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**The Enforcement of
Covenants Against Competition**

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TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. LEGITIMATE INTERESTS THAT SUPPORT ENFORCEMENT OF COVENANTS AGAINST COMPETITION.....	2
A. Method and Style of Doing Business and Training	3
B. Confidential and Proprietary Information and Trade Secrets.....	3
C. Franchisees' Interests and Goodwill	7
III. STATUTES ADDRESSING COVENANTS AGAINST COMPETITION APPLICABLE TO FRANCHISING.....	11
IV. LIMITATIONS RECOGNIZED AS REASONABLE FOR FRANCHISING	13
A. Nature of the Activity Restriction.....	13
B. Time Restriction	14
C. Geographic Restriction.....	14
D. Distinctions Between In-Term and Post-Term Covenants.....	15
V. THE LAW ON MODIFICATION, "BLUE PENCIL," OR REDUCTION OF SCOPE	17
VI. ENFORCEMENT OF COVENANTS NOT TO COMPETE AGAINST NON-SIGNATORIES	19
VII. NON-SOLICITATION AGREEMENTS	20
VIII. ENFORCEMENT MECHANISMS	21
A. Litigation v. Arbitration.....	22
1. Temporary Restraining Orders In Court	22
2. Injunctions in Court.....	23
3. Injunctions in Arbitration.....	23
B. Litigation Forum Issues	25
1. State v. Federal Court.....	25
2. Forum Selection Clauses.....	26
a. State Law Anti-Waiver Statutes and Their Effect on Forum Selection Clauses.....	26
b. Choice of Forum in Arbitration Agreements.....	27

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
3. Choice of Law	28
C. Equitable Extension of the Term of a Covenant Against Competition	28
IX. DAMAGES IN NONCOMPETE CASES	29
A. Interplay Between Damages and Injunctive Relief	29
B. Liquidated Damages	30
X. TAILORING ENFORCEABILITY OF COVENANTS AGAINST COMPETITION THROUGH DRAFTING.....	31
A. Do Not Over-reach	31
B. Severability and Savings Clauses	32
C. Articulate the Interest Being Protected	32
D. Include Bond Waivers.....	32
XI. PRACTICAL STRATEGIES FOR DEALING WITH COMPETITION ISSUES FROM THE FRANCHISOR AND FRANCHISEE PERSPECTIVES.....	33
A. Pick your first case carefully	33
B. Who is wearing the black hat?.....	33
C. What evidence is most persuasive in injunction proceedings?.....	33
A. Minimize the risk of provocation	34
B. Don't use the marks	34
C. Look for termination errors	34
XII. CONCLUSION.....	35

THE ENFORCEMENT OF COVENANTS AGAINST COMPETITION¹

I. INTRODUCTION

As with any business venture, franchise arrangements have the potential for breakdown and termination. When this happens, the franchisor finds itself faced with a number of significant problems. First, the franchisor has commonly allowed its name and trademarks and service marks to be associated with the franchisee. How can the franchisor prevent the franchisee from continuing to operate under its name and marks? It has likely trained the franchisee in its methods and processes and made the franchisee privy to its confidential business information and trade secrets. What can the franchisor do to prevent the franchisee from using this knowledge to compete with it? Finally, what of the customers and goodwill generated for the franchisee through its affiliation with the franchisor?

Non-compete agreements are one of the best means available to a franchisor to protect its interest in its trademarks, service marks, trade secrets, processes and other confidential business information.² Although money damages remain available to compensate a franchisor for the wrongful use of these assets by a former franchisee, establishing an appropriate amount of damages can be difficult.³ By preventing the franchisee from wrongfully using these assets in the first place, a franchisor can better-serve its long-term interests and preserve its goodwill, name recognition, the integrity of its trademarks and service marks, and its market share, while stopping competition from the franchisee made possible by the franchisor's own training and business methods.

Accordingly, most franchise agreements today contain some form of "non-competition clause," "covenant not to compete," "restrictive covenant," or some other form of agreement by the franchisee "not to compete with the franchise system it is entering, either during the term of the franchise agreement or for a period following termination of the agreement, or both."⁴ The enforcement of covenants against competition is principally a matter of state contract law and increasingly these provisions are regulated by state statutes. The *Restatement (Second) of Contracts*, a guide for many state courts and legislatures, provides: "1) A promise is unenforceable on grounds of public policy if it is unreasonably in restraint of trade. 2) A promise is in restraint of trade if its performance would limit competition in any business or restrict the promisor in the exercise of a gainful occupation."⁵ Under the *Restatement (Second) of Contracts*, a covenant not to compete that is ancillary to an otherwise valid transaction or relationship is valid and enforceable if the covenant is necessary to further the legitimate goals

¹ Mr. Gray is greatly indebted to Kate Nilan, a Summer Associate at Gray Plant Mooty, for her time, assistance and valuable contributions to these materials.

² See generally Robert W. Emerson, *Franchising Covenants Against Competition*, 80 IOWA L. REV. 1049 (1995).

³ See, e.g., *Corporate Management Advisors, Inc. v. Boghos*, 756 So.2d 246, 248 (Fla. Dist. Ct. App. 2000) (damages sustained by former employer, where former employee resigned company to work for competitor and had knowledge of confidential information and solicited former employer's customers, could not be readily calculated or compensated by money damages); *Miller Mechanical, Inc. v. Ruth*, 300 So.2d 11, 13 (Fla. 1974) (because damages for breach of non-compete agreement are so difficult to show, injunctive relief becomes a favored remedy).

⁴ COVENANTS AGAINST COMPETITION IN FRANCHISE AGREEMENTS xv (Peter J. Klarfeld ed., 2d ed. 2003).

⁵ RESTATEMENT (SECOND) OF CONTRACTS § 186 (1981).

of the contract and the covenant is "reasonable" as to the covered activities, time and geographic scope.⁶

Although the law governing the validity and enforceability of non-compete covenants in franchise agreements is characterized by its diversity among the states, most courts will hold a non-compete covenant to be valid and enforceable if it is: "(1) ancillary to an otherwise enforceable contract; (2) based on valuable consideration; (3) reasonable both as to time and territory in protecting the franchisor's interests; and (4) not against public policy."⁷ The test adopted by most courts and legislatures is very similar to the standard announced in the *Restatement (Second) of Contracts*. Because non-compete agreements in the franchise context are usually ancillary to the franchise agreement itself, the first and second prongs of the "enforceability test" are easily met. A determination of whether the third and fourth prongs of the test have been satisfied must begin with an examination of the legitimate interests that support enforcement of a covenant against competition in the franchise context.

II. LEGITIMATE INTERESTS THAT SUPPORT ENFORCEMENT OF COVENANTS AGAINST COMPETITION

Generally, covenants not to compete in the franchise context are formulated to protect the franchisor's legitimate business interests. Numerous courts have found that a franchisor's method and style of doing business, confidential and proprietary information, trade secrets, trade dress and intellectual property are legitimate business interests protectable by a covenant not to compete.⁸ In addition, courts have held that the franchisor's substantial relationships with existing customers and clients and associated goodwill are protectable legitimate business interests.⁹ Courts also have held that the franchisor's interest in protecting existing franchisees

⁶ *Id.* at § 188.

⁷ Ted P. Pearce et al., *The Enforcement of Post-Termination Remedies in the Franchise Contract*, 24 OKLA. CITY U.L. REV. 81, 92 (1999).

⁸ See, e.g., *Dunkin' Donuts, Inc. v. Sharif, Inc.*, 291 F. Supp. 2d 149 (D.N.M. 2003) (franchisor has a legitimate interest in prohibiting the former franchisee from using its trademark and proprietary information after the franchise agreement has expired); *Minuteman Press Int'l, Inc. v. ANBAM, L.L.C.*, Bus. Franchise Guide (CCH) ¶ 12,576 (E.D.N.Y. 2003) (franchisor has a legitimate interest in preventing the former franchisee from benefiting from the franchisor's proprietary information and in protecting the franchisor's customers from confusion regarding the provider of the goods and services); *ServiceMaster v. Westchester Cleaning Services*, Bus. Franchise Guide (CCH) ¶ 12,073 (S.D.N.Y. 2001) (court acknowledged that a franchisor has a legitimate interest in preventing its former franchisee from using its proprietary information regarding how to run the business to compete with the franchisor and from using the business contacts and relationships that the franchisee established during the course of its franchise); *DAR & Assocs., Inc. v. Uniforce Servcs., Inc.*, 37 F. Supp. 2d 192 (E.D.N.Y. 1999) (court held that under New York law, franchisor has a legitimate interest in protecting its name and operation plan, including management skills and training, goodwill and ability to re-franchise the same area); *Giampapa v. Carvel Corp.*, Bus. Franchise Guide (CCH) ¶ 11,442 (D.N.J. 1998) (court held that a franchisor has a legitimate interest in protecting its knowledge necessary to run a franchise which is valuable to franchisor and its competition); *Grease Monkey Int'l, Inc. v. Watkins*, 808 F. Supp. 111, 120 (D. Conn. 1992) (court held that franchisor may seek to "protect its trademark and business practices, and to seek to maintain or establish relations with its present and potential customers").

⁹ See, e.g., *BDK, Inc. v. Escape Enters., Inc.*, Bus. Franchise Guide (CCH) ¶ 12,888 (9th Cir. 2004) (unpublished opinion, no citation in the 9th circuit) (court held that a franchisor has a legitimate interest in protecting its goodwill and business); *American Express Financial Advisors, Inc. v. Yantis*, 358 F. Supp. 2d 818 (N.D. Iowa 2005) (court enforced a restrictive covenant preventing former franchisee from inducing franchisor's customers and employees to leave and follow franchisee to a new company - covenant was necessary to protect franchisor's goodwill); *ATL Int'l, Inc. v. Baradar*, Bus. Franchise Guide (CCH) ¶ 11,345 (D. Md. 1997) (court held that enforcement of franchisor's post-term covenant against competition was necessary because non-enforcement threatened franchisor's goodwill, would send a signal to other disgruntled franchisees, and could cause the destruction of the entire franchise system); *Rita's Water Ice Franchise Corp. v. DBI Inv. Corp.*, Bus. Franchise Guide (CCH) ¶ 10,918 (E.D. Pa. 1996) (protecting the value and goodwill built under franchisor's name is a legitimate business interest); *Domino's Pizza, Inc. v. El-Tan*,

and the franchisor's ability to sell new franchises are protectable legitimate business interests.¹⁰ An additional legitimate interest of a franchisor is the protection of the quality of the product the franchisor markets and sells.¹¹

A. Method and Style of Doing Business and Training

Practically all franchisors furnish some training to their franchisees. This training can be simple or highly technical depending upon the nature of the franchise business. To a certain extent, franchisees expect the franchisor's assistance. In fact, the promise of such aid from the franchisor is often a significant reason for the franchisee's decision to buy a franchise. The franchisee, in effect, purchases training, uniformity of approach, and knowledge based on experience.¹² In dispensing its "blueprint for a successful business" to franchisee trainees, the franchisor sells or rents its experience to the franchisees in the form of training.¹³

Without some assurance that franchisees will be unable to use the knowledge acquired from the franchisor to compete against it, a franchisor may be less likely to train franchisees adequately, resulting in a diminution of the system's overall quality.¹⁴ A franchisor that provides franchisees its knowledge of franchise operations should be able to rely upon the franchisee's reciprocal obligation not to compete.¹⁵

B. Confidential and Proprietary Information and Trade Secrets

Courts have recognized that the very existence of a franchise system is placed in jeopardy if a valid and enforceable non-competition agreement to prevent former franchisees

Inc., Bus. Franchise Guide (CCH) ¶ 10,676 (N.D. Okla. 1995) (franchisor has a legitimate interest in protecting its goodwill); Jiffy Lube Int'l v. Weiss Bros., 834 F. Supp. 683 (D.N.J. 1993) (court held that customer goodwill, equipment and product information, and the identity of vendors and relationships with vendors constitute legitimate franchisor interests warranting protection); Economou v. Physicians Weight Loss Centers of America, 756 F. Supp. 1024 (N.D. Ohio 1991) (franchisor has a legitimate interest in protecting its goodwill developed under a licensed mark and avoidance of customer confusion and the potential damage that may result to franchisor's trade name and reputation); Boulanger v. Dunkin' Donuts Inc., 815 N.E.2d 572 (Mass. 2004) ("Legitimate interests include protection of trade secrets, confidential information, and good will").

¹⁰ See, e.g., Petland, Inc. v. Hendrix, Bus. Franchise Guide ¶ 12, 904 (S.D. Ohio 2004) (franchisor has an interest in protecting the economic viability of its franchisees, in replacing former franchisees with new franchisees in the territory, and in customer goodwill); Furniture Medic, L.P. v. Jantzen, Bus. Franchise Guide (CCH) ¶ 12,749 (D. Ariz. 2003) (in interpreting Tennessee law, the court noted that franchisor had trained former franchisee and franchisee had obtained franchisor's goodwill; therefore, the franchisor would suffer irreparable harm to franchisor's interest in protecting its relationship with other franchisees and its ability to obtain new franchisees in the area); Gafnea v. Pasquale Food Co., 454 So. 2d 1366 (Ala. 1984) (court recognized franchisor's interest in protecting existing franchisees, and its ability to sell new franchises); Armstrong v. Taco Time Int'l, Inc., 635 P.2d 1114 (Wash. App. 1981) (court held that franchisor has a legitimate interest in protecting its ability to sell franchise rights and in protecting its existing franchisees from unfair competition); Piercing Pagoda, Inc. v. Hoffner, 351 A.2d 207 (Pa. 1976) ("existing franchise is a legitimate business interest and is therefore protectable" and a franchisor has a legitimate interest in protecting its ability to obtain more franchisees).

¹¹ Specialty Bakeries, Inc. v. City Bagels, Inc., Bus. Franchise Guide (CCH) ¶ 10,648 (E.D. Pa. 1995).

¹² Gillian K. Hadfield, *Problematic Relations: Franchising and the Law of Incomplete Contracts*, 42 STAN. L. REV. 927, 943 (1990).

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

from using the franchisor's trade secrets and proprietary information does not exist.¹⁶ Non-competition agreements are designed to protect the franchise system by preventing former franchisees from creating similar businesses within the same geographic area and making use of the skills and contacts acquired from the franchisor to emerge as a new competitor.

In *Boulangier v. Dunkin' Donuts Inc.*, 815 N.E.2d 572 (Mass. 2004), as part of the franchise agreements with the franchisor, a former franchisee had signed covenants not to compete which restricted him from owning or working for a competing business within five miles of any Dunkin' Donuts franchise for two years after the expiration or termination of the agreements. After the former franchisee sold his Dunkin' Donuts franchises but before the term of his covenant not to compete had expired, the former franchisee desired either to work for or purchase a franchise from a competing donut franchise system. The former franchisee brought an action against Dunkin' Donuts for damages and a declaration that the covenant not to compete violated Massachusetts law. The Massachusetts Supreme Court first held that "a covenant not to compete is enforceable only if it is necessary to protect a legitimate business interest, reasonably limited in time and space, and consonant with the public interest."¹⁷ In performing its analysis of whether a legitimate business interest existed, the *Boulangier* court began by stating that "legitimate business interests include protection of trade secrets, confidential information, and goodwill."¹⁸ Specifically, the Massachusetts Supreme Court noted:

Here, the defendant [franchisor] had an interest in protecting confidential information. The judge found that the defendant's confidential information included operating manuals and similar information contained in videotapes, CD-ROMs, and websites; recipes for coffee and baked goods; financial information and data; marketing and promotion strategy; new product development; and the location of sites for new stores and building plans. The judge also found that district meetings were held several times a year, often involving the dissemination of confidential information such as financial data and profitability of particular stores, new product development, and marketing and promotion strategies. As discussed, the judge found that the plaintiff signed numerous documents acknowledging the confidential nature of the information he received.¹⁹

The *Boulangier* court concluded that the former franchisee possessed a substantial amount of the franchisor's information that is confidential and proprietary. After finding the non-competition agreement reasonable as to limits on time and space, the court enforced the covenant not to compete. The Massachusetts Supreme Court supported its reasoning by also noting that

¹⁶ *ATL Int'l, Inc. v. Baradar*, Bus. Franchise Guide (CCH) ¶ 11,345 (D. Md. 1997) (court held that enforcement of franchisor's post-term covenant against competition was necessary because non-enforcement threatened the franchisor's goodwill, would send a signal to other disgruntled franchisees, and could cause the destruction of the entire franchise system).

¹⁷ *Boulangier*, 815 N.E.2d at 576-577.

¹⁸ *Id.* at 578.

¹⁹ *Id.*; see also *Gold Messenger, Inc. v. McGuay*, 937 P.2d 907 (Colo. Ct. App. 1997) (court held that franchisor's Operations and Procedures Manual contained trade secrets where the manual was copyrighted by franchisor, franchisor took substantial steps to maintain the confidentiality of the manual, and franchise agreement expressly stated that the information in the manual was confidential).

"working for a competitor of the defendant makes it likely that the information the plaintiff possesses will be used, yet it might be impossible to detect or prove."²⁰

Because the use of trade secrets and proprietary information is often cited by franchisors as the major justification for the enforcement of non-competition agreements, many franchisee advocates contend that the enforcement of such covenants is unjustified when there is an adequate prohibition against the use of the franchisor's trade secrets and proprietary information. In *NuMarkets, LLC v. Boyd*, No. 1:04-cv-356, 2004 U.S. Dist. LEXIS 27697 (E.D. Tenn. Dec. 10, 2004), a franchisor of "on-line consignment selling" businesses moved for a temporary restraining order and preliminary injunction to enjoin its former franchisee's operation of a competing business pursuant to the covenant against competition contained in the franchise agreement.²¹ Prior to the hearing on the franchisor's motion to enforce its covenant not to compete, the parties agreed that the franchisee would be preliminarily enjoined "(i) from using or disclosing the plaintiff's confidential and proprietary information, trade secrets, marks and intellectual property; and (ii) permitting plaintiff immediate access to a service center in Calhoun, Georgia, for the purpose of reconciling and fulfilling pending orders."²² The parties' agreement was embodied in an agreed order entered by the court.

The *NuMarkets* court began its analysis of the "reasonableness" of the covenant not to compete by noting:

NuMarkets' primary concerns are protecting its software, its trade secrets, and trade names. This has already been accomplished by the agreed order which has heretofore been entered by this Court. The defendants have deidentified themselves from NuMarkets and have acquired new software. Defendants are now merely operating an eBay(R) consignment business as are several other hundred businesses across the United States. If the defendants obey the

²⁰ *Id.* at 579. The Massachusetts Supreme Court's additional rationale is based upon the "inevitable disclosure doctrine." The premise of the doctrine is that a former employee or franchisee with knowledge of trade secret information, even with the best of intentions, will inevitably disclose or use such information when working as or for a competitor in a substantially related business. See *generally* *Marcam Corp. v. Orchard*, 885 F. Supp. 294, 297 (D. Mass. 1995) (former employee will inevitably draw on special knowledge acquired during employment even if former employee made "scrupulous efforts" to avoid disclosing confidential information). The logical underpinnings of the doctrine in practice are relatively simple. In the franchise context, the franchisee works along side the franchisor, learning its operating techniques and internal policies and procedures. It becomes skilled in the operation of the franchise system and develops significant and specific business acumen at the hand of the franchisor. The franchisee then moves into a similar line (or more likely, the same line) of business. The former franchisee opens a business that directly or indirectly competes with the franchisor. The products or services provided are substantially the same as with those of the franchised business. Although the franchisee may, in good faith, attempt to avoid using or disclosing the secrets and techniques learned while affiliated with the franchisor, the similarities in the business line make this impossible. The knowledge, once learned, cannot be unlearned. Whether consciously or subconsciously, the information known by the franchisee will be put into practice, either with the specific aim of undercutting the franchisor or simply because the franchisee, during the course of the franchise relationship, may have become accustomed to and familiar with certain methods of doing business – methods taught by the franchisor – and is comfortable using them. The franchisee may simply not know what else to do, and relies on the previously acquired knowledge to stay afloat. Inevitably, the information taught by the franchisor will be used against it, and the franchisor will suffer loss. This doctrine has also been used in the absence of a non-compete agreement. See *generally* *PepsiCo., Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

²¹ Under the terms of the covenant against competition, the former franchisee was barred from operating a competing business within a radius of 20 miles from the city limits of Calhoun, Georgia, for a period of two (2) years after the termination of the Franchise and Development Agreements.

²² *NuMarkets*, 2004 U.S. Dist. LEXIS 27697, at *1 – *2.

strictures of the agreed order, they are in the same position as any other eBay(R) consignment business.²³

The court in *NuMarkets* recognized that the franchisor's proprietary information and intellectual property are legitimate business interests that merit protection. Nevertheless, the court noted that the parties' agreed order and the actions of the franchisee had eliminated the franchisor's primary concern of protecting its trade secrets and trade names. The *NuMarkets* court denied the franchisor's motion for a temporary restraining order and a preliminary injunction to enjoin the former franchisee from competing after considering the following four factors: (1) the consideration supporting the agreement; (2) the threatened danger to NuMarkets in the absence of such an agreement; (3) the economic hardship imposed on the defendants; and (4) whether or not enforcement of the agreement would be inimical to the public interest.²⁴

In denying the franchisor's motion seeking the enforcement of its non-competition agreement, the *NuMarkets* court rejected the following franchisor arguments: (1) if the geographical and time restrictions are not enforced, the franchisor will suffer loss of reputation, goodwill and consumer confusion; (2) without enforcement, the franchisor will have difficulty in franchising another selling center; and (3) the franchisor would be harmed if other franchisees learn that they can "break-away" and compete against NuMarkets "with impunity."²⁵ Recognizing the danger that its ruling created for NuMarkets' franchise system, the court limited its ruling to the facts of the case by stating: "This Court is not saying that NuMarkets' time and geographical restrictions may never be enforced; only that in this particular case and on this particular record, NuMarkets has not demonstrated a compelling need for those restrictions."²⁶ The *NuMarkets* court reached its limited decision denying the enforcement of a covenant against competition primarily because the protection of the franchisor's trade secrets and proprietary information had already been accomplished.

Although there is substantial case law supporting protection of trade secrets, nationally, courts are split over whether customer lists should be protected as comprising a "trade secret."²⁷

²³ *Id.* at *8 - *9.

²⁴ *Id.* at *7.

²⁵ *Id.* at *9 - *12.

²⁶ *Id.* at *11 - *12. The former franchisee was in business under the franchise agreement for about three months and provided unsatisfactory service to customers. Additionally, there was testimony from a NuMarkets' franchisee that testified that "so long as she had exclusive use of the NuMarkets software and marketing system, she would not be hurt by competition from another eBay(R) seller, even if that seller opened up shop across the street." *NuMarkets*, 2004 U.S. Dist. LEXIS 27697 at *10. Based on the factual record, the court found that there was no legitimate concern that the former franchisee would take customers away from a NuMarkets franchisee or cause the franchisor to lose customers that were developed during the very short time the defendants were operating under the franchise agreement.

²⁷ Some courts have granted trade secret protection to customer lists. See *General Business Services Inc v. Rouse*, 495 F. Supp. 526 (E.D. Pa. 1980) (customers lists treated as trade secret); *Town and Country House and Home Service, Inc. v. Evans* 189 A.2d 390 (Conn. 1963) (enjoining use of plaintiff's customer information by former sales manager when understanding existed between him and the plaintiff that, if employed, he would keep secret any trade and business secrets and information of the plaintiff that might come to him, especially as to its customers). Other courts have not granted such protection. See *Reidman Agency, Inc v. Musnicki*, 435 N.Y.S.2d 837 (N.Y. A.D. 1981) (names of insurance customers were not trade secrets and insurance business was not unique; therefore, upon return by insurance salesman of production report containing customers names and policy information of salesman's former employer, former employer was not entitled to injunction prohibiting salesman from future solicitation of customers); *Go Van Consolidators, Inc. v. Piggy Back Shippers, Inc.*, 306 A.2d 164 (R.I. 1973) (customer list was not trade secret where former employer made no effort to protect its secrecy); *Mittenzwei v. Industrial Waste Service*,

To assess the merit of protection, courts scrutinize the manner in which customer lists are created and maintained.²⁸ Common factors courts consider in making this determination include the expenditure of time and money, the level of secrecy involved, and the difficulty in acquiring the information.²⁹

In *American Express Financial Advisors, Inc. v. Yantis*, 358 F. Supp. 2d 818 (N.D. Iowa 2005), a franchisor of financial advising businesses brought an action against a former franchisee to enforce restrictive covenants in the franchise agreement as well as a claim for misappropriation of trade secrets. The franchisor, American Express Financial Advisors ("AEFA") sought to protect, among other things, its current and prospective client names, addresses, and financial data, and know-how concerning methods of operation, client lists, and other financial information.³⁰ The *Yantis* court found that AEFA would likely be able to establish that its client lists and customer information falls with the legal definition of the term "trade secret."³¹ Specifically, the court found that the franchisor is (1) likely to succeed in showing that the information derives economic value from not being generally known; and (2) the franchisor makes a significant effort to guard the secrecy of the information.³² After determining that AEFA's client lists and client information constituted trade secrets, the court concluded that franchisor AEFA had "shown a likelihood of success on the merits of its claim that Yantis [the franchisee] has acted in violation of the Trade Secrets Act."³³ The court held that the restrictive covenants protected legitimate interests and were enforceable.³⁴

C. Franchisees' Interests and Goodwill

Similar to rulings that a franchisor has a legitimate interest in protecting its existing franchisees, courts have found that franchisees have a legitimate interest in receiving protection from competition. In *Casey's General Stores v. Campbell Oil Co.*, 441 N.W.2d 758, (Iowa 1989), the court noted:

Inc., 618 So.2d 328 (Fla. Dist. Ct. App. 1993) (in the absence of a non-compete clause, former employee was free to contact anyone with whom she had established a relationship while employed by former employer).

²⁸ See *Republic Systems & Programming, Inc v. Computer Assistance, Inc.*, 322 F. Supp. 619 (D. Conn. 1970) (to merit protection afforded for trade secrets, a customer list must consist of customers whose trade and patronage have been secured by years of business efforts and advertising and expenditure of time and money; substantial element of secrecy must exist to extent that there would be difficulty in acquiring information except by use of improper means).

²⁹ See *id.*; see also *Clifford McFarland Read & Lundy, Inc. v. Michael Brier & Co., Inc.*, 1998 R.I. Super. LEXIS 68 at *12 (R.I. May 13, 1998) (citing *Salsbury Laboratories, Inc. v. Merieux Laboratories Inc.*, 908 F.2d 706, 713 (11th Cir. 1990)) (owner of a trade secret must take reasonable precaution to protect its secrecy).

³⁰ The restrictive covenants at issue in the *Yantis* case fall into two categories: 1) non-solicitation and non-piracy agreement governing relationships with customers and employees and 2) confidentiality and non-disclosure agreement governing the treatment of trade secrets and confidential information.

³¹ *Id.* at 831-832.

³² *Id.*

³³ *Id.* at 833. The court also noted in *Yantis* that the franchisee would "inevitably disclose or use" the information he acquired "through improper means – through breach of his duties under his Franchise Agreement to keep this information secret." *Id.*

³⁴ See *H & R Block Tax Services, Inc. v. Peshel*, Bus. Franchise Guide (CCH) ¶ 13,023 (D. Minn. 2005) (upholding a non-solicitation agreement prohibiting franchisor from contacting former clients); see also *infra* Part VII (further discussing the relationship between noncompete agreements and nonsolicitation agreements).

Noncompetition agreements between a franchisor and a franchisee are designed not only to protect the interests of the immediate parties but also to protect other franchisees against competitive activities. Thus, to the extent that such noncompetition agreements are exacted from all franchisees, each franchisee is thereby protected from competition from other franchisees. As a consequence of this reciprocal protection, Campbell Oil, in exchange for the provision restricting it from competing with other Casey's franchisees, benefits from the protection barring those franchisees from competing against it.³⁵

Recognizing that franchisees are mutual beneficiaries of other franchisees' covenants not to compete, the court in *Casey's General Stores* did not limit its injunctive relief to preventing competition within the territory in which the defendant franchisee operated, but rather provided noncompetition protection for all of the stores in the franchised system.³⁶ Nevertheless, courts have generally rejected the contention that the current franchisees of a franchise system are "intended third-party beneficiaries" with enforceable rights under a former franchisee's franchise agreement with the franchisor unless the restrictive covenant expressly identified the franchisees as third party-beneficiaries of the contract and expressly stated that the restrictive covenant was intended for the benefit of the franchisees.³⁷

Both franchisors and franchisees often contend that they have a protectable interest in customer goodwill. Customer "goodwill" is a concept that is not easily defined.³⁸ One court described "goodwill" as:

[t]hose intangible advantages of incidents which are impersonal and attached to the thing conveyed, the favor which the management of the business had won from the public and the probability the old customers would continue their patronage in the future. Goodwill is based upon the prospective profits to result from voluntarily continued patronage of the public. It indicates that value which inheres in the fixed and favorable consideration of customers arising from an established and well-conducted business.³⁹

³⁵ *Id.* at 761.

³⁶ *Id.*

³⁷ One Florida court construed the original version of Florida's non-compete statute as it relates to third party beneficiaries in the context of franchising. In *Manpower, Inc. of Milwaukee v. Olsten Permanent Agency*, 309 So.2d 57 (Fla. Dist. Ct. App. 1975), a franchisor of a temporary help services business along with two of its franchisees brought an action against a former employee of one of the franchisor's subsidiaries. The court held that the franchisee plaintiffs, who could be considered as third party beneficiaries under traditional contract law, could not avail themselves of section 542.12 of the Florida Statutes to enforce the covenant not to compete. *Id.* at 58-59.

Florida Statute § 542.335, which is applicable to non-competes entered into after July 1, 1996, provides that a restrictive covenant or non-compete agreement may be enforced by a third-party beneficiary of the agreement, but only as follows:

- (1) In the case of a third-party beneficiary, the restrictive covenant expressly identified the person as a third-party beneficiary of the contract and expressly stated that the restrictive covenant was intended for the benefit of such person.

FLA. STAT. § 542.335(1) (f) (2001). This provision mandates that where a third-party beneficiary is known at the time of contracting, the restrictive covenant must indicate that it was intended for the benefit of that specifically identified person to be enforced by them.

³⁸ See *Boggs v Couturier*, 321 N.W. 2d. 794 (Mich. Ct. App. 1982).

³⁹ *Id.* at 796-797 (quoting *Colton v. Duvall*, 237 N.W. 48, 49 (Mich. 1931)).

In *O.V. Marketing Associates, Inc. v. Carter*, 766 F. Supp. 960, 966 (D. Kan. 1991), the court noted that "[g]ood will is an asset or value arising from the likelihood that customers will continue to deal with an established concern or business." The *Carter* court considered the issue of whether a sporting goods franchisor, under Nebraska law, was entitled to enforcement of its covenant against competition when its former franchisee breached the franchise agreement by terminating the agreement and opening up a similar business under a different name. The covenant against competition contained in the franchise agreement provided that upon termination of the agreement the former franchisee would be barred from engaging in a business enterprise of selling athletic goods or shoes for a period of three years within 50 miles of any store of the franchisor. To make its determination, the *Carter* court considered the following three factors under Nebraska law: (1) is the restriction reasonable in the sense that it is not injurious to the public; (2) is the restriction reasonable in the sense that it is no greater than is reasonably necessary to protect the franchisor's legitimate interests; and (3) is the restriction reasonable in the sense that it is not unduly harsh and oppressive on the former franchisee.⁴⁰

After noting that courts have recognized that certain interests attendant to a franchise, such as goodwill and trade secrets, are protectable by restrictive covenants, the *Carter* court found that the franchisor of "Olympia Village" sporting goods stores failed to demonstrate that the former franchisee's operation of a new and similar business constituted unfair competition adversely affecting the franchisor's interests.⁴¹ Specifically, the *Carter* court noted that the franchisor did not show how "its supervision or involvement as a franchisor of the Salina store generated any good will which Carter [the former franchisee] exploited when he moved to a new mall, opened a new store under a different name, changed some operations and clothing lines, and focused his efforts on team sales."⁴² The court also noted that the O.V. franchise did not entail the marketing or sales of particular goods or services designated by the brand name or trademark of Olympia Village.⁴³ In *Carter*, the court noted that the former franchisee had developed his own goodwill for his new business without the use of any trade secrets of the franchisor.⁴⁴ Specifically, the *Carter* court noted:

Carter [the former franchisee] has worked at developing a customer list through his own marketing techniques. His knowledge of the retail market, in particular the various accounting methods, advertising plans and merchandising techniques, appears to be more attributable to his experience and training gained before he became franchisee of O.V. and later from his own general experience in running a sporting goods store.⁴⁵

The *Carter* court held that the restrictive covenant against competition was unenforceable because enforcement would have placed a burden on the former franchisee that outweighed

⁴⁰ See *Carter*, 766 F. Supp. at 965-966.

⁴¹ See *id.* at 966-967.

⁴² *Id.* The court noted that the former franchisee had purchased the Salina store with poor and declining sales. In addition, the court found that it was significant that the franchisor had not provided a customer list or any instruction or training unique to running the Salina store. *Id.*

⁴³ See *id.* at 967. The *Carter* court classified the O.V. franchise as simply a retail sporting goods store chain whose trade name and trademark had no significant recognition in the area of the former franchisee. *Id.*

⁴⁴ The court found that the franchisor's asserted trade secrets were either not being used by the franchisee or not worthy of strict protection because they were within the general knowledge of retailers. *Carter*, 766 F. Supp. at 966.

⁴⁵ *Id.*

any present business interest of the franchisor, in that the franchisor did not show that it had generated goodwill for the franchisee and franchisor's asserted trade secrets were either not being used by the former franchisee or not worthy of strict protection.⁴⁶ Accordingly, the *Carter* court recognized that a former franchisee, which does not use any of the intellectual property or trade secrets of its former franchisor, has the ability to quickly develop "its own" goodwill for a similar new business operating under a different name.⁴⁷ The *Carter* court reached its limited decision denying the enforcement of a covenant against competition primarily because the franchisor of Olympia Village sporting goods stores, under the facts of *Carter* case, had no goodwill, trade secrets or legitimate business interests protectable by a covenant not to compete.

Another argument proposed in favor of an ex-franchisee's ownership of goodwill relates to advertising. In a franchised system, the creation of goodwill through advertising is sometimes not financed by the franchisor. Often advertising in franchise systems is financed primarily through the franchisees' mandatory contributions to the franchise system's advertising cooperative.⁴⁸ Many franchise agreements require the franchisee to make continual advertising expenditures, usually into funds that the franchisor controls or strongly influences.⁴⁹ Often, franchisees must spend a substantial amount on advertisements before they have even opened their businesses.⁵⁰ These facts create an argument that having used the franchisees' funds to help create the system's goodwill; franchisors should not be permitted to prevent former franchisees from using the resulting customer contacts, at least in a limited fashion.⁵¹ Former franchisees expended time, effort and their own funds specifically to establish this goodwill and deserve judicial recognition of their efforts in appropriate cases.

Although franchisee created goodwill and franchisee funded advertising are strong arguments in favor of a former franchisee's ownership of goodwill, the franchisor should be able to rely upon the franchisee's reciprocal promise of non-competition simply because the franchisor granted to the franchisee, in the first instance, the use of its knowledge, ideas and other intellectual property. In fact, courts have noted that the "goodwill" associated with a franchise is simply a reflection of the valuable property right a franchisor has in its trademark or service mark.⁵² In *McCart v. H & R Block*, the court reasoned that the franchisor granted its franchisee the right to benefit from the name recognition and patronage associated with the franchisor's marks in order to draw customers to the franchisee's location.⁵³ The *McCart* court noted that "at the time she [the franchisee] entered the contract with Block [the franchisor], both

⁴⁶ *Id.* In *Carter*, the court also found the fact that the franchisor at the time of the action had no franchisees and was not actively seeking any franchisees to be significant. *Id.* at 966.

⁴⁷ *Id.* at 966-967; see also *Proimos v. Automotive Repair, Inc.*, 808 F.2d 1273, 1277 (7th Cir. 1987)(affirming the denial of a preliminary injunction enforcing clause in franchise agreement forbidding competition, after franchisees had repudiated their contracts and continued business under changed names, based on findings that franchisor would not suffer irreparable injury from delay while injunction would greatly injure franchisees by reducing to zero the value of their new trade names and business goodwill).

⁴⁸ See Robert W. Emerson, *Franchise Contract Clause and the Franchisor's Duty of Care Towards its Franchisees*, 72 N.C. L. REV. 905, 968 (1994).

⁴⁹ See *id.*

⁵⁰ See *id.*

⁵¹ See *id.*

⁵² See *McCart v. H & R Block*, 470 N.E.2d 756, 763-764 (Ind. Ct. App. 1984).

⁵³ See *id.*

parties understood that the bargain for use of the Block service mark was a bargain for customers who would be attracted to the Block name.⁵⁴ Accordingly, the *McCart* court held that the franchisee could not claim that the franchisor had no protectable interest in those customers the franchisee gained while offering services under the franchisor's name.⁵⁵ Contrary to franchisees' claims for a stake in the goodwill associated with franchise systems, many courts hold that the concept of customers' goodwill in the franchise context is goodwill for the franchisor's mark, not for specific franchise locations.⁵⁶

In *Jiffy Lube International, Inc. v. Weiss Brothers, Inc.*, 834 F. Supp. 683, 691 (D.N.J. 1993), the court noted: "One can view a franchise agreement, in part, as a conveyance of the franchisor's good will to the franchisee for the length of the franchise. When the franchise terminates, the good will is, metaphysically, reconveyed to the franchisor. A restrictive covenant, reasonably crafted, is necessary to protect the good will after that reconveyance." Consonant with the view point expressed in *Weiss*, many courts view goodwill as the reflection of a valuable property right of the franchisor that the franchisor conveys, license or rents to the franchisee for the limited term of the franchise agreement.⁵⁷

III. STATUTES ADDRESSING COVENANTS AGAINST COMPETITION APPLICABLE TO FRANCHISING

Several states have adopted specific franchising statutes that govern the enforcement of covenants against competition in franchise agreements: Illinois,⁵⁸ Indiana,⁵⁹ Iowa,⁶⁰ Louisiana,⁶¹

⁵⁴ *Id.* at 764.

⁵⁵ *Id.*; see also *Rita's Water Ice Franchise Corp. v. DBI Inv. Corp.*, Bus. Franchise Guide (CCH) ¶ 10,918 (E.D. Pa. 1996) (protecting the value and goodwill built under franchisor's name is a legitimate business interest); *Domino's Pizza, Inc. v. El-Tan, Inc.*, Bus. Franchise Guide (CCH) ¶ 10,676 (N.D. Okla. 1995) (franchisor has a legitimate interest in protecting its goodwill); *Jiffy Lube Int'l v. Weiss Bros.*, 834 F. Supp. 683 (D.N.J. 1993) (court held that customer goodwill, equipment and product information, and the identity of vendors and relationships with vendors constitute legitimate franchisor interests warranting protection); *Economou v. Physicians Weight Loss Centers of America*, 756 F. Supp. 1024 (N.D. Ohio 1991) (franchisor has a legitimate interest in protecting its goodwill developed under a licensed mark and avoidance of customer confusion and the potential damage that may result to franchisor's trade name and reputation)

⁵⁶ See *id.* at 763-764; see also *Pappan Enterprises v. Hardee's Food Systems*, 143 F.3d 800, 806 (3rd Cir. 1998) (holding "concept of customers' goodwill in the context of trademark law is goodwill for the mark, not for the specific restaurant).

⁵⁷ See *McCart v. H & R Block*, 470 N.E.2d 756, 763-764 (Ind. Ct. App. 1984).

⁵⁸ The Illinois Franchise Disclosure Act of 1987, 815 ILL. COMP. STAT. ANN. 705/20 (West 2005).

⁵⁹ The Indiana Deceptive Franchise Practices Act, IND. CODE ANN. § 23-2-2.7-1 *et seq.* (West 2003), provides that it is unlawful for any franchise agreement to contain a provision requiring a franchisee to covenant not to compete with the franchisor for a period longer than three years or in an area greater than the exclusive area granted by the franchise agreement or, in the absence of such a provision, an area of reasonable size, upon termination of or the failure to renew the franchise.

⁶⁰ Iowa has two franchising statutes, one that is applicable before July 1, 2000 and one that is applicable thereafter. Iowa Franchise Act, IOWA CODE ANN. § 523H.1 *et seq.* (West 2004), enacted in 1992, applies to a "new or existing franchise that is operated in the state of Iowa." The court held that application of certain portions of the Act to franchise agreements entered into before the enactment date impaired franchisor's contractual rights. *McDonald's Corp. v. Nelson*, 822 F. Supp. 597 (S.D. Iowa 1993). Therefore, for most purposes, the Act is applicable to franchise agreements entered into between July 1, 1992 and July 1, 2000. The second Iowa statute, IOWA STAT. ANN. § 537A.10 (West 2004), governs all franchise agreements entered into on or after July 1, 2000.

⁶¹ LA. REV. STAT. ANN. § 23:921 (West 2004).

Michigan,⁶² Minnesota,⁶³ and North Dakota.⁶⁴ Other states have general covenant not to compete statutes that are applicable to franchising: Alabama,⁶⁵ California,⁶⁶ Colorado,⁶⁷ Florida,⁶⁸ Hawaii,⁶⁹ Michigan,⁷⁰ Montana,⁷¹ New York,⁷² North Dakota,⁷³ South Dakota,⁷⁴ and

⁶² The Michigan Franchise Investment Law (MFIL), MICH. COMP. LAWS ANN. § 445.1501 *et seq.* (West 2005), and the regulations adopted under it, do not directly address the enforceability of covenants against competition in the franchising context. However, section 27(d) of MFIL which prohibits a refusal to renew a franchise agreement without fair compensation only applies if the term of the franchise is less than five years and the franchisee is prohibited from continuing to conduct the same business in the same area subsequent to the expiration of the franchise, or the franchisee does not receive sufficient advance notice of the refusal to renew.

⁶³ Minnesota Franchise Act, MINN. STAT. ANN. §§ 80C.01-.30 (West 2005). Under the Act, A franchisor's public offering statement must set forth "the conditions of any covenant not to compete." MINN. R. 2860.3500, subp. 8 (N) (2004). It is unfair under the Minnesota Franchise Act to "enforce any unreasonable covenant not to compete after the franchise ceases to exist." MINN. R. 2860.4400 (I) (2004). This regulation is linked to a provision in the Minnesota Franchise Act, MINN. STAT. ANN. § 80C.14 (West 2005), which prohibits unfair practices.

⁶⁴ North Dakota's Franchise Investment Law, N.D. CENT. CODE § 51-19-06 (22) (2001), provides that a franchisor's application for registration in the state must include a "statement explaining the terms and effects of any covenant not to compete that is or will be included in the franchise or other agreement to be executed by the franchisee." N.D. CENT. CODE § 51-19-06 (22) (2001).

⁶⁵ Ala. Code § 8-1-1 deals generally with restraint of trade and has been applied to franchising context. ALA. CODE § 8-1-1 (2003).

⁶⁶ California Business and Professions sections 16600 *et seq.*, invalidate all covenants not to compete except those exempted by the statute. CAL. BUS. & PROF. CODE § 16600 (West 2005). This section applies to franchise agreements. *Scott v. Snelling & Snelling, Inc.*, 732 F. Supp. 1034, 1040-41 (N.D. Cal. 1990); *see also La Fortune v. Ebie*, 26 Cal. App. 3d 72 (1972); *Dayton Time Lock Serv., Inc. v. Silent Watchman Corp.*, 124 Cal. Rptr. 678 (Cal. Ct. App. 1975); *Great Harvest Franchising v. McKinley*, Bus. Franchise Guide (CCH) ¶ 11,260 (C.D. Cal. 1997). Narrow restraint exception allows noncompete agreements to be enforced where those agreements are limited to a small or limited part of a trade or business. *Boughton v. Socony Mobil Oil Co.*, 41 Cal. Rptr. 714 (Cal. Ct. App. 1964).

⁶⁷ Colorado Revised Statute § 8-2-113 voids all covenants that limit future employment with some exceptions. In the franchise context, the sale of an existing franchise falls under the sale of business exception. COLO. REV. STAT. ANN. § 8-2-113 (West 2004); *DBA Enters., Inc. v. Findlay*, 923 P.2d 298 (Colo. Ct. App. 1996). The initiation of a franchise relationship does not fall under the sale of business exception. Nevertheless, the court held in *Gold v. Messenger, Inc. v. McGuay*, 937 P.2d 901 (Colo. Ct. App. 1997), that the covenant was still valid under the protection of trade secrets exception.

⁶⁸ Under Florida law, covenants not to compete entered into before June 28, 1990, are subject to the old version of Florida Statute § 542.33 (before 1980 designated § 542.12); non-compete agreements entered into on or after June 28, 1990, but before July 1, 1996, are subject to the current version of section 542.33; and agreements entered into on or after July 1, 1996, are subject to the current section 542.335. Because of the potential for disputes between franchisors and franchisees based on franchise agreements entered into long ago, franchisors and franchisees doing business in Florida have to be familiar with all of Florida's statutory schemes and the differences among them.

⁶⁹ Hawaii's Revised Statute § 480-4 discusses prohibitions on restraints of trade. HAW. REV. STAT. ANN. § 480-4 (Michie 2004).

⁷⁰ Before March 29, 1985, covenants against competition in Michigan were governed by MCLA § 445.761 which provided: "All agreements and contracts in which any person, co-partnership, or corporation promises or agrees not to engage in any avocation, employment, pursuit, trade, profession, or business, whether reasonable or unreasonable, partial or general, limited or unlimited are hereby declared to be against public policy." Under this statute, the court voided covenants against competition in franchise agreements. *See Little Professor Book Centers, Inc. v. Oak Park Little Professor Book Center, Inc.*, Trade Cas. (CCH) ¶ 74,201 (Fla. Oakland County Ct. 1972). The statute was repealed but is still applicable to contracts signed before March 29, 1985.

⁷¹ Mont. Code Ann. § 28-2-703 *et seq.* regulates covenants not to compete by disallowing contracts that restrain trade. MONT. CODE ANN. § 28-2-703 (West 2003). However, the statute provides an exception for the sale of goodwill which allows the buyer and seller to agree that the seller will refrain from engaging in a competing business as long as the buyer carries on a like business within the certain areas MONT. CODE ANN. § 28-2-704 (West 2003). Under the statute, the seller may be prohibited from competition in: (1) the city where the principal office of the business is located, (2) the county where the principal office is located, (3) a city in any county adjacent to the county where the

Texas.⁷⁵ An extensive state by state discussion of statutes or regulations addressing covenants against competition in the franchise context can be found in *Covenants Against Competition in Franchise Agreements*.⁷⁶

IV. LIMITATIONS RECOGNIZED AS REASONABLE FOR FRANCHISING

Judicial challenges to covenants not to compete often focus on the elusive concept of "reasonableness," which depends on the nature of the franchisor's protectable interests and the circumstances surrounding each case. As noted earlier, a covenant against competition in the franchise context is "reasonable" if it is designed to protect legitimate interests of the franchisor and its restrictions as to activity, time and geographic scope are reasonable.

A. Nature of the Activity Restriction

A covenant not to compete must be reasonable in terms of its subject matter or activity restriction. In assessing the reasonableness of an activity restriction, courts generally have held that a covenant against competition which restricts a franchisee's activities beyond what is actually necessary to protect a franchisor's legitimate interests is unreasonable.⁷⁷ Generally, reasonable activity restrictions in franchising prohibit a former franchisee's participation in any business identical with, similar to, or competitive with the franchised system.⁷⁸ Such "similar activity" restrictions are by nature limited to activities which will put the franchisor or replacement franchisee at a competitive disadvantage because of the former franchisee's usurpation of

principal business is located, (4) a county adjacent to any county where the principal business is located, or (5) any combination of the above.

⁷² The only New York statutory provision affecting covenants against competition is the Donnelly Act, article 22 of N.Y. Gen. Bus. § 340 (l), N.Y. GEN. BUS. LAW § 340 (l), art. 22 (1999). The Donnelly Act does not prohibit covenants against competition in the franchise context. See *Carvel Corp. v. Eisenberg*, 629 F. Supp. 182 (S.D.N.Y. 1988).

⁷³ Section 9-08-06 of the N.D. Cent. Code.

⁷⁴ South Dakota Codified Laws § 53-9-8 states that "[e]very contract restraining the exercise of a lawful profession, trade or business is void to that extent, except as provided by §§ 53-9-9 to 53-9-11." S.D. CODIFIED LAWS § 53-9-8 (Michie 2004).

⁷⁵ The Texas Business and Commerce Code address the enforceability of covenants against competition. § 15.50 sets out the criteria for enforceability of covenants not to compete and § 15.51 establishes the procedures and remedies in actions to enforce covenants not to compete. TEX. BUS. & COM. CODE ANN. §§15.50-51 (Vernon 2001).

⁷⁶ COVENANTS AGAINST COMPETITION, *supra* note 3.

⁷⁷ See, e.g., *BJM & Associates, Inc. v. Norrell Services, Inc.*, 855 F. Supp. 1481 (E.D. Ky. 1994) (under Georgia law, a limitation on competition "in any capacity" was overbroad and unreasonable); *Hobbs v. Pool*, 1987 Ark. App. LEXIS 2111 (Ark. Ct. App. Mar. 18, 1987) (agreement prohibiting franchisee from "catfish preparation" was too broad because it prohibited more than the operation of a restaurant, such as raising or distributing catfish).

⁷⁸ See, e.g., *Allegra Network, L.L.C. v. AM Marketing, Inc.*, Bus. Franchise Guide (CCH) ¶ 12,136 (E.D. Mich. 2001) (court upheld a covenant in a printing and copy service business franchise agreement that prohibited the operation of a printing or copy business offering products or services similar to those offered by the franchisor); *Giampapa v. Carvel Corp.*, Bus. Franchise Guide (CCH) ¶ 11,442 (D.N.J. 1998) (court enforced a covenant prohibiting a former franchisee in the ice cream business from operating a competing ice cream business); *Domino's Pizza, Inc. v. El-Tan, Inc.*, 1995 WL 367893 (N.D. Okla. 1995) (court upheld a covenant prohibiting the former franchisee from directly or indirectly participating in any other carry-out or delivery pizza store); *Meineke Disc. Muffler Shops, Inc. v. Smith*, Bus. Franchise Guide (CCH) ¶ 9930 (N.D. Ill. 1991) (court upheld a covenant against competition restricting a former franchisee from engaging in any business the same as, similar to, or competitive with any Meineke franchise for a period of one year within twenty miles from the shop operated by the former franchisee); *Deutschland Enterprises Ltd. v. Burger King Corp.*, Bus. Franchise Guide (CCH) ¶ 9609 (E.D. Wis. 1990) (enforcing requirement to have no interest in "any restaurant business which is the same [as] or similar to Burger King Restaurants"), *aff'd*, 957 F. 2d 449 (7th Cir. 1992).

goodwill or use of the franchisor's trade secrets. Activity restrictions that try to achieve more than preventing former franchisees from negatively impacting the legitimate interests of franchisors are overbroad, over-reaching and unenforceable. When activity restrictions are properly limited or narrowed to "similar activity", former franchisees can be properly prohibited from competing directly, indirectly, whether as an owner, stockholder, partner, officer, director, principal, employee, agent or consultant with the franchisor or its other franchisees.⁷⁹

B. Time Restriction

Courts often look beyond the time period referenced in post-term non-competition agreements in an effort to determine how much time actually is needed for a franchisor to avoid injury from post-termination competition. In order to insure that the franchisor avoids injury, the court must, among other things, allow sufficient time for the dissipation of the value of confidential information possessed by the franchisee and for the publicly perceived association of the franchisee with the franchisor to end. Based on an analysis of case specific circumstances and protectable legitimate interests, courts have found various time periods reasonable in the franchise context, ranging from a few months to three years.⁸⁰ Courts often enforce the covenant not to compete for the prescribed duration measured from the date the franchisor is able to obtain enforcement, not the date of termination of the franchise agreement.⁸¹ The circumstances surrounding a particular case may result in a court enforcing a covenant not to compete for a longer duration.

C. Geographic Restriction

As in the case of activity restrictions or time provisions for a covenant not to compete, courts perform an analysis of the reasonableness of the geographic scope of the non-competition covenant. Generally, courts will enforce post-termination restrictions that are based upon the location of the franchised business. Such restrictions use the franchise location as the center point of a circle for purposes of drawing a restricted competition area within a radius of the franchisee's unit. The radii found to be "reasonable and enforceable" are generally rough

⁷⁹ See, e.g., *Furniture Medic, L.P. v. Jantzen*, Bus. Franchise Guide (CCH) ¶ 12,749 (D. Ariz. 2003) (under Tennessee law, restriction from engaging in, working for, consulting, or maintaining an interest in the furniture repair business within the franchise store's county is reasonable); *Amerispec*, Bus. Franchise Guide (CCH) ¶ 12,130 (court upheld a covenant not to compete that prohibited the franchisee from "directly or indirectly operating, owning, being employed by, or consulting with, any business that conducts residential building inspections, or providing business inspection services").

⁸⁰ See, e.g., *Jackson Hewitt Inc. v. Madan*, Bus. Franchise Guide (CCH) ¶ 12,697 (3d Cir. 2003) (court held that a covenant not to compete within 10 miles of the franchise territory for 24 months after the termination of the franchise agreement was reasonable); *Petland, Inc. v. Hendrix*, Bus. Franchise Guide ¶ 12, 904 (S.D. Ohio 2004) (court held that a two-year covenant not to compete within 15 miles of the franchise territory was reasonable); *H&R Block Eastern Tax Servs., Inc. v. Vorpahl*, Bus. Franchise Guide (CCH) ¶ 12,534 (E.D. Wis. 2003) (court held that a covenant which prohibited the former franchisee from operating a competing business within 45 mile of former franchise territory for a period of one year following termination was reasonable); *Grease Monkey Int'l, Inc. v. Watkins*, 808 F. Supp. 111 (D. Conn. 1992) (court upheld a covenant not to compete that prohibited a former franchisee from engaging in the fast service auto lubrication business for two years within a 50-mile radius of the former franchise location); *Meineke Discount Muffler Shops, Inc. v. Smith*, Bus. Franchise Guide (CCH) ¶ 9930 (N.D. Ill. 1991) (court upheld a covenant against competition restricting a former franchisee from engaging in any business the same as, similar to, or competitive with any Meineke franchise for a period of one year within twenty miles from the shop operated by the former franchisee); *Snelling & Snelling, Inc. v. Dupay Enters., Inc.*, 609 P.2d 1062 (Ariz. Ct. App. 1980) (three year restriction held reasonable).

⁸¹ See *infra* Part VII for full discussion of courts' equitable extension of covenants against competition.

equivalents to the franchisees' market area or exclusive territory.⁸² Courts are split on the enforceability of post-term covenants that are based on the location of the units of other franchisees or the franchisor.⁸³ The courts choosing to enforce non-competition agreements based on locations other than the former franchise have generally reasoned that such covenants are necessary for the protection of the franchise system and its system-wide confidential and proprietary information. Additionally, these courts recognize a franchisor's legitimate interest in preventing competition against other franchisees or franchised owned outlets outside of the former franchisee's territory. As discussed further below, several states using the above rationale have allowed geographically unlimited in-term covenants not to compete.⁸⁴

D. Distinctions Between In-Term and Post-Term Covenants

Although many courts interpreting covenants not to compete in the franchise context began with the approaches used in analyzing non-competes in employment contracts and contracts for the sale of businesses, courts now recognize that there are protectable legitimate interests unique to franchising.⁸⁵

In fact, franchise relationships, and their ancillary covenants not to compete, are utterly incomparable to either employment or the sale of a business. Some key

⁸² See, e.g., *BDK, Inc. v. Escape Enters., Inc.*, Bus. Franchise Guide (CCH) ¶ 12,888 (9th Cir. 2004) (unpublished opinion) (court held a geographic restriction from competition within a three-mile radius of any franchise restaurant to be reasonable); *Jackson Hewitt Inc. v. Madan*, Bus. Franchise Guide (CCH) ¶ 12,697 (3d Cir. 2003) (court held that a covenant not to compete within 10 miles of the franchise territory for 24 months after the termination of the franchise agreement was reasonable); *Pelland*, Bus. Franchise Guide (CCH) at 12, 904 (court held that a two-year covenant not to compete within 15 miles of the franchise territory was reasonable); *Vorpahl*, Bus. Franchise Guide (CCH) ¶ 12,534 (court held that a covenant which prohibited the former franchisee from operating a competing business within 45 mile of former franchise territory for a period of one year following termination was reasonable); *Amerispec v. Metro Inspection Services*, Bus. Franchise Guide (CCH) ¶ 12,130 (N.D. Tex. July 3, 2001) (court upheld a covenant not to compete within the franchise territory and within a 10 mile radius of the franchise territory); *Allegra Network, L.L.C. v. AM Marketing, Inc.*, Bus. Franchise Guide (CCH) ¶ 12,136 (E.D. Mich. 2001) (court upheld a covenant against competition within a 10-mile radius of the former franchise and a 5-mile radius from any other franchisor-related business); *Snelling & Snelling, Inc. v. Reynolds*, 140 F. Supp. 2d 1314 (M.D. Fla. 2001) (although the court ultimately viewed the covenant under Pennsylvania law, the court stated that a 10 mile restriction meets Florida's presumption of reasonableness).

⁸³ *Compare Dunkin' Donuts Inc. v. Shivem, Inc.*, Bus. Franchise Guide (CCH) ¶ 10,681 (D.N.J. 1995) (court upheld a two-year restrictive covenant that prohibited the former franchisee from owning, operating or having any interest in any donut shop within a 5-mile radius of its former franchises or any of the franchisor's other outlets); *In re KBAR, Inc.*, 96 B.R. 158 (Bankr. C.D. Ill. 1988) (bankruptcy court enforced a covenant restricting competition within three miles of its former location or within a 1.5-mile radius of any other Hardee's restaurant); *with Amerispec*, Bus. Franchise Guide (CCH) ¶ 12,130 (court upheld a covenant not to compete within the franchise territory and within a 10 mile radius of the franchise territory; court refused to grant an injunction with respect to the geographic restriction from competition within a 10-mile radius of any other franchisee); *Southbend Consumers Club, Inc. v. United Consumers Club, Inc.*, 572 F. Supp. 209 (N.D. Ind. 1983) (court refused to enforce a restrictive provision which prohibited the former franchisee from competing within a twenty-five-mile radius of any of the franchisor's stores when the franchisor maintained franchises in fifteen states; court held that the geographic restraint must be limited to the area where the former franchisee operated).

⁸⁴ See, e.g., *Deutschland Enterprises Ltd. v. Burger King Corp.*, 957 F.2d 449 (7th Cir. 1992) (court enforced a geographically unlimited in-term covenant); *Casey's Gen. Stores, Inc. v. Campbell Oil Co.*, 441 N.W.2d 758 (Iowa 1989) (Iowa Supreme Court enforced an in-term covenant in a franchise agreement to prohibit competition by a convenience store franchisee within three miles of the site of any other franchise); *McDonald's Sys., Inc. v. Sandy's Inc.*, 195 N.E.2d 22, 31 (1963) (court held that an in-term covenant not to compete in the franchise agreement should be enforced irrespective of its geographic scope).

⁸⁵ COVENANTS AGAINST COMPETITION, *supra* note 3, at xvi.

differences are: 1. The franchise agreement contemplates the association of the franchisee with the franchised system's goodwill, while such an association tends to be, at most, an incidental effect of the employment relationship. 2. Essential trademarks or service marks, as well as the use of trade secrets, are much more likely to be entrusted to franchisees than to employees. 3. Unlike most employees, franchisees may lose their substantial capital investments upon termination. 4. The competitive activities that an ex-franchisee undertakes often directly affect the economic interests of present franchisees; an ex-employee's former coworkers usually have fewer such concerns arising from the ex-employee's post-termination competition. 5. Franchises involve long-term contracts in which the franchisor retains considerable control over the franchisee's operations. However, the ordinary sale of a business presents a "clean break," with the seller departing the scene and the buyer taking over the business completely. 6. Unlike sellers of a business, franchisees typically are not compensated for the value of their business when the franchise relationship is terminated.⁸⁶

The key differences between the franchise context and the realm of employment agreements as well as sale of business contracts all factor into the determination of whether a "restraint" or "non-compete" is reasonable.

In his introduction to the Second Edition of *Covenants Against Competition in Franchise Agreements*, Peter Klarfeld notes:

Franchising also presents issues which, if not peculiar to franchising, remain undeveloped in other contexts. For example, enforcement of covenants against competition applicable during, rather than following, the term of the franchise agreement is an issue of significant concern to franchisors. While employees are agents of their employers and ordinarily owe a common-law duty not to compete while the employment lasts, the rules are less clear with respect to franchisees who are independent contractors.⁸⁷

Some states recognize a difference between "in-term" and "post-term" covenants not to compete in the franchise context. Illinois courts have long recognized a distinction between in-term and post-term covenants not to compete.⁸⁸ In *McDonald's Systems, Inc. v. Sandy's Inc.*, 195 N.E.2d 22 (Ill. App. Ct. 1963), the court pointed out that "as long as [franchisees] seek to avail themselves of the beneficial provisions of their franchise contract, they should not be permitted to disregard or refuse to abide by the several obligations they assumed."⁸⁹ Accordingly, the *McDonald's Systems* court held that an in-term covenant not to compete in the franchise agreement should be enforced irrespective of its geographic scope.⁹⁰ The court noted

⁸⁶ Emerson, *supra* note 1, at 1051-1052.

⁸⁷ COVENANTS AGAINST COMPETITION, *supra* note 3, at xvii.

⁸⁸ *Vendo Co. v. Stoner*, 245 N.E.2d 263, 274-75 (Ill. App. Ct. 1969).

⁸⁹ *Id.* at 31.

⁹⁰ *Id.*; see also *Vendo Co.*, 245 N.E.2d at 273 ("the territory covered by a covenant against competition, otherwise unreasonably broad, will not invalidate the covenant to the extent that it exists during the terms of the employment, lease, franchise agreement, etc.")

that "the extent of the territorial restriction is a factor which affects the validity of a post-term covenant only."⁹¹

Similarly, courts in Wisconsin also recognize a distinction between in-term and post-term covenants not to compete. In *Deutschland Enterprises, Ltd. v. Burger King Corp.*, 957 F.2d 449 (7th Cir. 1992), fast-food franchisees violated Burger King's in-term covenant not to compete (its "same or similar" clause of the franchise agreement) by owning and operating several competing restaurants that were apart of the Hardee's franchise system. Burger King's in-term covenant not to compete covered the entire United States. The franchisees advanced the argument that the in-term covenant not to compete was unreasonable under Wisconsin law because it did not cover a reasonable territory. In considering the franchisees' contention, the court noted that "Wisconsin courts would seemingly allow greater restrictions during the term of a contract than after the contract has terminated."⁹² The court in *Deutschland Enterprises* found that "it is 'essential and reasonable' under the [Wisconsin Fair Dealership Law] for a fast food chain to prohibit franchisees from operating its restaurants and those of its competitors."⁹³ Reasoning that franchisees "have advance notice of the franchisor's marketing strategies, and access to its operating methods and policies", the court enforced the nationwide in-term covenant not to compete against the Wisconsin Burger King franchisees that also had become Hardee's franchisees in Michigan.⁹⁴

Although some states recognize distinctions between in-term and post-term covenants against competition, other states have decided to treat and analyze the two types of covenants in the same manner. With respect to covenants not to compete governed by Florida Statute Section 542.335 "enforcement of contracts that restrict or prohibit competition during or after the term of the restrictive covenants, so long as such contracts are reasonable in time, area, and line of business, is not prohibited."⁹⁵ Thus, it appears that Florida law analyzes in-term covenants governed by section 542.335 under the same tests as post-term covenants.

V. THE LAW ON MODIFICATION, "BLUE PENCIL," OR REDUCTION OF SCOPE

If the scope or duration of a noncompete agreement is overly broad, unreasonable, or over-reaching, courts are often willing to modify the covenant before enforcing it against the franchisee. The methodology of modification varies from state to state, with a handful of states simply refusing to modify any covenant that has any unreasonable terms and instead refusing to enforce it.

The most prevalent form of modification is known as "blue penciling," where the court will strike an unreasonable clause from a covenant, so long as the covenant remains intact grammatically, and is enforceable without the stricken clause.⁹⁶ Courts that implement this form of the "blue pencil" rule will only eliminate grammatically severable provisions.⁹⁷ In these states,

⁹¹ *Id.*

⁹² *Id.* at 452-453.

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ FLA. STAT. ANN. § 542.335(1) (West 2005)

⁹⁶ *H & R Block Tax Services, Inc. v. Circle A Enterprises*, 693 N.W.2d 548, 553 (Neb. 2005); *Valley Medical Specialists v. Farber*, 982 P.2d 1277 (Ar. 1999).

⁹⁷ *Id.* Although not in the franchise context, the case gives a clear explanation of how "blue penciling" differs from a more expansive approach to modification. The court reverses the court of appeals "rewrite" of a covenant, stating

it is important to draft a noncompete clause so that any quantifiable restrictions, such as time, distance, and scope, are easily severable from other clauses. The most common form of "blue penciling" is a reduction in the geographic area covered by the covenant or a reduction of the duration of the covenant.⁹⁸ Beyond those slight modifications in specific and quantifiable terms, the strict "blue pencil" jurisdictions will not rewrite unreasonable noncompete agreements to make them enforceable.⁹⁹

A more expansive "blue pencil" rule is used by some courts. In these jurisdictions, an unreasonable noncompete provision is reconstructed to create an enforceable agreement, without taking into account severability issues.¹⁰⁰ Courts that have adopted "blue penciling" to include any modification of an entire covenant are more likely to reconstruct noncompete agreements so as to protect the franchisor, even where the terms of the initial agreement were too broad.¹⁰¹

Some courts have rejected the "blue pencil" rule entirely and simply refuse to modify covenants against competition to make them enforceable. With a perspective that it's not the court's function to rewrite the parties agreement, these courts "must either enforce [the contract] as written or not enforce it at all."¹⁰² They will only enforce a covenant that is reasonable in its entirety as agreed to by the parties. They view a court's willingness to modify as an invitation to drafters of covenants to over-reach, knowing that the courts will modify the clause if there is litigation and make it enforceable to the greatest extent possible. In one case where the covenant included a clause addressing severability of unreasonable clauses, the Arkansas court held that even with a severability clause, the covenant was unenforceable.¹⁰³ Franchisees in these "all or nothing" states could find success in defeating an enforcement action by focusing on any unreasonableness in the terms of the noncompete clause. If a court found that any term was unreasonable, the whole clause would be stricken.

However, there is some evidence indicating that these "all or nothing" states are more lenient when determining whether a covenant against competition is reasonable. In *Rent-a-Center, Inc. v. Canyon Television*, 944 F.2d 597 (9th Cir. 1991), the court upheld a covenant by following the guidelines of Kansas law, where a "covenant is ordinarily valid unless it is to refrain

"[w]here severability of the agreement is not evident from the contract itself, the court cannot create a new agreement for the parties to uphold the contract." *Id.* at 1286.

⁹⁸ *South Bend Consumers Club v. United Consumers Club*, 572 F. Supp. 209 (N.D. Ind. 1983)

⁹⁹ See, e.g., *Jiffy Lube International v. Weiss Bros., Inc.*, 834 F. Supp. 683, 691 (D.N.J. 1993); *AEE-EMF v. Passmore*, 906 S.W.2d 714 (Mo. App. 1995).

¹⁰⁰ See, e.g., *R. E. Herrington, Inc. v. Frick*, 428 S.W.2d 945 (Mo. App. 1968) (recognizing that an unreasonable restriction against competition in a contract may be modified and enforced to the extent that it is reasonable, regardless of the covenant's form of wording).

¹⁰¹ See *Jiffy Lube*, 834 F. Supp. at 691 (defining the "blue pencil rule" as a process "to insure that [a covenant] is reasonably tailored to meet the [New Jersey] test of reasonableness"); *New Eden v. Bio Earth, Inc.*, Bus. Franchise Guide (CCH) ¶ 11,944 (N.D. Okla. 2000) ("The Court has the power to modify the scope and duration of the noncompete agreement at issue and enforce it to the extent reasonably necessary to protect [defendant's] legitimate business interests.")

¹⁰² *H & R Block Tax Services, Inc. v. Circle A Enterprises*, 693 N.W.2d 548, 553 (Neb. 2005) (Nebraska); see also *Allen v. Hub Cap Heaven, Inc.*, 484 S.E.2d 259, 265 (Ga. App. 1997) (Georgia); *Labor Finders International, Inc. v. Dove Enterprise, Inc.*, Bus. Fran. Guide (CCH) ¶ 11,723 (D.S.C. 1999) (South Carolina); *Federated Mutual Insurance Co. v. Bennett*, 818 S.W.2d 596 (Ark. App. 1991) (Arkansas); *Streiff v. American Family Mutual Insurance Co.*, 348 N.W.2d 505 (Wis. 1984) (Wisconsin); *H & Block, Inc. v. Lovelace*, 493 P.2d 205 (1972) (Kansas).

¹⁰³ *Federated Mutual*, 348 N.W.2d at 599.

from all business whatsoever."¹⁰⁴ Nebraska law embraces an equally broad approach, allowing latitude for noncompete agreements, while not allowing courts to modify any unreasonable terms.¹⁰⁵

Finally, some states have enacted specific statutes giving courts the authority to revise any "unreasonable" provisions in a covenant against competition. These statutes provide remedies similar to the common law in many other states: some allow for modification only where the clause is severable,¹⁰⁶ and others allow for the creation of a reasonable covenant.¹⁰⁷ Some of these statutes take the decision whether to modify out of the hands of the court, and mandate that the court make necessary modifications.¹⁰⁸

VI. ENFORCEMENT OF COVENANTS NOT TO COMPETE AGAINST NON-SIGNATORIES

Franchisor attempts to enforce covenants against competition are not always limited to parties that have signed the franchise agreement. In many instances, a spouse, manager, sibling or family member may be involved in competing activities after termination of the franchise relationship. The cases demonstrate that a non-signatory may be bound by a covenant against competition where he or she has a close relationship to the former franchisee and is involved in a competing business.¹⁰⁹ There are numerous examples of courts enjoining non-signatories when it appears that these third parties are engaging in competitive activity in which the franchisee party could not engage directly. Spouses are the most prevalent examples of enjoined parties,¹¹⁰ but courts have also enjoined life-partners,¹¹¹ children,¹¹² parents,¹¹³ entities,¹¹⁴ and business associates.¹¹⁵

¹⁰⁴ *Id.* at 600 (citing *Lovelace*, 493 P.2d at 211).

¹⁰⁵ *Circle A Enterprises*, 693 N.W.2d at 551.

¹⁰⁶ See MICH. STAT. ANN. § 445.786 § 16 (West 2005) (severability); OKLA. STAT. ANN. 15 § 219(B) (West 1993) (separating provisions of a contract); see also *supra* Part III (listing all statutory regulation of covenants against competition).

¹⁰⁷ See TEXAS BUS. & COMM. CODE § 15.51(c) (2001) (court can modify limitations to make them reasonable).

¹⁰⁸ See FLA. STAT. § 542.335(1)(c) (1996) ("If a contractually specified restraint is overbroad, overlong, or otherwise not reasonably necessary to protect the legitimate business interest or interests, a court shall modify the restraint and grant only the relief reasonably necessary to protect such interest or interests").

¹⁰⁹ *Gold Messenger, Inc. v. McGuay*, 937 P.2d 907 (Colo. App. 1997).

¹¹⁰ See, e.g., *Norlund v. Faust*, 675 N.E.2d 1142 (Ind. App. 1997); *Kasco Servs. Corp. v. Benson*, 831 P.2d 86 (Utah 1992); *McCart v. H & R Block, Inc.*, 470 N.E.2d 756 (Ind. App. 1984); *Chemical Fireproofing Corp. v. Bronska*, 542 S.W.2d 74 (Mo. App. 1976); *Dad's Properties, Inc. v. Lucas*, 545 So.2d 926 (Fla. Ct. App. 1989); *Suburban Oil Service, Inc. v. Parker*, 63 Pa. D. & C.2d 91 (Pa. Luzerne Ct. 1973); *ServiceMaster v. Proctor*, Bus. Franchise Guide (CCH) ¶ 12,251-12,252 (D. Neb. 2001).

¹¹¹ *Gold Messenger*, 937 P.2d at 908.

¹¹² *Madison v. La Sene*, 268 P.2d 1006 (Wash. 1954).

¹¹³ *West Shore Restaurant Corp. v. Turk*, 101 So. 2d 123 (Fla. 1958) (covenantor's father, who had formerly worked with covenantor in the restaurant business, purchased a competing restaurant and relied on covenantor to play a dominant role in purchasing supplies).

¹¹⁴ *Las Vegas Novelty, Inc. v. Fernandez*, 787 P.2d 772 (Nev. 1990); *Schuks 25, Inc. v. Bettendorf*, 595 S.W.2d 297 (Mo. Ct. App. 1990) (court rejected covenantor's attempt to evade covenant by acting through a corporate defendant to operate competing grocery stores).

¹¹⁵ *Day Companies v. Patat*, 440 F.2d 1343 (5th Cir. 1971).

A contractual relationship between the franchisor and the non-signatory is not essential to enjoin a third party in a noncompete dispute. What is required is that the non-signatory have knowledge of the covenant with the franchisor and use the former franchisee's knowledge or skill to run a competing business.¹¹⁶ After reviewing numerous cases addressing the enforcement against non-signatories, the court in *McCart v. H & R Block, Inc.*, 470 N.E.2d 756, 762 (Ind. App. 1984), found that enforcement "does not rest upon the existence or nonexistence of a contractual relationship." The husband and non-signatory wife's "cooperative conduct amounted to mere subterfuge designed to avoid [former franchisee's] obligation under the contract."¹¹⁷ The *McCart* court enjoined the wife and prohibited both the husband and wife from setting up a competing tax service.¹¹⁸ Other courts have considered the extent to which the non-signatory was "acting in concert" with the covenantor,¹¹⁹ the magnitude and result of that assistance,¹²⁰ and the closeness of the relationship between the non-signatory and former franchisee in determining whether to enforce the covenant against a third party.

Courts have recognized that allowing third parties close to the covenantor to engage in competitive businesses also frustrates the franchisor's ability to protect the training and skill provided to the former franchisee during the franchise relationship.¹²¹ As stated in *Las Vegas Novelty, Inc. v. Fernandez*, 787 P.2d 772 (Nev. 1990), courts that enforce noncompete provisions against non-signatories "correctly reason that allowing a third party knowingly to aid and abet violations of a covenant not to compete entirely emasculates the covenant."¹²² When courts enjoin a non-signatory, it is most often where the relationship between the non-signatory and the former franchisee is so close that it would be impossible for the non-signatory to run a competing business without the knowledge or assistance of the former franchisee. Most of the case law on this issue deals with overt cases of competition engaged in indirectly through the non-signatory. Query how courts would rule if the relationship was more attenuated, or the new business were only partially competitive. For example, it would be difficult to enforce a noncompete agreement against a bona-fide purchaser of the assets of the former franchisee if the former franchisee had no continuing interest in the new business.

VII. NON-SOLICITATION AGREEMENTS

Many franchise agreements also contain post-termination nonsolicitation agreements prohibiting former franchisees from soliciting the customers they served in their franchisee capacity.¹²³ Most often, these agreements bar a former franchisee from having any contact with customers they served while operating under the franchisor's name.¹²⁴ In states that allow

¹¹⁶ *McCart*, 470 N.E.2d at 762.

¹¹⁷ *Id.*

¹¹⁸ *Id.*; see also *Proctor*, Bus. Franchise Guide (CCH) ¶ 12,251-12,252.

¹¹⁹ *Las Vegas*, 787 P.2d at 774.

¹²⁰ *Gold Messenger*, 937 P.2d at 908-909.

¹²¹ See *Suburban Oil Service*, 63 Pa. D. & C. at 92-93; *Servicemaster v. Westchester Cleaning Services*, Bus. Franchise Guide (CCH) ¶ 12,073 (S.D.N.Y. 2001) (stating that the real harm to franchisors is franchisee's "ability to trade on the knowledge and customer relationships gained as a [] franchisee").

¹²² *Id.* at 774.

¹²³ *H & R Block Tax Services, Inc. v. Peshel*, Bus. Franchise Guide (CCH) ¶ 13,023 (D. Minn. 2005); *DAR & Associates, Inc., et al. v. Uniforce Services, Inc.*, 37 F. Supp. 2d 192 (E.D.N.Y. 1999).

¹²⁴ *H & R Block Tax Services, Inc. v. Circle A Enterprises, Inc.*, 693 N.W.2d 548 (Neb. 2005); *In re Printronics, Inc.*, 189 B.R. 995, 1002 (N.D. Fla. 1995) (applying Texas law).

covenants against competition, the enforceability of such clauses is usually dependant on the court's general analysis of the reasonableness of the covenant against competition.¹²⁵ Where the duration and scope of the covenant is enforceable, or the duration has been revised to create an enforceable covenant, the nonsolicitation agreement is treated the same as a general noncompete clause.

Due to the proprietary nature of customer lists and contact information, even states that prohibit noncompete agreements have upheld some post-termination nonsolicitation clauses.¹²⁶ In California, for example, the court reasoned that an action to enforce a nonsolicitation clause in a franchise agreement could be more akin to a misappropriation of trade secrets claim and therefore would not violate the California statute prohibiting restraint of trade.¹²⁷ The franchisor must still prove unfair competition, or the elements of a trade secret claim, which can be difficult in situations where the franchisee obtained the customer information outside of the franchisor's resources.¹²⁸ Courts in North and South Dakota have analyzed whether the solicitation of former customers involves trade secret information,¹²⁹ but the law is still unclear as to the extent this information is confidential.¹³⁰

Nonsolicitation agreements can also be more difficult to enforce where the franchisee had relationships with customers prior to becoming a franchisee.¹³¹ It may be helpful in those situations for the franchisor to carve out an exception to the nonsolicitation agreement for customers with a pre-existing relationship with the franchisee. Likewise, a franchisee that brings an existing business into a franchise relationship should bargain for an exception to the noncompete and nonsolicitation clause to the extent that any goodwill with those customers pre-dates the franchise agreement.

VIII. ENFORCEMENT MECHANISMS

When it comes time to enforce a covenant against competition, the franchisor must determine where the action should be brought and what relief should be requested. To some extent, these decisions will be governed by the specific language of the franchise agreement

¹²⁵ *Circle A Enterprises*, 693 N.W.2d at 421-422.

¹²⁶ See, e.g., *Scott v. Snelling*, 732 F. Supp. 1034 (N.D. Cal. 1990); *State Farm Mutual Automobile Insurance Co. v. Dempster*, 344 P.2d 821 (Cal. App. 1959); *Warner & Co. v. Solberg*, 634 N.W.2d 65 (N.D. 2001); *1st American Systems, Inc. v. Rezatto*, 311 N.W.2d 51 (S.D. 1981).

¹²⁷ *Scott*, 732 F. Supp. at 1043. *Scott* notes that "if a former employee uses a former employer's trade secrets or otherwise commits unfair competition, California courts recognize a judicially created exception to section 16600 and will enforce a restrictive covenant in such a case." *Id.*; CAL. BUS. & PROF. CODE § 16600 (West 1997).

¹²⁸ *Id.* at 1045-1046. In the end, the *Scott* court found that the franchisor was unable to prove unfair competition or trade secrets and therefore, the entire agreement was susceptible to the California laws disallowing restraint of trade. *Id.*

¹²⁹ *Warner & Co.*, 634 N.W.2d at 72 (nonsolicitation agreement is not necessarily void as unlawful restraint of trade under N.D.C.C. § 9-08-06); *1st American Systems*, 311 N.W.2d at 56-57 ("under SDCL § 53-9-8, an agreement not to disclose information or solicit, unlike a covenant not to compete, is free from challenge as a general restraint on trade").

¹³⁰ The Michigan Court, on the other hand, held in *Mackie v. State Farm Mutual Auto. Ins. Co.*, 164 N.W.2d 777, 825 (Mich. 1968), that a nondisclosure clause was also void as restraint on trade, as nondisclosure and noncompetition clauses are "variations on the same theme."

¹³¹ *H & R Block Tax Services, Inc. v. Peshel*, Bus. Franchise Guide (CCH) ¶ 13,023 (D. Minn. 2005). There is evidence that Peshel Accounting existed as a tax service before affiliation with H & R block and in the letter sent to former customers simply stated: "We are no longer affiliated with H & R Block." *Id.*

with respect to dispute resolution provisions and enforcement mechanisms. For example, some franchise agreements have arbitration provisions that require all controversies or disputes between the parties to be resolved exclusively by arbitration. Still others have arbitration provisions that “carve out” certain types of disputes that are not subject to the arbitration clause. The most common carve out subject areas include trademark infringement, improper assignment or transfer, actions for injunctive relief and post-termination obligations. A franchisor that includes these carve outs in its arbitration provision can initiate litigation to enforce the post-termination noncompete provisions of the franchise agreement without violating the arbitration provisions of the franchise agreement. For example, if a former franchisee owes the franchisor past due fees and is violating the noncompete agreement, the franchisor can seek injunctive relief in court to enforce the noncompete agreement and initiate a separate arbitration for the past due fees.

A. Litigation v. Arbitration

1. Temporary Restraining Orders In Court

Temporary Restraining Orders (“TROs”) are governed by Rule 65 of the Federal Rules of Civil Procedure, or the state law equivalent. Under Rule 65, a TRO may be granted without written or oral notice to the adverse party only if it clearly appears from specific facts shown by affidavit that immediate and irreparable injury, loss or damage will result to the applicant before the adverse party or that party’s attorney can be heard in opposition. In addition, the applicant’s attorney must certify to the court in writing what efforts, if any, he/she made to give notice to the defendant or specific reasons supporting the claim that notice should not be required.¹³² Generally speaking, TROs are valid for no more than ten days, unless extended by the court. In addition, if a TRO is obtained without prior notice, the adverse party may appear in court and move for its dissolution or modification on two days notice.

Given the relatively high evidentiary threshold requiring demonstration of “immediate and irreparable injury, loss or damage,” TROs are generally, although not exclusively, limited to those situations where there is a clear and present danger if the noncompete agreement is not immediately enforced and the former franchisee shut down. For example, a situation where health and safety is at risk¹³³ or where a former franchisee is blatantly misrepresenting inferior products to be genuine goods associated with the franchisor’s trademarks.¹³⁴

TROs are heard on an expedited basis without an evidentiary hearing. A franchisor attempting to enforce a noncompete agreement by TRO will need specific affidavits setting forth the factual basis for a claim that immediate and irreparable injury and harm will occur unless the noncompete is enforced immediately. This should be coupled with evidence of the franchisee’s continued operations in violation of the noncompete. Acknowledging the adage that “a picture is worth a thousand words,” photographs or video of continued operations is highly-persuasive – especially if the franchisee is continuing to use the franchisor’s trademarks in connection with its ongoing operations. As discussed above, continued use of the trademark after termination can provide an independent basis for a claim of irreparable injury.¹³⁵ From the franchisor’s

¹³² Fed. R. Civ. P. 65(b).

¹³³ See *Dunkin’ Donuts Inc. v. Alireth Donuts, Inc.*, 96 F. Supp. 2d 146 (N.D.N.Y. 2000); *McDonald’s Corp. v. Robertson*, 147 F.3d 1301, 1309 (11th Cir. 1998); *Saladworks, Inc. v. Mi Ho No*, 2005 WL 1417096 (E.D. Pa. 2005).

¹³⁴ *Id.* at 1310.

¹³⁵ See *supra* Part II (discussing the need to protect trademarks).

perspective, it is important to make a strong showing at the TRO phase of the litigation because if the TRO is denied, the franchisee is often emboldened and it will be that much more difficult to prevail at a subsequent preliminary injunction hearing or a trial.¹³⁶ For that reason, it is important from the franchisee's perspective to create as many obstacles as possible at the injunction stage of the proceedings instead of waiting to press its claims at a later date, or by counterclaim.

2. Injunctions in Court

Preliminary injunctions are also governed by Rule 65 or the state law equivalent. However, unlike TROs, preliminary injunctions are granted after notice and an opportunity to be heard, often in conjunction with a full evidentiary hearing. In injunction proceedings, any evidence received in connection with the motion for preliminary injunction becomes part of the record in the case and need not be repeated at trial. In addition, in situations where a request for injunctive relief is the primary relief sought in the action, the court may order the trial of the action on the merits to be advanced and consolidated with the hearing on the motion for preliminary injunction.¹³⁷

Generally speaking, the purpose of a preliminary injunction is to preserve the status quo pending a final determination on the merits of the action. Preliminary injunctive relief is generally not appropriate unless the moving party can demonstrate that there is no adequate remedy at law. Although federal and state courts have adopted various standards based upon equitable principles, the majority of the courts use some variation based upon the following four factors:

1. A substantial likelihood that plaintiff will prevail on the merits;
2. The plaintiff has no adequate remedy at law and will be irreparably harmed if the injunction does not issue;
3. Threatened injury to the plaintiff outweighs the threat and harm the injunction may inflict on the defendant;
4. Granting the preliminary injunction will not be contrary to the public interest.¹³⁸

The cases cited throughout these materials demonstrate that there is a well established body of case law enforcing post-termination noncompete agreements in the franchise context using the four-factor test or the alternative test.¹³⁹

¹³⁶ Furniture Medic v. Jantzen, Bus. Franchise Guide (CCH) ¶ 12,749 (D. Az. 2003).

¹³⁷ F.R.C.P. 65(a)(2).

¹³⁸ The First, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Tenth and Eleventh Circuit Court of Appeals have adopted a four-factor test, with minor variations. The Second and Ninth Circuits have adopted an "alternative test" for the granting of preliminary injunctions. Under this test, plaintiff must show either (1) probable success on the merits and possible irreparable injury, or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting preliminary injunctive relief. Reuters Ltd., United Press Intern., Inc. 903 F.2d 904 (2nd Cir. 1990); State of Alaska v. Native Village of Venetie, 856 F.2d 1384 (9th Cir. 1988).

¹³⁹ See Peace, *supra* note 6, at 92; see also *supra* Part I.

3. Injunctions in Arbitration

From a practical perspective, when a former franchisee is in breach of the post-termination noncompete provisions of a franchise agreement, time is of the essence. A delay in taking action to enforce the post-term noncompete may affect enforceability and will certainly increase the damage to the franchisor. Given the inherent delays in the arbitration process, arbitration is particularly ill-suited as an enforcement mechanism for post-termination noncompete provisions. Consequently, most franchise agreements exclude claims for breach of the covenant not to compete from the scope of the arbitration clause. This allows the franchisor to seek injunctive relief in the court to enforce the noncompete provision, while initiating a separate arbitration for any other contract claims.¹⁴⁰

For those franchisors that require that arbitration be administered by the American Arbitration Association ("AAA") under its commercial arbitration rules, the possibility of obtaining injunctive relief in arbitration is somewhat enhanced if the parties also specifically adopt the "Optional Rules for Emergency Measures of Protection" (the "Optional Rules").¹⁴¹ Under the Optional Rules, a party seeking "emergency relief prior to the constitution of the panel" can inform the AAA and the opposing party of a request for relief on an emergency basis. The notice can be filed by facsimile and must include a statement certifying that all of the parties have been notified, or explain what steps have been taken to provide notification. Thereafter, the AAA must appoint a single Emergency Arbitrator within one business day. The Emergency Arbitrator is selected from a special AAA panel of Emergency Arbitrators designated to rule on emergency applications. Any challenge to the appointment of the Emergency Arbitrator must be made within one business day of the appointment. Within two business days of appointment, the Emergency Arbitrator must establish a schedule for consideration of the application for emergency relief. The hearing may be conducted by telephone conference or on written submissions as an alternative to a formal, in-person hearing.¹⁴²

If the Emergency Arbitrator is satisfied that the party seeking the emergency relief "has shown that immediate and irreparable loss or damage will result in the absence of emergency relief, and that such party is entitled to such relief, the Emergency Arbitrator may enter an interim award granting the relief and stating the reasons therefor."¹⁴³ Based on the language in this rule, it is clear that the Emergency Arbitrator should be guided by the same principles set forth in Rule 65 of the Federal Rules of Civil Procedure with respect to temporary restraining orders. Presumably, the AAA's adoption of language from Rule 65 was intentional.

Any request to modify an interim award granted on an emergency basis must be based on changed circumstances and can be made to the Emergency Arbitrator until such time as the arbitration panel is constituted. Once the arbitration panel is constituted, any request for relief must be addressed to the panel.¹⁴⁴ The Emergency Arbitrator is not disqualified from being appointed to the arbitration panel. In addition, an interim award of emergency relief may be

¹⁴⁰ See *Total Franchising Corp. v. L.&S. Paintworks, Inc.*, 981 F. Supp. 1079, 1081 (M.D. Tenn. 1997) (franchisor obtained injunctive relief enforcing post-termination noncompete provision pending resolution of other claims in arbitration).

¹⁴¹ See *Commercial Arbitration Rules and Mediation Procedures* (including procedures for large, complex commercial disputes), amended and effective July 1, 2003 at Rule O-1, *et seq.*

¹⁴² AAA Rule 0-1-3.

¹⁴³ AAA Rule 0-4.

¹⁴⁴ AAA Rule 0-5.

conditioned upon providing "appropriate security."¹⁴⁵ The costs associated with an application for emergency relief are to be apportioned by the Emergency Arbitrator subject to the power of the panel to determine final apportionment.

While it is clear that the AAA has attempted to provide an expeditious vehicle for obtaining injunctive relief within the confines of the arbitration process, it would still take a minimum of several days from the date of filing for emergency relief until a decision is rendered by the Emergency Arbitrator. This assumes that there are no objections to the appointment of the Emergency Arbitrator and no delays in scheduling, which is commonplace in arbitration proceedings. By comparison, a TRO can be filed and heard in court on the same day. Depending on the nature of the franchise system and the potential for damage if the former franchisee continues to operate post-termination, a delay of several days may be acceptable under the Optional Rules adopted by the AAA. But if expediency is absolutely necessary, the franchisor should carve out injunctive relief from the scope of the arbitration clause.

B. Litigation Forum Issues

1. State v. Federal Court.

The decision where to bring an action to enforce a post-termination noncompete clause is dependent on many factors. For example, the following questions should be considered in order to evaluate on the proper venue for a noncompete enforcement action:

- a) How quickly can you get an injunction hearing under local state court or federal court rules?
- b) Is the franchisee located in an urban or rural setting?
- c) Are there other franchisees nearby that could provide evidence at an injunction hearing?
- d) Are there strategic reasons to be in state or federal court?

In order to initiate litigation in federal court, the franchisor must be able to establish federal court jurisdiction. In many instances where a former franchisee is continuing to operate a directly-competitive business after termination, the franchisee will continue to use some or all of the franchisor's federally registered trademarks. Under these circumstances, there is federal question jurisdiction because of the continuing trademark infringement.¹⁴⁶ In other cases, the franchisor may be able to establish diversity jurisdiction if all the plaintiffs and all the defendants are from different states and there is more than \$75,000 at issue.¹⁴⁷

It is not an overstatement to say that most franchisors would rather litigate noncompete issues in federal court than in state court, while franchisees would have the opposite preference. While there are many excellent state court judges, the likelihood of being "hometowned" by a federal court judge is lower than in state court where the judges are often elected by popular vote. In addition, state court judges rarely have the resources available to

¹⁴⁵ AAA Rule 0-6.

¹⁴⁶ 15 U.S.C. § 1114.

¹⁴⁷ 28 U.S.C. § 1332(a)(1).

the federal bar such as multiple qualified law clerks and relatively smaller case loads. Finally, in the author's experience, federal court judges appear to be more willing to make the difficult decision to enforce a noncompete agreement by injunction, even if it means shutting down a competitive business. State court judges are more likely to rule in favor of the local franchisee than the big out-of-state franchisor. For this reason alone, former franchisees should take all steps necessary to avoid creating federal court jurisdiction by their actions or conduct post-termination.

2. Forum Selection Clauses

In an attempt to obtain uniformity and predictability in court rulings and litigate in their own jurisdictions, many franchisors include forum selection clauses in their franchise agreements that require all litigation with the franchisee to be conducted in a specific forum, usually the franchisor's home state or federal court. Where no exception applies, these clauses have been held valid and enforceable.¹⁴⁸ In order to set aside a choice of forum clause, a party must demonstrate either: (1) that enforcement would be unreasonable or unjust; (2) that the clause is invalid because of fraud or overreaching such that a trial in the forum established by the contract would be so difficult and inconvenient as to deprive the party of their day in court¹⁴⁹; or (3) enforcement would contravene a strong public policy of the forum state.

Indeed, federal courts have traditionally given valid forum selection clauses "controlling weight in all but the most exceptional cases."¹⁵⁰ Because there is a strong policy enforcing choice of law provisions, numerous federal courts across the country have enforced choice of forum provisions in franchise agreements by transferring cases to the district mandated by the franchise agreement pursuant to 28 U.S.C. § 1404(a).¹⁵¹ This gives the franchisor a strong tool to litigate noncompete cases in their own home jurisdiction. By contrast, franchisees should not overlook a challenge to the forum selection clause as a means of slowing the injunction process and potentially moving litigation back to their home jurisdiction.

a. State Law Anti-Waiver Statutes and Their Effect on Forum Selection Clauses

Lest it seem that the enforcement of a forum selection clause is a foregone conclusion, there are some states that have enacted statutes, rules or policies limiting the parties' ability to

¹⁴⁸ *M/S Bremen v. Zapata Offshore Co.*, 407 U.S. 1, 10, 92 S. Ct. 1907 (1972).

¹⁴⁹ *Id.* at 12-18; *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 594-95 (1991).

¹⁵⁰ *Stewart Organization, Inc. v. Ricoh Corp.*, 487 U.S. 22, 108 S. Ct. 2239, 2246 (1988).

¹⁵¹ *Water Energizers, Ltd. v. Water Energizers, Inc.*, 788 F. Supp. 208 (S.D.N.Y. 1992) (*supra*); *Wieczenski v. Brake Shop*, U.S. Dist. Lexis 3758 (D.N.J. 1994) (case transferred from New Jersey District Court to Eastern District of Michigan in spite of allegations of fraud and overreaching and application of New Jersey consumer and franchise protection statutes.); *Brown v. Gingiss International, Inc.*, 360 F. Supp. 1042 (E.D. Wis. 1973) (case transferred from the Eastern District of Wisconsin to the Northern District of Illinois in accordance with franchise agreement's forum selection clause despite franchisee's extra expense of litigating in foreign jurisdiction.); *Benge v. Software Galeria, Inc.*, 608 F. Supp. 601 (E.D. Mo. 1985) (case transferred from Eastern District of Missouri to California District Court pursuant to forum selection clause in franchise agreement.); *Olson v. Entre Computer Centers, Inc.*, 1988 U.S. Dist. Lexis 17473 (N.D. Cal. 1988) (case transferred from Northern District of California to Eastern District of Virginia, despite allegations of fraud and overreaching on the part of franchisor.); *Stephens v. Entre Computer Centers, Inc.*, 696 F. Supp. 636 (D. Ga. 1988) (case transferred from Northern District of Georgia to District of Virginia despite allegations of inconvenience, lack of financial resources, fraud and lack of enforcement in other cases.); *Meineke Discount Muffler Shops, Inc. v. Feldman*, 480 F. Supp. 1307 (S.D. Tex. 1979) (motion to transfer in contravention of forum selection clause in franchise agreement denied.); *Bryfogle v. Carvel Corp.*, 666 F. Supp. 730 (E.D. Pa. 1987)

force litigation or arbitration of franchise disputes outside of the state where the franchisee conducts business. Numerous states, including California, Connecticut, Illinois, Indiana, Iowa, Louisiana, Maryland, Michigan, Minnesota, New Jersey, North Carolina, North Dakota, Rhode Island and South Dakota have statutes or regulations that limit forum selection clauses in franchise agreements.¹⁵² These statutes and rules are not uniform, but generally limit the ability of a franchisor to force a franchisee to litigate disputes outside of the franchisee's state. For example, in *Kubis v. Perszyk Assoc., Inc. v. Sun Microsystems, Inc.*, the New Jersey Supreme Court found that a forum selection clause in a franchise agreement was presumptively invalid, reasoning that such a clause conflicted with the basic objective of protecting franchisees from the superior bargaining powers of the franchisor.¹⁵³ To overcome the presumption established by the court, the franchisor would have to produce evidence of specific negotiations to include the forum selection clause in the franchise agreement or some other persuasive proof that the clause was not imposed upon the franchisee against its will.¹⁵⁴ Several courts have refused to enforce choice of venue provisions in franchise agreements because of state franchise laws or strong public policy.¹⁵⁵ Clearly, whether a court will enforce a forum selection clause remains unpredictable and largely dependent on individual jurisdictions.

b. Choice of Forum in Arbitration Agreements

Arbitration clauses that incorporate the Federal Arbitration Act are generally assured that a choice of venue provision within the arbitration clause will be enforced. This is primarily because of the preemptive effect of the Federal Arbitration Act over any contradictory state statute. Outside of California, the preemptive effect of the Federal Arbitration Act is generally respected and enforced. In fact, franchise statutes in Illinois and Minnesota acknowledge the preemption effect of the FAA and have specifically excluded arbitration clauses from the anti-waiver provisions of the respective franchise statutes.¹⁵⁶

In California, the courts continue to find ways to void the preemption effect of the Federal Arbitration Act and have ruled that choice of forum provisions – even in arbitration clauses – are unenforceable if they are unconscionable, or not agreed upon by the parties or

¹⁵² CAL. BUS. & PROF. CODE § 20040.5 (2004); WASH. REV. CODE § 19.100.180(2)(h) (1991); Interpretative Statement, Bus. Franchise Guide (CCH) ¶ 5470.78 (1992); 1987 Ill. Laws ch. 815, § 705/4; IND. CODE ANN. §§ 23-2-2.7-1 to 23-2-2.7-4 (Michie 1995); MD Code Ann. Bus. Reg. §§ 14-201-14-233 (1992); MINN. R. 2860.4400(J) (1996) & MINN. STAT. § 80C.21 (1996); N.D. CENT. CODE § 51-19-09(9) (1996); R.I. GEN. LAWS § 19-28.1-14 (1996); S.D. Franchise Review Policy, Bus. Franchise Guide (CCH) ¶ 5410; State of Washington Integrating Statement, Bus. Franchise Guide (CCH) ¶ 5470.72; WIS. STAT. § 353.26 (1997); WIS. ADMIN. CODE § 32.06 (1997).

¹⁵³ 680 A.2d 618, 626 (N.J. 1996).

¹⁵⁴ *Id.* at 627.

¹⁵⁵ *Three M Enter., Inc. v. Texas D.A.R. Enter., Inc.*, Bus. Franchise Guide (CCH) ¶ 13,072 (D. Md. 2005); *Scott v. Tutor Time Child Care Systems, Inc.*, Bus. Franchise Guide (CCH) ¶ 12,001 (Mo. Ct. App. 2000), *In re GNC Franchising, Inc.*, 22 S.W.3d 929 (Tex. 2000); *Schwartz v. Colorall Technologies, Inc.*, Bus. Franchise Guide (CCH) ¶ 12,609 (D.C. Cal. 2000); *Brown Dog, Inc. v. Quizino's Franchise Co., LLC*, 2004 WL 1114427 (W.D. Wis. 2004) (enforcement of choice of venue provision would contravene Wisconsin strong public policy of protecting dealers from "overleaning grantors.")

¹⁵⁶ 815 ILCS 705/4 states "Any provision in a franchise agreement that designates jurisdiction or venue outside of the state is void, provided that a franchise agreement may provide for arbitration in a forum outside of this state." Minn. Stat. § 80C.21 and Minnesota Rule 2860.4400(J) (waiver of rights to any procedure, forum or remedies is void, "provided that this part shall not bar an exclusive arbitration clause.") See *Nolan v. Haircolorxpress International, LLC*, Bus. Franchise Guide ¶ 13,049 (D. Minn. 2005).

because they violate California law.¹⁵⁷ Recently, the Ninth Circuit ruled that the issue of whether a franchise agreement is a contract of adhesion is for the arbitrator to decide – not a judge. This may change the landscape of this issue in California.¹⁵⁸

3. Choice of Law

The law applicable to any noncompete enforcement action is particularly important because of the hostility certain states have towards the enforcement of noncompete provisions. Generally speaking, choice of law clauses are valid and enforceable.¹⁵⁹ Not surprisingly, a franchisor often chooses the law of the state in which it resides, unless it is one of the states with a franchise relationship law or other statute that restricts the enforcement of noncompete agreements. For example, franchisors located in California will often draft their franchise agreements to require the application of the law of the state where the franchisee is located in order to avoid California's contractual prohibition against the enforcement of noncompete agreements.¹⁶⁰

Another consideration in analyzing the choice of law issue is the anti-waiver provisions of some states' franchise relationship laws. As stated above, these statutes expressly prohibit the use of choice of law provisions to avoid the application of their own states' franchise relationship laws. To the extent that these statutes represent the public policy of their respective states, courts have upheld such anti-waiver provisions to void choice of law clauses in franchise agreements.¹⁶¹

C. Equitable Extension of the Term of a Covenant Against Competition

Where it is necessary to remedy the breach of a covenant against competition and make an injured party whole, courts are willing to extend the term of the injunction beyond its natural expiration.¹⁶² Often, the term of a covenant against competition will run during the litigation

¹⁵⁷ *Boler v. Superior Court*, 104 Cal. Rptr.2d 888 (Cal. App. 2001); *Ticknor v. Choice Hotels International, Inc.*, 265 F.3d 931 (9th Cir. 2001); *Laxmi Investments, LLC v. Golf USA*, 193 F.3d 1095 (9th Cir. 1999); *Bradley v. Harris Research, Inc.*, 275 F.3d 884 (9th Cir. 2001).

¹⁵⁸ *Nagrampa v. MailCoups, Inc.*, 401 F.3d 1024 (9th Cir. 2005).

¹⁵⁹ RESTATEMENT (SECOND) CONFLICTS § 187(1) (courts should apply state law chosen by the parties unless: (1) the chosen state has no substantial relationship to the parties or the transaction and there is no reasonable basis for the parties' choice or; (2) application of the law of the chosen state would be contrary to a fundamental public policy.)

¹⁶⁰ Cal. Bus. & Prof. Code § 16600 (West 1997).

¹⁶¹ *Healy v. Carlson Travel Network Associates, Inc.*, 227 F. Supp. 2d 1080 (D. Minn. 2002) (court enforced anti-waiver language in Illinois franchise statute in order to override Minnesota choice of law provision in contract between Minnesota franchisor and Illinois franchisee operating in Illinois); *To-Am Equipment Co., Inc. v. Mitsubishi Caterpillar Forklift America*, 913 F. Supp. 1148, 1151 n.4 (N.D. Ill. 1995) (same).

¹⁶² See *Furniture Medic v. Jantzen*, Bus. Fran. Guide (CCH) ¶ 12,749 (D. Ariz. Oct. 29, 2003) (court's "equitable powers include the power to make meaningful the non-competition agreement by making it effective from the date of issuance of any permanent injunction); *ServiceMaster v. Proctor*, Bus. Franchise Guide (CCH) ¶ 12,251-12,252 (D. Neb. 2001). (Court enforced one-year noncompete from the date of the injunction.); *Harb v. Norrell Services*, Bus. Franchise Guide (CCH) ¶ 10,231 (W.D. Wash. 1993) In *Norrell*, the former franchisee was ordered to cease operation or management of any competing business and the court declared, "This Order and Judgment shall be effective for one year [from entry of judgment plus fifteen days]." *Id.* *Levitt Corp. v. Levitt*, 593 F.2d 463 (2d Cir. 1979); *Basicomputer Corp. v. Scott*, 973 F.2d 507 (6th Cir. 1992); *J.H. Goldberg Co. v. Stern*, 53 A.D. 2d 296 (N.Y. 1979); *Overholt Crop Ins. Co. v. Travis*, 941 F.2d 1361 (8th Cir. 1991); *Presto-X-Co. v. Ewing*, 442 N.W.2d 85 (Iowa 1989); *Roanoke Engineering Sales Co., Inc. v. Rosenbaum*, 290 S.E.2d 882 (Va. 1982); see also *Mathieu v. Old Town flower Shops, Inc.*, 585 So. 2d 1160 (Fla. Dist. Ct. App. 1991) (trial court properly concluded that injunction period began on date of temporary injunction order); *Cordis Corp. v. Prooslin*, 482 So. 2d 486, 491 n.3 (Fla. Dist. Ct.

period, leaving the franchisor with no effective remedy against the continuing competition. In situations where there is a significant delay, the franchisor must request that the Court extend the term of the noncompete. The courts that have granted injunctive relief beyond the term of the covenant have used a variety of reasons to support their conclusion.¹⁶³ Courts have extended terms of an agreement "in the interest of justice,"¹⁶⁴ to remedy business loss that is impossible to assess monetarily,¹⁶⁵ to discourage parties from extending litigation,¹⁶⁶ and to make injured parties whole.¹⁶⁷

Some courts, however, have refused to extend the noncompete agreement past the original term. In one case, the court reasoned that such an injunction would, in effect, have created a four-year long noncompete agreement, and agreements covering that length of time "have repeatedly been held void as overbroad."¹⁶⁸ Other courts have rejected equitable extension of a covenant based on the fact that the parties had not expressly agreed upon such an extension in the original covenant,¹⁶⁹ or it is inappropriate to provide any relief after the expiration of the noncompete agreement.¹⁷⁰ These cases appear to be in the minority.

Most of the cases addressing the extension of an injunction have been decided in the employment context, although the argument is possibly stronger in the franchise context. A mere former employee most likely did not obtain specific knowledge about operating an entire business, but a former franchisee's knowledge may permit the development of a competing business modeled on and employing everything to which the franchisee was privy through the franchise relationship, from initial training to operating practices.¹⁷¹

App. 1986) (if plaintiff prevails the trial judge is empowered to extend the restrictive period beyond the time specified in the agreement in order to insure plaintiff receives the full benefit of the restrictions).

¹⁶³ See *Thermatool Corporation v. Borzym*, 575 N.W.2d 334, 337-338 (Mich. App. 1998) (summarizing different reasons given for extending injunctive relief).

¹⁶⁴ *J.H. Goldberg Co.*, 53 A.D.2d at 252.

¹⁶⁵ See, e.g., *Basiccomputer Corp.*, 973 F.2d at 511-512; *Overholt Crop*, 941 F.2d at 1371; *Presto-X-Co.*, 442 N.W.2d at 90.

¹⁶⁶ See *Roanoke*, 290 S.E.2d at 555.

¹⁶⁷ *Levitt Corp.*, 593 F.2d at 469.

¹⁶⁸ *Allen v. Hub Cap Heaven, Inc.*, 484 S.E.2d 259, 265 (Ga. App. 1997).

¹⁶⁹ See, e.g., *Moraine Industrial Supply, Inc. v. Sterling Rubber Products Co.*, 891 F.2d 133, 136 (6th Cir. 1989) (citing *Olin Water Services v. Midland Research Laboratories, Inc.*, 774 F.2d 303, 305 (8th Cir. 1985)) ("Because injunctive relief was premised on the contractual agreement between [the employer and the employee], and that agreement has expired on its own terms, there is no possibility of future injunctive relief, preliminary or permanent, being imposed against [the employee] on this ground.").

¹⁷⁰ *A-Copy, Inc. v. Michaelson*, 599 F.2d 450, 452 (1st Cir. 1978); *ServiceMaster v. Geyen*, Bus. Franchise Guide (CCH) ¶11,605 (D. Minn. 1999) (Court refused to enforce noncompete agreement four years after term of Franchise Agreement expired even though the franchisee continued to operate after expiration with the franchisor's consent).

¹⁷¹ See *Armstrong v. Taco Time International*, 635 P.2d 1114 (Wash. Ct. App. 3 1981) (Taco Time franchisee used his business knowledge to start a competing restaurant, Taco Mejico, in direct competition with other Taco Time franchisees).

IX. DAMAGES IN NONCOMPETE CASES

A. Interplay Between Damages and Injunctive Relief

Damages are particularly difficult to calculate in noncompete cases as the injury is difficult to assess and the costs are often speculative.¹⁷² Indeed, this is the primary reason that courts issue injunctive relief to enforce noncompete agreements, rather than attempt to establish a monetary value of the loss. In many cases, the franchisee will assert that damages are ascertainable, and therefore the franchisor has not been "irreparably harmed." Conversely, the franchisor will argue that damages for breach of the noncompete agreement are not readily ascertainable and that injunctive relief is appropriate.¹⁷³ If the covenant is found to be reasonable, most courts will grant injunctive relief because of the difficulty of calculating damages for loss of goodwill, unfair competition, and general damage to the franchisor's name.¹⁷⁴ One Colorado court has observed that "[w]here there is a non-competition agreement, breach is the controlling factor and injunctive relief follows almost as a matter of course. Damage is presumed to be irreparable and the remedy at law is considered inadequate."¹⁷⁵ Although courts usually won't consider monetary damages when an injunction is granted, some states allow for the award of both damages and injunctive relief.¹⁷⁶ In Texas, it is statutorily permissible for a court to "award the promisee under a covenant not to compete damages, injunctive relief, or both damages and injunctive relief for a breach by the promisor of the covenant."¹⁷⁷ Texas' unique statute is not the norm.

In cases where the court grants a preliminary injunction, it will be less likely that there are future damages to assess, since the franchisee is enjoined from continuing to violate the covenant during the litigation. However, damages are sometimes awarded to the franchisor for the time period prior to entry of the injunction, because the franchisee is essentially operating the same business prior to the injunction, and should pay fees on revenue generated in violation of the noncompete agreement.¹⁷⁸

¹⁷² *Pelland, Inc. v. Hendrix*, Bus. Franchise Guide ¶ 12, 904 (S.D. Ohio 2004).

¹⁷³ *Pelland*, Bus. Franchise Guide ¶ 12, 904. In *Pelland*, the franchisor had released three other franchisees from covenants against competition through a monetary settlement. *Id.* The former franchisee claimed that this proved the court's ability to assess damages. *Id.* The court rejected this argument, stating that "[a]lthough *Pelland* suffered solely potential economic loss in the three markets it had elected to abandon, the loss of goodwill, the re-franchising issues in the Stafford market, and the credibility factor are not so susceptible to monetary compensation." *Id.*; see also *In re Printronics, Inc.*, 189 B.R. 995, 1000-1001 (N.D. Fla. 1995) (applying Texas law).

¹⁷⁴ *Pelland*, Bus. Franchise Guide ¶ 12, 904.

¹⁷⁵ *Quizno's Corp. v. Robert Kampendahl*, Bus. Franchise Guide CCH ¶ 73,725 (E.D.Ill. May 20, 2002) (quoting *Miller v. Kendall*, 541 P.2d 126, 127 (Colo. Ct. App. 1975)); *Amerispec v. Metro Inspection Services*, Bus. Fran. Guide (CCH) ¶ 12,130 (N.D. Tex. 2001) (recognizing that injunctive relief is necessary because "breach of non-compete covenants is the epitome of irreparable injury")

¹⁷⁶ *In re Printronics*, 189 B.R. at 1002.

¹⁷⁷ TEX. BUS. & COMM. STAT. § 15.51(a) (1995).

¹⁷⁸ *Maaco Enterprises, Inc. v. Cintron*, Bus. Franchise Guide (CCH) ¶ 11,863 (E.D.Pa. 2000). In this case, the court would allow a party to recover damages if the damages "(1) naturally and ordinarily resulted from the breach or (2) were reasonably foreseeable and within the contemplation of the parties at the time they made the contract, and (3) are capable of being proved with reasonable certainty." *Id.* (citations omitted).

B. Liquidated Damages

Difficulty in calculating damages for breach of a post-term noncompete agreement is leading some franchisors to add liquidated damage clauses to covenants against competition.¹⁷⁹ Liquidated damage clauses have been used widely by the hotel franchise industry,¹⁸⁰ but there is evidence that franchisors outside of the hotel industry are beginning to use such clauses.¹⁸¹ Like most other restrictive covenants, states that allow liquidated damages will do so if they are "reasonable" relative to the anticipated loss and actual damages are difficult to ascertain.¹⁸² In *Dar & Associates, Inc. v. Uniforce Services, Inc.*, 37 F. Supp. 2d 192 (E.D.N.Y. 1999), a temporary staffing franchisor added a liquidated damage clause triggered by the franchisee's breach of the covenant not to compete. Unfortunately for the franchisor, the liquidated damage amount was deemed unreasonable and the clause was not enforced.¹⁸³

Most courts that have addressed the liquidated damage issue attempt to draw a line between compensatory and punitive damages, disallowing liquidated damages as a penalty for breach of contract.¹⁸⁴ Consequently, it is important for any liquidated damage clause to closely equate to the expected damages that might be assessed if the covenant is breached. Admittedly, this will be difficult since the vast majority of covenants against competition are enforced by injunction rather than monetary damages. A reasoned approach based on objective criteria has the best chance of being enforced.¹⁸⁵

Franchisors must also be careful in drafting liquidated damage clauses, as some states have enacted statutes that affect the enforceability of these clauses. Generally speaking, these statutes put the burden of proving "unreasonableness" on the party seeking to invalidate the provision.¹⁸⁶ Other states, such as Minnesota, expressly prohibit liquidated damage provisions in franchise agreements.¹⁸⁷ However, the District Court in Minnesota has interpreted the statute to allow a liquidated damage clause to serve as a basis for determining actual damages.¹⁸⁸

¹⁷⁹ *Stephenson v. Great Frame Up*, 184 F. Supp. 2d 1048 (D. Org. 2002); *Shree Ganesh v. Days Inn*, 192 F. Supp. 2d 774 (N.D. Ohio 2002).

¹⁸⁰ See, e.g., *Days Inn of America, Inc. v. Patel*, 88 F. Supp. 2d 928 (C.D. Ill. 2000); *Ramada Franchise Systems, Inc. v. Hanna Hotel Enterprises*, 147 F. Supp. 2d 840 (N.D. Ohio 2001); *Days Inn of America, Inc. v. P & N Enterprises, Inc.*, 164 F. Supp. 2d 255 (D. Conn. 2001); *Travelodge Hotels, Inc. v. Kim Shin Hospitality, Inc.*, 27 F. Supp. 2d 1377 (M.D. Fla. 1998); *Choice Hotels International, Inc. v. Chew's Hospitality, Inc.*, 91 Fed.Appx. 810 (4th Cir. Dec. 17, 2003). It should be noted that these cases deal with liquidated damages after a premature termination of the franchise agreement by the franchisee, rather than breaching a covenant against competition.

¹⁸¹ *Floorcoverings International, Ltd. v. Werning*, Bus. Franchise Guide (CCH) ¶ 12,422 (N.D.S.D. Sept. 3, 2002); *Dar & Assoc., Inc. v. Uniforce Services, Inc.*, 37 F. Supp. 2d 192 (E.D.N.Y. 1999); *Honey Dew Associates, Inc. v. M & K Food Corp.*, 81 F. Supp. 2d 352 (D.R.I. 2000).

¹⁸² RESTATEMENT (SECOND) OF CONTRACTS § 356(1); see also *Truck Rent-A-Center, Inc. v. Puritan Farms 2nd, Inc.*, 361 N.E.2d 1015 (1977).

¹⁸³ *Dar & Assoc.*, 37 F. Supp. at 194-195.

¹⁸⁴ *Id.* at 200. Here, the court states that "[a] clause setting damages much higher than the estimated actual loss does not provide fair compensation, but secures "performance by the compulsion of the very disproportion."

¹⁸⁵ *Holiday Hospitality Franchising, Inc. v. H-5, Inc.*, 165 F. Supp. 2d 937 (D. Minn. 2001).

¹⁸⁶ CAL. CIV. CODE § 1671(b) (West 2005); GA. CODE ANN. § 13-6-7 (West 2005); MONT. CODE ANN. § 28-2-721 (West 2003); N.D. CENT. CODE § 9-08-04 (1996); OKLA. STAT. ANN. 15 § 215 (West 1993).

¹⁸⁷ *Nolan v. HairColorXpress International*, Bus. Franchise Guide (CCH) ¶ 13,049 (D. Minn. Mar. 8, 2005). Nolan discusses Minn. Rule 2860.4400, promulgated under Minn. Stat. § 80C.21, which provides that:

X. TAILORING ENFORCEABILITY OF COVENANTS AGAINST COMPETITION THROUGH DRAFTING

A. Do Not Over-reach.

Because actions to enforce noncompete agreements by injunction are equitable proceedings, the enforceability of these provisions will likely be measured under some form of the "balance of hardships" test where "reasonableness" is the criteria. Geographic scope and durational limits that greatly exceed that which is necessary to protect the franchisor's business interests will jeopardize enforceability. The franchisor should make a reasoned determination of the durational and geographical scope of its noncompete clause given the competitive and market conditions in which its franchisees operate in order to determine what is minimally necessary to protect other franchisees in the system and to provide it sufficient time to locate, train and integrate a new franchisee into the departing franchisee's territory. By engaging in this kind of analysis, the franchisor is in a better position to articulate the basis for its durational and geographic limitations and the noncompete agreement is more likely to be enforced.

B. Severability and Savings Clauses.

Given the scrutiny applied by most courts to noncompete provisions, prudence mandates that all noncompete provisions include severability and savings clauses. These clauses provide the court with specific authority to evaluate each component of the noncompete clause individually, to enforce all reasonable provisions and modify any unreasonable provisions to make it enforceable. In other words, they can eliminate the court's reluctance to "re-write the parties' contract."

C. Articulate the Interest Being Protected.

The franchisor should articulate the specific interest(s) that it is attempting to protect by enforcement of the noncompete provision, whether it be geographic encroachment, the relationship with customers, use of confidential information, vendor relationships, proprietary formulas, recipes or ingredients, protection of adjacent franchisees, or protection of the franchise system. Each franchise opportunity is unique in terms of its business format, product offering and marketing method. The franchisor should articulate the business interest that it is attempting to protect and force the franchisee to acknowledge the protectability of that interest in the franchise agreement. Without an articulation of the interest to be protected, a franchisor can appear to be doing nothing more than attempting to eliminate competition, or worse yet – being punitive.

D. Include Bond Waivers.

Although Rule 65 of the Federal Rules of Civil Procedure and most state law equivalents include bond requirements as a prerequisite for the issuance of injunctive relief, courts have the equitable discretion to waive bond requirements.¹⁸⁸ A bond waiver provision gives the court

It shall be unfair and inequitable for any person to ... require a franchisee to waive his or her rights to a jury trial or to waive rights to any procedure, forum, or remedies provided for by the laws of the jurisdiction, or to consent to liquidated damages, termination penalties, or judgment notes.

(emphasis added).

¹⁸⁸ *Holiday Hospitality Franchising*, 165 F. Supp. 2d at 937.

¹⁸⁹ See *Marsellis-Warner Corp. v. Ravens*, 51 F. Supp. 2d 508 (D.N.J. 1999).

contractual authority to exercise its discretion in those circumstances where enforcement is not seriously disputed and the franchisee would not suffer significant harm if the injunction was improperly granted.

XI. PRACTICAL STRATEGIES FOR DEALING WITH COMPETITION ISSUES FROM THE FRANCHISOR AND FRANCHISEE PERSPECTIVES

Franchisor's Perspective:

A. Pick your first case carefully.

If a franchisor is attempting to enforce the noncompete provisions of its franchise agreement for the first time, it is very important to win the first case. To the extent that injunction orders involving franchisors and franchisees are often reported in the CCH Business Franchise Guide or the West Reporter, the precedential value of a win (or loss) is significant. If the franchisor wins its first noncompete enforcement action, it can leverage that victory in subsequent cases by citing to the first decision. In addition, victory documents the enforceability of the franchisor's noncompete provision and acts as a bell weather for any other franchisees in the system that may be considering violating the noncompete provision.

B. Who is wearing the black hat?

Although somewhat simplistic, in any equitable proceeding, the party whose behavior and conduct is contrary to their written contractual agreement can generally be depicted as wearing the "black hat". For example, if the franchisee breaks away from the system but continues to use the franchise trademarks, systems, methodologies and otherwise ignores its contractual obligations, it is not difficult for the franchisor to demonstrate to the court that the franchisee is acting inequitably. The party who prevails at the preliminary injunction hearing is generally the one who can effectively demonstrate that the other party is wearing the "black hat." The franchisor can achieve this objective by focusing on the actions of the former franchisee that are contrary to the written contract and that have the highest risk of damage to the franchisor's business system and other franchisees.

C. What evidence is most persuasive in injunction proceedings?

In noncompete enforcement actions, "a picture is worth a thousand words." If a terminated franchisee is continuing to operate in violation of the noncompete agreement, photographs and video of the terminated franchisee's continued operations is powerful evidence to submit to the court. Instead of being forced to create a mental picture for the court, the real thing is usually more persuasive. This is especially true if the terminated franchisee is continuing to operate from the same location as the former franchise operation and is continuing to use some or all of the franchisor's registered trademarks. There can be little or no justification by a terminated franchisee for continued use of the franchisor's trademarks in direct competition with the franchisor and its other franchisees after termination of the franchise agreement.¹⁹⁰

Another potentially persuasive form of evidence is the testimony of current franchisees adversely affected by the terminated franchisee's continued competitive activity. By using "inside information" regarding pricing, marketing, operations, etc., terminated franchisees can

¹⁹⁰ *Jiffy Lube International v. Weiss Bros., Inc.*, 834 F. Supp. 683, 691 (D.N.J. 1993)

unfairly compete with existing franchisees that must pay royalty fees for the right to operate under the franchise brand. Franchisees that are affected by this unfair competition can provide persuasive evidence of the negative affect on their business.

Franchisee's Perspective:

A. Minimize the risk of provocation.

While it is often difficult to end a franchise relationship, there are things that a terminated or expired franchisee can do to minimize the risk of the franchisor initiating litigation or arbitration to enforce post-termination/expiration obligations, including noncompete obligations. To the maximum extent possible, the terminated franchisee should attempt to comply with the post-termination obligations identified in the franchise agreement. If the terminated franchisee returns operating manuals, stops using proprietary software, assigns or disconnects telephone numbers and de-identifies its premises, it would be much less likely to draw the attention of the franchisor. While these issues may seem insignificant to the terminated franchisee, they are important to the franchisor, who is interested in maintaining system standards and the integrity of its franchise contracts. The more the terminated franchisee complies with the post-termination obligations, the less likely it is that the franchisor will feel compelled to take enforcement action. If action becomes necessary because the terminated franchisee is noncompliant, the franchisor is going to include all available claims – including enforcement of the noncompete agreement.

B. Don't use the marks.

The one sure-fire way to guarantee legal action by the franchisor is for the terminated franchisee to continue operating using the franchisor's registered trademarks. In order to protect the integrity of the franchise system and the exclusivity of the registered trademarks, the franchisor must prevent unauthorized users from infringing. This is especially true if other franchisees are watching and expect the franchisor to protect their business interests by precluding unauthorized use of the trademarks. If the terminated franchisee completely de-identifies its business operations, it is much less likely to draw the attention of the franchisor, even if it does nothing else to change its business. This is especially true if the terminated franchisee does not owe the franchisor over \$75,000. Without a claim for trademark infringement, there is no federal question or diversity jurisdiction and the franchisor is forced to bring any enforcement action in state court. Generally speaking, state courts are not as favorable towards franchisors with respect to noncompete enforcement issues.

C. Look for termination errors.

When faced with an action to enforce the post-termination noncompete agreement, franchisees are well-advised to look for irregularities in the termination process in order to question the validity of the termination. If the franchisee can demonstrate that the franchise relationship was improperly terminated, a court sitting in equity is much less likely to grant the franchisor's request for injunctive relief enforcing the post-termination noncompete agreement.¹⁹¹ If the terminated franchisee can conclusively demonstrate that the termination

¹⁹¹ See *McDonald's Corp v. Robertson*, 147 F.3d 1301 (11th Cir. 1998). In the context of termination based on improper trademark usage, the court found "that the Lanham Act's requirement that a franchisor demonstrate that *unauthorized* trademark use occurred to prevail on the merits of a trademark infringement claim against a franchisee necessitates some type of showing that the franchisor properly terminated the contract purporting to authorize the

was improper or contrary to state relationship laws, the franchisee has a panoply of remedies available to it, including a wrongful termination claim or a statutory violation providing for other remedies. This puts the franchisee in a strong position to negotiate a resolution with the franchisor that allows the franchisee to stay in business despite the existence of the post-termination noncompete agreement.

XII. CONCLUSION

There are numerous issues that franchisors and franchisees face at the termination of a franchise relationship. Among the most thorny decisions for the franchisor is whether to attempt to enforce its post-termination covenant against competition. With proper drafting, attention to state law restrictions, and a clear articulation of the interests to be protected, franchisors should be able to protect their business systems by enforcement of post-termination noncompete agreements in most states. Alternatively, the former franchisee can take specific steps to minimize the risk of an enforcement by the franchisor. The litany of potential ways that an enforcement action could be derailed by the parties or the courts lends itself to concluding with some words of wisdom from *Hill Street Blues*: "Let's be careful out there."¹⁹²

trademarks' use, thus resulting in the *unauthorized* use of trademarks by the former franchisee." *Id.* at 1308 (emphasis in original).

¹⁹² Sgt. Phil Esterhaus, *Hill Street Blues* (USA television broadcast 1981-1987).

Representation Disclosure:

Co-author Michael Gray represented the franchisor in the following cases reported in these materials:

- ServiceMaster v. Westchester Cleaning Services, Bus. Franchise Guide (CCH) ¶ 12,073 (S.D.N.Y. 2001)
- Furniture Medic, L.P. v. Jantzen, Bus. Franchise Guide (CCH) ¶ 12,749 (D. Ariz. 2003)
- Amerispec v. Metro Inspection Services, Bus. Franchise Guide (CCH) ¶ 12,130 (N.D. Tex. July 3, 2001)
- New Eden v. Bio Earth, Inc., Bus. Franchise Guide (CCH) ¶ 11,944 (N.D. Okla. 2000)
- ServiceMaster v. Proctor, Bus. Franchise Guide (CCH) ¶ 12,251-12,252 (D. Neb. 2001)
- Nolan v. Haircolorxpress International, LLC, Bus. Franchise Guide ¶ 13,049 (D. Minn. 2005)
- ServiceMaster v. Geyen, Bus. Franchise Guide (CCH) ¶ 11,605 (D. Minn. 1999)
- Floorcoverings International, Ltd. v. Werning, Bus. Franchise Guide (CCH) ¶ 12,422 (N.D.S.D. Sept. 3, 2002)

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