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# The Slippery Sands of Post-Termination Enforcement - Opportunities for Franchisees; Pitfalls for Franchisors

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## I. INTRODUCTION

Requests for injunctive relief are a common fixture in franchise litigation, especially in cases involving trademark infringement or violations of a covenant not to compete. Historically, once a franchisor established a likelihood of success on the merits in a trademark case, irreparable harm was presumed and an injunction would usually follow. And although the law was not as clear-cut in covenant not to compete cases, courts were generally disposed to issue an injunction when a former franchisee was in breach of a reasonable covenant. However, two decisions by the Supreme Court in the mid-2000s – *eBay, Inc. v MercExchange, L.L.C.*<sup>1</sup> and *Winter v. Natural Res. Def. Council, Inc.*<sup>2</sup> – sowed the seeds for change. Slowly, the irreparable harm factor has shifted from being somewhat of an afterthought (at least in trademark cases) to an increasingly significant hurdle.

This article first surveys the notable differences amongst the circuits with respect to how they have applied *eBay* and *Winter* to trademark and covenant not to compete cases over the last decade. The article then reviews how the courts have defined irreparable harm and offers practical suggestions about how to prove it.

## II. INJUNCTIVE RELIEF IN LANHAM ACT CASES POST-*eBAY*

### A. And Then There Was *eBay*. . .

For many years, once a moving party established a likelihood of success on the merits in an intellectual property case, irreparable harm was presumed and an injunction would almost always be issued. This changed, or at least began to change, in

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<sup>1</sup> 547 U.S. 388 (2006).

<sup>2</sup> 555 U.S. 7 (2008).

2006 with the Supreme Court's decision in *eBay*, which held that a party seeking a permanent injunction for patent infringement was not entitled to a "categorical" presumption of irreparable harm after succeeding on the merits, but instead must affirmatively prove irreparable harm.<sup>3</sup> After *eBay*, the circuit courts slowly extended the "*eBay* rule" to requests for injunctive relief in copyright cases.<sup>4</sup>

Whether the *eBay* rule applied to requests for injunctive relief in trademark cases, however, remained unsettled. Some argued that a trademark is different from a patent or copyright, and that the harm resulting from trademark infringement is different from the harm caused by patent or copyright infringement. Others pointed to the similarities between the language authorizing injunctions in the Patent Act and Lanham Act, and argued that damage to goodwill (one of the most commonly cited types of irreparable harm resulting from trademark infringement) can usually be quantified, although it may sometimes be difficult to do so. Not surprisingly, the district courts reached different conclusions.

Today, even though it has been more than ten years since *eBay* was decided, only a few appellate courts have definitively addressed the issue. For the most part, there is uncertainty and unpredictability. A brief summary of the current status in each of the circuits follows.

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<sup>3</sup> 547 U.S. at 393-94.

<sup>4</sup> See, e.g., *Flexible Lifeline Sys., Inc. v. Precision Lift, Inc.*, 989, 994-1000 (9th Cir. 2011); *Salinger v. Colting*, 607 F.3d 68, 77-79 (2d Cir. 2010); *CoxCom, Inc. v. Chaffee*, 536 F.3d 101, 112 (1st Cir. 2008); *Peter Letterese & Assocs. v. World Inst. of Scientology Enters., Int'l*, 533 F.3d 1287, 1323 (11th Cir. 2008); *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 543 (4th Cir. 2007).

## B. A Survey of the Circuits

### 1. Circuits Which Have Abandoned the Presumption

#### a. *Ninth Circuit*

In *Herb Reed Enters., LLC v. Florida Entm't Mgmt., Inc.*, the Ninth Circuit was the first circuit court to specifically hold that the *eBay* rule applied to trademark infringement cases.<sup>5</sup> The case involved The Platters, well known in the 1950s and 1960s for songs like “The Great Pretender,” “Smoke Gets in Your Eyes,” and “Only You,” and was the last in a series of lawsuits regarding who had the right to use The Platters’ name. The District Court of Nevada entered a preliminary injunction in favor of Herb Reed Enterprises, a company owned by one the group’s founders, and the defendant appealed.

The Ninth Circuit reversed the district court, concluding that a party seeking a preliminary injunction in a trademark infringement case must actually prove that it is likely to suffer irreparable harm in the absence of an injunction.<sup>6</sup> Basing its decision on the Supreme Court’s decisions in *eBay* and *Winter*,<sup>7</sup> the court found that “[n]othing in the Lanham Act indicates that Congress intended a departure in trademark infringement cases” and “[g]one are the days when ‘once a the plaintiff in an infringement action has established a likelihood of confusion, it is ordinarily presumed that the plaintiff will suffer

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<sup>5</sup> 736 F.3d 1239, 1249 (9th Cir. 2013).

<sup>6</sup> *Herb Reed*, 736 F.3d at 1249, *cert. denied*, — U.S. —, 135 S. Ct. 57, 190 L. Ed. 2d 31 (2014).

<sup>7</sup> 555 U.S. at 20 (reconfirming the traditional four factor test that a federal court must apply for purposes of determining whether injunctive relief is warranted).

irreparable harm if injunctive relief does not issue.”<sup>8</sup> Unfortunately, the court offered minimal guidance about what might actually constitute irreparable harm.<sup>9</sup>

The Ninth Circuit recently confirmed its position in *San Miguel Pure Foods Co. v. Ramar Int’l Corp.*, holding that “[e]vidence of infringement or likelihood of confusion alone may not give rise to a presumption of irreparable harm.”<sup>10</sup> The district courts in the Ninth Circuit were quick to embrace the holding in *Herb Reed*.<sup>11</sup>

b. *Third Circuit*

Shortly after the *Herb Reed* decision, the Third Circuit reached the same conclusion in a false advertising case. In *Ferring Pharmaceuticals, Inc. v. Watson Pharmaceuticals, Inc.*, the court traced the extension of the *eBay* holding from patent cases to copyright cases before turning to the question of whether the *eBay* rule should also apply in Lanham Act cases.<sup>12</sup> In affirming the district court’s decision, the court determined that the answer was yes, finding the presumption “deviates from the

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<sup>8</sup> *Herb Reed*, 736 F.3d at 1250 (quoting *Rodeo Collection, Ltd. v. W. Seventh*, 812 F.2d 1215, 1220 (9th Cir. 1987)).

<sup>9</sup> In reaching its decision, the court claimed to be “join[ing] other circuits in holding that the *eBay* principle — that a plaintiff must establish irreparable harm — applies to a preliminary injunction in a trademark infringement case,” although it was the first circuit to actually reach this decision. *Id.* at 1249.

<sup>10</sup> 625 F. App’x 322, 327 (9th Cir. 2015).

<sup>11</sup> See, e.g., *Usrey v. Chen*, 2014 WL 12570232, at \*7 (C.D. Cal. May 29, 2014) (“Before *Winter*, courts often presumed irreparable injury in trademark cases where the mark-holder demonstrated a likelihood of success on the merits . . . . The Ninth Circuit has since rejected that presumption, and held that a plaintiff must show that he or she is likely to suffer irreparable harm absent an injunction.”); *Active Sports Lifestyle, LLC v. Old Navy, LLC*, 2014 WL 1246497, at \*2 (C.D. Cal. Mar. 21, 2014) (“[T]he Court may not conclude that the fact of infringement itself constitutes irreparable harm.”).

<sup>12</sup> 765 F.3d 205, 212-14 (3rd Cir. 2014).

traditional purposes of equity.”<sup>13</sup> As support for its decision, the Third Circuit cited to the Supreme Court’s holding in *Winter* that a plaintiff must demonstrate a likelihood of irreparable harm, rather than a mere possibility of irreparable harm, in order to obtain an injunction.<sup>14</sup> The court, adopting the Ninth Circuit’s logic in a copyright infringement case, reasoned that if requiring a plaintiff to prove “at least a mere possibility of irreparable harm” is “too lenient,” then a presumption of irreparable harm without requiring any showing also must be too lenient.<sup>15</sup>

In reaching its decision, the court rejected Ferring’s argument that injury from trademark infringement (*e.g.*, injury to goodwill and reputation) is different from “injury arising from patent or copyright infringement [which] can generally be measured in monetary terms by examining the ‘appropriation of a potential market for the patent invention or copyright work.’”<sup>16</sup> The court found that “[t]he rationale of the *eBay* decision was not that patent cases are somehow unique, but rather . . . that ‘the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.’”<sup>17</sup> The court further found that “[i]t follows that a court is not free to depart from traditional principles of equity merely because it believes such a departure would further a statute’s policy goals, such as, in the case of Lanham Act claims,

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<sup>13</sup> *Id.* at 216.

<sup>14</sup> *Id.* at 217.

<sup>15</sup> *Id.* (citing *Flexible Lifeline*, 654 F.3d at 997).

<sup>16</sup> *Id.* at 215.

<sup>17</sup> *Id.* at 215-16 (quoting *eBay*, 547 U.S. at 394).

compensating the plaintiffs for harms that may be difficult to quantify. Rather, the text of the Lanham Act clearly evinces congressional intent to require courts to grant or deny injunctions according to traditional principles of equity.”<sup>18</sup> The court thus held that “a party seeking a preliminary injunction in a Lanham Act case is not entitled to a presumption of irreparable harm but rather is required to demonstrate that she is likely to suffer irreparable harm if an injunction is not granted.”<sup>19</sup>

Notwithstanding the seeming clarity of its holding in *Ferring*, the Third Circuit recently suggested in *Groupe SEB USA, Inc. v. Euro-Pro Operating, LLC* that the standard may be somewhat flexible in observing that a court may find irreparable harm by “reasonable” inference.<sup>20</sup> However, in affirming the district court’s decision granting a preliminary injunction, the court clarified that it was “not connecting these facts using a veiled presumption in the Third Circuit, [because] *Ferring* bars such a presumption; we emphasize, however, that *Ferring* does not bar drawing fair inferences from facts in the record.”<sup>21</sup> The court went on to explain that “a key lesson from *Ferring* is that courts considering whether to grant injunctive relief must exercise their equitable discretion in a case-by-case, fact-specific manner. A critical aspect of fact-finding in this and other contexts is drawing reasonable inferences from facts in the record.”<sup>22</sup>

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<sup>18</sup> *Id.* at 216.

<sup>19</sup> *Id.* at 217.

<sup>20</sup> 774 F.3d 192, 205 (3d Cir. 2014).

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

The district courts within the Third Circuit seem to have uniformly accepted *Ferring*.<sup>23</sup>

## 2. The Fifth Circuit Has Expressly Upheld the Presumption

The Fifth Circuit has an altogether different perspective, and is the only circuit that has expressly affirmed the presumption post-*eBay*. In *Abraham v. Alpha Chi Omega*, the court cited to *eBay* for the proposition that irreparable harm must be shown for purposes of obtaining a permanent injunction, but did not specifically address whether the same principle should also apply to requests for a preliminary injunction.<sup>24</sup> Instead, the court simply stated: “All that must be proven to establish liability and the need for an injunction against infringement is the likelihood of confusion — injury is presumed,” and with that affirmed the district court’s grant of injunctive relief.<sup>25</sup>

The absence of any analysis in *Abraham* regarding whether the *eBay* rule *should* apply in a trademark case is notable, especially because it is at odds with the Fifth Circuit’s previous statement that “whether a court may presume irreparable injury upon

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<sup>23</sup> See, e.g., *NE Lumber Mfrs. Ass’n v. Sky of NY Corp.*, 2016 WL 7491903, at \*3 (D.N.J. Dec. 29, 2016) (quoting *Ferring*; “there is no presumption of irreparable harm afforded to parties seeking injunctive relief in Lanham Act cases.”); *7-Eleven v. Sodhi*, 2016 WL 541135, at \*5 (N.D.J. Feb. 9, 2016) (“[U]nder *Ferring*, a court cannot presume the existence of irreparable harm but instead must rely on record evidence demonstrating irreparable harm”); *Nat. and Tasty, LLC v. Parnes*, 2015 WL 4757181, at \*6 (D.N.J. Aug. 10, 2015) (quoting *Ferring*; “a party seeking a preliminary injunction in a Lanham Act case is not entitled to a presumption of irreparable harm but rather is required to demonstrate that she is likely to suffer irreparable harm if an injunction is not granted.”).

<sup>24</sup> 708 F.3d 614, 626-27 (5th Cir. 2013), *cert. denied*, — U.S. —, 134 S. Ct. 88, 187 L. Ed. 2d 254 (2013).

<sup>25</sup> *Id.* (quoting J. Thomas McCarthy, *5 McCarthy on Trademarks and Unfair Competition*, § 30:2 (4th ed. 2001)).

finding a likelihood of confusion in a trademark case is “a difficult decision considering the Supreme Court’s opinion in *eBay*.”<sup>26</sup>

District courts in the Fifth Circuit have generally followed *Abraham* in finding that irreparable harm is presumed.<sup>27</sup> However, one district court acknowledged there is uncertainty as to whether irreparable harm may be presumed post-*eBay*.<sup>28</sup> And still other courts have avoided deciding the issue and instead analyzed whether there is evidence of irreparable harm.<sup>29</sup> Muddying the waters, a relatively recent Fifth Circuit case affirmed a Western District of Texas decision in which the court declined to apply the presumption in a Lanham Act false advertising case.<sup>30</sup>

### 3. Circuits in Which the Presumption Appears to Be on the Way Out

#### a. *First Circuit*

The First Circuit has not ruled on the matter directly, but has indicated in dicta an inclination to apply the *eBay* rule to trademark cases. In *Swarovski AG v. Bldg. No. 19*,

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<sup>26</sup> *Paulson Geophysical Servs., Inc. v. Sigmar*, 529 F.3d 303, 313 (5th Cir. 2008).

<sup>27</sup> See, e.g., *Clearline Techs. Ltd. v. Cooper B-Line, Inc.*, 948 F. Supp. 2d 691, 715 (S.D. Tex. 2013) (“the Court’s decision in *eBay* . . . certainly casts doubt on prior case law suggesting irreparable injury as a matter of law. However, more recently, the Fifth Circuit [in *Abraham*] indicated that presuming irreparable injury [in] Lanham Act cases remains appropriate.”); *Greater Houston Transp. Co. v. Uber Techs., Inc.*, 2015 WL 1034254, at \*21 (S.D. Tex. Mar. 10, 2015) (“The Fifth Circuit [in *Abraham*] has signaled that presumptions of irreparable injury are still appropriate following the Supreme Court’s *eBay* decision.”).

<sup>28</sup> *T-Mobile US, Inc. v. AIO Wireless LLC*, 991 F. Supp. 2d 888, 928 (S.D. Tex. 2014) (“The case law suggests that in [the Fifth Circuit], in a Lanham Act case, the presumption is somewhere between shaky and reaffirmed.”).

<sup>29</sup> See, e.g., *ADT, LLC v. Capital Connect, Inc.*, 145 F. Supp. 3d 671, 695-97 (N.D. Tex. 2015); *BuzzBallz, LLC v. JEM Beverage Co., LLC*, 2015 WL 3948757, at \*6 (N.D. Tex. June 26, 2015).

<sup>30</sup> *Eastman Chem. Co. v. PlastiPure, Inc.*, 969 F. Supp. 2d 756, 767-68 (W.D. Tex. 2013), *aff’d*, 775 F.3d 230 (5th Cir. 2014).

*Inc.*, the court noted that “there is no principled reason why [*eBay*] should not apply’ to a request for a preliminary injunction to halt trademark infringement,” but pointedly declined to decide the issue.<sup>31</sup> Some of the district courts within the First Circuit have followed the court’s guidance and assessed the evidence of irreparable harm in deciding whether to issue an injunction.<sup>32</sup> Other district courts, however, have continued to apply the presumption.<sup>33</sup> And, in one case, a district court appears to have embraced both positions in granting an injunction in a Lanham Act case, first finding that “[a]ccordingly, this Court can comfortably extend the holding of *eBay*” to this case,” but then stating “with the presumption of irreparable harm in place in a trademark infringement case, the court can apply that presumption to the present facts.”<sup>34</sup>

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<sup>31</sup> 704 F.3d 44, 54 (1st Cir. 2013) (quoting *Voice of the Arab World, Inc. v. MDTV Med. News Now, Inc.*, 645 F.3d 26, 33-34 (1st Cir. 2011)).

<sup>32</sup> See, e.g., *Public Impact, LLC v. Boston Consulting Grp., Inc.*, 169 F. Supp. 3d 278, 295 (D. Mass. 2016) (noting that “whether the presumption still applies is an open question following the Supreme Court’s decision in *eBay*,” but finding that plaintiff is “at risk of continuing and irreparable harm to its protectable trademark interests” based on defendant’s use of a similar mark); *Concordia Partners, LLC v. Pick*, 2015 WL 4065243, at \*9 (D. Me. July 2, 2015) (“While the First Circuit at one time endorsed the view that “a trademark plaintiff seeking a preliminary injunction who demonstrates likely confusion creates a presumption of irreparable harm,” . . . the Circuit has recognized that such a presumption may no longer be allowed under *eBay* [];” finding no irreparable harm because there was no evidence of confusion and plaintiff waited 17 months before seeking injunctive relief.).

<sup>33</sup> See, e.g., *7-Eleven, Inc. v. Grewal*, 60 F. Supp. 3d 272, 280 (D. Mass. 2014) (“[I]rreparable harm . . . is fulfilled if the aggrieved party can show it is likely to prevail on the merits of its [trademark] infringement claims.”).

<sup>34</sup> *Dunkin’ Donuts Franchised Rests. LLC v. Wometco Donas Inc.*, 53 F. Supp. 3d 221, 231 (D. Mass. 2014) (finding that franchisor has “undoubtedly lost control over their trademark”).

b. *Eleventh Circuit*

Like the First Circuit, the Eleventh Circuit has also questioned the continued validity of a presumption of irreparable harm. In *North American Med. Corp. v. Axiom Worldwide, Inc.*, the court stated that “[a]lthough *eBay* dealt with the Patent Act and with permanent injunctive relief, a strong case can be made that *eBay*’s holding necessarily extends to the grant of preliminary injunctions under the Lanham Act.”<sup>35</sup> Yet, also like the First Circuit, the court specifically “decline[d] to address whether . . . a presumption [of irreparable harm] is the equivalent of the categorical rules rejected by the Court in *eBay*.”<sup>36</sup> Perhaps recognizing that its unwillingness to squarely decide the issue was less than helpful, the Eleventh Circuit did offer some guidance in observing that “the district court may well conclude on remand that it can readily reach an appropriate decision by fully applying *eBay* without the benefit of a presumption of irreparable injury, or it may well decide that the particular circumstances of the instant case bear substantial parallels to previous cases such that a presumption of irreparable injury is an appropriate exercise of its discretion in light of the historical traditions.”<sup>37</sup>

More recently, the Eleventh Circuit appears to have moved closer towards expressly rejecting the presumption. In *Hoop Culture, Inc. v. GAP Inc.*, the court held that the moving party could not “rely solely on its likelihood of success on the merits, which we have assumed for purposes of this discussion, to establish a likelihood of

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<sup>35</sup> 522 F.3d 1211, 1228 (11th Cir. 2008).

<sup>36</sup> *Id.*

<sup>37</sup> *Id.* (citing *eBay*, 547 U.S. at 394-97 (concurring opinions of Chief Justice Roberts and Justice Kennedy, representing the views of seven Justices)).

irreparable harm.”<sup>38</sup> But the court qualified this holding by stating that “[a]ll of this is not to say that a presumption of irreparable harm or something like it will never be an appropriate exercise of the district court’s equitable discretion,”<sup>39</sup> and again refused to decide whether the Supreme Court’s decision in *eBay* eliminates a presumption of irreparable harm in trademark cases.<sup>40</sup>

The district courts, while acknowledging that the presumption may still be applicable, have largely sidestepped the issue and have instead opted to address whether the moving party affirmatively established that it would suffer irreparable absent the requested injunctive relief.<sup>41</sup> However, a Florida district court recently held that it was “persuaded by *eBay* that a presumption of irreparable harm is no longer

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<sup>38</sup> 648 F. App’x 981, 985 (11th Cir. 2016) (per curiam).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.* (“[W]e need not and do not make any express holding about the effect of *eBay* on this specific case or this circuit’s presumption of irreparable harm more generally.”).

<sup>41</sup> See, e.g., *PODS Enters., LLC v. U Haul Int’l, Inc.*, 126 F.Supp. 3d 1263, 1286-87 (M.D. Fla. 2015) (“This Circuit has expressly declined to decide whether the Supreme Court’s decision in *eBay* displaces the presumption of irreparable harm once infringement has been established . . . . Even in the absence of a presumption of irreparable harm based on infringement, however, the facts of this case compel a finding of irreparable harm.”); *TracFone Wireless, Inc. v. Clear Choice Connections, Inc.*, 102 F. Supp. 3d 1321, 1333 (S.D. Fla. 2015) (“While the Eleventh Circuit has previously recognized a presumption of irreparable harm . . . , this presumption has been called into question by the Supreme Court’s decision in *eBay* [] . . . . However, “a sufficiently strong showing of likelihood of confusion may by itself constitute a showing of a substantial threat of irreparable harm.”); *Adidas AG v. Adidas2013online.com*, 2013 WL 6667043, at \*7 (S.D. Fla. Dec. 17, 2013) (“The Eleventh Circuit has acknowledged that ‘once a plaintiff establishes a likelihood of success on the merits of a trademark infringement claim,’ there is a ‘presumption of irreparable harm.’ . . . However, the strength of this presumption has been called into question by the Supreme Court’s decision in *eBay* . . . . After *eBay*, a court may grant preliminary injunctive relief ‘without the benefit of a presumption of irreparable injury,’ or may ‘decide that the particular circumstances of the instant case bear substantial parallels to previous cases such that a presumption of irreparable injury is an appropriate exercise of its discretion in light of the historical traditions.’” (citations omitted)).

appropriate in a trademark infringement case once a substantial likelihood of success on the merits is shown.”<sup>42</sup>

c. *Second Circuit*

While the Second Circuit has not specifically addressed whether *eBay* applies to requests for injunctive relief in Lanham Act cases, it appears to be moving in that direction. In finding that *eBay* applies to requests to preliminarily enjoin copyright infringement, the court noted in *Salinger v. Colting* that “nothing in the text or the logic of *eBay* suggests that its rule is limited to patent cases. On the contrary, *eBay* strongly indicates that the traditional principles of equity it employed are the presumptive standard for injunctions in any context.”<sup>43</sup>

However, several years later, in *U.S. Polo Ass’n, Inc. v. PRL USA Holdings, Inc.*, the Second Circuit specifically declined to “decide whether a presumption of irreparable harm from trademark infringement can apply in light of” *eBay* and its decision in *Salinger*, but upheld an injunction based on the district court’s finding that the plaintiff would be irreparably harmed by “ceding . . . control over its reputation and goodwill” to the infringing party.<sup>44</sup>

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<sup>42</sup> *Uber Promotions, Inc. v. Uber Techs., Inc.*, 162 F. Supp. 3d 1253, 1262 (N.D. Fla. 2016).

<sup>43</sup> 607 F.3d at 77-78; *but see Time Warner Cable, Inc. v. DIRECTV, Inc.*, 497 F.3d 144, 161-62 (2d Cir. 2007) (“In general [in a false advertising case], [t]he likelihood of injury and causation will not be presumed, but must be demonstrated in some manner. We have held, however, that these elements may be presumed where [the] plaintiff demonstrates a likelihood of success in showing literally false [the] defendant’s comparative advertisement which mentions [the] plaintiff’s product by name.” (citations and quotations omitted)).

<sup>44</sup> 511 F. App’x 81, 85 (2d Cir. 2013).

Despite the Second Circuit's statement in *U.S. Polo* that it had yet to determine whether a presumption of irreparable harm remained viable in trademark cases after its ruling in *Salinger*, an increasing number of district courts in the circuit are taking the position that *Salinger* has effectively decided the issue.<sup>45</sup> Nonetheless, some district courts have continued to apply a presumption of irreparable harm if there is "any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question."<sup>46</sup> And other district courts, noting that it is unclear if *eBay* and *Salinger* apply to trademark

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<sup>45</sup> See, e.g., *Am. Auto. Ass'n, Inc. v. Limage*, 2016 WL 4508337, at \*6 (E.D.N.Y. Aug. 26, 2016) ("Although the law formerly recognized a presumption of irreparable harm upon a showing of likely consumer confusion, the Second Circuit now requires that courts 'actually consider the injury the plaintiff will suffer'" (citations omitted).); *Dentsply Sirona Inc. v. LIK Supply Corp.*, 2016 WL 3920241, at \*4 (N.D.N.Y. July 15, 2016) ("[I]rreparable harm may not be presumed upon a showing of a likelihood of success"); *Abbott Labs. v. Adelphia Supply USA*, 2015 WL 10906060, at \*8-10 (E.D.N.Y. Nov. 6, 2015), *aff'd sub nom.*, *Abbott Labs. v. H&H Wholesale Servs., Inc.*, 2016 WL 6518858 (2d Cir. Nov. 3, 2016) ("Although the Second Circuit has not yet explicitly applied *Salinger* in the trademark context, . . . [t]he Court similarly applies *Salinger* here."); *Weld-Tech ApS v. Aquasol Corp.*, 2015 WL 5021964, at \*4 (W.D.N.Y. Aug. 24, 2015) ("The Second Circuit has clearly signaled that this standard should apply beyond the context of *eBay's* copyright [sic] case, and district courts in this Circuit have followed suit."); *Sola Franchise Corp. v. Solo Salon Studios Inc.*, 2015 WL 1299259, at \*17 (E.D.N.Y. Mar. 23, 2015) ("Although the law once recognized a presumption of irreparable harm upon a showing of a likelihood of consumer confusion, following *Salinger*, courts have found that 'this presumption of irreparable injury in trademark cases is no longer appropriate.'" (citations omitted)).

<sup>46</sup> See, e.g., *Choice Hotels Int'l, Inc. v. Kolath Hotels & Casinos, Inc.*, 2016 WL 225690, at \*5 (N.D.N.Y. Jan. 19, 2016) ("[I]n a trademark case, irreparable injury is established where there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question." (quotations omitted)); *Diesel S.p.A. v. Does*, 2016 WL 96171, at \*10 (S.D.N.Y. Jan. 8, 2016) (same).

cases, have chosen to analyze whether the moving party has submitted evidence establishing irreparable harm.<sup>47</sup>

4. Circuits That Have Not Specifically Addressed the Issue, But Still Seem to Be Applying the Presumption

a. *Fourth Circuit*

The Fourth Circuit has yet to address the irreparable harm issue post-*eBay*. However, in a pre-*eBay* decision, the court held in *Scotts Co. v. United Indus. Corp.* that “in Lanham Act cases involving trademark infringement, a presumption of irreparable injury is generally applied once the plaintiff has demonstrated a likelihood of confusion.”<sup>48</sup> Relying on *Scotts*, most district courts in the Fourth Circuit have continued to apply the presumption.<sup>49</sup>

However, recent district court decisions from Virginia have questioned the continued validity of the presumption and instead have elected to consider whether there is evidence of irreparable harm. For example, in *Pro-Concepts, LLC v. Resh*, a district court in the Eastern District of Virginia held that “[a]s a threshold matter, it is

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<sup>47</sup> See, e.g., *Microban Prod. Co. v. API Indus., Inc.*, 2014 WL 1856471, at \*21 (S.D.N.Y. May 8, 2014) (“The Court need not decide whether the presumption continues today because Plaintiff has demonstrated irreparable harm.”).

<sup>48</sup> 315 F.3d 264, 273 (4th Cir. 2002).

<sup>49</sup> See, e.g., *Choice Hotels Int’l, Inc. v. Zeal, LLC*, 135 F. Supp. 3d 451, 471-72 (D.S.C. 2015) (quoting *Scotts*, 315 F.3d 264); *Rebel Debutante LLC v. Forsythe Cosmetic Grp., Ltd.*, 799 F. Supp. 2d 558, 579-580 (M.D.N.C. 2011) (same); *Meineke Car Care Centers, LLC v. ASAR Inc.*, 2014 WL 3952491, at \*4 (W.D.N.C. Aug. 13, 2014) (same); *Potomac Conference Corp. of Seventh Day Adventists v. Takoma Acad. Alumni Ass’n, Inc.*, 2014 WL 857947, at \*19 (D. Md. Mar. 4, 2014) (same); but see *Maaco Franchising, LLC v. Ghirimoldi*, 2015 WL 4557382, at \*2 (W.D.N.C. July 28, 2015) (“In considering a motion for a preliminary injunction, the Fourth Circuit has not adopted the view taken by other circuits that a ‘presumption [of irreparable harm] arises solely from the finding of [trademark] infringement.’” (citations omitted)).

unlikely that the presumption alleged in the context of trademark infringement remains viable after the Supreme Court’s decision in *Winter* . . . . Thus, the Court should not rely on a presumption of irreparable injury based on the likelihood that [defendant’s] actions — whether intentional or not — are likely to confuse or mislead [plaintiff’s] customers.<sup>50</sup>

b. *Sixth Circuit*

The Sixth Circuit has also not addressed *eBay*’s applicability to Lanham Act cases, and appears to be continuing to apply what amounts to a presumption of irreparable harm by effectively equating a likelihood of confusion — the key liability element in a trademark infringement claim — with irreparable harm. In *Lucky’s Detroit, LLC v. Double L, Inc.*, the court cited to *eBay* in setting forth the factors that a party must establish before a court will issue a permanent injunction, but in the very next sentence held that: “In trademark infringement cases, a likelihood of confusion or possible risk to the requesting party’s reputation satisfies the irreparable injury requirement.”<sup>51</sup> The court went on to uphold the district court’s decision granting a permanent injunction, finding there was “sufficient evidence that customers will be

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<sup>50</sup> 2013 WL 5741542, at \*21 (E.D. Va. Oct. 22, 2013); see also *Dynamic Aviation Grp. Inc. v. Dynamic Int’l Airways, LLC*, 2016 WL 1247220, at \*28 n.18 (W.D. Va. Mar. 26, 2016) (“The court notes a growing confusion about the presumption of irreparable harm normally applied in trademark cases.”); *Inst. for Justice v. Media Grp. of Am., LLC*, 2015 WL 7758845, at \*10 (E.D. Va. Nov. 30, 2015) (“However, it is not clear from the case law whether this presumption still applies after *Winter*.”); but see *Diamonds Direct USA, Inc. v. BFJ Holdings, Inc.*, 895 F. Supp. 2d 752, 761 (E.D. Va. 2012) (citing *Scotts* as setting forth the law in the Fourth Circuit).

<sup>51</sup> 533 F. App’x 553, 555 (6th Cir. 2013) (citing *Wynn Oil Co. v. Am. Way Serv. Corp.*, 943 F.2d 595, 608 (6th Cir. 1991)).

confused by both parties' use of the marks, and thus [plaintiff] made a sufficient showing that it would suffer irreparable harm if [defendant] continues to use the mark."<sup>52</sup>

The Sixth Circuit's decision in *Lucky's* seems at least somewhat inconsistent with its 2006 decision in *Audi AG v. D'Amato*, in which it also cited *eBay* for the traditional four factors.<sup>53</sup> There, without addressing whether irreparable harm could be presumed after *eBay*, the court perfunctorily concluded that Audi would be irreparably harmed by consumers purchasing counterfeit items via the defendant's infringing website.<sup>54</sup>

Faced with an absence of clear guidance from the Sixth Circuit, most district courts have continued to apply a *de facto* presumption of irreparable harm once a party establishes a likelihood of confusion.<sup>55</sup> Some district courts, however, have

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<sup>52</sup> *Id.* at 560.

<sup>53</sup> 469 F.3d 534, 550 (6th Cir. 2006).

<sup>54</sup> *Id.*

<sup>55</sup> See, e.g., *Dist. Brewing Co., Inc. v. CBC Rest., LLC*, 2016 WL 1366230, at \*5 (S.D. Ohio Apr. 6, 2016) ("A plaintiff can normally show irreparable injury when infringement causes confusion . . . . Given the actual confusion Plaintiff has demonstrated, and the fact that irreparable injury ordinarily flows from such confusion, the Court finds that this factor weighs in favor of Plaintiff."); *Jae Enters., Inc. v. Oxgord Inc.*, 2016 WL 319877, \*11 (W.D. Ky. Jan. 25, 2016) ("[T]he Sixth Circuit does not require a particular finding of the likelihood of irreparable harm to support injunctive relief in trademark infringement cases when there is a likelihood of success on the merits . . . . This Circuit's Court of Appeals reasons that "irreparable injury ordinarily follows when a likelihood of confusion or possible risk to reputation appears from infringement or unfair competition." (citing *Lorillard Tobacco Co. v. Amouri's Grand Foods, Inc.*, 453 F.3d 377, 381-82 (6th Cir. 2006))); *End Prod. Results, LLC v. Dental USA, Inc.*, 2014 WL 897363, at \*6 (E.D. Mich. Mar. 6, 2014) ("[T]he Sixth Circuit 'requires no particular finding of its likelihood [of irreparable harm] to support injunctive relief in case [sic] of this type, for irreparable injury ordinarily follows when a likelihood of confusion or possible risk to reputation appears from infringement . . . ." (citations omitted)).

acknowledged that the law is unsettled and, without deciding the issue, have opted to review the evidence of irreparable harm.<sup>56</sup>

c. *Eighth Circuit*

Until 2011, the Eighth Circuit continued to apply the presumption in trademark infringement cases.<sup>57</sup> More recently, however, the court implicitly questioned the continued validity of any presumption or inference of irreparable harm in a case involving a claimed breach of a non-compete clause.<sup>58</sup> The court did not, however, decide the issue, but instead affirmed the district court's decision that the plaintiff had failed to establish irreparable harm.<sup>59</sup> And, even more recently, the Eighth Circuit arguably confirmed that irreparable harm must be affirmatively demonstrated, not presumed, when it remanded a case to the United States District Court, Western District of Missouri holding that the district court's finding that "plaintiff has not demonstrated

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<sup>56</sup> See, e.g., *Pond Guy, Inc. v. Aquascape Designs, Inc.*, 2014 WL 2863871, at \*13 (E.D. Mich. June 24, 2014) ("Defendants argue that the presumption set forth above was done away with in *eBay* []. *eBay*, however, was a patent case, and the Sixth Circuit has not applied the rule laid out there to trademark cases . . . . Regardless, as the Court has found that there is a very low likelihood of confusion and Plaintiffs have not demonstrated a risk to their reputation, the irreparable injury prong of the preliminary injunction analysis is not satisfied."); *W.W. Williams Co. v. Google, Inc.*, 2013 WL 3812079, at \*10 (S.D. Ohio July 22, 2013) ("There is some discussion among courts as to whether the presumption of harm in trademark cases is appropriate given the United States Supreme Court's decision in *eBay* [] . . . . Even without applying a presumption for irreparable injury, though, the Court finds this factor strongly weighs in favor of granting the TRO as Plaintiff is likely to continue to suffer irreparable harm without the requested relief.").

<sup>57</sup> *Cnty. of Christ Copyright Corp. v. Devon Park Restoration Branch of Jesus Christ's Church*, 634 F.3d 1005, 1012 (8th Cir. 2011) ("[I]njury is presumed once a likelihood of confusion has been established." (citing *Mut. of Omaha Ins. Co. v. Novak*, 836 F.2d 397, 403 n.11 (8th Cir. 1987))).

<sup>58</sup> *Novus Franchising, Inc. v. Dawson*, 725 F.3d 885, 894-95 (8th Cir. 2013) (citing *eBay*, 547 U.S. at 391-93, and decisions from other circuits).

<sup>59</sup> *Id.*

that it will suffer irreparable harm if the Court does not issue an injunction” was insufficient to allow meaningful appellate review of the lower court’s decision denying H&R Block’s motion to enforce a covenant not to compete.<sup>60</sup>

Notwithstanding the Eighth Circuit’s recent decisions suggesting that irreparable harm must be affirmatively established, it seems that a majority of the district courts in the Eighth Circuit have continued to apply the presumption.<sup>61</sup> However, at least two district courts have specifically rejected any presumption of irreparable harm.<sup>62</sup> Notably, one district court judge seems to have changed his position regarding the presumption.<sup>63</sup>

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<sup>60</sup> *H & R Block Tax Servs. LLC v. Acevedo-Lopez*, 742 F.3d 1074, 1077-78 (8th Cir. 2014).

<sup>61</sup> See, e.g., *Zerorez Franchising Sys., Inc. v. Distinctive Cleaning, Inc.*, 103 F. Supp. 3d 1032, 1047 (D. Minn. 2015) (“Since a trademark represents intangible assets such as reputation and goodwill, a showing of irreparable injury can be satisfied if it appears that [Plaintiffs] can demonstrate a likelihood of customer confusion.” (quoting *Gen. Mills, Inc. v. Kellogg Co.*, 824 F.2d 622, 625 (8th Cir. 1987))); *Kuper Indus., LLC v. Reid*, 89 F. Supp. 3d 1005, 1013 (D. Neb. 2015) (“Since a service mark represents intangible assets such as reputation and goodwill, irreparable harm can be presumed if the plaintiff has shown a likelihood of consumer confusion.” (citing *Devon Park*, 634 F.3d at 1012, and *Gen. Mills*, 824 F.2d at 624)); *Omaha Steaks Int’l, Inc. v. Frontier Choice Steaks, LLC*, 2013 WL 6491475, at \*1 (N.D. Iowa Dec. 10, 2013) (“[I]n trademark law, injury is presumed once a likelihood of confusion has been established.” (quoting *Devon Park*, 634 F.3d at 1012)).

<sup>62</sup> *JDR Indus., Inc. v. McDowell*, 121 F. Supp. 3d 872, 891-92 (D. Neb. 2015) (“The Court does not presume irreparable harm based solely on its finding of likely (or actual) confusion.” (citing *Ferring Pharm.*, 765 F.3d 205, and *Herb Reed*, 736 F.3d 1239)); *KTM N. AM., INC. v. Cycle Hutt, Inc.*, 2013 WL 1932797, at \*1 (D.S.D. May 8, 2013) (“Even though the United States Court of Appeals for the Eighth Circuit has yet to acknowledge *eBay*’s holding with respect to the preliminary injunction factors, other district courts in this circuit have recognized the change (citations omitted). Accordingly, the court will use the same four-factor *Dataphase* analysis in evaluating plaintiffs’ trademark infringement claims making no presumptions as to irreparable harm.”).

<sup>63</sup> Compare *JDR Indus.*, 121 F. Supp. 3d at 891-92, with *Kuper Indus.*, 89 F. Supp. 3d at 1013.

d. *Tenth Circuit*

The Tenth Circuit has specifically declined to consider whether the *eBay* rule applies to requests for injunctive relief in trademark cases.<sup>64</sup> However, the majority of district courts seem to believe that the presumption remains viable, relying on Tenth Circuit decisions from the 1980s.<sup>65</sup> But some district courts have questioned the continued validity of the presumption after *eBay* and examined the evidence.<sup>66</sup>

5. The Seventh Circuit Has Not Specifically Addressed the Validity of the Presumption, but the Majority of District Courts Within the Circuit Appear to Have Abandoned It

The Seventh Circuit has ducked the issue. In *Kraft Foods Grp. Brands LLC v. Cracker Barrel Old Country Store, Inc.*, the court upheld a lower court's finding of

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<sup>64</sup> *Lorillard Tobacco Co. v. Engida*, 213 F. App'x 654, 656-57 (10th Cir. 2007) ("We need not consider how *eBay* may apply in this context, however, because in any event Lorillard has not shown that any harm Lorillard would suffer in the absence of an injunction outweighed the potential harm to [the defendant] if an injunction were granted.").

<sup>65</sup> See, e.g., *Red Robin Int'l, Inc. v. Lehigh Valley Rest. Grp., Inc.*, 2016 WL 705988, at \*4, n.3 (D. Colo. Feb. 23, 2016) (Holding that "[t]rademark 'infringement alone can constitute irreparable injury and . . . the movant is not required to show that it lost sales or incurred other damage.'" (citations omitted)); *Intelligent Office Sys., LLC v. Virtualink Canada, LTD.*, 2016 WL 687348, at \*7 (D. Colo. Feb. 18, 2016) ("[I]rreparable injury is ordinarily presumed once the plaintiff has established a likelihood of confusion."); *Basis Int'l Ltd. v. Research in Motion Ltd.*, 827 F. Supp. 2d 1302, 1310, n.5 (D.N.M. 2011) ("[T]rademark infringement 'by its very nature' results in irreparable harm to the owner of the mark (citations omitted);" and holding "that [*eBay*] does not change the analysis here. Unlike patent cases, trademark cases involve intangibles like the trademark owner's reputation and goodwill.").

<sup>66</sup> See, e.g., *IHOP Franchising, LLC v. Tabel*, 2014 WL 1767199, at \*11 (D. Kan. Apr. 5, 2014) ("The Court need not consider how *eBay* might apply in this context, as Plaintiffs have presented sufficient proof, even without the presumption, of the irreparable harm that will result if Defendant is allowed to continue infringing IHOP's Marks during the pendency of this litigation."); *Steak n Shake Enters., Inc. v. Globex Co., LLC*, 2013 WL 4718757, at \*14 (D. Colo. Sept. 3, 2013) (*eBay* has "called into question whether such a presumption should be applied. Regardless, the Court has examined the evidence and determined that, even in the absence of such a presumption, Plaintiffs have clearly met their burden.").

irreparable harm in affirming a preliminary injunction, but did not cite to either *eBay* or pre-*eBay* decisions holding that irreparable harm is presumed in cases of trademark infringement.<sup>67</sup> Instead, the court found “[t]he likelihood of confusion seems substantial and the risk to Kraft of the loss of valuable goodwill and control therefore palpable. And . . . irreparable harm is especially likely in a trademark case because of the difficulty of quantifying the likely effect on a brand of a nontrivial period of consumer confusion (and the interval between the filing of a trademark infringement complaint and final judgment is sure not to be trivial).”<sup>68</sup>

The *Kraft Foods* decision does not provide much in the way of concrete direction. So, the last clear word from the Seventh Circuit — albeit before *eBay* — is that irreparable harm is presumed in trademark infringement cases.<sup>69</sup> However, the majority of district courts within the Seventh Circuit seem to be acknowledging that the continued validity of the presumption is in doubt and require a showing of irreparable harm.<sup>70</sup> But

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<sup>67</sup> 735 F.3d 735, 741 (7th Cir. 2013) (Posner, J.).

<sup>68</sup> *Id.*

<sup>69</sup> *AM Gen. Corp. v. DaimlerChrysler Corp.*, 311 F.3d 796, 831-32 (7th Cir. 2002) (“[I]rreparable harm is presumed whenever a trademark is infringed and diluted.”); *Ty, Inc. v. Jones Grp., Inc.*, 237 F.3d 891, 902 (7th Cir. 2001) (“‘[D]amages occasioned by trademark infringement are by their very nature irreparable.’ These type of injuries are presumed to be irreparable because ‘it is virtually impossible to ascertain the precise economic consequences of intangible harms, such as damage to reputation and loss of goodwill, caused by such violations.’” (citations omitted)); see also *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 12 (7th Cir. 1992) (same); *Int’l Kennel Club, Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1091-92 (7th Cir. 1988) (same).

<sup>70</sup> See, e.g., *Bernatello’s Pizza, Inc. v. Hansen Foods, LLC*, 173 F. Supp. 3d 790, 803 (W.D. Wis. 2016) (noting uncertainty whether *eBay* rule applies to Lanham Act claims in the Seventh Circuit, but finding plaintiff “will suffer [irreparable] harm without a preliminary injunction.”); *Luxottica Grp. S.p.A. v. Light in the Box Ltd.*, 2016 WL 6092636, at \*5 (N.D. Ill. Oct. 19, 2016) (“[T]his Court need not take sides in the dispute at this time, because assuming that a case-by-case showing of irreparable harm

at least one district court has continued to apply the presumption,<sup>71</sup> and another district court, relying on *Herb Reed* and *Ferring*, specifically rejected the presumption.<sup>72</sup>

### C. What Constitutes Irreparable Harm and How to Prove It

Irreparable harm is the *sine qua non* of injunctive relief.<sup>73</sup> Broadly speaking, it is “harm for which there is no adequate legal remedy.”<sup>74</sup> It must be more than “economic

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or no adequate remedy at law is required, it has been sufficiently made on the basis of the record compiled to date.”); see also *Mkt. Track, LLC v. Efficient Collaborative Retail Mktg., LLC*, 2015 WL 3637740, at \*23 (N.D. Ill. June 12, 2015) (false advertising claims; “the Court, out of an abundance of caution, declines to apply a blanket presumption, but rather looks to the specific facts of this case to determine whether [plaintiff] is likely to suffer irreparable harm from an ongoing Lanham Act violation.”).

<sup>71</sup> *Simpson Performance Prods., Inc. v. Wagoner*, 133 F. Supp. 3d 1130, 1138 (N.D. Ind. 2015) (“The law presumes that injuries arising from trademark infringement are irreparable [], because the ‘most corrosive and irreparable harm attributable to trademark infringement is the inability of the victim to control the nature and quality of the defendants’ goods. Even if the infringer’s products are of high quality, the plaintiff can properly insist that its reputation should not be imperiled by the acts of another[]’ and ‘it is virtually impossible to ascertain the precise economic consequences of intangible harms, such as damage to reputation and loss of goodwill, caused by such violations.’”(citations omitted)).

<sup>72</sup> *Nat’l Fin. Partners Corp. v. Paycom Software, Inc.*, 2015 WL 3633987, at \*11-12 (N.D. Ill. June 10, 2015) (“The Court finds the Ninth and Third Circuits’ reasoning persuasive and concludes that NFP must show a likelihood of irreparable harm to be entitled to a preliminary injunction.”).

<sup>73</sup> *Weinberger v. Romero-Barceló*, 456 U.S. 305, 312 (1982) (“[T]he basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies.”); *7-Eleven, Inc. v. Kapoor Bros. Inc.*, 977 F. Supp. 2d 1211, 1226 (M.D. Fla. 2013) (“A showing of irreparable injury is ‘the *sine qua non* of injunctive relief.’” (quoting *Siegel v. LePore*, 234 F.3d 1163, 1176 (11th Cir. 2000))).

<sup>74</sup> *Arizona Dream Act. Coal. v. Brewer*, 757 F.3d 1053, 1068 (9th Cir. 2014); see also, e.g., *Gen. Motors Corp. v. Harry Brown’s, LLC*, 563 F.3d 312, 318-19 (8th Cir. 2009) (“Irreparable harm occurs when a party has no adequate remedy at law, typically because its injuries cannot be fully compensated through an award of damages.”); *RoDa Drilling Co. v. Siegal*, 552 F.3d 1203, 1210 (10th Cir. 2009) (“[A] plaintiff satisfies the irreparable harm requirement by demonstrating a significant risk that he or she will experience harm that cannot be compensated after the fact by monetary damages.” (quotations and citation omitted)).

injury,” because “such injury can be remedied by a damage award.”<sup>75</sup> Beyond this it is unclear. It seemingly varies from circuit to circuit, and often from district court to district court within a circuit. Of course, it also usually depends on the particular facts of each case. For example, is the infringement willful or direct? Is the defendant using a mark that is only similar to the moving party’s mark or using the mark in a totally different business sector? Is the infringing product or service defective or inferior? Or is it of the same general quality as the authorized product or service? The answers to these and similar questions are often, but not always, outcome-determinative.

Whether a moving party has to actually prove irreparable harm in a Lanham Act case and, if yes, how to do so has confounded practitioners and the courts since *eBay* and *Winter*. In some jurisdictions, arguments and evidence that worked in the past may no longer pass muster. The Ninth Circuit, for example, has emphasized that “cursory and conclusory” assertions of irreparable harm and empty “platitudes” are insufficient even in circumstances where the infringement may be blatant.<sup>76</sup> The Third Circuit — the only other circuit to expressly reject the presumption of irreparable harm — would presumably agree with the Ninth Circuit, but has yet to expressly say so. With the possible exception of the Fifth Circuit, the law in the other circuits remains in flux. Seemingly, for every case that finds irreparable harm based on a type and quantum of

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<sup>75</sup> *Rent-A-Ctr., Inc. v. Canyon Television & Appliance Rental, Inc.*, 944 F.2d 597, 603 (9th Cir. 1991); see also, e.g., *Heideman v. S. Salt Lake City*, 348 F.3d 1182, 1189 (10th Cir. 2003) (“[E]conomic loss usually does not, in and of itself, constitute irreparable harm.”).

<sup>76</sup> *Herb Reed*, 736 F.3d at 1250; see also *Wells Fargo & Co. v. ABD Ins. & Fin. Servs., Inc.*, 2014 WL 4312021, at \*9 (N.D. Cal. Aug. 28, 2014) (arguments that defendant “caused Wells Fargo to lose control over [its] goodwill and reputation,” that it “has lost and continues to lose much of the goodwill it purchased,” and has “lost the benefit of the association it forged with the ABD name” were “platitudes rather than evidence”).

evidence, there is a case that reaches the opposite result despite similar facts and evidence. Notwithstanding this uncertainty, there are some types of harm that — provided they can be demonstrated — most courts will find sufficient to constitute irreparable harm.

1. Harm to Goodwill or Reputation, and Loss of Control

Harm to a company’s goodwill or reputation is quintessential irreparable harm.<sup>77</sup> In the Ninth Circuit, however, this type of harm does not necessarily warrant an automatic finding of irreparable harm. As the court held in *Herb Reed*, “[e]vidence of . . . damage to goodwill *could* constitute irreparable harm.”<sup>78</sup> The district courts have generally followed the Ninth Circuit’s lead in not equating harm to goodwill or reputation as *per se* irreparable harm.<sup>79</sup>

Closely related is a party’s “loss of control” over its reputation, goodwill, and its products or services, which most courts consider persuasive evidence of irreparable harm.<sup>80</sup> As explained by the Seventh Circuit, “[t]his is because the ‘most corrosive and

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<sup>77</sup> See, e.g., *7-Eleven, Inc. v. Khan*, 977 F. Supp. 2d 214, 234 (E.D.N.Y. 2013) (“[t]he loss of good will constitutes irreparable harm . . . .” (citations omitted)); *Chaudhry v. Int’l House of Pancakes, LLC*, 2015 WL 5159859, at \*4 (N.D. Ill. Aug. 26, 2015) (“The Seventh Circuit has frequently held that injuries to reputation and goodwill due to trademark infringement constitute irreparable harm for which there is no adequate legal remedy.” (citations omitted)); *Country Inns & Suites By Carlson, Inc. v. 3 AM, LLC*, 2014 WL 5431621, at \*3 (D. Minn. Oct. 24, 2014) (“Many courts have found that the loss of goodwill toward a business or franchise constitutes irreparable harm.” (citation omitted)).

<sup>78</sup> *Herb Reed*, 736 F.3d at 1250 (emphasis added).

<sup>79</sup> See, e.g., *Starbucks Corp. v. Heller*, 2014 WL 6685662, at \*8 (C.D. Cal. Nov. 26, 2014) (“damage to goodwill and business reputation . . . will *often* constitute irreparable injury”) (emphasis added).

<sup>80</sup> See, e.g., *Choice Hotels*, 135 F. Supp. 3d at 470-71 (“Infringement gives rise to irreparable injury, in that plaintiff has lost control of its business reputation to this extent,

irreparable harm attributable to trademark infringement is the inability of the victim to control the nature and quality of the defendants' goods. Even if the infringer's products are of high quality, the plaintiff can properly insist that its reputation should not be imperiled by the acts of another."<sup>81</sup> Some courts have agreed with this proposition.<sup>82</sup>

From a franchisor's perspective this outcome may seem more than reasonable. However, equating loss of control with irreparable harm also seems somewhat circular, because there is always "loss of control" in a trademark infringement case. And if a loss of control amounts to irreparable harm, wouldn't a finding of irreparable harm be a

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there is substantial likelihood of confusion of the purchasing public, there may be no monetary recovery available, and there is an inherent injury to the goodwill and reputation of the plaintiff" (quotation marks and citation omitted)); *Dunkin' Donuts Franchising, LLC v. 14th St. Eatery, Inc.*, 102 F. Supp. 3d 334, 338 (D.D.C. 2015) ("Defendants are operating an unauthorized Dunkin' Donuts location and depriving Dunkin' Donuts of the ability to control the use of its trademarks and assure the quality control necessary to protect the integrity of its reputation and goodwill."); *Ledo Pizza Sys., Inc. v. Singh*, 983 F. Supp. 2d 632, 640 (D. Md. 2013) ("Ledo can no longer control the quality of products and services at Singh's restaurant because of the termination of the franchise agreement, and this injury continues even after Singh reopened as a Stallion franchise, because many customers still associate the restaurant location with Ledo.") *IHOP Franchising, LLC v. Hameed*, 2015 WL 429547, at \*5 (E.D. Cal. Feb. 2, 2015) ("[A]llowing a deficient operator to operate under Plaintiff's Marks — despite termination — irreparably harms IHOP by removing its ability to control its reputation.").

<sup>81</sup> *Simpson Performance Prods.*, 133 F. Supp. 3d at 1138 (quoting *Re/Max N. Cent., Inc. v. Cook*, 272 F.3d 424, 432 (7th Cir. 2001)).

<sup>82</sup> See, e.g., *7-Eleven, Inc. v. Dhaliwal*, 2012 WL 5880462, at \*7 (E.D. Cal. Nov. 21, 2012) ("7-Eleven does not need to show Dhaliwal will take actions through his management of the Rocklin Store that will damage 7-Eleven's goodwill or reputation; regardless of the care that Dhaliwal takes while running the store, 7-Eleven still has the right to maintain control over its trademarks to prevent customer confusion."); *TGI Friday's Inc. v. Great Nw. Rests., Inc.*, 652 F. Supp. 2d 763, 772 (N.D. Tex. 2009) ("Courts have held that a franchisor suffers a risk of injury to its reputation and the value of its marks even if the alleged infringer offers superior services.").

foregone conclusion and, therefore, arguably inconsistent with *eBay*'s prohibition on an automatic presumption?

Although it appears to be almost universally accepted that a trademark owner's loss of control over its reputation and goodwill, or actual damage to its goodwill and reputation, constitute irreparable harm, there is no similar consensus about what is compelling evidence of such harm. And in the Ninth Circuit, where "unsupported and conclusory statements" and "pronouncements grounded in platitudes" will not satisfy a moving party's evidentiary burden, it is even more difficult to predict what type and quantum of evidence may be sufficient and what will likely fall short.

So, what will suffice? Ultimately, it will depend on the facts of the case, but some general guidelines can be teased out of the court's decisions. As a starting point, the franchisor should explain the nature of the franchisor-franchisee relationship, as well as its business and the importance of the infringed trademark to the success of the franchise system. To bolster its claim that the trademark is valuable, the franchisor should submit evidence of the amounts it has invested in developing and protecting its trademarks (and goodwill), including, for example, sums spent on marketing, brand management, and prior enforcement efforts.<sup>83</sup> The moving party should also include any concrete evidence that the mark is well-known and favorably perceived by the

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<sup>83</sup> See, e.g., *Luxottica Grp.*, 2016 WL 6092636, at \*5 (Evidence that plaintiff spends "millions of dollars annually to advertise, promote and market" its products "indicates that [p]laintiffs' marks have significant economic value as source identifiers, which would be undermined by [d]efendant's sale of allegedly counterfeit sunglasses."); *Nat'l Fin. Partners*, 2015 WL 3633987, at \*12 (Evidence that plaintiff spent large sums on advertising/promotion is "probative of harm. If a company spends significant time and resources promoting its trademark, that is a strong indication that the mark has significant economic value as a source identifier.").

consuming public. Avoid conclusory assertions along the lines that the infringement “undermines,” “diminishes,” “tarnishes,” or “taints” the goodwill and reputation of the moving party or the trademark. Instead, the moving party should tether such arguments to actual evidence of, for example, customer confusion, lost sales and customers, or that the underlying product or services are inferior.

## 2. Customer Confusion and Complaints

Consumer confusion and complaints are commonly characterized as evidence of irreparable harm. The majority of circuit courts — including those which are trending towards abandoning the presumption — seem to agree that such evidence will, almost as a matter of course, constitute irreparable harm.<sup>84</sup>

The Ninth Circuit has a different opinion. In *Herb Reed*, the court held that customer confusion is not evidence of irreparable harm and to find otherwise “collapses the likelihood of success and the irreparable harm factors.”<sup>85</sup> However, a more recent Ninth Circuit case suggests that evidence of *actual* customer confusion (as opposed to only a likelihood of confusion) may be relevant, at least in so far as it demonstrates

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<sup>84</sup> See, e.g., *Kraft Foods*, 735 F.3d at 741 (“[I]rreparable harm is especially likely in a trademark case because of the difficulty of quantifying the likely effect on a brand of a nontrivial period of consumer confusion (and the interval between the filing of a trademark infringement complaint and final judgment is sure not to be trivial.)”; *Diesel S.p.A.*, 2016 WL 96171, at \*10 (“In a trademark case, irreparable injury is established where there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question.” (quoting *Lobo Enters., Inc. v. Tunnel, Inc.*, 822 F.2d 331, 333 (2d Cir. 1987))).

<sup>85</sup> *Herb Reed*, 736 F.3d at 1251.

damage to goodwill or loss of control of reputation.<sup>86</sup> Another recent Ninth Circuit case upheld a district court's decision issuing an injunction in which customer complaints were found to be evidence of irreparable harm.<sup>87</sup> Some district courts in the Ninth Circuit have interpreted *Herb Reed* as essentially setting forth a blanket prohibition on considering evidence of consumer confusion in assessing whether the moving party has demonstrated a likelihood of irreparable harm.<sup>88</sup> But other district courts in the Ninth Circuit have continued to find customer confusion to be evidence of irreparable harm.<sup>89</sup>

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<sup>86</sup> *San Miguel Pure Foods*, 625 F. App'x at 327 (holding that plaintiff's weak evidence of "actual confusion" was insufficient to establish that the trademark infringement had damaged plaintiff's goodwill or caused it to lose control over its business reputation).

<sup>87</sup> *Life Alert Emergency Response, Inc. v. LifeWatch, Inc.*, 601 F. App'x 469, 473-74 (9th Cir. 2015) ("[e]vidence of customer complaints "substantiates the threat to Life Alert's reputation and goodwill. This type of harm constitutes irreparable harm, as it is not readily compensable.").

<sup>88</sup> See, e.g., *Zeltiq Aesthetics, Inc. v. Sun Serenity Spa*, 2015 WL 9242154, at \*5 (E.D. Cal. Dec. 17, 2015) ("[E]vidence of customer confusion is not evidence of irreparable harm."), rejected in part by, 2016 WL 549915 (E.D. Cal. Feb. 12, 2016); *Williams v. Green Valley RV, Inc.*, 2015 WL 4694075, at \*2 (C.D. Cal. Aug. 6 2015) ("Plaintiff's evidence of irreparable harm is nothing more than a regurgitation of consumer confusion evidence, which is the exact type of evidence explicitly rejected by the Ninth Circuit in *Herb Reed*.").

<sup>89</sup> See, e.g., *Pom Wonderful LLC v. Hubbard*, 2015 WL 10433693, at \*12 (C.D. Cal. Aug. 6, 2015) ("[O]ne way to show a likelihood of irreparable harm is to show that there has, to date, been some actual confusion or harm."); *Hameed*, 2015 WL 429547, at \*5 ("[P]atrons of Defendant's establishment undoubtedly believe they are patronizing an IHOP franchise. Thus, allowing a deficient operator to operate under Plaintiffs' Marks — despite termination — irreparably harms IHOP by removing its ability to control its reputation."); *Kreation Juicery, Inc. v. Shekarchi*, 2014 WL 7564679, at \*12 (C.D. Cal. Sept. 17, 2014) ("Plaintiff argues that it is suffering irreparable harm to its goodwill and reputation because customers are confusing Creation Grill with Kreation Kafe . . . . Even if Creation Grill were not harming Kreation's goodwill by offering non-organic food, Plaintiff's loss of control over its business reputation is sufficient to establish a likelihood of irreparable harm.").

And some courts — both in the Ninth Circuit and elsewhere — have found that the absence of customer confusion is evidence there is no irreparable harm.<sup>90</sup>

So what is a lawyer to do? To begin with, the answer very much depends on the circuit in which the case is or will be filed. As previously noted, the majority of district courts remain receptive to customer confusion evidence, and many find that such evidence constitutes irreparable harm. Even in the Ninth Circuit, where some district courts have refused to consider such evidence based on *Herb Reed*, a moving party should present any evidence of customer confusion and complaints. In many instances, it may be the most tangible evidence of the harm caused by the alleged infringement. Depending on the circumstances, it may be helpful or even necessary to provide context regarding the customer complaints. For example, if there has been an appreciable increase in the number or type of customer complaints during the period of infringement, the franchisor should include this evidence.

A recent case involving 7-Eleven illustrates the importance of providing comparative data regarding customer complaints.<sup>91</sup> Despite finding that 7-Eleven had established it was likely to succeed on the merits of its claims, the district court refused to issue a preliminary injunction on the basis that 7-Eleven had not met its burden of demonstrating irreparable harm, in part, because (i) many of the customer complaints preceded the franchisee's termination, thereby "implying that there has been no change

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<sup>90</sup> *Concordia Partner*, 2015 WL 4065243, at \*9 (no consumer confusion because of clear website disclaimer); *Cutting Edge Sols., LLC v. Sustainable Low Maint. Grass, LLC*, 2014 WL 5361548, at \*5 (N.D. Cal. Oct. 20, 2014) (no irreparable harm because, in part, no evidence of actual or likely customer confusion).

<sup>91</sup> *Sodhi*, 2016 WL 541135.

in [7-Eleven's] reputation,” and (ii) “there is no way of knowing whether these sorts of complaints have occurred at other 7-Eleven stores nationwide.”<sup>92</sup>

A franchisee on the receiving end of a motion for injunctive relief may be able to persuasively argue, at least in the Ninth Circuit, that evidence of customer confusion cannot constitute irreparable harm because such a result is contrary to *eBay*. Beyond that, is there any evidence of actual confusion or is it just assumed? Although it is impossible to credibly contend that there is no confusion when a former franchisee continues to use the franchisor's marks in the same location,<sup>93</sup> there is room for argument if the franchisee is only using a “similar” mark and has otherwise de-identified the location. The nature and number of any customer complaints submitted by the franchisor should also be carefully scrutinized. Is the evidence reliable? Is there any evidence that the number of complaints are disproportionately greater than normal? Is there any comparative system-wide evidence from which the court can analyze the relative magnitude of the complaints? As discussed below, the absence of any customer complaints, especially when coupled with evidence that the former franchisee is continuing to comply with the franchisor's system and operate a quality business, may cut against a franchisor's argument of irreparable harm.

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<sup>92</sup> *Id.* at \*6.

<sup>93</sup> See, e.g., *Grewal*, 60 F. Supp. 3d at 280 (Former franchisees “do not deny they continue to operate a business purporting to be a 7-Eleven franchise, thereby necessitating the court's presumption that customers of this “rogue” establishment are likely to be confused.”); *Dunkin' Donuts Franchised Rests. v. Elkhatib*, 2009 WL 2192753, at \*5 (N.D. Ill. July 17, 2009) (“where a holdover franchisee . . . utilizes the franchisor's marks, the ‘likelihood of confusion is inevitable’” (citations omitted)).

In cases in which the claimed infringement is less direct, the parties may want to consider a survey on the issue of confusion if time and resources permit. Survey evidence is routinely used in many trademark cases, and some courts find such evidence to be compelling.<sup>94</sup> However, as Judge Posner noted in *Kraft Foods*, surveys are far from foolproof.<sup>95</sup> As he opined, one of the principal problems with surveys is that “when a consumer is a survey respondent, this changes the normal environment in which he or she encounters, compares, and reacts to trademarks.”<sup>96</sup> Accordingly, the survey methodology must be consistent with generally accepted survey principles, and there must be a compelling nexus between the survey results and the claimed confusion.<sup>97</sup>

### 3. Lost Sales and Customers

Many courts also routinely accept evidence of lost sales or customers as evidence of irreparable harm.<sup>98</sup> As some courts have noted, however, this type of harm

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<sup>94</sup> See, e.g., *Pom Wonderful*, 2015 WL 10433693, at \*16, n.92 (noting that if survey “evidence had been adduced, it is likely the court would have found that Pom Wonderful had satisfied its burden”).

<sup>95</sup> 735 F.3d at 741 (“Consumer surveys conducted by party-hired expert witnesses are prone to bias. There is *such* a wide choice of survey designs, none foolproof, involving such issues as sample selection and size, presentation of the allegedly confusing products to the consumers involved in the survey, and phrasing of questions in a way that is intended to elicit the surveyor’s desired response — confusion or lack thereof — from the survey respondents.”).

<sup>96</sup> *Id.*

<sup>97</sup> See generally Shari Seidman Diamond, *Reference Guide on Survey Research*, in *Reference Manual on Scientific Evidence* at 359 (Federal Judicial Center, 3d ed. 2011).

<sup>98</sup> See, e.g., *Starbucks Corp. v. Heller*, 2014 WL 6685662, at \*4 (C.D. Cal. Nov. 26, 2014) (Starbucks sustained irreparable harm because, among other reasons, it was deprived of potential authorized accounts); *Am. Bullion, Inc. v. Regal Assets, LLC*, 2014 WL 6453783, at \*5 (C.D. Cal. Nov. 17, 2014) (evidence of lost sales based on consumer testimony that they chose to do business with competitor); *ASAR Inc.*, 2014

may be adequately remedied by an award of damages.<sup>99</sup> Nonetheless, evidence of lost sales or customers is powerful proof that the trademark infringement is causing harm, and many courts seem unwilling to permit continued infringement when there is compelling evidence that the infringement is causing harm (even if quantifiable). Given this, any evidence that the infringement has resulted in lost sales or customers, should be provided to the court.

#### 4. Inferior Products or Services

Not surprisingly, courts routinely find irreparable harm when the trademark infringement involves inferior products or services.<sup>100</sup> Conversely, some courts have

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WL 3952491, at \*4 (finding irreparable harm because, in part, Meineke lost sales); *Meineke Car Care Centers, Inc. v. Bica*, 2011 WL 4829420, at \*3 (W.D.N.C. Oct. 12, 2011) (“Meineke will be harmed in the form of . . . loss of customers, and corresponding lost sales.”); see generally *Sylvan Learning Inc. v. Learning Sols., Inc.*, 795 F. Supp. 2d 1284, 1301–02 (S.D. Ala. 2011) (Enforcing portion of covenant not to compete, but finding that “Sylvan has not presented evidence showing that it has lost customers as a result of Defendants’ continued operation of their Alabama Sylvan Center or that it has had difficulty attracting new franchisees to the territory.”).

<sup>99</sup> *Novus Franchising*, 725 F.3d at 895 (“[W]e question whether Novus’s alleged injuries, *i.e.*, “a loss of customers or customer goodwill,” . . . are truly “irreparable” in the sense that they could not be addressed through money damages if Novus is successful following a trial on the merits.”); *Arcsoft, Inc. v. Cyberlink Corp.*, 153 F. Supp. 3d 1057, 1074-75 (N.D. Cal 2015) (plaintiff failed to explain why decreased downloads, users and advertising sales are not “economic injuries that can be remedied by monetary damages”); *Wells Fargo*, 2014 WL 4312021, at \*12 (“[E]ven if Wells Fargo could show that it had lost (or was likely to lose) business as a result of defendants’ use of the “ABD” name, it is likely that such harm could be remedied through monetary damages — as opposed to harm to reputation or goodwill, which is less-easily quantified.”).

<sup>100</sup> See, *e.g.*, *Simpson Performance Prods.*, 133 F. Supp. 3d at 1137-38 (“[C]onsumers are harmed when they purchase an inferior product. The Plaintiffs have presented evidence that the products the Defendants sold were inferior, and the Defendants have not refuted this evidence . . . . Consequently, the reputation and the goodwill associated with [Plaintiff’s] trademarks will be damaged to an extent greater than can be fairly compensated by money damages alone.”); *Steak n Shake Enters.*, 110 F. Supp. 3d at 1078 (“selling regular size drinks in the guise of large size drinks and charging for meals as if the customer purchased a la carte items”); *Chaudhry*, 2015 WL 5159859, at \*4

found no irreparable harm when a former franchisee continues to operate its business according to the franchisor's standards.<sup>101</sup> In the franchise context, proving to a court's satisfaction that a former franchisee's business is failing to comply with material aspects of the franchisor's standards to such an extent that the franchisor's reputation and brand are at risk may be difficult to establish unless there are material health and safety concerns, customer complaints, or compelling inspection reports.

#### 5. A Few Other Things to Consider

Most motions for injunctive relief include testimony or declarations from company executives and experts as evidentiary support for the argument that irreparable harm being caused by the infringement or will be caused if the infringement is not enjoined. Many courts have found such evidence to be persuasive.<sup>102</sup> This certainly seems reasonable because the factual record is not fully developed, and therefore the extent of

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(violations of IHOP's standards re food safety, premises safety and appearance, and restroom sanitation); *Anhing Corp. v. Thuan Phong Corp. Ltd.*, 2015 WL 4517846, at \*23 (C.D. Cal. July 24, 2015) (inferior rice products); *Hameed*, 2015 WL 429547, at \*4-5 (pre-termination operational deficiencies, including health and safety violations); *Just Tacos, Inc. v. Zezulak*, 2011 WL 6140866, at \*9 (D. Haw. Dec. 9, 2011) ("Defendants . . . deviated from certain Just Tacos operating practices by, among other things, allowing their female bartenders to wear revealing outfits on the job and permitting employees on duty to drink with customers . . . . These practices serve to compromise efforts to maintain Just Tacos' reputation as a family-friendly restaurant.").

<sup>101</sup> See, e.g., *Red Robin*, 2016 WL 705988, at \*4 ("All of the evidence in the record shows that [defendant] continues to operate the Restaurant at or above the standards required by Red Robin;" injunctive relief denied.); *Dunkin' Donuts Franchising LLC v. Claudia III, LLC*, 2014 WL 3900569, at \*6-7 (E.D. Pa Aug. 11, 2014) ("[D]efendants continue to operate their Dunkin' Donuts store according to Dunkin' Donuts' rules and procedures. There is no indication that sales have suffered in any way. Inspections of the franchise by Duncan' have not revealed any problems with respect to product identity or quality control . . . . [Accordingly,] any damages Dunkin' may be suffering are compensable with damages.").

<sup>102</sup> See, e.g., *Starbucks Corp.*, 2014 WL 6685662, at \*4; *E & J Gallo Winery v. Grenade Beverage, LLC*, 2014 WL 4073241, at \*14-15 (E.D. Cal. Aug. 15, 2014).

the likely harm is often not clear, when a franchisor seeks relief as soon as it becomes aware of the infringement.<sup>103</sup> Some courts, however, have viewed this type of evidence with skepticism and carefully analyzed whether the “factual” assertions in supporting declarations were linked to actual evidence or were “unsupported and conclusory.”<sup>104</sup>

Courts have found irreparable harm in the context of motions to enforce a covenant not to compete on the ground that it would be difficult for a franchisor to obtain a replacement franchisee as a result of the competition in the same territory.<sup>105</sup> A similar argument may be made in circumstances where a terminated franchisee is continuing to operate its business using the franchisor’s trademarks. The showing of irreparable harm will be bolstered if the franchisor is actively seeking a replacement franchisee for the

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<sup>103</sup> The moving party’s factual burden is somewhat ameliorated by a typically relaxed evidentiary standard. See, e.g., *Herb Reed*, 736 F.3d at 1250, n.5 (Because most motions for injunctive relief are filed on an expedited basis and “at a point [in the proceeding] when there has been limited factual development, the rules of evidence do not apply strictly . . .”).

<sup>104</sup> See, e.g., *Pom Wonderful*, 2015 WL 10433693, at \*11-18; *Wells Fargo*, 2014 WL 4312021, at \*9-10, 12.

<sup>105</sup> See generally *Tantopia Franchising Co., LLC v. W. Coast Tans of PA, LLC*, 918 F. Supp. 2d 407, 418 (E.D. Pa. 2013) (“The presence of a competing tanning salon within the geographic area protected by the Non-Compete Covenant reduces the value of the Tantopia Mark to a potential new franchisee who might consider opening a Tantopia business within the area.”); *Meineke Car Care Centers, Inc. v. Big Jim’s Muffler Shop, LLC*, 2012 WL 12896216, at \*4 (W.D.N.C. Mar. 21, 2012) (Former franchisee’s continued operation “would result in irreparable harm to Meineke as it would deprive Meineke of the customers and the market that it has established over the course of its franchise relationship with defendants, and would thus make it difficult if not impossible for Meineke to re-establish an authorized, reputable Meineke franchise in the same area.”); *Anytime Fitness, Inc. v. Reserve Holdings, LLC*, 2008 WL 5191853, at \*6 (D. Minn. Oct. 8, 2008). (Franchisor’s “goodwill will be harmed by a competing business operating at the former [franchisee’s] location, impairing [the franchisor’s] ability to establish another franchise in that area.”).

territory in which the infringement is occurring.<sup>106</sup> Evidence that the former franchisee's operations are causing harm to nearby authorized franchisees is also potentially probative of irreparable harm.<sup>107</sup>

A provision in the parties' Franchise Agreement in which the franchisee acknowledges that "post-termination use of the franchisor's trademarks will cause irreparable harm" or words to this effect may also be helpful, if not persuasive, evidence of irreparable harm.<sup>108</sup>

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<sup>106</sup> See *Bad Ass Coffee Co. of Hawaii, Inc. v. JH Enterprises, L.L.C.*, 636 F. Supp. 2d 1237, 1249 (D. Utah 2009) (Plaintiff submitted evidence that prospective franchisee "has shown interest in opening another BACH franchise in Jacksonville, but will not do so if the [former franchisee] is there to compete."); *Anytime Fitness*, 2008 WL 5191853, at \*6 ("There is evidence that, if the Franchise Agreement's non-competition requirement is enforced, AFI will likely have a new franchisee operating in the Budd Lake area within 120 to 180 days. Without the preliminary injunction, AFI will be unable to attract new franchisees.").

<sup>107</sup> See *14th St. Eatery*, 102 F. Supp. 3d at 339 ("Defendants are competing with authorized franchises . . . This endangers Dunkin' Donuts' goodwill and reputation."); *Tantopia Franchising Co.*, 918 F. Supp. 2d at 418 ("Plaintiff also has suffered irreparable harm to the extent that the [former franchisee] intends to offer tanning services that will directly compete with the services offered" by nearby Tantopia locations."); *Novus Franchising, Inc. v. AZ Glassworks, LLC*, 2013 WL 1110838, at \*7 (D. Minn. Mar. 18, 2013) (finding irreparable harm in part because "Novus's large franchisee, Cobblestone, has expressed concern about the harm that Defendants have caused to the Novus brand in Arizona.").

<sup>108</sup> *Sylvan Learning*, 795 F. Supp. 2d at 1299-300 (noting that other "courts have found such a provision to be at least persuasive in determining irreparable injury in a trademark infringement context" (collecting cases) (citations omitted)); *Krispy Kreme Doughnut Corp. v. Satellite Donuts, LLC*, 725 F. Supp. 2d 389, 397-98 (S.D.N.Y. 2010) (finding irreparable harm, in part, because defendants "expressly agreed [in the Franchise Agreements] that their continued use of Krispy Kreme's trademarks after the Agreements were terminated constitutes irreparable injury to Krispy Kreme."); *Dunkin' Donuts Franchised Rests. LLC v. KEV Enters.*, 634 F. Supp. 2d 1324, 1336 (M.D. Fla. 2009) (citing provision in agreement stating "FRANCHISEE further agrees that any unauthorized use of the Proprietary Marks during the term of or after expiration or the earlier termination of this Agreement shall constitute an incurable default causing irreparable harm subject to injunctive relief[ ]" in finding that a substantial threat of

#### D. **eBay's Legacy in Lanham Act Cases**

Although there is no doubt that *eBay* has changed the landscape in Lanham Act cases (especially in the Ninth and Third Circuits), real change has been slow in coming, and in some circuits seems more form than substance. In many circuits, the law is muddled. But even in the circuits in which the courts are clearly trending towards abandoning the presumption, establishing irreparable harm has been relatively straightforward because most courts have found that evidence of confusion or a loss of control of reputation constitutes irreparable harm. So, at least for the time being, all is definitely not lost from the franchisor's perspective. On the other hand, franchisees now have more than a fighting chance of defending early motions for injunctive relief. What clearly has changed, however, is that the battleground has expanded beyond the likelihood of success factor to also include the irreparable harm factor. As a result, the evidence and carefully tailored arguments regarding the irreparable harm factor have become much more important than they were in the past.

### III. **ENFORCING COVENANTS NOT TO COMPETE POST-eBAY**

#### A. **Then *Winter* Came**

In 2008 in the *Winter* case, the Supreme Court expanded its narrow definition of what constitutes a showing of irreparable harm outside of intellectual property cases.<sup>109</sup> In *Winter*, the Supreme Court held that a party seeking an injunction in **any** context

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irreparable harm had been established); *see also Dunkin' Donuts Franchised Rests. LLC v. D & D Donuts, Inc.*, 566 F. Supp. 2d 1350, 1361 (M.D. Fla. 2008) (same); *Dunkin' Donuts Franchised Rests LLC v. ABM Donuts, Inc.*, 2011 WL 6026129, at \*7 (D.R.I. Oct. 4, 2011), *report and recommendation adopted*, 2011 WL 6026120 (D.R.I. Dec. 2, 2011) (same).

<sup>109</sup> *Winter*, 555 U.S. at 21-22.

must show that irreparable harm is likely, and not merely possible.<sup>110</sup> In reversing and vacating a Ninth Circuit injunction against sonar training operations by the U.S. Navy, the Supreme Court held that an injunction based solely on the mere possibility of irreparable harm is too lenient a standard and a plaintiff instead must demonstrate that irreparable injury is likely in the absence of an injunction.<sup>111</sup> *Winter's* impact is broader in scope than *eBay* in that it requires all litigants seeking preliminary injunction relief to satisfy a higher burden and more concrete showing that they will suffer irreparable harm.

In the wake of *eBay* and *Winter*, franchisors face challenges attempting to enforce post-termination provisions such as covenants not to compete. Most franchise agreements contain covenants which prohibit franchisees from operating or having an interest in a business that is similar to or may compete with the franchised business during the term of the franchise agreement and post expiration or termination of the franchise agreement. When a franchise is terminated, if the franchisee does not adhere to the covenant not to compete, franchisors must resort to enforcement of the covenant through an injunction. Most states routinely enforce a franchise agreements' covenant against competition so long as the franchisor is able to demonstrate a legitimate business interest to support the restriction, and the restriction is reasonable as to the length of time and the geographical restriction.

Where there is a trademark at issue, it seems common sense that if a circuit still applies the presumption for trademark infringement cases, the presumption will likely be

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<sup>110</sup> *Id.*

<sup>111</sup> *Id.* at 22, 23.

applied to the enforcement of non-competes in the franchise context. But, this is not always the case. However, many of the same considerations and arguments that apply to an injunction in the trademark infringement context, also applies to the enforcement of non-complete covenants.<sup>112</sup> The transfer of goodwill is fundamental to franchising in that the franchisor owns the trademarks and business systems from which the goodwill flows. It is therefore not a surprise that an action to enforce a non-compete agreement often includes trademark infringement claims and *vice versa*. Yet, in addition to courts assessing the reasonableness of the non-compete's temporal and geographic restrictions and determining whether it is necessary to protect a legitimate business interest, in certain jurisdictions franchisors may face a higher burden of showing irreparable harm in the context of enforcing noncompetition agreements.

## **B. Survey of the Circuits**

### *a. Eighth Circuit*

Although the Eighth Circuit has not yet affirmed *eBay* and *Winter* in abandoning the presumption of irreparable harm, recent cases suggest that courts will require a plaintiff to make a strong showing of irreparable harm to enforce non-compete

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<sup>112</sup> See *Jiffy Lube Int'l, Inc. v. Weiss Brothers, Inc.*, 834 F. Supp. 683, 691 (D.N.J. 1993) (“One can view a franchise agreement, in part, as a conveyance of the franchisor’s goodwill to the franchisee for the length of the franchise. When the franchise terminates, the goodwill is, metaphysically, reconveyed to the franchisor. A restrictive covenant, reasonably crafted, is necessary to protect the goodwill after that reconveyance.”); *Comedy Club, Inc. v. Improv Assocs.*, 553 F.3d 1277, 1293 (9th Cir. 2009) (the court stated that the franchisor’s interest in protecting and maintaining its trademarks, trade names, and goodwill outweighed the franchisee’s right to operate its business in competition with the franchisor in certain counties).

covenants through injunction.<sup>113</sup> In *Novus Franchising*, the ex-franchisee successfully refuted the franchisor's claims of irreparable harm.<sup>114</sup> The Eighth Circuit upheld the district court finding that no abuse of discretion by refusing to presume irreparable harm.<sup>115</sup> In *City Cycle*, the District of Minnesota, rejected any presumption of irreparable harm flowing from the trademark infringement claims and denied the franchisor's motion to enjoin a former franchisee from continuing to operate a competing business because the franchisor did not provide evidence of irreparable harm. On the other hand, in *RPC Acquisition Corp. v. J&D World Corp.*, the court enjoined a Pro-Cuts Salon franchisee from continue to operating in the same locations enforcing the franchise agreements' post-termination non-compete covenant and finding that the franchisor would be irreparably harmed because (1) it would harm the goodwill associated with the marks and brand; (2) there was potential and inevitable use of RPC's confidential information; and (3) other franchisees might be "emboldened to breach their franchise agreements."<sup>116</sup>

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<sup>113</sup> *City Cycle IP, LLC v. Caztek, Inc.*, 2012 U.S. Dist. LEXIS 121589, at \*14-15 (D. Minn. Aug. 24, 2012) ("City Cycle has made no showing of irreparable harm, nor is it entitled to a presumption of irreparable harm. The injuries City Cycle claims—particularly the injuries to its reputation, goodwill, and franchising ability—are entirely speculative and without evidentiary support." (citing *Packard Elevator v. I.C.C.*, 782 F.2d 112, 115 (8th Cir. 1986))); see also *Rogers v. Scurr*, 676 F.2d 1211, 1214 (8th Cir. 1982) ("The dramatic and drastic power of injunctive force may be unleashed only against conditions generating a presently-existing actual threat; it may not be used simply to eliminate a possibility of a remote future injury, or a future invasion of rights.").

<sup>114</sup> *Novus Franchising*, 725 F.3d at 894-95.

<sup>115</sup> *Id.*

<sup>116</sup> 2013 WL 3338784, at \*— (D. Minn. July 2, 2013).

b. *Second Circuit*

The Second Circuit rejects any presumption of irreparable harm and requires a showing of likely irreparable harm in connection with enforcing non-compete covenants.<sup>117</sup> However, the Second Circuit has held that irreparable harm may be found where a franchisor has demonstrated that lack of enforcement of the non-compete is likely to put the franchisor at risk for loss of customer goodwill.<sup>118</sup> In addition to loss of goodwill, district courts have also found irreparable harm where there is a showing of likelihood of customer confusion and potential damage to a franchisor's system.<sup>119</sup>

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<sup>117</sup> *Salinger*, 607 F.3d at 77-78 (finding no presumption of irreparable harm in copyright cases and holding that the heightened standard applied with equal force for injunctions in any context); *Tutor Time Learning Ctrs., LLC v. KOG Indust.*, 2012 U.S. Dist. LEXIS 162124, at \*9-10 (E.D.N.Y. Nov. 13, 2012) (citation omitted) (alteration in original) (But the Second Circuit “has rejected the proposition ‘that irreparable harm must inevitably be assumed in breach of covenant cases.’” (citing *Singas Famous Pizza Brands Corp. v. New York Adver. LLC*, 468 F. App'x. 43, 46 (2d Cir. 2012))); and see *Grewal*, 60 F. Supp. 3d at 283 (Unlike the preliminary injunction analysis for trademark infringement, a presumption of irreparable harm does not automatically follow from a finding that a plaintiff is likely to succeed on the merits of its motion to enforce a non-compete agreement.) (citation omitted); *Solomon Agency Corp. v. Choi*, 2016 U.S. Dist. LEXIS, at \*8-9 (E.D.N.Y. May 16, 2016) (“The requirement to demonstrate irreparable harm is the “single most important prerequisite for the issuance of a preliminary injunction.”).

<sup>118</sup> See *Singas Famous Pizza Brands*, 468 F. App'x at 46 (“Generally, when a party violates a [reasonable] non-compete clause, the resulting loss of client relationships and customer good will built up over the years constitutes irreparable harm for purposes of imposing a preliminary injunction.”); *Grewal*, 60 F. Supp. 3d, at \*8 (It has been long established that the loss of a client relationship, like SK's, which results from the breach of a non-compete clause, generally constitutes irreparable harm. (citing *Devos, Ltd. v. Record*, 2015 U.S. Dist. LEXIS 172929, 2015 WL 9593616, at \*8 (E.D.N.Y. Dec. 24, 2015))).

<sup>119</sup> *Mister Softee, Inc. v. Tsirkos*, 2014 U.S. Dist. LEXIS 77434 \*30 (S.D.N.Y. June 5, 2014) (“Courts applying New York law have recognized that restrictive covenants in franchise agreements are also necessary to neutralize the ‘danger that former franchisees will use the knowledge they have gained from the franchisor to serve its former customers, and that continued operation under a different name may confuse customers and thereby damage the good will of the franchisor.’”); *Tutor Time Learning*

It is important to note that a franchisor must demonstrate a *likelihood*, rather than the possibility, of irreparable harm which poses challenges for franchisors at the preliminary injunction stage.<sup>120</sup> For example, in *Tutor Time Learning Ctrs.*, Tutor Time failed to demonstrate irreparable harm of customer confusion, loss of goodwill or detriment to the franchise system because an injunction directed at the trademark infringement claims alleviated the concern over customer confusion; Tutor Time did not have any franchisee centers in the proximate neighborhoods that would lose customer to the competing center; Tutor Time was not registered to sell franchises in New York and could not sell or develop any new franchises in the area; and importantly Tutor Time delayed two years before attempting to enforce its non-compete covenant.<sup>121</sup> The lesson to be learned there is three-fold: (1) franchisors must not rely on conclusory allegations of irreparable harm and must demonstrate actual and imminent harm; (2) trademark infringement injunctions can undermine a request to enjoin the operation of a competing business; and (3) never delay in seeking an injunction.

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*Ctrs.*, 2012 U.S. Dist. LEXIS 162124, at \*9-10 (“Generally, when a party violates a [reasonable] non-compete clause, the resulting loss of client relationships and customer good will built up over the years constitutes irreparable harm.”).

<sup>120</sup> See, e.g., *Grewal*, 60 F. Supp. 3d at 283 (“though the court acknowledges 7-Eleven’s restrictive covenant will probably be deemed enforceable, it is not clear that delaying the enforcement of this covenant will cause 7-Eleven irreparable harm.” (citing *Winter*, 555 U.S. at 22 (“Issuing a preliminary injunction based only on a possibility of irreparable harm is inconsistent with out characterization of injunctive relief . . .”))).

<sup>121</sup> *Tutor Time Learning Ctrs.*, 2012 U.S. Dist. LEXIS 162124, at \*12-20.

c. *Third Circuit*

The Third Circuit handles injunctions to enforce non-compete covenants much like the Second Circuit in that there is no presumption of irreparable harm.<sup>122</sup> However, district courts in the Third Circuit appear to easily find sufficient irreparable harm when there is also evidence of trademark infringement and continued use of the franchisor's proprietary information and client files.<sup>123</sup>

d. *Fourth Circuit*

In the Fourth Circuit, district courts also require a plaintiff to demonstrate that irreparable injury is likely before an injunction will issue.<sup>124</sup> Although district courts apply *eBay* and *Winter's* stricter requirements for irreparable harm, in a recent Liberty Tax

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<sup>122</sup> *Cottman v. Transmissions Sys., LLC v. Gano*, 2013 U.S. Dist. LEXIS 31195, at \*14-15 (E.D. Pa. Mar. 6, 2013).

<sup>123</sup> See, e.g., *id.* at \*15 (“Cottman has suffered an irreparable injury due to the finding that, through the Defendants’ continued use of the Cottman marks, confusion exists amongst customers who continue to patronize the Defendants’ Center”); and see *Jackson Hewitt, Inc. v. Larson & Savage, Inc.*, 2014 U.S. Dist. LEXIS 154708 (D.N.J. Oct. 31, 2014) (“Allowing a former franchisee to continue using Jackson Hewitt’s branding, client files, and proprietary information after the franchise agreement has been terminated would pose a significant threat to that business model. The Court is satisfied that such a threat can be abated only by a permanent injunction and will therefore grant the injunctive relief that Jackson Hewitt seeks.”).

<sup>124</sup> See *Meineke Car Care Ctrs., LLC v. ASAR Inc.*, 2014 WL 3952491; *JTH Tax, Inc. v. Berg*, 2015 U.S. Dist. LEXIS 28603 (E.D. Va. Jan. 27, 2015) (recognizing that under *Winter* irreparable harm cannot merely be possible); *JTH Tax, Inc. v. Olivio*, 2016 U.S. Dist. LEXIS 17857, at \*9-10 (E.D. Va. Feb. 12, 2016); and *Hair Club For Men, LLC v. Ehson*, 2016 U.S. Dist. LEXIS 158258 (E.D. Va. Nov. 14, 2016) (found irreparable harm despite jury verdict awarding damages for breach of covenant not to compete citing to intangible and unremunerated assets that defendant was allowed to benefit from and solicitation of current customers and diversion of potential customers as harms sustained by Hair Club).

case the franchisor’s “*potential* loss of goodwill” was found to satisfy the franchisor’s burden.<sup>125</sup>

e. *Sixth Circuit*

The Sixth Circuit is one of the few circuits where plaintiffs seeking to enforce a non-compete through injunction can rely on a presumption of irreparable injury where there is also a trademark infringement action.<sup>126</sup> In *Mantia*, the district court found *eBay* inapplicable to its analysis and found that irreparable harm “automatically flows from a finding of infringement and validity.”<sup>127</sup> The court in *Mantia* distinguished *eBay* finding that the Supreme Court holding was in the context of a request for permanent injunctive relief and does not mention the broader scope of the Supreme Court’s holding in *Winter*.<sup>128</sup>

f. *Fifth Circuit*

Pre and post *eBay* and *Winter*, district courts in the Fifth Circuit require plaintiffs to establish a “substantial threat” that irreparable injury will result if an injunction

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<sup>125</sup> *JTH Tax, Inc. v. Geraci*, 2014 WL 4955373, at \*8 (E.D. Va. Oct. 2, 2014) (“[n]o amount of damages can quantify the potential loss to Liberty’s goodwill and its reputation, and fail[ing] to enforce the non-compete [covenant] could send a dangerously damaging signal to other franchisees.”).

<sup>126</sup> *Dominic’s Rest. of Dayton, Inc. v. Mantia*, 2009 U.S. Dist. LEXIS 37215, at \*36 (S.D. Ohio Apr. 20, 2009) (The court found that in the context of an infringement action, a finding of a likelihood of confusion or possible risk to reputation usually results in irreparable injury.); *Luxxotica Retail Am., Inc. v. Cas-man, Inc.*, 2011 U.S. Dist. LEXIS 156103 (S.D. Ohio Jan. 14, 2011).

<sup>127</sup> *Dominic’s Rest. Of Dayton*, 2009 U.S. Dist. LEXIS 37215, at \*38.

<sup>128</sup> *Id.*

enforcing a non-compete is not issued.<sup>129</sup> The good news is that franchisors may demonstrate irreparable harm by showing “loss of clientele and goodwill.”<sup>130</sup>

g. *Ninth Circuit*

Ninth Circuit courts seem to follow the stricter *Winter* standard for preliminary injunctions.<sup>131</sup> However, district courts in this circuit are willing to grant injunctions to enforce non-competes in the franchise context recognizing that franchising companies

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<sup>129</sup> See *Travelhost, Inc. v. Modglin*, 2012 U.S. Dist. LEXIS 78539, at \*9-14 (N.D. Tex. June 6, 2012); and see *Petro Franchise Sys., LLC v. All Am. Props., Inc.*, 607 F. Supp. 2d 781, 795-96 (W.D. Tex. Mar. 23, 2009); *Dickey’s Barbecue Rests., Inc. v. GEM Inv. Grp. L.L.C.*, 2012 U.S. Dist. LEXIS 54448, at \*12-25 (N.D. Tex. Apr. 18, 2012); *Fantastic Sam’s Franchise Corp. v. Mosley*, 2016 U.S. Dist. LEXIS 177941, at \*12-17 (S.D. Tex. Dec. 23, 2016); *Smoothie King Franchises, Inc. v. Southside Smoothie & Nutrition Ctr., Inc.*, 2012 U.S. Dist. LEXIS 67620 (E.D. La. May 14, 2012).

<sup>130</sup> *Fantastic Sam’s Franchise Corp.*, 2016 U.S. Dist. LEXIS 177941, at \*15. (“The court agrees with Fantastic Sam’s that Mosley’s continued operations of a nearby salon, in violation of the Agreement, hurts other franchisees, poses a risk of loss of goodwill, and inhibits the opening of new Fantastic Sam’s franchises in the area. All of these injuries cause irreparable harm to Fantastic Sam’s as a whole, and that harm cannot be fully remedied with damages”); and see *Travelhost, Inc.*, 2012 U.S. Dist. LEXIS 78539, at \*13-14 (“In this case, the plaintiff has shown that a failure to enjoin the defendant’s competitive conduct would result in irreparable injury. The plaintiff’s motions for preliminary injunction and reconsideration show that the defendant continues to act as a publisher for a publication that is in direct competition with the plaintiff’s business. This competitor publication uses many of the same individuals for distribution, photography, graphic design, and advertising sales, thereby leading to Travelhost’s loss of marketing techniques as well as the loss of uniqueness of its publication. These actions will likely result in the loss of clientele and business good will for the plaintiff, which constitute an irreparable injury”).

<sup>131</sup> *H&R Block Tax Servs., LLC v. Kutzman*, 681 F. Supp. 2d 1248 (D. Mon. Jan. 26, 2010) (citing *Winter* for the required elements of a preliminary injunction); and see *Organo Gold Int’l, Inc. v. Ventura*, 2016 U.S. Dist. LEXIS 58839, at \*28-29 (W.D. Wa. May 3, 2016) (justifying a finding of irreparable harm the court found that “continued loss of distributors may cripple Organo’s viability as a going concern.”).

suffer irreparable harm when their former franchisees are allowed to ignore reasonable covenants not to compete.<sup>132</sup>

h. *Tenth Circuit*

Although some district courts call into question the presumption of harm in non-compete cases involving trademark infringement, Tenth Circuit courts nevertheless require a showing of irreparable harm.<sup>133</sup> However, franchisors should be cautioned that where they have no significant presence in the market, a court could find that any harm to the franchisor's goodwill is merely theoretical.<sup>134</sup>

i. *Eleventh Circuit*

The Eleventh Circuit has not adopted the *eBay* and *Winter* holdings with respect to non-competes. However, courts in this circuit lean toward conducting an analysis of whether the franchisor can demonstrate a likelihood of irreparable harm.<sup>135</sup> In *Sylvan Learning, Inc.* franchisor did not present evidence showing that it had lost customers as

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<sup>132</sup> *ReBath, LLC v. New Eng. Bath, Inc.*, 2016 U.S. Dist. LEXIS 93033, at \*15-16 (D. Az. July 5, 2016) (citing *Bad Ass Coffee Co. of Haw.*, 636 F. Supp. 2 at \*1249); and see *Organo Gold*, 2016 U.S. Dist. LEXIS 58839, at \*28-29.

<sup>133</sup> *Acceleration Prods., Inc. v. Arikota, Inc.*, 2014 WL 3900875 (D. Utah Aug. 7, 2014) (The court held that allowing defendants to ignore the non-compete would result in irreparable harm by harming the franchisor's goodwill, customer relationships, and relationships with other franchisees.”).

<sup>134</sup> *Steak n Shake Enters., Inc. v. Globex Co., LLC.*, 2013 U.S. Dist. LEXIS 125330, at \*41-42 (D. Colo. Sept. 3, 2013) (Finding that a TRO enjoining non-compete provision not warranted absent showing of irreparable harm. Harm was merely theoretical where there were no other franchised locations in the area and no evidence of any planned expansion into the area.).

<sup>135</sup> *Sylvan Learning Inc. v. Learning Solutions, Inc.*, 795 F. Supp. 2d 1284 (S.D. Ala. June 17, 2011); *Curves Int'l, Inc. v. Mosbarger*, 525 F. Supp. 2d 1310, 1314-15 (M.D. Ala. 2007); *Anago Franchising, Inc. v. CHMI, Inc.*, 2009 U.S. Dist. LEXIS 123352, at \*30 (S.D. Fla. Dec. 21, 2009) (“a showing of irreparable injury is the ‘*sine qua non* of injunctive relief”).

a result of Defendants' continued operation or that it had difficulty attracting new franchisees to the territory and the court refused to accept mere assertions that such harm would occur.<sup>136</sup> In addition, it may be challenging to enforce a non-compete at the preliminary injunction stage when trademark infringement concerns are neutralized or addressed by a separate injunction order.<sup>137</sup>

## **B. Practical Tips for Franchisors and Franchisees**

### **1. Know Your Jurisdiction**

While some courts may tend to “rubber stamp” franchisors’ request to enforce covenants not to compete, in addition to anticipating a jurisdiction’s heightened injunction standards, it is important to be familiar with any state statutes and even franchise relationship laws that may restrict the enforcement of non-compete covenants. From the franchisee’s perspective, covenants not to compete in franchise agreements unfairly punish the franchisee and prevents them from recouping losses by converting their assets and continuing to make a living by using their skills and training. Some states (such as South Dakota and California) recognize this in their statutes and require

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<sup>136</sup> *Sylvan Learning*, 795 F. Supp. 2d 1284.

<sup>137</sup> See *Anago Franchising*, 2009 U.S. Dist. LEXIS 123352, at \*41 (“[W]hile Anago claims the value of its master franchise agreements will be diminished and its business model threatened unless it can enforce the covenant not to compete in this case, ‘a denial of this preliminary injunction does not mean that [Anago] will be unable to enforce the covenant. It simply means that [Anago] must seek to enforce it at a later stage of the legal proceedings . . . [a] denial . . . will not encourage other franchisees that they can abandon their *franchise* agreements as they may be held liable for doing so.’”) (citations omitted); *Sylvan Learning*, 795 F. Supp. 2d at 1302 (“Because the granting of preliminary injunctive relief as to trademark infringement and as to the above-listed post-termination obligations will remove the demonstrated irreparable harm of Defendants’ breach of the non-compete covenant, the Court will not grant injunctive relief as to the non-compete covenant at this time.”).

a true showing of “irreparable harm” to the franchisor before the covenant will be enforced.<sup>138</sup>

## 2. Be Prepared to Provide Evidence of Harm

Franchisors that support claims of irreparable harm with proof of customer complaints, negative reviews, unsafe or unsanitary operations, customer confusion, or subsequent breaches of the covenant not to compete by other franchisees will fare much better than if they solely relied on conclusory allegations of loss of goodwill and damage to reputation. In addition, if the franchisor wants to establish damage to its ability to sell additional franchises or establish additional locations, be prepared to show the franchisor’s expansion plans, potential buyers, and that the franchisor is registered in the state and can sell franchises there.<sup>139</sup>

## 3. Do Not Delay In Seeking An Injunction to Enforce a Covenant Not to Compete

Excessive delays in seeking an injunction to enforce a covenant not to compete will undermine any argument of irreparable injury. While courts may excuse a month or

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<sup>138</sup> See Franchising: Realities and Remedies § 12.07; and see e.g., *Comedy Club*, 553 F.3d at 1281-93. (the Ninth Circuit court partially invalidated a covenant not to compete based on California Business and Professions Code § 16600); *Atlanta Bread Co. Int’l, Inc. v. Lupton-Smith*, 679 S.E.2d 722 (Ga. 2009) (striking down an in-term non-compete covenant based Georgia law at the time which did not allow the modification of overbroad non-compete covenants).

<sup>139</sup> See, e.g., *City Cycle IP*, 2012 U.S. Dist. LEXIS 121589, at \*13; *Tutor Time Learning Ctrs.*, 2012 U.S. Dist. LEXIS 162124, at \*13 (“Generally, when a party violates a [reasonable] non-compete clause, the resulting loss of client relationships and customer good will built up over the years constitutes irreparable harm.” *Singas Famous Pizza Brands*, 468 F. App’x at 43 (citation omitted) (alteration in original). But the Second Circuit “has rejected the proposition ‘that irreparable harm must inevitably be assumed in breach of covenant cases.’” *Id.* (citation omitted). Issuance of a preliminary injunction therefore “depends on the factual particulars in each case.”).

two delay because of a franchisor's need to conduct due diligence or even try to reach an out of court resolution, franchisors should be cautioned not to tarry long as time passes any likelihood of irreparable harm to the franchisor dissipates.<sup>140</sup>

4. Market Presence May Be Necessary to Show Imminent Loss of Goodwill

A franchise's market presence can be a shield or a sword (to the franchisor's detriment). In *City Cycle IP*, the franchisor was unable to show irreparable harm where it was new to the Minneapolis market and its single franchisee in the area had only been operating for one summer, and there was no evidence that it had the ability to sell franchises in the area or had any potential buyers.<sup>141</sup> On the other hand, 7-Eleven was penalized by the Massachusetts District Court precisely because of their market strength and competitive position in the market.<sup>142</sup> The court found that there was no danger that 7-Eleven, a worldwide company, would lose any goodwill in the community

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<sup>140</sup> See, e.g., *Novus Franchising*, 725 F.3d at 894 (Dawson argues the long delay between the time he stopped paying royalties and the time Novus finally sought injunctive relief—a period of seventeen months—rebutts any inference of irreparable harm Novus may have had under the particular facts of this case . . . we affirmed a district court's denial of a request for a preliminary injunction, focusing in large part on the plaintiff's delay of nine years in asserting that another company was using its registered product without permission. We also cited with approval the Second Circuit's decision in *Tough Traveler, Ltd. v. Outbound Products*, 60 F.3d 964 (2d Cir. 1995), where the court said delay alone may justify the denial of a preliminary injunction when the delay is unexplainable in light of a plaintiff's knowledge of the conduct of the defendant. *Id.* at 968 (citing *Citibank, N.A. v. Citytrust*, 756 F.2d 273, 276 (2d Cir. 1985) (concluding a delay of nine months after receiving notice of a defendant's conduct alleged to be causing irreparable harm justified denial of a preliminary injunction)) (citations omitted); see also *CHS, Inc. v. PetroNet, LLC*, 2010 U.S. Dist. LEXIS 121053, at \*3 (D. Minn. Nov. 15, 2010) ("It has long been recognized that delay in seeking relief 'vitiates much of the force of . . . allegations of irreparable harm.'") (citations omitted).

<sup>141</sup> *City Cycle IP*, 2012 U.S. Dist. LEXIS 121589, at \*12-13.

<sup>142</sup> *Grewal*, 60 F. Supp. 3d at 283.

from the franchisee's continued operation during the pending litigation especially where the former franchisee would cease using 7-Eleven's marks.<sup>143</sup> Further, the court found that it was not impractical to calculate 7-Eleven's damages.<sup>144</sup>

Thus, although it is important to be able to support market presence to establish irreparable harm from a former franchisee's continuing operations, franchisors should be careful to avoid the argument that their system is so robust that a preliminary injunction is not necessary. Alternatively, be prepared to demonstrate harm in other ways such as the former franchisee's unsafe operations, customer complaints, and misleading communications with the public. Even in jurisdictions that may be inclined to apply a presumption of harm because trademark infringement is also at issue, franchisees should challenge the presumption by demonstrating that the franchisor cannot even sell franchises in the state that is at issue and therefore has no legitimate protectible interest in enjoining a former franchisee from competing.

## 5. Other Considerations

### a. *Carefully Drafted Franchise Agreement Clauses Consenting to Irreparable Harm Can Be Helpful but Are Not Dispositive*

Franchisors should consider including clauses in their franchise agreements requiring franchisees to expressly acknowledge that breach of non-compete covenants will result in irreparable harm to franchisor. Although such clauses are common and are not dispositive of the issue, courts have given consideration to express

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<sup>143</sup> *Id.*

<sup>144</sup> *Id.*

acknowledgements by franchisees of irreparable harm contained in franchise agreements.<sup>145</sup>

b. *Consider Specific Performance as an Alternative to Injunctive Relief*

In certain jurisdictions, specific performance of a covenant not to compete may be a feasible alternative to an injunction. For example, in *Ledo Pizza Sys. v. Singh*, the franchisor successfully enforced its covenant not to compete and other post-termination obligations under the franchise agreement against its former franchisees without the court having to analyze whether it was likely to suffer irreparable harm under an injunction standard.<sup>146</sup> The Maryland district court found that the requests were explicitly detailed in the franchise agreement and a lack of clear measure of monetary damages and no adequate remedy at law made specific performance a suitable remedy.<sup>147</sup> However this may not be an ideal strategy for certain jurisdictions. In some states franchise agreements are deemed service contracts and courts may be wary of permitting specific performance of restrictive covenants in the franchise agreement.<sup>148</sup>

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<sup>145</sup> See, e.g., *Dunkin' Donuts Franchised Rests., LLC v. ABM Donuts, Inc.*, 2011 U.S. Dist. LEXIS 139074 (D.R.I. Oct. 4, 2011); and see *Fresh Del Monte Produce, Inc. v. Del Monte Foods Co.*, 933 F. Supp. 2d 655 (S.D.N.Y. 2013) (“There is no question, especially in light of [defendant’s] acknowledgement in the License Agreement itself that any breach would result irreparable harm . . . , that such injuries are difficult to measure and that [plaintiff] should not be expected to suffer them.”).

<sup>146</sup> 2014 Dist. LEXIS 104392, at \*33-34 (D. Md. July 31, 2014).

<sup>147</sup> *Id.*

<sup>148</sup> *Burger King Corp. v. Weaver*, 798 F. Supp. 684, 692 (S.D. Fla. 1992) (denying a franchisee’s request for specific performance because Florida does not recognize the remedy of specific performance for a franchise agreement).

#### IV. CONCLUSION

Despite the uncertainty following the *eBay* and *Winter* decisions, there are compelling reasons for finding irreparable injury in franchise cases (which by definition involve trademarks) without the burdensome requirement to establish individualized injury. The rationale behind the trademark presumption of irreparable injury is that once a likelihood of confusion is shown, the goodwill and reputation of the franchisor are at risk because confused consumers will likely mistakenly associate negative impressions of the infringing business to the franchise system and thereby threaten the franchise system's reputation.<sup>149</sup> Damage to reputation is by its nature "irreparable" in that compensation after the bell has already been rung will always be insufficient and in some cases futile. This ultimately distinguishes franchise cases involving trademarks to the areas of patent and copyright law.<sup>150</sup> Uncertainty in this area only front loads and increases the costs of litigation for franchisors and franchisees alike by requiring litigants to develop and build a compelling record refuting or supporting irreparable injury in a scarce amount of time in the context of preliminary injunctions. Although there are some opportunities presented for franchisees defending against injunctions, the increased cost and considerations in bringing an injunction against an infringing franchisee have the potential to weaken franchise systems where franchisors do not have the appetite and budget for litigation.

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<sup>149</sup> See 5 *McCarthy On Trademarks And Unfair Competition* § 30:2, n.25, § 30:47.70 (4th ed. 2001).

<sup>150</sup> See *id.*