisor's loss of control over its reputation and due to the likelihood of injury to the franchisor's goodwill as a result of such loss of control. As stated by Judge Posner:

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[126] *See, e.g., McDonald's Corp.*, 147 F.3d at 1309 ("there was no dispute that the [franchisee] continued to use the McDonald's trademarks, and that such use . . . was likely to result in confusion"); *S & R Corp.*, 968 F.2d at 375 ("there is a great likelihood of confusion when an infringer uses the exact trademarks" as its former franchisor) (citations omitted); *Pappan Enterprises, Inc. v. Hardee's Food Sys., Inc.*, 143 F.3d, 800, 804 (3d Cir. 1998) (same, *citing Opticians Ass'n*, 920 F.2d at 195); *Downtowner/Passport Int'l Hotel Corp. v. Norlew, Inc.*, 841 F.2d 214, 219 (8th Cir. 1988) (consumer confusion established notwithstanding holdover franchisee's use of both franchisor's trademarks and other trademarks); *Frisch's Restaurants, Inc. v. Elby's Big Boy of Steubenville, Inc.*, 670 F.2d 642, 649 (6th Cir. 1982), *cert. denied*, 459 U.S. 916 (1982) (obvious risk of public confusion where defendant holds self out as franchisee); *Ramada Franchise Sys., Inc. v. Royal Vale Hospitality of Cincinnati, Inc.*, 2005 WL 435263, at *15 (N.D. Ill. Feb. 16, 2005) (continuing use of trademark by holdover franchisee "created a likelihood of confusion within the meaning of the Lanham Act").

[127] *Opticians Ass'n*, 920 F.2d at 195.

[128] *Bunn-O-Matic Corp. v. Bunn Coffee Serv., Inc.*, 88 F. Supp. 2d 914, 922 (C.D. Ill. 2000) ("the likelihood of confusion exists as a matter of law if a licensee continues to use marks owned by the licensor after termination of the license").

[129] 710 F.2d 1480, 1492-93 (11th Cir. 1983), *cert. denied*, 465 U.S. 1102 (1984) (citations omitted).

[130] *Country Inns & Suites By Carlson, Inc. v. Nayan, LLC*, 2008 WL 4735267, at *6 (S.D. Ind. Oct. 28, 2008) (citations omitted); *see also Church of Scientology, Inc. v. The Elmira Mission of the Church of Scientology*, 794 F.2d 38, 42 (2d Cir. 1986) ("when in the licensing context unlawful use and consumer confusion have been demonstrated, a finding of irreparable harm is *automatic*") (emphasis added).

> Once a franchise has been terminated, the franchisee cannot be allowed to keep on using the trademark. The owner of a trademark has a duty to ensure the consistency of the trademarked good or service. If he does not fulfill this duty, he forfeits the trademark. (Citations omitted.) The purpose of a trademark, after all, is to identify a good or service to the consumer, and identity implies consistency and a correlative duty to make sure that the good or service really is of consistent quality, *i.e.*, really is the same good or service. If the owner of the trademark has broken off business relations with the licensee, he cannot ensure the continued quality of the (ex-) licensee's operation, whose continued use of the trademark is therefore a violation of trademark law.[131]

Moreover, a franchisor's inability to control a former franchisee's use of its mark constitutes irreparable harm, even where the franchisee uses the mark in connection with high quality goods or services. As the Third Circuit held:

> [A] plaintiff's 'mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrowers the owner's reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use.'[132]

Thus, potential damage to a franchisor's reputation constitutes irreparable injury and warrants granting a preliminary injunction in a trademark case.[133]

### c. Balance of Harms

Courts have had little difficulty in finding that the hardship to the franchisor which would result from denying a motion for preliminary injunction -- *e.g.*, the diminution in value of its trademarks and franchise system -- greatly outweighs the hardship to a franchisee resulting from granting the requested injunction. For example, the Third Circuit has found that a former franchisee "can hardly claim to be harmed, since it brought any and all difficulties occasioned by the issuance of an injunction upon itself."[134]

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[131] *Gorenstein*, 874 F.2d at 435.

[132] *Opticians Ass'n*, 920 F.2d at 195; *see also S & R Corp.*, 968 F.2d at 378 (franchisee's "'innovative' maneuvers amount to irreparable injury even if . . . the trademark was being put to better use"); *Fotomat Corp. v. Photo Drive-Thru, Inc.*, 425 F. Supp. 693, 711 (D.N.J. 1977) ("Plaintiff's lack of ability to control the nature and quality of services provided under an infringing service mark, even if defendant matches the high quality of plaintiff's services, constitutes irreparable injury.").

[133] *Opticians Ass'n*, 920 F.2d at 195.

[134] *Opticians Ass'n*, 920 F.2d at 197; *see also S & R Corp.*, 968 F.2d at 379 (franchisee "has brought much of the difficulties of which he complains upon himself"); *Helene Curtis Indus. v. Church & Dwight Co., Inc.*, 560 F.2d 1325, 1333 (7th Cir. 1977) (infringer's arguments that "it has invested a great deal of money in advertising and has over one million dollars in inventory . . . merit little equitable consideration in light of [infringer's] willful use of an infringing trademark").

### d. The Public Interest

In considering the public interest factor, courts routinely find that the public interest is served by enjoining the former franchisee's continued use of the franchisor's trademarks so as to avoid deception or confusion. As the Second Circuit has said:

> [T]he public interest is especially served by issuing a preliminary injunction against a former licensee as the licensee's status increases the probability of consumer confusion. A licensee or franchisee who once possessed authorization to use the trademarks of its licensor or franchisor becomes associated in the public's mind with the trademark holder. When such party . . . loses its authorization yet continues to use the mark, the potential for consumer confusion is greater than in the case of a random infringer. Consumers have already associated some significant source identification with the licensor. In this way the use of a mark by a former licensee confuses and defrauds the public.[135]

Indeed, the Third Circuit has held that the public interest in a trademark case "is most often a synonym for the right of the public not to be deceived or confused."[136]

## 2. Covenants Not to Compete

Franchisors have successfully obtained injunctive relief to enforce covenants not to compete in a variety of circumstances. Many courts have, however, refused to enforce a covenant not to compete via a motion for preliminary injunction.[137] There are several reasons for this. First, the covenant not to compete is found to be unenforceable under the applicable state law. Second, even if the covenant is otherwise enforceable, the franchisor has failed to establish irreparable harm and/or the franchisee's harm outweighs the harm likely to be suffered by the franchisor. A brief discussion of some of the relevant case law and how the courts have addressed the four preliminary injunction factors follows.[138]

### a. Likelihood of Success

The "likely to succeed" factor is, of course, the starting point for analyzing a motion for preliminary injunction to enjoin a former franchisee from violating a covenant not to compete. However, it is far beyond the scope of this article to attempt to address the host of issues that courts consider in deciding whether a particular covenant not to compete in a particular factual

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[135] *Church of Scientology*, 794 F.2d at 44 (*citing Burger King Corp. v. Mason*, 710 F.2d 1480, 1493 (11th Cir. 1983); other citations omitted).

[136] *Opticians Ass'n*, 920 F.2d at 197; *see also S & R Corp.*, 968 F.2d at 379 (*citing Opticians Ass'n*, 920 F.2d at 197); *Paisa, Inc. v. N&G Auto, Inc.*, 928 F. Supp. 1009, 1013 (C.D. Cal. 1996) ("the strong public interest in preventing customer confusion and fraud favors issuance of the requested injunctive relief").

[137] *See supra* discussion.

[138] For an excellent discussion regarding the enforceability of covenants not to compete by motion for preliminary injunction *see* BARBARA A. BAGDON AND MARY K. KELLERMAN, *When Will Courts Issue Preliminary Injunctions to Enforce Restrictive Covenants in Franchise Agreements,* 29 FRANCHISE L.J. 141 (Winter 2009). For the definitive discussion regarding covenants not to compete in the franchise context, *see* PETER J. KLARFELD, COVENANTS AGAINST COMPETITION IN FRANCHISE AGREEMENTS (American Bar Assoc., Forum on Franchising 2d ed. 2003).

circumstance is enforceable. What can fairly be said is that in all cases where a court granted an injunction enjoining a franchisee from competing, the court first determined that the franchisor was likely to prevail in establishing that the covenant was enforceable -- *i.e.*, the franchisor was likely to succeed on the merits of its claim.

Franchisees have, however, successfully opposed motions for preliminary injunction on the ground that the covenant not to compete is unenforceable and, therefore, the franchisor is unlikely to succeed on the merits. For example, in *Bennigan's Franchising Co., L.P. v. Swigonski*, a district court in Texas found that Bennigan's was unlikely to succeed on the merits because the covenant not to compete was "unreasonably restrictive" and overbroad in that it prohibited the franchisee from operating a "casual dining" restaurant or other restaurant business that was "in any way competitive with or similar" to a Bennigan's restaurant.[139] The court was plainly troubled by the testimony of one of Bennigan's witnesses as to what constituted a "casual dining" restaurant that was in conflict with other evidence, and that the franchise agreement did not define the phrase "casual dining" or otherwise provide a means of determining its definition.[140] In another case, a Virginia district court found that there were disputed facts whether the franchisor had granted permission to the franchisee to move its Allegra print center to a new location, which was within a few miles of one of the franchisor's other franchised businesses.[141] As a result, the court found that because it could not resolve the "factual inconsistencies," the franchisor had failed to establish that it was likely to succeed on the merits.[142]

In some cases, courts have found that the covenants not to compete were overbroad and unreasonable as drafted, but have modified ("blue-penciled") the geographic or temporal limitations in the covenants in order to enforce them.[143]

### b. Irreparable Harm

Whether a franchisor will suffer irreparable injury absent an injunction enjoining a former franchisee from violating a covenant not to compete is frequently the main contested issue on a motion to obtain such relief. As discussed below, franchisors typically argue -- and courts often find -- that unless the covenant not to compete is enforced, the franchisor will suffer a variety of irreparable harms, including: (i) loss of customer and other goodwill; (ii) difficulty in "re-franchising" the territory; and (iii) damage to its existing franchise relationships and the franchise system as a whole (because failing to enforce the covenant sends the wrong message to the franchisees -- *i.e.*, that the agreement "may be disregarded at will"). In assessing the potential irreparable harm to the franchisor, some courts have also found that enforcing the

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[139] 2007 WL 603370, at *3-4 (N.D. Tex. Feb. 27, 2007).

[140] *Id.*

[141] *Allegra Network LLC v. Reeder*, 2009 WL 3734288, at *3 (E.D. Va. Nov. 4, 2009)

[142] *Id.*; *see also Cottman Transmissions Sys., Inc. v. Melody*, 851 F. Supp. 660, 673-74 (E.D. Pa. 1994) (district court in Pennsylvania refused to enforce a covenant not to compete involving a California franchisee on the ground that the covenant violated California public policy -- *i.e.*, CAL. BUS. & PROF. CODE § 16600, which prohibits covenants not to compete in most circumstances).

[143] *See, e.g., Economou v. Physicians Weight Loss Centers of Am.*, 756 F. Supp. 1024, 1034-39 (N.D. Ohio 1991) (court reduced the duration of the covenant from three years to one year); *Dry Cleaning To-Your-Door, Inc. v. Waltham LLC,* BUS. FRANCHISE GUIDE (CCH), ¶ 13,805 (D. Colo. Dec. 20, 2007) (geographic scope of covenant reduced from a 25-mile radius to a 5-mile radius around franchisee's former territory).

covenant is necessary in order to give the public time to "de-associate" the former location with the franchisor.[144]

In some cases, courts have held that damages from a breach of an enforceable covenant not to compete are presumed to be irreparable.[145] Additionally, in at least one case, the presence of a provision in the franchise agreement which specifically stated that a breach of the covenant not to compete would irreparably harm the franchisor was deemed "significant" by the court.[146]

The potential loss of customer and reputational goodwill is often the chief consideration in assessing the irreparable harm factor. For example, in *Certified Restoration Dry Cleaning, L.L.C. v. Tenke Corp.,* the Sixth Circuit reversed a district court's order denying a motion for preliminary injunction and focused on the "likely interference with customer relationships" resulting from the breach of the covenant not to compete.[147] The court held that the attendant loss of customer goodwill and "fair competition" supported a finding that the franchisor would "likely suffer an irreparable injury without the issuance of [a] preliminary injunction."[148]

In *Bad Ass Coffee Co. of Hawaii, Inc. v. JH Nterprises, Inc.*, a Utah district court had little trouble finding that the franchisor had established that it would likely suffer irreparable harm if its former franchisee was allowed to continue operating its new coffee store at the same location as its former franchised coffee store.[149] In reaching its decision, the court relied on the *Quizno's Corp. v. Kampendahl* case (discussed below) in finding that it was necessary to enjoin the former franchisee's competition: (i) in order to preserve the franchisor's goodwill in the marketplace and with its customers; (ii) because a prospective franchisee had indicated that it could not re-franchise in the area because of the former franchisee's competitive store; (iii) to prevent the franchise system from being "undermined"; and (iv) so that other franchisees would not be "emboldened to follow in Defendant's footsteps."[150] Under the circumstances, the court found that it would be "difficult to ascertain the damages" that would be caused by the franchisee's continued competition and, furthermore, that the franchisor's showing of irreparable harm was strengthened by the "real possibility" that the former franchisee would be unable to pay any significant damage award.[151] Significantly, the court rejected several of the cases discussed *infra* on the ground that those cases "gave short shrift to the particular dynamics of the franchising relationship and appear [to] represent a minority position."[152]

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[144] *See, e.g., Bad Ass Coffee Co. of Hawaii, Inc. v. JH Nterprises, L.L.C.*, 636 F. Supp. 2d 1237, 1249 (D. Utah, 2009); *Lockhart v. Home-Grown Indus. of Georgia, Inc.*, 2007 WL 2688551, at *6 (W.D.N.C. Sept. 10, 2007); *Quizno's Corp. v. Kampendahl*, 2002 WL 1012997, at *7 (N.D. Ill. May 20, 2002).

[145] *Kampendahl*, 2002 WL 1012997, at *6; *I Can't Believe It's Yogurt v. Gunn*, 1997 WL 599391, at *20 (D. Colo. Apr. 15, 1997); *but see Athlete's Foot Brands, LLC v. Whoooahh, Inc.*, 2007 WL 2934871, at *4 (D. Idaho Oct. 5, 2007) (a "breach of a non-competition clause does not automatically create an inference of irreparable harm").

[146] *Bad Ass Coffee Co.,* 636 F. Supp. 2d at 1248; *but see Lockhart*, 2007 WL 2688551, at *4 (the fact that the franchise agreement "provides that a breach of the non-compete would 'result in irreparable harm to [franchisor] for which there will be no adequate remedy at law'" is insufficient to establish irreparable injury).

[147] 511 F.3d 535, 550 (6th Cir. 2007).

[148] *Id.*

[149] 636 F. Supp. 2d at 1249-51.

[150] *Id.* (*citing Kampendahl*, 2002 WL 1012997, at *6-7).

[151] *Id.*

[152] *Id.* at 1250.

In *Lockhart v. Home-Grown Industries of Georgia, Inc.*, a North Carolina district court also addressed a franchisor's potential loss of goodwill in granting injunctive relief.[153] After the termination, plaintiffs opened "Moondog's Pizza Pubs" at the same locations as their former Mellow Mushroom pizzerias. In concluding that the franchisor (Mellow Mushroom) had demonstrated irreparable harm, the court found that absent an injunction, the former franchisees would "reap the goodwill that Mellow Mushroom had established over the course of the franchise and, in part, comes from the public's association of the location of [the new pizza restaurants] with Mellow Mushroom," that there was evidence that Mellow Mushroom had "trouble attracting another franchisee to the area" and its relationship with other franchisees had been damaged as a result of the former franchisee's competition.[154]

In *Quizno's Corp. v. Kampendahl*, one of Quizno's former franchisees opened a new deli at the same location that he had operated a Quizno's shop for five years. In support of its argument that it would suffer irreparable harm absent injunctive relief, Quizno's claimed that the location had become associated with Quizno's, that the covenant should be enforced in order "to allow time for the public to stop associating [the new deli] with Quizno's," that it was unable to re-franchise the territory (and "will therefore lose sales, goodwill, and market presence"), and that the former franchisee's conduct "threaten[ed] the Quizno's franchise system as a whole" and "sends a message to other franchisees that the [a]greement does not protect Quizno's and may be disregarded at will."[155] The court agreed with Quizno's arguments and issued injunctive relief.[156]

In a number of cases, courts have focused on the potential impact to the franchisor's system if the covenant was not enforced. In one case, a district court in Maryland concluded that it was "perfectly obvious that if [the former franchisees] are not enjoined [the franchisor] will be permanently damaged and permanently shut out of the market in the counties at issue because few if any prospective franchisees will agree to step into the relevant market."[157] Similarly, a district court in Georgia found that if the covenant not to compete was not enforced, it would impair the franchisor's "ability to re-franchise the franchise territory . . . and maintain the integrity of the franchise 'system.'"[158]

While covenants not to compete are often enforced, many courts have, however, scrutinized the franchisor's arguments of alleged irreparable harm and found them wanting or unsupported by the factual record. For example, in *Curves Int'l, Inc. v. Mosbarger*, a district court held, among other things, that Curves had not demonstrated that it was likely to suffer irreparable harm that could not otherwise be remedied through an award of damages because it had not shown that it would suffer a loss of goodwill and customers if the injunction did not

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[153] *Lockhart*, 2007 WL 2688551.

[154] *Id. at* *4.

[155] *Kampendahl*, 2002 WL 1012997, at *6-7.

[156] *Id.*

[157] *Naturalawn of Am., Inc. v. West Group, LLC*, 484 F. Supp. 2d 392, 402 (D. Md. 2007).

[158] *Smallbizpros, Inc. v. Court*, 414 F. Supp. 2d 1245, 1251 (M.D. Ga. 2006); *see also Lockhart*, 2007 WL 2688551, at *4 (absent injunctive relief, it would "be difficult for Mellow Mushroom to re-enter the markets serviced by its restaurants"); *Merry Maids, L.P. v. WWJD Enters., Inc.*, 2006 WL 1720487, at *11 (D. Neb. June 20, 2006) ("Merry Maids' ability to re-franchise the area will be compromised if a former franchisee is allowed to operate in the area under a different name"); *Petland,* 2004 WL 3406089, at *7 ("failure to enforce [the] non-competition covenant would undermine [franchisor's] credibility with its franchisees, the relationships upon which its entire business model exists"; evidence that franchisees "were watching the instant litigation").

issue.[159] After terminating her relationship with Curves (a franchisor of fitness centers), the former franchisee operated another gym at a different location within the territory covered by the covenant not to compete in the franchise agreement. The court found that there was no evidence that Curves had lost any customers as a result of the former franchisee's gym or that anyone was confused or likely to be confused whether the new gym was affiliated with Curves (at least, in part, because most of the equipment at the new gym was different).[160] Additionally, the court was not persuaded by Curves' argument that it would be difficult or even "impossible" to locate a new franchisee to open in the same vicinity as the former franchisee's new gym, which it characterized as simply a "bare assertion."[161]

In similar circumstances and for similar reasons, a district court in Idaho denied Athlete's Foot's motion to enjoin a former franchisee from operating a competitive athletic shoe store in the same location as the former franchised store.[162] While the court noted that Athlete's Foot was likely to succeed on the merits of its claim to enforce the covenant, it found that Athlete's Foot had failed to establish irreparable harm because it was not currently operating or attempting to find another franchisee to operate an Athlete's Foot shoe store within the territory covered by the covenant not to compete, that there was no likelihood of confusion because the former franchisee had removed all references to Athlete's Foot from its store, and there was no evidence of loss of goodwill.[163] In reaching its decision, the court distinguished another case involving Athlete's Foot on the ground that in that case, Athlete's Foot was in negotiations with a prospective franchisee for a location within the territory covered by the covenant at the time it was seeking to enjoin the former franchisee from competing.[164]

In another case, a district court found that a franchisor had failed to demonstrate a threat of irreparable harm because, in part, the former franchisee's efforts to de-identify its restaurant business and comply with the franchisor's post-termination demands (including expanding their menu to include different types of entrees) eliminated any potential loss of goodwill or customer confusion.[165] In finding that the franchisor had failed to establish irreparable harm, the court also considered that the franchisor was not in "direct competition" with the former franchisee's new restaurant because none of the franchisor's restaurants were "anywhere close," the franchisor had shifted its focus to a different concept and the franchisor had refused the franchisee's offer to assign the lease for restaurant to the franchisor.[166] In reaching its decision, the court also concluded, without explanation, that there was an "adequate remedy in law" if the franchisor ultimately established that the former franchisee had breached the franchise agreement.[167]

In some cases, courts have refused to grant injunctive relief on the ground that the franchisor's claimed harm can be adequately compensated by monetary damages. For

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[159] 525 F. Supp. 2d 1310, 1314-15 (M.D. Ala. 2007).

[160] *Id.*

[161] *Id.*

[162] *Whoooahh*, 2007 WL 2934871.

[163] *Id. at* *4.

[164] *Id.*; *see Athlete's Foot Mktg. Associates v. Zell Investment, Inc.*, 2000 WL 426186 (W.D. Pa. Feb. 17, 2000).

[165] *Noodles*, 507 F. Supp. 2d at 1036-38.

[166] *Id.*

[167] *Id. at* 1038.

example, in *Pirtek USA, LLC v. Zaetz,* a district court in Connecticut found that the former franchisee was no longer continuing to operate a competitive business, but that even if it was, the franchisor could not establish irreparable harm because the alleged harm could be addressed "by final relief on the merits or can be adequately compensated for with money damages."[168] In reaching its decision, the court rejected the franchisor's argument that it would suffer irreparable harm and loss of the goodwill it had developed by having a presence in the territory because the franchisor had already sold another franchise in the territory formerly occupied by the franchisee and was, therefore, continuing to "have a presence and build goodwill in the territory."[169] The court was also not persuaded by the franchisor's claim that it would suffer irreparable harm to its existing franchise relationships and franchise system if the covenant was not enforced, and found that denying the preliminary injunction would not "encourage other franchisees that they can abandon their franchise agreements as they may be held liable for doing so."[170]

Other courts have refused to enjoin a former franchisee from competing pending an evidentiary hearing or further briefing. For example, in *Baskin-Robbins Inc. v. Patel*, a district court denied a motion for preliminary injunction pending an evidentiary hearing because it did not believe it could properly "assess the relative, and irreparable, nature of the harm.[171] Another district court in Illinois reached a similar result in denying Budget Rent A Car's motion for a temporary restraining order to enjoin one of its former dealers from competing.[172] Citing to the decision in *Baskin-Robbins, Inc. v. Patel*, the court held that while potential damage to Budget's corporate goodwill and reputation, as well as the "integrity" of its dealership agreements, might constitute irreparable harm, the "limited record" before it was insufficient to reach that conclusion.[173] Accordingly, the court denied Budget's motion for a TRO, but invited the parties to present additional materials and arguments in connection with the motion for a preliminary injunction.[174]

It is difficult to reconcile the above-cited cases. In many instances, the franchisor's arguments regarding the type and extent of irreparable harm it would suffer absent injunctive relief were accepted by the court, whereas in other cases, the exact same arguments were rejected. Plainly, the more egregious the circumstances (*e.g.*, the more calculating and blatant the alleged violation of the covenant not to compete), the more likely it is that the court will enjoin the former franchisee from competing. It can also fairly be said that courts are generally unwilling to accept the franchisor's unsupported arguments of alleged irreparable harm. Thus, it is incumbent upon the franchisor to support its arguments of irreparable harm with compelling and credible evidence demonstrating, for example, that it has or is likely to lose customers (*i.e.*,

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[168] 408 F. Supp. 2d 81, 86 (D. Conn. 2005); *see also Whoooahh*, 2007 WL 2934871, at *4 ("[A]ny economic loss to [Athlete's Foot] due to the alleged breach of the non-competition clause is in the form of monetary loss and not irreparable harm.").

[169] 408 F. Supp. 2d at 86.

[170] *Id.*

[171] *Baskin-Robbins Inc. v. Patel*, 264 F. Supp. 2d 607, 612 (N.D. Ill. 2003). Among other things, the court noted that there did not appear to be any evidence that Baskin-Robbins was interested in opening another franchise in the vicinity of defendant's former franchise location and that there was some evidence that franchisor apparently had a "history" of allowing former franchisees to operate competitive businesses in their former Baskin-Robbins locations. *Id.*

[172] *Budget Rent A Car Corp. v. Harvey Kidd Automotive*, 249 F. Supp. 2d 1048, 1050-51 (N.D. Ill. 2003).

[173] *Id.*

[174] *Id.*

loss of customer goodwill) or that its efforts to re-franchise the territory have been or will be hampered by the former franchisee's competition.

### c. Balancing the Harm

In balancing the respective harm to the parties, many courts have characterized the potential harm to the franchisee in the event it is enjoined from competing as "self-inflicted" or words to that effect. Not surprisingly, these courts have been relatively unsympathetic to the franchisee's arguments. As one court commented:

> [D]efendants' hardships have been created by their own willful acts. This is a factor that the court is entitled to consider . . . [the franchisees] chose to ignore altogether their obligations under the Franchise Agreements and, instead, to move forward with a competing business, thereby "rolling the dice" that injunctive judicial relief would permit them to continue their evident wrongdoing during the pendency of the case. They cannot now avoid enforceable agreements because they will be harmed as shown here, harm that is self-inflicted.[175]

In another case, while the court expressed concern about the potential harm to the franchisee's employees and that the franchisee's investment might be lost if the covenant not to compete were enforced, it ultimately granted an injunction, finding that:

> After all, it was Defendants who chose to open Java Cove [the competitive business] at its present location [the site of the former franchised business] in the face of the covenant not to compete. Defendants had several courses of action [they] could have taken that would have avoided or lessened these harms but they did not. And when a party knowingly takes actions that increase the potential for harm if an injunction is ordered against them, courts give those harms little weight in the balancing test.[176]

In all events, it can fairly be said that courts are often unsympathetic to franchisees who disregard their covenants not to compete.[177]

Some courts have, however, been more receptive to arguments that enforcing a covenant not to compete would effectively put the franchisee out of business and otherwise cause it to suffer significant financial hardship. For example, in denying a franchisor's motion for injunctive relief, one district court was persuaded that enforcing the injunction would cause "great hardship" to the former franchisee and only "little hardship" to the franchisor because the franchisor was not operating or attempting to locate an operator for a store within the three-mile radius of the former franchisee's business and that the former franchisee had signed a multiple year lease for the location.[178] In another case involving a fast, casual noodles-based restaurant

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[175] *Naturalawn*, 484 F. Supp. 2d at 402.

[176] *Bad Ass Coffee Co.*, 636 F. Supp. 2d at 1251.

[177] *See, e.g., Gold v. Holiday Rent-A-Car Int'l, Inc.* 627 F. Supp. 280, 282-83 (W.D. Mo. 1985); *Petland,* 2004 WL 3406089, at *8-9; *Kampendahl*, 2002 WL 1012997, at *7; *Zell Investment*, 2000 WL 426186, at *13; *I Can't Believe It's Yogurt*, 1997 WL 599391, at *20.

[178] *Whoooahh*, 2007 WL 2934871, at *4.

chain, the court found that the balance of the harm factor "mandates against injunctive relief" because the franchisee had voluntarily taken some remedial action (*e.g.*, de-identifying its restaurants and expanding the menu to include non-noodle dishes) and the franchisor had refused the former franchisee's offer to assign the leases for the restaurant locations.[179] The court characterized the franchisor's argument that it was not seeking to put the franchisee out of business as "disingenuous" given the relief it was seeking.[180]

### d. The Public Interest

Courts typically give little weight to the public interest factor in addressing motions to enjoin a franchisee's post-termination competition. Most courts simply find that it is in the public interest to enforce contracts.[181] As the Sixth Circuit held:

> No important public policies readily appear to be implicated by the issuance of the preliminary injunction in this case other than the general public interest in the enforcement of voluntarily assumed contract obligations.[182]

In one case, the franchisees argued that the public interest would best be served by "preventing large corporations from enforcing arbitrary agreements upon small business, the net effect of which is to put the small businessperson out of business. Free competition in the marketplace is the foundation of capitalism, the American dream and American business principals."[183] The court rejected this argument, commenting that:

> [Franchisees] do not discuss that they willingly entered into the Franchise Agreement, which they knew contained the non-compete clause before they signed the contract, that American business principals include the sanctity of contract[ ], in which large and small businesspeople alike are bound by the word they give and the obligations and restraints they voluntarily assume, and they have apparently elected to ignore the contract they signed. The Court finds that the public interest in the enforcement of valid contracts and in promoting stability and certainty in business relationships would be served by granting injunctive relief in this case.[184]

Other courts, however, have reached different conclusions in finding that enforcing the covenant would not be in the public interest because "it will merely put [the franchisee] out of business, and will not remedy any identifiable wrong against [franchisor]."[185] Similarly, a district court in Texas held the public interest factor weighed against granting the requested injunction

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[179] *Noodles*, 507 F. Supp. 2d at 1038-39.

[180] *Id.*

[181] *See, e.g., Naturalawn,* 484 F. Supp. 2d at 404; *Merry Maids,* 2006 WL 1720487, at *11; *Kampendahl,* 2002 WL 1012997, at *7.

[182] *Certified Restoration*, 511 F.3d at 551.

[183] *Petland*, 2004 WL 3406089, at *9.

[184] *Id.*

[185] *Noodles*, 507 F. Supp. 2d at 1039.

because the "restaurant would be forced to close and a number of employees would lose their jobs."[186]

### 3. Other Post-Termination Obligations

Franchisors also regularly seek injunctive relief to compel a former franchisee to comply with other post-termination obligations, including, for example: (i) returning all trade secret, confidential and proprietary materials/information to the franchisor; (ii) transferring the phone numbers for the franchised business to the franchisor or a nearby franchisee; (iii) delivering customer lists to the franchisor; (iv) assigning leases to the franchisor; and (v) "de-identifying" the former franchisee's location. Requests for this type of relief are typically coupled with a motion for preliminary injunction to enjoin a terminated franchisee from continuing to use the franchisor's trademarks and/or from violating a covenant not to compete.

A franchisor should have little difficulty obtaining injunctive relief to prevent a former franchisee from using the franchisor's *actual* trade secrets (*e.g.*, secret recipes and the like).[187] Of course, what constitutes a trade secret is a matter of much debate and varies greatly by jurisdiction.

In states in which customer lists are treated as trade secrets or for other compelling reasons, courts have granted injunctive relief requiring former franchisees to provide their customer lists to the franchisor.[188] Franchisors have also successfully obtained preliminary injunctions requiring former franchisees to cease using and/or return operation manuals and the like,[189] as well as proprietary software.[190]

Franchisors have also been successful in obtaining injunctive relief requiring former franchisees to either assign/transfer the telephone numbers for their franchised business, to terminate such numbers, or to obtain a "split referral." For example, in *JTH Tax, Inc. v. Lee,* the

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[186] *Bennigan's Franchising Co.*, 2007 WL 603370, at *5.

[187] *KFC Corp. v. Lilleoren*, 1992 U.S. Dist. LEXIS 1229, at *9 (W.D. Ky. Jan. 28, 1992) (former franchisee ordered "to cease using any KFC trade secrets, trademarks or secret recipes"); *Long John Silver's, Inc. v. Washington Franchise, Inc.*, 1980 U.S. Dist. LEXIS 16635, at *15 (E.D. Va. June 24, 1980) (former franchisee enjoined from using Long John Silver's proprietary fish batter recipe); *but see Buffets, Inc. v. Klinke*, 73 F.3d 965, 968-69 (9th Cir. 1996) (affirmed district court judgment that the restaurant recipes were not entitled to trade secret protection as the recipes were "basic American dishes that are served in buffets across the United States," which were "readily ascertainable," and "had no independent economic value").

[188] *See, e.g., JTH Tax, Inc. v. Lee*, 514 F. Supp. 2d 818, 825-26 (E.D. Va. 2007) (district court granted permanent injunction requiring former franchisee to deliver all copies of customer lists to franchisor); *Naturalawn,* 484 F. Supp. 2d at 399 (district court found that franchisor's customer lists were trade secrets and enjoined former franchisee from, among other things, disclosing or using the customer lists and franchisor's other trade secrets); *Smallbizpros,* 414 F. Supp. 2d at 1251-52 (former franchisee ordered "to cooperate in the orderly transfer to [franchisor] or its designee of the clients and customers who were clients or customers of [franchisee] prior to [franchisor's] termination of the agreement"); *Tanfran, Inc. v. Aron Alan, LLC*, 2007 WL 1796235, at *3 (W.D. Mich. June 20, 2007) (court ordered franchisee to "return [to franchisor] all customer lists and other items required to be returned under the franchise agreements").

[189] *See, e.g., Bad Ass Coffee Co.* 636, F. Supp. at 1252; *Lockhart*, 2007 WL 2688551, at *6; *see also JTH Tax,* 514 F. Supp. 2d at 825 (permanent injunction).

[190] *Naturalawn,* 484 F. Supp. 2d at 399 (franchisee enjoined from disclosing or using franchisor-designed computer software).

former franchisee was ordered to transfer or assign its telephone numbers to the franchisor.[191] In other cases, former franchisees were ordered to change or terminate the numbers.[192] Finally, in other cases, courts have ordered the franchisee to obtain a so-called "split referral" or "intercept" so that (i) customers calling for the former franchised business are given the number of the nearest franchisee, while customers calling for the former franchisee's *new* business are put through to the new business at a new telephone number, or (ii) a third party or pre-recorded message (the "intercept") informs callers where they can contact either the franchisor and former franchisee.[193]

Usually in connection with a motion to enjoin a former franchisee's use of its trademarks, franchisors have also successfully obtained injunctive relief requiring former franchisees to "de-identify" their locations and cease using the franchisor's trade dress.[194] Additionally, some courts have ordered former franchisees to assign the lease for their businesses to the franchisor.[195]

### 4. Enforcing System Standards

In extraordinary circumstances, a franchisor may also seek injunctive relief to compel a franchisee to comply with the franchisor's system standards. Motions seeking such relief are somewhat uncommon presumably because the franchisor decides either that obtaining such relief may be difficult because the underlying factual circumstances are not "black and white" or, alternatively, the franchisee's actions are so egregious (*e.g.*, repeated health and safety violations) that the franchisor instead elects to terminate the franchisee and then seeks to enjoin the former franchisee's use of the franchisor's trademarks.[196]

In considering franchisors' requests for injunctive relief based on a franchisee's alleged failure to comply with health, safety and sanitation standards, courts have principally focused on the irreparable harm factor. For example, in *Dunkin' Donuts, Inc. v. Kashi Enterprises, Inc.*, the district court concluded that:

> The possibility of irreparable injury [to plaintiff franchisor] arises because the record evidence indicates that the unsanitary conditions at the defendant's store may result in illness to the plaintiff's customers. To this end, the court notes that the plaintiff has an important interest in the uniformity of food specifications, preparation methods, quality and appearance, facilities and service of its franchisees. *See McDonald's Corp.*, 147 F.3d at

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[191] *JTH Tax*, 514 F. Supp. 2d at 825-26; *see also Merry Maids Ltd. P'ship v. Kamara*, 33 F. Supp. 2d 443, 444 (D. Md. 1998); *Lockhart*, 2007 WL 2688551, at *6-7; *Zell Investment*, 2000 WL 426186, at *13; *Two Men and a Truck/Int'l, Inc. v. Two Men and a Truck/Kalamazoo, Inc.*, 1995 WL 549278, at *7 (W.D. Mich. July 24, 1995).

[192] *Bad Ass Coffee Co.*, 636 F. Supp. 2d at 1252; *Cottman Transmissions Sys.*, 851 F. Supp. at 674.

[193] *See, e.g., Duct-O-Wire Co. v. U.S. Crane, Inc.*, 31 F.3d 506, 508 (7th Cir. 1994); *Panther Sys. II, Ltd. v. Panther Computer Sys., Inc.*, 783 F. Supp. 53, 71 (E.D.N.Y. 1991); *Doctor's Associates, Inc. v. Iskalis*, BUS. FRANCHISE GUIDE (CCH) ¶ 11,146 (N.D. Ill. Apr. 7, 1997).

[194] *See, e.g., Bad Ass Coffee Co.*, 636 F. Supp. 2d at 1252-53; *Lockhart*, 2007 WL 2688551, at *6; *I Can't Believe It's Yogurt*, 1997 WL 599391, at *19-20.

[195] *See, e.g., Gold*, 627 F. Supp. at 285.

[196] *See, e.g., McDonald's Corp.*, 147 F.3d. at 1301 (franchisee terminated based on repeated, material health and safety violations).

> 1309. Not only does the defendant's conduct place the plaintiff's trademarks and trade name at risk, but more importantly, it puts the public in danger of food contamination. Further, the plaintiff has a strong legal interest in avoiding disputes stemming from the cleanliness and safety of its products. *See id.* Accordingly, if customers become ill due to the defendant's franchisees' unsanitary conditions, the plaintiff's national reputation, goodwill and business will be harmed.[197]

In a case involving the Saladworks franchise system, another district court granted Saladworks' motion for preliminary injunction and gave Saladworks access to and complete authority to operate the franchisee's restaurant, finding that:

> [Saladworks] has demonstrated irreparable harm. If Saladworks is unable to control the nature and quality of the goods and services defendant [franchisee] provides at a Saladworks franchised restaurant, activities not meeting Saladworks' standards at those restaurants could irreparably harm the goodwill associated with its Marks and reputation. Failure to meet some of the safety and sanitary standards here involved might also subject Saladworks to substantial civil liability if members of the public were personally injured.[198]

Other courts have expressed similar concerns about the potential irreparable consequences to the franchisor resulting from unsanitary conditions at their franchised outlets, and have issued injunctive relief.[199]

Generally, in analyzing the preliminary injunction factors, courts have found that the relative "harm" to the defendant franchisee if enjoined from violating the requisite health, safety and sanitation standards (or if required to take such affirmative action as is necessary to comply with those standards) is either minimal or warranted on the ground that the franchisee is only being compelled to comply with the terms of its franchise agreement. For example, as one court noted:

> [A]ll that is being asked of Defendants is that they comply with the terms of the franchise agreement and the operating manuals and operate a clean, safe, and healthy donut shop. Requiring them to do so should not cause them any unnecessary expense or loss and certainly not subject them to any costs beyond that which they seemingly should now be spending to safely operate their shop.[200]

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[197] 106 F. Supp. 2d 1325, 1327 (N.D. Ga. 2000).

[198] *Saladworks, Inc. v. Mi Ho No*, 2005 WL 1417096, at *6 (E.D. Pa. June 15, 2005).

[199] *See, e.g., Albireh Donuts,* 96 F. Supp. 2d at 149; *Baskin-Robbins, Inc. v. A. Ender, Ltd,* 1999 WL 1318498, at *2-3 (D. Nev. Sept. 10, 1999); *Burger King Corp. v. Stephens,* 1989 WL 147557, at *11 (E.D. Pa. Dec. 6, 1989).

[200] *Albireh Donuts*, 96 F. Supp. 2d at 151; *see also Kashi Enterprises*, 106 F. Supp. 2d at 1327 ("The instant injunction would only require that the defendant comply with the Franchise Agreement, which it freely entered. While no harm would befall the defendant by its compliance with the sanitation standards, the court notes that its business and public safety would at worst improve."); *Baskin-Robbins*, 1999 WL 1318498, at *3 ("As contrasted with the cost to [franchisee] of curing these deficiencies [estimated to be $1,000], the out-break of salmonella or some other disease

In some circumstances, however, courts have recognized that the potential harm (cost) to the franchisee in granting the preliminary injunction (including closing franchise locations until the health and safety violations are remedied) can be significant.[201]

With good reason, the public interest factor also plays a significant role in the court's analysis of whether to issue injunctive relief compelling a franchisee to comply with health and safety standards. As several courts have noted: "[f]ailure to maintain required quality standards constitutes an imminent threat to public health and safety."[202] While inspection reports from local regulatory agencies and/or customer complaints would be significant evidence supporting a motion for injunctive relief, courts have not hesitated to act in the absence of such evidence. As one court noted, "there can be no inference that the conditions have been or should be tolerated" in the absence of recent inspections; [t]he lack of proper enforcement of health codes enacted for the protection of the public does not mean that such conditions must be ignored when brought to the attention of a court."[203] Moreover, in at least one case, the court felt compelled to inform the regulatory agencies of the conditions found at the franchisee's restaurant during an on-site inspection and of its subsequent order.[204] In all events, it is clear that the courts believe that "it is self-evident that a cleaner and safer food preparation environment serves the public interest," which supports issuing injunctive relief in appropriate circumstances.[205]

In the face of conflicting evidence regarding the extent of the alleged health and safety violations at the franchisee's business and serious questions regarding the franchisor's "motivations," one court declined to consider evidence regarding the alleged health and safety violations because it felt that the issues were fact-intensive and best suited for trial after full discovery.[206]

## B. Relief Requested by Franchisee

### 1. Enjoin Termination or Non-Renewal of Franchise

The most typical basis for a franchisee to seek a TRO or a preliminary injunction is to enjoin a franchisor from the non-renewal or termination of the parties' franchise contract. For instance, a franchisee may substantively argue that a franchisor is seeking to terminate its franchise agreement without the requisite good cause.[207] Alternatively, a franchisee may seek

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or infection which may be visited upon the customers of the store, as a result of conditions at the store, tip the hardships in favor of [franchisor], because those risks and those problems are very serious and may even have a national impact on Baskin-Robbins.").

[201] *See, e.g., Burger King Corp.*, 1989 WL 147557, at *12.

[202] *See, e.g., Saladworks*, 2005 WL 1417096, at *7; *Burger King Corp.*, 1989 WL 147557, at *12-13 (same).

[203] *Burger King Corp.*, 1989 WL 147557, at *13.

[204] *Id.*

[205] *Kashi Enterprises*, 106 F. Supp. 2d at 1327.

[206] *Dunkin' Donuts, Inc. v. Nat'l Donut Rests. of New York, Inc.*, 291 F. Supp. 2d 149, 151 (E.D.N.Y. 2003).

[207] *Roso-Lino Beverage Distribs., Inc. v. Coca-Cola Bottling Co.*, 749 F.2d 124 (2d Cir. 1984) (applying New York law) (reversing district court's denial of injunction application to prevent Coca Cola from terminating distributorship, but affirming order to arbitrate); *McDonnell v. Farmers Ins. Exch.*, 1983 U.S. Dist. LEXIS 11366 (D. Minn. Nov. 25, 1983) (applying Minnesota law) (granting preliminary injunction because the plaintiff franchisee had raised sufficiently substantial questions to justify maintaining the *status quo* until a decision on the merits); *Designs in Med., Inc. v. Xomed, Inc.*, 522 F. Supp. 1054 (E.D. Wis. 1981) (applying Wisconsin law) (granting injunctive relief to plaintiff, corporation engaged in the sale and distribution of medical products since it met the prerequisites for a preliminary

to enjoin the termination on procedural grounds such as that the franchisor did not follow proper contractual and/or statutory notice, as well as opportunity to cure requirements in issuing notices of termination or default.[208]

Conventional wisdom among franchise lawyers is that seeking a TRO or preliminary injunctive relief in order to enjoin a "wrongful termination" may give a franchisee a strategic advantage that it otherwise would not have had in the event that the franchisor filed suit first. Franchisors are generally required by the terms of their own contract and/or statute to provide a notice period during which a franchisee may cure a purported default and avoid termination.[209] Since franchisors are often statutorily or contractually barred from taking any action within the notice or cure period, striking first with an application for injunctive relief during that time period where a franchisor is not permitted to act affirmatively allows a franchisee to convert its defensive posture into an offensive one. Indeed, a franchisee, despite being the party alleged to have breached the franchise agreement in question, can present its position to the court as the "plaintiff" in the lawsuit and attack, not only the merits of the threatened termination, but also the alleged inequities inherent in a franchisor-franchisee relationship that have placed it in a compromised position.

Perhaps the primary advantage for a franchisee to seek an injunction is to focus the court's attention on the "balancing of equities/irreparable harm" prongs of the injunction analysis, which is widely-seen by franchise attorneys as the franchisee's "best argument" when seeking injunctive relief to enjoin a termination. That is, without an injunction, the franchisee will be irreparably injured by losing its business, forfeiting its investment and having its franchise canceled, thus cutting off its, and its principals', lifeline. Various state, district and circuit courts throughout the United States concur that the loss of a franchise, distributorship, or other like business, in varying factual circumstances, constitutes irreparable harm.[210]

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injunction with its claim that the defendant, a manufacturer of specialized medical devices and instruments used in microsurgery, violated the notice provisions of the Wisconsin Fair Dealership Law); *Matt Lamb & Sons, Inc. v. Christian Schmidt Brewing Co.*, 485 A.2d 836 (Pa. Super. Ct. 1984) (enjoining the termination of a beer distributorship for lack of "good cause" as required by the Pennsylvania liquor code and finding that the distributor's alleged deficiencies had been corrected or not explained by the defendant, brewer in sufficient detail either to allow corrections or to allow the distributor to show them not to exist).

[208] *1-800 Radiator of Wisconsin, LLC v. 1-800 Radiator Franchise, Inc.*, 2008 U.S. Dist. LEXIS 92364 (E.D. Wis. Oct. 1, 2008) (franchisee sought, and was granted, temporary restraining order enjoining defendant franchisor from terminating its franchise agreement *on less than twenty-four hours notice* in violation of Wisconsin statutory law, but requiring franchisee to post $25,000 bond.)

[209] *See, e.g.*, New Jersey Franchise Practices Act ("NJFPA"), *N.J.S.A.* § 56:10-1 *et seq.*; Wisconsin Fair Dealership Law ("WFDL") Wis. Stat. §135.01 *et seq.*

[210] *See, e.g., Stenberg v. Cheker Oil Co.,* 573 F.2d 921 (6th Cir. 1978); *Milsen Co. v. Southland Corp.*, 454 F.2d 363 (7th Cir. 1971); *Danielson v. Local 275*, 479 F.2d. 1033, 1037 (2d Cir. 1973); *Semmes Motors, Inc. v. Ford Motor Co.*, 429 F.2d 1197, 1205 (2d Cir. 1970) (denying appeal from district court order refusing to vacate injunction enjoining termination and holding that "the right to continue in a business in which [the dealer] had engaged for twenty years and into which his son and recently entered is not measurable entirely in monetary terms; [the dealers] want to sell automobiles, not to live on the income from a damages award"); *Roland Mach. Co. v. Dresser Indus., Inc.*, 749 F.2d 380, 388 (7th Cir. 1984); *Roso-Lino Beverage Distribs., Inc. v. Coca-Cola Bottling Co.*, 749 F.2d 124 (2d Cir. 1984) (applying New York law); *ABA Distribs., Inc. v. Adolph Coors Co.*, 661 F.2d 712, 714 (8th Cir. 1981) (holding that "improper deprivation of an inveterate enterprise that, but for the defendant's challenged action, could not be expected to continue" constitutes irreparable harm); *Executive Business Systems, Inc. v. Philips Business Systems, Inc.*, 539 F. Supp. 76 (E.D.N.Y. 1981) (applying New York law); *Lamb & Sons, Inc. v. Christian Schmidt Brewing Co., supra*, 485 A.2d 836 (Pa. Super. Ct. 1984).

As a further example of courts' balancing of the respective interests of franchisors and franchisees in the context of a threatened termination, in the State of Wisconsin, a particularly friendly jurisdiction to franchisees, there is a statutory presumption that the loss of a franchise or distributorship constitutes irreparable harm.[211] Conversely, in most situations, a franchisor with a large, successful franchise system will be hard-pressed to demonstrate how allowing a franchisee to remain open pending an ultimate resolution on the merits, where it could ultimately obtain its termination, can outweigh the potential harm to the franchisee/distributor/dealer if the requested relief of enjoining a termination is not granted.[212]

A second major advantage is that a potentially long, protracted litigation may be short-circuited since many "wrongful termination" lawsuits are resolved by way of settlement during, or after, the preliminary injunction determination. Although the court's decision on a preliminary injunction can be "reversed" after a trial on the merits, often a court's "first" impression is also its "last" impression. Because the losing party may feel that the court has already made up its mind, many cases settle at this point.

### 2. PMPA Provides Remedy of Injunctive Relief to Franchisee

Under the PMPA, "[a] franchisee seeking injunctive relief . . . must show, among other things that 'the franchise of which he is a party *has been terminated*.'"[213] The Supreme Court of the United States has recently held that a franchisee can also seek to enjoin a "constructive" termination pursuant to this statute, opining: "[the language of the PMPA] does not necessarily mean that a franchisee must go *out of business* before obtaining an injunction. For example, in cases of actual termination, the Act requires franchisors to provide franchisees with written notice of termination well in advance of the date on which the termination 'takes effect.'"[214]

Thus a petroleum industry franchisee can seek relief from this statute even if it has not technically been forced to close its doors:

> A *franchisee* that receives notice of termination 'has been terminated' within the meaning of § 2805(b)(2)(A)(i), even though the termination 'takes effect' on a later date, just as an employee who receives notice of discharge can be accurately described as *having been* discharged, even though the employee's last day at work may perhaps be weeks later. Thus, *franchisees* that receive notice of impending termination can invoke the protections of the

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[211] Wisconsin Fair Dealership Law Wis. Stat. § 135.065 (creating a presumption of irreparable harm); *see also Reinders Bros., Inc. v. Rain Bird E. Sales Corp.*, 627 F.2d 44 (7th Cir. 1980) (applying Wisconsin law) (where dealer brought suit pursuant to WFDL against defendant manufacturer of turf and irrigation products, Seventh Circuit Court of Appeals placed the burden on the manufacturer to prove good cause for terminating a dealership agreement and refused to presume good cause from contractual "best efforts" language).

[212] *Carlo C. Gelardi Corp. v. Miller Brewing Co.*, 421 F. Supp. 233 (D.N.J. 1976) (applying New Jersey law) (franchisor brewer's product constituted 80% of the franchisee's total sales volume); *Designs in Med., Inc. v. Xomed, Inc.*, 522 F. Supp. 1054 (E.D. Wis. 1981) (applying Wisconsin law) (holding that any injury caused by the injunction to the manufacturer's nationwide marketing system if injunction granted would most likely be short-lived); *Al Bishop Agency, Inc. v. Lithonia-Div. of Nat'l Servs. Indus., Inc.*, 474 F. Supp. 828 (E.D. Wis. 1979) (applying Wisconsin law) (balancing respective harms in favor of dealer where supplier's products accounted for sixty percent of the dealer's income).

[213] *Mac's Shell Serv. v. Shell Oil Prods. Co. LLC*, 130 S. Ct. 1251, 1261 (2010) (*quoting* 15 U.S.C. § 2805(b)(2)(A)(i)).

[214] *Id.* (*citing* § 2804(a)).

> Act's preliminary *injunction* mechanism well before having to go out of business.[215]

A franchisee or distributor may also seek to enjoin a termination based upon a violation of a particular state anti-termination statute. For example, in *Atlantic City Coin & Slot Service Co. & MacSeelig v. IGT*, the plaintiff, an exclusive distributor of slot machines brought suit in the District of New Jersey against the slot machine manufacturer/franchisor pursuant to the New Jersey Franchise Practices Act ("NJFPA"),[216] alleging that the manufacturer unlawfully terminated its franchise. The distributor/franchisee was granted a preliminary injunction against termination without cause on the grounds that the distributor was likely to prevail on the merits of the case and its claim that it was a franchisee under the NJFPA.[217] Likewise, in some instances, a franchisee may seek to enjoin a termination of its business based upon a violation of the specific notice requirements contained in the franchise contract drafted by the franchisor.[218]

### 3. Enjoin Encroachment

While there are few published decisions regarding franchisees successfully enjoining franchisor sponsored encroachment in their "exclusive franchise territory," franchisor and distributor agreements have sometimes been held to contain implied covenants of fair dealing, which preclude the franchisor/supplier from placing a second franchise or distributorship near an existing one.[219] In certain states' franchise relationship statutes, franchisees have successfully sought to preclude a franchisor from encroaching on its exclusive territory, successfully alleging that this constitutes a constructive termination of their franchise agreement.[220] However, federal courts may be less likely to grant relief to a franchisee arguing that encroachment has effectively terminated its franchise relationship, especially in a case involving the PMPA. For instance, in the recent Supreme Court decision *Mac's Shell v. Shell Oil Products Co., LLC,* the Court held that there could be no constructive termination of a franchise agreement because termination refers only to a complete cessation or non-renewal of contractual relations between the parties, not a renewal under "less favorable" terms."[221]

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[215] *Id.* (emphasis in original).

[216] N.J.S.A. 56:10-1, et seq.,

[217] 14 F. Supp. 2d 644 (D.N.J. 1998).

[218] *Manpower, Inc. v. Mason*, 377 F. Supp. 2d 672 (E.D. Wis. 2005) (granting injunctive relief to defendant franchisee with twenty-seven temp-service franchise locations and enjoining franchisor from terminating its multiple franchise agreements prior to the expiration of the ninety day notice period contained in the agreements).

[219] *See Scheck v. Burger King Corp.,* 756 F. Supp. 543, 549 (S.D. Fla. 1991) (holding, *inter alia*, that while franchisee was not entitled to an exclusive territory, "he is entitled to expect that Burger King will not act to destroy the right of the franchisee to enjoy the fruits of the contract").

[220] *See, e.g., Maintainco, Inc. v. Mitsubishi Caterpillar Forklift America, Inc.*, 408 N.J. Super. 461, 479-80 (App. Div. 2009) (determining, as an issue of first impression in the State of New Jersey, that renewal of a franchise agreement only if a franchisee agrees to modify an exclusive arrangement to a non-exclusive arrangement constitutes a constructive termination of the agreement under the NJFPA, *N.J.S.A.* § 56:10-5); *see also Carlos v. Philips Bus. Sys.*, 556 F. Supp. 769, 774-76 (E.D.N.Y. 1983), *aff'd*, 742 F.2d 1432 (2d Cir. 1983) (applying New Jersey law and holding franchisor's purported change of marketing scheme "to streamline its marketing system by eliminating exclusive distributors . . . in order to more profitably exist in a changing marketplace," was "essentially a termination or failure to renew this distributorship agreement").

[221] 130 S. Ct. 1251, 1259 (2010) (reversing decision of 1st Circuit and holding, *inter alia*, that allowing franchisees to obtain PMPA relief for conduct that does not force an end to a franchise would extend the reach of the Act much further than its text and structure suggest).

### 4. Other Grounds for Injunctive Relief

In certain instances, a franchisee may seek to enjoin the prosecution of a collateral action filed by a franchisor in a different forum. For instance, in *First Team, Inc. v. Moto Photo, Inc.*, the plaintiff franchisee successfully enjoined the defendant franchisor from proceeding with certain claims for money damages in a contemporaneously-filed arbitration, where the parties' franchise agreement provided that any disputes between the parties should be arbitrated, "except those concerning monies owed defendant and for certain kinds of injunctive relief."[222] The court's narrow interpretation of the arbitration clause in *First Team* is interesting from a procedural perspective in that many franchisees often seek to avoid arbitrating disputes with the franchisor due to the significant costs inherent in an arbitration proceeding. In that case, the franchisee was successful in enjoining the arbitration using the franchisor's own contractual language against it, and compelling the franchisor to pursue its claims in a different, less costly forum. i.On a more substantive basis, a franchisee make seek to enjoin a franchisor from imposing unreasonable standards of performance on the franchisee. In *Beilowitz v. General Motors Corp.*, the franchisee brought suit in the New Jersey district court and sought to preliminarily enjoin the franchisor's imposition of a proposed marketing/advertising plan that required the franchisee to sacrifice $11 million in sales, which constituted approximately 40 percent of the franchisee's overall sales.[223] The court in *Beilowitz* found, *inter alia*, that the franchisee had demonstrated a likelihood of success on the merits of ultimately proving that the franchisor violated the NJFPA[224], which makes it a violation of for a franchisor "to impose unreasonable standards of performance upon a franchisee."[225] In granting the requested injunctive relief, the court further found that it was not within the meaning of the NJFPA to require a franchisee to operate at a "substantial financial loss while the franchisor attempts to implement a new and unproven marketing strategy."[226]

## VIII. CONCLUSION

For both franchisees and franchisors, an injunction application is a valuable tool in expediting necessary relief to prevent a continuing harm or to maintain the status quo pending an ultimate decision on the merits. An injunction can also be valuable to position an early settlement of a case, where relative strengths and weaknesses of the parties' positions have not been fully addressed but while contemplating the finality of an adverse ruling. In addition to a multitude of strategic and procedural considerations in federal court, the injunction carries with it cost-related concerns, particularly for franchisee litigants, in the form of the required posting of security (or a bond), the potential threat of fee-shifting provisions found in many franchise agreements and the general cost of litigating potentially case-dispositive issues in an expedited manner. Most importantly, a party contemplating an action seeking injunctive relief should closely analyze its likelihood of success on the ultimate merits of the case prior to taking any step toward filing. Indeed, the importance of a court's decision on an application for preliminary injunctive relief must not be under-estimated, since a movant's likelihood of success has the

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[222] 1999 U.S. Dist. LEXIS 1086, *14 (N.D. Ill. Feb. 3, 1999) (Holding that "I[i]f [the franchisor] had wanted to preserve its right to choose the forum in which it pursued these kinds of claims, it should have made that intention explicit in the Agreement. Having failed to do so, however, it must live with the intent that is expressed in the clause.").

[223] 233 F. Supp. 2d 631, 643 (D.N.J. 2002).

[224] *N.J.S.A.* § 56:10-7(e)

[225] *Beilowitz,* 233 F. Supp. 2d at 643-44.

[226] *Id.* at 644.

potential to cause a far ranging ripple-effect through the remainder of the litigation and can either support or undercut a party's bargaining position for settlement opportunities.

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