American Bar Association
46th Annual Forum on Franchising

W-8: THE CURRENT LANDSCAPE IN THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

Anne Horn Baroody
Bradley Arant Boult Cummings LLP
Atlanta, Georgia

and

Susan Meyer
Greensfelder, Hemker & Gale, P.C.
Chicago, Illinois

and

Tom Vanderbloemen
Vanderbloemen Law Firm, P.A.
Greenville, South Carolina

November 1-3, 2023
Dallas, TX

TABLE OF CONTENTS

THE CURRENT LANDSCAPE IN THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

I. INTRODUCTION

Franchisors generally expect to be entitled to an injunction if a former franchisee continues using the franchisor's trademarks or violates the restrictive covenants in a franchise agreement.[1] Is that a valid assumption? Or are courts balking at requests for injunctive relief?

This paper reviews key intellectual property tools available for enforcing intellectual property rights and highlights selected injunction cases from the past three years involving franchise disputes and/or franchise systems. It synthesizes important lessons from those cases so that litigants can position their matter for the best chance of success. It also includes updated resources for enforcing intellectual property rights in franchising.

II. OVERVIEW AND NATURE OF INTELLECTUAL PROPERTY PROTECTIONS

Intellectual property is the foundation of a franchise system. Indeed, all franchise systems by definition have at least a trademark or service mark.[2] Franchisors need robust rights to protect and promote their systems. Franchisees rely upon a franchisor protecting and enforcing the system's rights so that they may enjoy the benefit of their bargain. What happens when that bargain ends or goes awry? Typically, franchisors seek to enforce their rights against unfair competition by terminated franchisees through enforcement of restrictive covenants in the franchise agreement, such as non-compete provisions and confidentiality obligations, and through claims of trademark infringement. Franchisees may seek redress against unfair terminations or overreaching restrictive covenants. Both parties to a franchise transaction need to understand the elements of intellectual property, the limits of those rights, and the obligations of all parties.

In addition to the trademark or service mark, in many franchise systems there are also other forms of intellectual property, such as trade secrets, confidential information, copyrights, and sometimes trade dress or patents. There are a variety of federal, state, and common law rights that govern these different types of intellectual property rights, and it is essential for the parties to a franchise agreement to understand how these rights work together to impact the franchise relationship. Moreover, as the cases below illustrate, efforts to enforce these rights may have differing, sometimes unexpected results.

A. <u>Trademark and Trade Dress</u>

At the heart of every franchise relationship is the trademark that identifies the franchisor's goods or services. A trademark is associated with goods; a service mark identifies associated services.[3] A trademark may be any distinctive word, design, color, sound, smell, or a combination

---

[1] An injunction is an equitable remedy whereby a court enters an order commanding or preventing an action. *See Injunction*, BLACK'S LAW DICTIONARY (11th ed. 2019).

[2] 16 C.F.R. 436.1(h).

[3] We will use the term "trademark" or "mark" to refer to trademarks, service marks, and trade dress.

of any of these elements that distinguishes the mark from the goods or services of others.[4] Trade dress is a form of a mark that encompasses the "image and overall appearance" of a good or service.[5] Trade dress may include location interiors (store design)[6] or packaging for goods (product shape)[7]. Some trade dress may be inherently distinctive;[8] other types may need to become distinctive over time (develop secondary meaning)[9]. Both trademarks and trade dress are eligible for registration and may enjoy broad protection.

In the United States, trademark rights are created upon first use that is non-infringing. A trademark owner may expand the scope of a mark's protection by registering a mark in a state, at the United States Patent and Trademark Office ("USPTO"), or in other countries. Each of these registrations provides protection according to their respective jurisdiction. Trademark rights can last as long as the mark remains in use; there are no limits on the number of times a trademark registration may be renewed.

Trademark law is rooted in consumer protection principles – aimed at avoiding confusion in the marketplace. Therefore, when seeking to enforce trademark rights, trademark owners with federally registered strong marks who have taken steps to protect those marks will be better positioned to obtain redress. Even so, as the cases below illustrate, it is prudent for trademark owners to keep all the tools in the toolkit sharp and at the ready.

1. <u>The Lanham Act</u>

The Trademark Act of 1946 as Amended (the "Lanham Act")[10] governs trademark registrations and enforcement for registered and unregistered marks. Any distinctive, non-infringing, and otherwise eligible mark used in interstate commerce may be registered on the USPTO Principal Register.[11] Registration confers a number of benefits, such as the presumption of a valid trademark and ownership by the registered owner.[12]

---

[4] 15 U.S.C. § 1127.

[5] Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 756 n.1 (1992).

[6] IKEA Store Design USPTO Reg. No. 2161437 Class 035: retail store services featuring furniture, housewares and home furnishings; Apple Store Design USPTO Reg. No. 4277914 Class 035: Retail store services featuring computers, computer software, computer peripherals, mobile phones, consumer electronics and related accessories, and demonstration of products relating thereto.

[7] Coca-Cola Bottle Design USPTO Reg. No. 1057884 Class 032: Soft Drinks.

[8] *Two Pesos, Inc.*, 505 U.S. at 756 n.1.

[9] Wal-Mart Stores, Inc. v. Samara Bros., Inc., 529 U.S. 205, 232 (2000).

[10] 15 U.S.C. § 1051 *et seq.*, together with the U.S. Trademark Rules of Practice, 37 C.F.R. pts 2, 3, 6-7, and 10-11.

[11] 15 U.S.C. §§ 1051–1072. Marks that are capable of distinguishing goods or services but are not eligible for registration on the Principal Register (because they are descriptive, for instance), may be registered on the Supplemental Register. 15 U.S.C. §§ 1091–1096. The marks on the Supplemental Register do not have the same benefits and presumptions of those marks registered on the Principal Register (see *infra* at n.12).

[12] These benefits include: a) constructive notice to the public of the registrant's claim of ownership of the mark (15 U.S.C. § 1072); b) a legal presumption of the registrant's ownership of the mark and the registrant's exclusive right to

The Lanham Act confers broad federal protection on trademark owners. Section 32(a) prohibits the use of any registered mark in commerce in a manner that "is likely to cause confusion, or to cause mistake, or to deceive" the public (infringement).[13] Section 43(a) prohibits infringement of any unregistered mark or trade dress and prohibits false and deceptive advertising.[14] Owners of famous marks may also seek redress for dilution of that mark.[15]

To succeed on a trademark infringement action, a plaintiff must show a) valid protectable trademark; b) that it owns the trademark; c) that the defendant used a mark in a manner that is likely to cause confusion among consumers as to the source or affiliation of the goods; d) harm.[16] While federal registration and recent changes in the law provide certain presumptions, the prudent trademark owner will come to court with admissible evidence for each element.

2. State Law

All states permit registration of trademarks (typically at the Secretary of State's Office). These registrations are usually inexpensive and quickly obtained.[17] But the rights are limited to each applicable state and in most cases only provide notice of a trademark owner's claims to its trademark rights. Some trademark owners will register a mark at the state level before they expand into interstate commerce, or while waiting for a federal registration to issue, especially if helpful to avoid application of a so called "business opportunity" law in a state that exempts businesses with a state or federally registered trademark. Generally, enforcement of a state registration requires proof of the same elements as under the Lanham Act.[18]

Most states also have some version of a state unfair competition act.[19] These generally prohibit unfair methods of competition and unfair or deceptive acts or practices including deception, fraud, false pretense, false promise, misrepresentation, concealment, suppression, or omission of a material fact with the intent that others rely on such concealment, suppression, or

---

use the mark in commerce on or in connection with the goods/services listed in the registration (15 U.S.C. §§ 1057(b), 1115(a)); c) a date of constructive use of the mark as of the filing date of the application (15 U.S.C. § 1057(c); TMEP § 201.02); d) the ability to bring an action concerning the mark in federal court (15 U.S.C. §1121); e) the ability to file the United States registration with the United States Customs Service to prevent importation of infringing foreign goods (15 U.S.C. § 1124); f) the registrant's exclusive right to use a mark in commerce on or in connection with the goods or services covered by the registration can become "incontestable," subject to certain statutory defenses (15 U.S.C. §§ 1065, 1115(b)); and g) the use of the United States registration as a basis to obtain registration in foreign countries.

[13] 15 U.S.C. § 1114(1)(a).

[14] 15 U.S.C. § 1125(a)(1).

[15] 15 U.S.C. § 1125(c)(1).

[16] 15 U.S.C. §§ 1114, 1116-1118; see discussion of the Trademark Modernization Act and presumed harm *infra*.

[17] For example, Illinois charges $10.00 for a state trademark application (valid for five years) and $5.00 for a renewal. *See* Trademark/Servicemark Publications/Forms, The Office of the Illinois Secretary of State, ilsos.gov/publications/business_services/trademark.html (last visited July 29, 2023).

[18] *See, e.g.*, 765 ILL. COMP. STAT. 1036/60 (setting out elements cause of action under Illinois law).

[19] *See, e.g.*, The Illinois Consumer Fraud and Deceptive Business Practices Act, 815 ILL. COMP. STAT. 505/1 - 505/12.

omission.[20] To bring a cause of action under such acts, a plaintiff must show that: a) the defendant engaged in deceptive conduct; b) the defendant intended for the plaintiff to rely on the deception; c) the deception occurred for trade or commerce; iv) the plaintiff suffered actual damage proximately caused by the deception.

Many states have also adopted variations on The Uniform Deceptive Trade Practices Act.[21] These statutes generally prohibit: a) passing off the goods or services of another; b) causing a likelihood of confusion as to the source, sponsorship, approval, certification; c) making deceptive representations of geographic origin; d) falsely representing good have a certain sponsorship, approval, or affiliation; e) falsely representing goods are original or of a certain quality, standard, or model; f) disparaging the goods of another business with false or misleading representations; g) advertising goods with intent not to sell as advertised; h) making false or misleading statements about price reductions. Each of these claims provides for specific types of relief. The prudent franchisor will confirm which state laws are available and whether they may obtain injunctive relief or damages or both.

3. Common Law

Use of a mark in commerce creates common law rights. These rights are limited to the actual use made of the mark. This means that the mark is generally only protected wherever goods and services are sold and provided under the mark. There are common-law causes of action for misuse of a trademark in every state.

4. Common Defenses and Remedies

For the parties involved in a dispute over intellectual property rights, it is useful to consider both sides of the dispute and possible remedies early in the process. Some defenses to trademark infringement and related claims may include estoppel, laches, unclean hands, acquiescence of use, innocent infringement, First Amendment, abandonment, fair use, parody, fraud, mistake, claims the mark is invalid (generic), pleading omissions. Remedies may include injunctive relief (temporary restraining orders, preliminary, mandatory, and permanent injunctions), accounting, damages, profits, seizure and destruction of infringing goods, attorney fees, and costs of the suit.

B. Trade Secret and Confidential Information

Trade secrets and confidential information are likely among the most important elements in the franchise system. But they are not always the same thing. Trade secrets are a subset of confidential information, and it is crucial that franchisors understand the difference. Confidential information is generally unknown to others in the industry and gives the owner a competitive advantage. A trade secret, on the other hand, requires more effort to keep it secret. A franchisor must take appropriate steps to protect its different kinds of intellectual property. A trade secret will last only as long as it maintains its status as a trade secret. Once it is revealed, it loses its protection.

---

[20] *See, e.g.*, 815 ILL. COMP. STAT. 505/2.

[21] *See* Uniform Deceptive Trade Practices Act (amended 1966, withdrawn 2000), 7A U.L.A. 265 (1985); 815 ILL. COMP. STAT. 510/1; Georgia's Uniform Trade Practices Act, GA. CODE ANN. § 10-1-370 *et seq.*

1. **The Defend Trade Secrets Act and Protecting American Intellectual Property Act**

In 2016, the Defend Trade Secrets Act ("DTSA") created a federal, private, civil cause of action for trade secret misappropriation.[22] A trade secret is something that is secret (and can include recipes, designs, formulae, or procedures), valuable because it is not known (meaning that the owner derives a commercial benefit from the secret and competitors can't figure it out easily); access to the secret is limited (such that it cannot be easily obtained legally) and the owner has taken reasonable steps to keep the information secret (including, for example, agreements, physical and technological barriers).

Under the DTSA, a trade secret is defined as:

> all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.[23]

The term "misappropriation" means:

> (A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (B) disclosure or use of a trade secret of another without express or implied consent by a person who (i) used improper means to acquire knowledge of the trade secret; (ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was (I) derived from or through a person who had used improper means to acquire the trade secret; (II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or (iii) before a material change of the position of the person, knew or had reason to know that (I) the trade secret was a trade secret; and (II) knowledge of the trade secret had been acquired by accident or mistake.[24]

On January 5, 2023, Congress enacted the Protecting American Intellectual Property Act ("PAIPA"), which created new sanctions on foreign individuals and entities involved in the theft of trade secrets belonging to US entities and individuals. PAIPA only provides for sanctions against foreign persons or companies. But the protections are quite expansive. For example, the trade secret needs to be owned by a US person, but it does not have to be in or used in the US. In addition, sanctions are available against those who actually stole the secrets and executives and board members of the entity regardless of whether they had knowledge of the theft. Finally, the

---

[22] 18 U.S.C. § 1836 *et seq*.

[23] 18 U.S.C. § 1839.

[24] *Id.*

sanctions can be quite severe – from blocking all transactions and property in the US, to excluding corporate officers from the US, to limiting loans from US financial institutions. For multi-national franchise systems, it is important to be aware of this new law, for companies to protect their intellectual property, and review their international transactions and agreements (and insurance policies).

Owners of trade secrets need to identify what the trade secrets are - and take particular steps to protect them. Protective efforts may involve restrictive covenants in agreements, physical and technological limitations on access by certain employees, vendors, and service providers. Importantly, it requires vigilance. Regular audits of processes and threat assessments with appropriate record keeping are helpful to demonstrate to a court later that the owner took appropriate steps to protect its trade secrets. Importantly, the exit or termination process for anyone who ever had access to a trade secret must be thorough and documented, in order to ensure that trade secret information does not depart with the exiting employee and/or that the exiting employee is not permitted to use trade secret information.

2. State Trade Secret Law Statutes

The Uniform Law Commission promulgated The Uniform Trade Secrets Act ("UTSA") in 1979 (amended in 1985) as a framework for improving trade secret protection. Today, forty-nine states have enacted the UTSA, and it has been introduced in New York.[25] The UTSA definition of trade secret is substantially the same as under the DTSA:

> "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[26]

Thus, to support a claim for theft of trade secrets, a plaintiff must identify the trade secret and its economic value, show the misappropriation, and affirmatively demonstrate the reasonable steps taken to maintain the secrecy – and avoid the theft.

3. Contractual Protections

The franchise agreement typically contains provisions that limit access to and places restrictions around trade secrets and confidential information. It is important that these be written to be enforceable. Franchisees need to understand their obligations and the restrictions on their business operations during the term – and crucially – after the relationship ends for any reason.

Restrictive covenants regarding trade secrets and confidential information should also be in vendor and supplier agreements, independent contractor, and technology agreements.[27] A franchisor must be sure that their whole portfolio of agreements and obligations are harmonized

---

[25] *See* Trade Secrets Act, Uniform Law Commission, https://www.uniformlaws.org/viewdocument/final-act (last visited July 29, 2023).

[26] California's version of the Uniform Trade Secrets Act is codified in CAL. CIVIL CODE §§ 3426 *et seq*.

[27] *See* Suzie Trigg & Chris Wallace, ***Beyond the Franchise Agreement: A Look at the "Other" Agreements Between the Franchisor and Franchisee***, ABA 41ST ANNUAL FORUM ON FRANCHISING W-13 (2018).

and aligned so that they are not leaving open any doors for secrets to be revealed.[28] For instance, some standard form nondisclosure agreements contain a provision that requires the parties to maintain any disclosed (typically financial) confidential information for a set period of time with the expectation that after so many years, the information will be stale, and the protections are no longer needed. However, if the definition of confidential information includes trade secrets – that could destroy any trade secret protection. Agreements dealing with trade secrets can include a caveat that the information shall be held in strict confidence until the discloser provides in writing that the information is no longer secret.

C. Copyright and Patent

Copyrights and patents are based upon different public policies than the other types of intellectual property. Copyrights are designed to provide exclusive rights to the authors of creative (original) works for two generations and then the works become available for others to use and enjoy.[29] Patents generally protect inventions and provide a monopoly for a certain number of years (in return for disclosure) and then the invention becomes available for the world to use and improve upon.

1. Copyright Act

The Copyright Act of 1976 (as amended) protects original works of authorship fixed in a tangible medium.[30] In a franchise system, this may include manuals, handbooks, promotional materials, computer programs, algorithms, websites, mascots, and merchandise. The Copyright Act provides a bundle of rights to copyright owners.[31] These include the right to copy the work, prepare derivative works, distribute the work, perform, and display the work publicly.[32] In the US, a copyright exists as soon as the work has been fixed (once it is created and is able to be perceived). However, to enforce one's rights, a copyright must be registered.[33]

In 2019, the Supreme Court determined that the registration occurs, and suit may be filed, only once the Copyright Office grants the registration (not upon the application being filed).[34] Prompt registration also can increase an owner's ability to claim statutory damages and attorney fees, which are not available for infringements that commence prior to the effective date of registration.[35] Given the reasonable filing fee for a copyright application, all franchise systems should add copyright registrations to their tool box of intellectual property protection.

---

28 *See* Scott McIntosh & Natalma McKnew, *A New World for Trade Secrets in Franchising – New Options and Strategies Under the Federal Defend Trade Secrets Act*, ABA 40TH ANNUAL FORUM ON FRANCHISING W-4 (2017).

29 DURATION OF COPYRIGHT, https://www.copyright.gov/circs/circ15a.pdf (last viewed July 29, 2023).

30 17 U.S.C. § 102.

31 *Id.* § 106.

32 *Id.*

33 17 U.S.C. § 411(a).

34 Fourth Estate Pub. Benefit Corp. v. Wall-Street.com, LLC, 139 S. Ct. 881, 892 (2019).

35 17 U.S.C. § 412.

2. **Patents**

Patent law is a highly specialized area of intellectual property (indeed one needs a separate patent bar admission). The USPTO issues three types of patents: a) utility; b) design; and c) plant. The most common of these is the utility patent which must be for something that is new, useful, and non-obvious. Utility patents generally last until twenty years after filing.[36] A design patent must be primarily ornamental and not functional, and the term of protection is 15 years.[37] Any franchise system that has patents among its intellectual property needs competent patent counsel.

III. REQUIREMENTS TO OBTAIN A PRELIMINARY INJUNCTION TO ENFORCE INTELLECTUAL PROPERTY RIGHTS

Litigants who want to protect their intellectual property through a court action often focus on obtaining a temporary restraining order or preliminary injunction to protect their rights during the pendency of the case. By definition these remedies are temporary, but the court's ruling on a motion for a temporary or preliminary injunction can have significant impacts for the overall outcome of the case. The intent of this paper is to aid litigants in gearing up for the temporary or preliminary injunction battle.

Although there may be variations on the same theme between state and federal courts, and even within the different circuits of the federal courts, we start with the basic foundations as explained by the U.S. Supreme Court in *Winter v. Natural Resources Defense Council, Inc.*[38] Foremost, the Court described preliminary injunctions as "an extraordinary remedy never awarded as of right."[39] The Court further explained that a "plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest."[40] While there can be variation among the Circuits on how these factors are applied, litigants should know that irreparable harm remains an important requirement.[41]

In some circumstances, a party may need to meet a higher burden to obtain a preliminary injunction. For example, a party seeking a preliminary injunction that provides "substantially all the relief [it] seeks in the litigation, and that cannot be meaningfully undone in the event that the enjoined party prevails at trial on the merits," must demonstrate "a clear or substantial likelihood

---

[36] 35 U.S.C. § 154.

[37] 35 U.S.C. § 173 (though it used to be 14 years).

[38] 555 U.S. 7 (2008).

[39] *Id.* at 24.

[40] *Id.* at 20.

[41] Robert L. Haig, 2 BUS. & COM. LITIG. FED. CTS., § 23:22 (5th ed. 2023) ("In the past, the federal courts had adopted varied and changing formulations of these four factors, but the Supreme Court's ruling in *Winter v. Natural Resources Defense Council, Inc.* appears to be promoting greater uniformity. Nevertheless, some differences remain among the circuits regarding the implementation of the Supreme Court's formulation, with the Second Circuit, in particular, attempting to retain some of the flexibility of its prior approach.").

of success on the merits" and "a strong showing of irreparable harm."[42] The heightened standard effectively applies "if a preliminary injunction will make it difficult or impossible to render a meaningful remedy to a defendant who prevails on the merits at trial."[43] Parties face the same heightened burden when seeking a so-called "mandatory injunction," that is, an injunction that alters the status quo rather than maintaining it, one that usually "command[s] some positive act."[44]

Courts follow a similar multi-factor approach for permanent injunctions, modified to account for the fact that likelihood of success on the merits has been established because the party prevailed in the case. To obtain a permanent injunction, the plaintiff must demonstrate: "(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction."[45]

As discussed in more detail below, recent cases frequently have turned on the litigants' ability to demonstrate (or disprove) that irreparable harm will result without an injunction. While many courts have found that violations of intellectual property rights create a presumption of irreparable harm, the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.* undermined this presumption.[46] In that case, eBay prevailed on its patent infringement claims, but the district court denied a permanent injunction, finding that eBay would not suffer irreparable harm, as shown by its "willingness to license its patents" and "its lack of commercial activity in practicing the patents."[47] The Federal Circuit reversed, "applying its 'general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.'"[48] The Supreme Court held that both the district court and court of appeals were wrong because they each applied "categorical rules" to deny or grant injunctions, rather than applying the "traditional four-factor framework that governs the award of injunctive relief."[49]

Congress appears to have spoken on this issue, at least with respect to trademarks, when it passed the Trademark Modernization Act of 2020 ("TMA"). The TMA contains an express provision entitling a prevailing plaintiff to "a rebuttable presumption of irreparable harm."[50] More specifically, the TMA states that a plaintiff seeking an injunction to prevent certain trademark violations "shall be entitled to a rebuttable presumption of irreparable harm upon a finding of a

---

[42] JTH Tax, LLC v. Agnant, 62 F.4th 658, 666–67 (2d Cir. 2023) (citations omitted).

[43] *Id.* at 667 (citations omitted).

[44] *Id.* (citations omitted).

[45] eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006).

[46] *Id.*

[47] *Id.*

[48] *Id.* (quoting MercExchange, LLC v. eBay, Inc., 401 F.3d 1323, 1339 (Fed. Cir. 2005)).

[49] *Id.*

[50] 15 U.S.C. § 1116(a) ("A plaintiff seeking [a permanent injunction] shall be entitled to a rebuttable presumption of irreparable harm upon a finding of a violation identified in this subsection in the case of a motion for a permanent injunction.").

violation identified in this subsection in the case of a motion for a permanent injunction or upon a finding of likelihood of success on the merits for a violation identified in this subsection in the case of a motion for a preliminary injunction or temporary restraining order."[51]

In light of the TMA, many courts have returned to presuming that, at least in the trademark context, a prevailing plaintiff is entitled to a presumption of irreparable harm. For example, in *Hermes Int'l v. Rothschild*, the U.S. District Court for the Southern District of New York commented that "Congress expressly aimed to reverse *eBay*'s ruling in the trademark context." [52] Similarly, in *Rosati v. Rosati*, the U.S. District Court for the Northern District of Illinois explained that it "has been long been the law in the Seventh Circuit that the lack of an adequate remedy at law and irreparable harm are generally presumed in trademark infringement actions."[53] When the defendants in that case argued that this presumption "was called into question by the Supreme Court's decision in *eBay*," the district court disagreed, pointing to the TMA and explaining that "there is good reason to believe the presumption of irreparable harm in trademark actions enjoys even more force now than it did" when pre-TMA case law discussed the presumption.[54]

Of course, not all franchise-related disputes involve trademark issues. Many franchise disputes involve violation of non-competition agreements, misuse of trade secrets, or threats to terminate franchise relationships. As a result, litigants need to bear in mind the Supreme Court's prohibition on using "categorical rules" to deny or grant injunctions, at least outside of the trademark context.[55] Even within the trademark context, courts may not all agree on how to apply the TMA's presumptions. As the district court in *Hermes Int'l v. Rothschild*, "[t]he meaning of the TMA presumption in trademark litigation is, indeed, a subject of lively debate among our fellow district courts and sister circuits."[56]

Therefore, in cases involving requests for injunctions, franchisors and franchisees should still be prepared to consider and prove (or disprove) whether irreparable harm will occur.

IV. RECENT CASE LAW SURVEY: OBTAINING INJUNCTIVE RELIEF IN THE REAL WORLD

Parties seeking to enforce intellectual property rights may expect that, after a cease-and-desist letter is issued and ignored, and upon pleading the proper elements (see above), courts will simply grant a preliminary injunction to quickly put a stop to unauthorized use of IP. Unfortunately, recent decisions illustrate a more complex picture of injunctive relief in the real world.

Some courts have become highly skeptical of injunctive relief in business disputes, including franchise cases, questioning whether any dispute premised on business losses involves

---

[51] 15 U.S.C. § 1116(a).

[52] Hermes Int'l v. Rothschild, No. 22-CV-384 (JSR), 2023 WL 4145518, at *7–8 (S.D.N.Y. June 23, 2023).

[53] Rosati v. Rosati, No. 20-CV-07762, 2021 WL 3666432, at *11 (N.D. Ill. Aug. 18, 2021), *dismissed*, No. 21-2707, 2021 WL 7502648 (7th Cir. Dec. 27, 2021).

[54] *Id.*

[55] *eBay*, 547 U.S. at 394.

[56] *Hermes*, 2023 WL 4145518, at *8.

the type of irreparable harm that money damages cannot compensate. Even outside those jurisdictions, plaintiffs seeking to enforce rights need to prepare for elevated evidentiary requirements that can be difficult to meet at the early stages of a case without careful planning and robust fact development. The various intellectual property rights, moreover, pose distinct challenges to plaintiffs in meeting the exacting standards for obtaining a preliminary injunction.

That said, recent cases also reveal that many courts are still applying expected presumptions and tend to grant preliminary injunctions under common franchise dispute fact patterns. The trends identified in recent cases have affected both franchisor plaintiffs and franchisee plaintiffs. Thus, this survey also includes a review of decisions involving franchisee and/or distributor plaintiffs seeking injunctive relief against franchise systems and/or supplier/manufacturers.

A. Recent Decisions Suggest Some Courts Are Skeptical of Preliminary Injunctions in Franchise and Business Disputes

Some courts have expressed fundamental skepticism, either expressly or impliedly, concerning the role of preliminary injunctions in business disputes. Recent decisions have rejected requests for preliminary injunctions based on harms traditionally accepted as irreparable, particularly in trademark infringement and unfair competition disputes, concluding that such business harms are, at bottom, quantifiable in money damages. Several of these decisions permitted holdover franchisees to continue using the franchisor's marks and system during the pendency of the lawsuit so long as the franchisee was not offering lower quality products or services—results that up-end the tenets of the TMA and franchisors' expectations that courts will presume irreparable harm in holdover situations.

In *Honest Abe Roofing Franchise, Inc. v. DCH & Assocs., LLC*, the franchisor of roofing businesses sought a temporary restraining order and preliminary injunction to enjoin a terminated franchisee from carrying out a competitive business in violation of the non-compete provisions in the franchise agreements and from infringing the franchisor's trademarks.[57] Even before analyzing the claims, the court remarked that the alleged contractual and trademark violations did "not seem so portentous as to justify an 'extraordinary and drastic remedy.'"[58] The court went on to note that it would "like to say that business losses can never be 'irreparable,' because, at worst, a business loss is the total value of the business, which is roughly known."[59] While the court acknowledged that the Seventh Circuit has recognized some businesses losses as "irreparable," it concluded that Honest Abe's harms did not fall into that category.[60] The court did not reference the TMA or its presumption of irreparable harm. The court deemed the franchisor's harm resulting from breaches of the contractual non-competes and the franchisee's "trading off Honest Abe's goodwill" as "minor" and "likely to be calculable."[61]

[57] Honest Abe Roofing Franchise, Inc. v. DCH & Assocs., LLC, No. 2:22-cv-00387-JRS-MG, 2022 WL 16673850 (S.D. Ind. Nov. 3, 2022).

[58] *Id.* at *1.

[59] *Id.* at *2.

[60] *Id.*

[61] *Id.*

Two recent holdover franchisee disputes out of the Central District of California suggest that franchisors in that jurisdiction must establish independent wrong-doing by the franchisee, or failure to meet brand standards, in order to obtain preliminary injunctive relief against the franchisee's continued use of trademarks even after a valid termination.[62] In *Kahala Franchising, LLC v. Real Faith, LLC*, the franchisor of Pinkberry frozen yogurt restaurants had entered into a franchise agreement and separate lease agreement with the defendant franchisee in February 2019.[63] Two months later, the managing member of the franchisee entity passed away, leaving her son to operate the franchise.[64] A formal transfer of the franchise pursuant to the franchise agreement was discussed, but never completed.[65] Under the son's direction, the franchisee entered into a promissory note for the balance of arrears in past rents, royalties, and other fees.[66] The franchisee made no payments under the promissory note and, after August 2020, stopped making royalty payments under the franchise agreement or rental payments under the lease.[67] The plaintiff-franchisor terminated the franchise for failure to effect a formal transfer and based on the financial defaults.[68]

When the Pinkberry franchisor sought a preliminary injunction against continued operation of the franchise, there was no question that the franchisee was a holdover franchisee and that its use of the marks constituted trademark infringement. The court thus found likelihood of success on the merits (although it did credit certain potential defenses that the franchisee asserted).[69] The court then cited the TMA's presumption of irreparable harm, but found that the defendants had rebutted the presumption.[70] Specifically, the franchisee demonstrated that it was still operating a "successful franchise" and that there was no indication of failure to meet brand standards.[71] The court acknowledged the likelihood of customer confusion under the circumstances, but did not agree that customer confusion alone can result in irreparable harm. According to the court, "while there may be confusion in the minds of the public (i.e., while the public might think that Real Faith's Pinkberry is a franchise authorized by the company that owns the Pinkberry marks), Kahala nevertheless fails to show how this confusion is causing it any actual or potential harm."[72]

---

[62] *See* Kahala Franchising, LLC v. Real Faith, LLC, No. 2:21-cv-08115-ODW (SKx), 2022 WL 1605377 (C.D. Cal. May 20, 2022); Humbled Hustle, Inc. v. Humble Hustler Masters, Inc., No. 2:23-cv-01209-ODW (PLAx), 2023 U.S. Dist. LEXIS 32456, at *1 (C.D. Cal. Feb. 27, 2023).

[63] *Kahala*, 2022 WL 1605377, at *1.

[64] *Id.* at *1.

[65] *Id.* at *1.

[66] *Id.* at *1.

[67] *Id.* at *1.

[68] *Id.* at *2.

[69] *Id.* at *3-4.

[70] *Id.* at *4.

[71] *Id.* at *4.

[72] *Id.* at *4.

The court also rejected the argument that inability to control the marks creates irreparable harm in a trademark dispute.[73]

In *Humbled Hustle, Inc. v. Humble Hustler Masters, Inc.* the franchisor of LeanFeast restaurants terminated the defendant franchisee for failure to pay royalty fees and then sought an ex parte temporary restraining order to enjoin the franchisee's on-going use of the franchisor's trademarks.[74] Humbled Hustle argued, as most franchisors would, that the continued use of its marks constituted irreparable harm because it threatened the franchisor's ability to control the marks. The district judge (the same as in the *Kahala* case) summarily rejected that argument and found that the franchisor had not established irreparable harm.[75] Here, the court made no reference to the TMA presumption of irreparable harm applicable in trademark disputes. In the court's view, "[t]he mere fact that a franchisor has lost control over the use of its marks does not, without more, constitute irreparable harm justifying preliminary relief."[76] The court noted that it had reviewed other holdover franchisee disputes and concluded that preliminary relief is appropriate only when the franchise is "operating [the] business in a subpar manner."[77] For that proposition, the court cited (in part) its own prior precedent in *Kahala Franchising, LLC v. Real Faith, LLC*.

Other courts have shown similar skepticism to the role of preliminary injunctions in franchisee suits challenging termination of the franchise agreement and seeking a court order permitting continued operation of the franchise during the pendency of the suit. In *ReBath LLC v. Foothills Service Solutions Company*, an action involving competing motions for temporary restraining order by the franchisor and franchisee following termination of the franchise agreement, the court ruled that a franchisee's claim for breach of contract based on improper termination under the express terms of the contract did not present a sufficient basis for injunctive relief.[78] The court concluded that the "traditional remedy" for breach of contract actions is money damages, and that the lost profits expected under the franchise agreement were measurable under the circumstances.[79]

As shown by these cases, parties seeking preliminary injunctions should prepare for the possibility of intense scrutiny and expect to offer extensive support for the need for such relief.

---

[73] *Id.* at *5.

[74] Humbled Hustle, Inc. v. Humble Hustler Masters, Inc., No. 2:23-cv-01209-ODW (PLAx), 2023 U.S. Dist. LEXIS 32456, at *1 (C.D. Cal. Feb. 27, 2023).

[75] *Id.* at *2-3.

[76] *Id.* at *2-3.

[77] *Id.* at *3.

[78] *See* ReBath LLC v. Foothills Serv. Sols. Co., No. CV-21-00870-PHX-DWL, 2021 WL 2352426, at *14 (D. Ariz. June 9, 2021).

[79] *Id.* at *14. As to the franchisor's motion for a temporary restraining order to enjoin trademark infringement and misappropriation of trade secrets, the court applied a broader view of irreparable harm than others discussed in this section. The court determined that the inability of the franchisor to control its reputation, goodwill, and intellectual property did constitute irreparable harm and granted the franchisor's TRO motion on those claims. *Id.* at *11.

B. Plaintiffs Seeking Injunctive Relief Should Not Underestimate the Exacting Evidentiary Burden Many Courts Expect Them to Meet

Even where courts have not expressed outright skepticism towards preliminary injunctions for franchise and other intellectual-property-related disputes, the law still imposes a high evidentiary bar to satisfy the elements to obtain such relief. Because franchisors frequently seek injunctions that alter the status quo—so-called "mandatory injunctions" to stop a defendant's on-going improper competitive conduct or infringing use of protected intellectual property—franchisors may face higher evidentiary burdens than for litigants seeking "status quo" injunctions preventing threatened action in other contexts. In preparing to meet those burdens, moreover, plaintiffs should know their jurisdiction in terms of whether and how any presumptions will be applied in different contexts. For instance, while some jurisdictions recognize very strong presumptions in favor of injunctive relief in restrictive covenants cases, several recent cases reject that view.[80] Lastly, plaintiffs seeking injunctive relief should not under-estimate the weight of the defendant's evidence in the balance of harms analysis. A plaintiff may need to offer exacting and clear proof of imminent irreparable harm to support a preliminary injunction to overcome a defendant's evidence that such relief would effectively shut down its business.

The Second Circuit's opinion in *JTH Tax, LLC v. Agnant* illustrates the heightened burdens that plaintiff-franchisors may face when seeking a mandatory injunction.[81] There, the court affirmed the district court's denial of a preliminary injunction to the franchisor of Liberty tax service franchises based in part on the finding that Liberty failed to meet that heightened burden.[82] Liberty had terminated the relevant franchise agreements in March 2022, claiming that the franchisee had violated federal tax laws and regulations in providing tax preparation services.[83] Liberty then sued and sought a preliminary injunction to enforce the non-competition and non-solicitation covenants in the franchise agreement, and to enjoin trademark infringement and the improper use of confidential information and trade secrets.[84] At the preliminary injunction hearing, the franchisor brought no live witnesses, relying instead on testimony by declaration.[85] The franchisee, by contrast, appeared and testified live to oppose the injunction, making her the only live witness at the hearing.[86] The franchisee testified that she used her home as collateral for a loan to open the business and that she would be unable to provide for her family if the injunction were granted and the business were closed.[87] The franchisee also testified that she had only been

---

80 *Compare* Fitness Together Franchise, L.L.C. v. EM Fitness, L.L.C., No. 1:20-cv-02757-DDD-STV, 2020 WL 6119470 (D. Colo. Oct. 16, 2020) *with* Postnet Int'l Franchise Corp. v. Wu, 521 F. Supp. 3d 1087, 1102 (D. Colo. 2021).

81 JTH Tax, LLC v. Agnant, 62 F.4th 658 (2d Cir. 2023).

82 *Id.*

83 *Id.* at 661.

84 *Id.* at 664.

85 *Id.* at 661.

86 *Id.*

87 *Id.* at 668.

in business for approximately two years prior to the injunction motion, meaning that, if harmed by the injunction, she lacked the track record of performance to be able to "extrapolate damages."[88]

On the evidence presented, the district court was not convinced that Liberty had shown a valid basis to terminate the franchise agreements.[89] Separately, as to irreparable harm, the district court applied a "heightened showing" requirement because the franchisor had requested a mandatory injunction that could not be undone if the franchisee later prevailed on the merits.[90] The district court found that the franchisor had not met that burden.[91]

On appeal, the Second Circuit affirmed the application of a heightened evidentiary requirement because the franchisor sought a mandatory injunction that would alter the status quo by enjoining ongoing operation of the franchisee's business.[92] The Second Circuit believed the heightened standard was appropriate because the franchisee's potential right to continue in the business could not be measured "entirely in monetary terms," and, thus, the franchisee stood to suffer irreparable harm if the injunction were granted and she ultimately prevailed on the merits.[93] The Second Circuit also affirmed the district court's finding that Liberty had failed to meet the higher standard applicable to mandatory injunctions. As to irreparable harm, the court rejected the franchisor's argument that breaches of restrictive covenants require a finding of irreparable harm because they "protect interests that are generally difficult to quantify."[94] The Second Circuit held that there is no such "automatic assumption" of irreparable harm, and that plaintiffs must "present the district court with actual evidence" of irreparable harm in every case.[95]

Applying pre-TMA law, a district court in California took a similar approach in late 2021 when a franchisor of massage therapy and personal health clinics sought to enjoin a hold-over franchisee from using the franchisor's trademarks.[96] The franchisor argued that loss of control of the trademarks alone automatically established irreparable harm to support injunctive relief.[97] The district court disagreed, requiring the franchisor to put forward evidence of irreparable harm.[98] It was thus inadequate for the franchisor to offer the "hypothetical of dissatisfied customers who

---

[88] *Id.*

[89] *See id.* at 665.

[90] *Id.* at 665-66.

[91] *Id.* at 666.

[92] *Id.* at 667.

[93] *Id.* at 668.

[94] *Id.* at 672.

[95] *Id.* at 673.

[96] ME SPE Franchising LLC v. NCW Holdings LLC, No. CV-21-00458-PHX-DJH, 2021 WL 2826126 (D. Ariz. Jul. 7, 2021).

[97] *Id.* at *1.

[98] *Id.* at *1.

blame Plaintiff for their unhappiness," which did not constitute evidence of likely or actual harm.[99] Moreover, a single poor review online was deemed insufficient to meet the franchisor's burden to support the extraordinary remedy of injunctive relief.[100] The franchisor did not do itself any favors when it emailed the franchisee "and thanked them for their sales performance in April 2021, the month after Plaintiff filed its Motion for Preliminary Injunction."[101] Accordingly, the franchisor's motion for injunctive relief was denied for lack of irreparable harm. Even if the TMA and its presumption of irreparable harm had applied to this case, the franchisor's on-going encouragement of the franchisee's sales efforts may have been sufficient to rebut that presumption in any event.

In an action to enforce a post-term non-competition agreement, a district court in Colorado foreshadowed the Second Circuit's *Agnant* opinion in applying what it called a "doubly-heightened burden necessary to obtain an injunction that upsets the status quo."[102] In *Postnet International Franchise Corp. v. Wu*, it was essentially undisputed that the franchisee was in technical breach of his non-competition agreement.[103] Immediately following the expiration of the franchise agreement's term, the former franchisee set up a competing business across the street from the former franchise location.[104] Despite recognizing a "favorable presumption of harm" in non-compete cases, the district court nevertheless found that the franchisor had not met its evidentiary burden to show irreparable harm.[105]

The *Postnet* court first found that any difficulty in placing a new franchisee in the market—with a competitor across the street from the franchised location—could be measured in money damages.[106] The court gave little weight to evidence offered by the franchisor that a prospective franchisee had actually passed on the franchise opportunity due to the defendant's competing business, and instead suggested that the court would have required the franchisor to prove that it "would not have found a new franchisee pending trial in this case."[107] Because the franchisee apparently was not using the franchised marks, trade secrets, or confidential information, moreover, the court was not persuaded by the franchisor's reliance on customer confusion as a basis to establish irreparable harm.[108] Indeed, the court described the franchisee's situation as "unusual if not unique given how he operated his store," in that, "unlike most franchisees (presumably), [he] largely ignored PostNet's franchise system and programs, and ran the shop

---

99 *Id.* at *2.

100 *Id.* at *2.

101 *Id.* at *1.

102 Postnet Int'l Franchise Corp. v. Wu, 521 F. Supp. 3d 1087, 1102 (D. Colo. 2021).

103 *Id.* at 1093, 1102.

104 *Id.* at 1192.

105 *Id.* at 1104.

106 *Id.* at 1104.

107 *Id.*

108 *Id.*

as he saw fit."[109] The court further noted that the franchisee's "benefit from PostNet was, from the evidence presented thus far, limited to the value of its brand and connections to other franchisees. And the evidence shows that he has been careful not to use those things at his new business."[110] The district court also noted the lack of evidence that the franchisee had solicited any of his former customers.[111]

Lastly, the *Postnet* court rejected the franchisor's argument that preliminary injunctive relief is necessary to send a message to other franchisees and thus avoid harm to the system. According to the court, final relief on the merits would be just as effective to support that objective as preliminary relief.[112] This finding echoed an emerging trend of skepticism towards the role of injunctive relief in franchise and business cases illustrated in the cases discussed above. At a minimum, the analysis in *Postnet* suggests that franchisors may face greater resistance against preliminary injunctive relief in cases where the primary allegations are based on violation of a contractual non-compete, rather than allegations of trademark infringement, misappropriation of trade secrets, or customer poaching.

C. Proving a Likelihood of Success Still Matters – Considerations for Obtaining Preliminary Injunctions to Enforce Trademark Rights

In holdover and de-identification disputes, it is often not difficult for the franchisor-plaintiff to show likelihood of success on the merits of trademark infringement and related claims under the Lanham Act to support a request for preliminary injunction. As the Eleventh Circuit has acknowledged, a "strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor's trademarks."[113] Thus, as several recent cases illustrate, the more contested issue at the preliminary injunction stage of a holdover dispute may be whether the franchisee can rebut a finding of irreparable harm. Outside the context of holdover disputes, however, plaintiffs seeking to enforce trademark rights should not assume a finding of likelihood of success on the merits and should develop a strong factual record to establish likelihood of success on their claims. Weak or absent evidence on the existence of ongoing infringement or the likelihood of consumer confusion may result in denial of the injunction motion, as illustrated in the cases below.

In *Mountain Mike's Pizza, LLC v. SV Adventures, Inc.*, the franchisor of pizza restaurants sued a departing franchisee alleging anticipatory breach of the franchisee's contractual obligation to honor a right of first refusal held by the franchisor to acquire the business and assume the lease

---

109 *Id.* at 1105.

110 *Id.*

111 *Id.* at 1104.

112 *Id.* at 1105.

113 Burger King Corp. v. Mason, 710 F.2d 1480, 1492 (11th Cir. 1983); *accord* S & R Corp. v. Jiffy Lube Int'l, Inc., 968 F.2d 371, 375 (3d Cir. 1992) ("Once a franchise is terminated, the franchisor has the right to enjoin unauthorized use of its trademark under the Lanham Act."); Dunkin' Donuts Franchised Restaurants LLC v. EMST Donuts, LLC, No. 2:07-cv-422-FtM-34DNF, 2007 WL 9718746, at *8 (M.D. Fla. Sept. 17, 2007) ("Indeed, numerous courts have recognized the strong likelihood of consumer confusion in such circumstances and, consequently, have found a substantial likelihood of success on a trademark infringement claim when the movant has established that the franchise agreement was terminated and the former franchise continued to operate using the franchisor's marks.").

for the restaurant premises.[114] The franchisor also alleged that the franchisee was infringing the franchisor's trademarks by marketing and selling products for a competing pizza establishment via online and smartphone delivery apps, including Doordash.[115] Competing products purchased on Doordash were to be picked up from the franchise location, which still bore the franchisor's signage and marks.[116] The franchisor offered evidence in the form of screenshots of the Doordash account to support its motion for a temporary restraining order and preliminary injunction.[117]

In response, the franchisee submitted a declaration attesting that it had not intended the Doordash account to become activated until after the franchise terminated, that the account had been activated prematurely, that the single order placed through the account had been canceled, and that the customer had not received any product.[118] The franchisee also attested that it had removed all of the franchisor's signage at the subject location.[119] The court credited the franchisee's evidence and found that the franchisor had failed to establish ongoing infringement and, thus, the likelihood of future harm.[120] The court refused to grant an injunction based only on evidence of past infringement.[121]

On the issue of likelihood of confusion, the Sixth Circuit recently affirmed a district court's denial of a trademark owner's preliminary injunction motion that relied more on a theory of consumer confusion than on a factual record to establish that confusion was in fact likely. In *Sunless, Inc. v. Palm Beach Tan, Inc.*, the plaintiff, which was the seller of MYSTIC TAN brand tanning booths and tanning solution, sued a franchisor and significant purchaser of Mystic Tan® booths and, initially, tanning chemical solution.[122] The plaintiff alleged that its tanning booths were designed to use only Mystic Tan's solution, but that the franchisor had created a "workaround" and was instructing its franchisees to tape a "Mystic Tan" barcode inside the machine, resulting in the tanning booth accepting the non-branded solution.[123] The plaintiff moved to enjoin the practice.

Rather than establish likelihood of confusion under the Sixth Circuit's eight-factor test, the plaintiff argued that consumer confusion was likely under the Second Circuit's holding in *El Greco Leather Products Co. v. Shoe World, Inc.*[124] There, the plaintiff owner of trademark rights to the

[114] Mountain Mike's Pizza, LLC v. SV Adventures, Inc., No. 2:21-cv-02387-TLN-AC, 2021 WL 6136178 (E.D. Cal. Dec. 29, 2021).

[115] *Id.* at *2.

[116] *Id.* at *3.

[117] *Id.*

[118] *Id.*

[119] *Id.*

[120] *Id.* at *4.

[121] *Id.*

[122] Sunless, Inc. v. Palm Beach Tan, Inc., 33 F.4th 866 (6th Cir. 2022).

[123] *Id.* at 868.

[124] *Id.* at 869-70 (discussing El Greco Leather Products Co. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986)).

Candie's® mark for shoes had rejected a production run by its manufacturer based on a quality-control review.[125] The manufacturer nevertheless sold the rejected shoes to a retailer, who sold the shoes to consumers.[126] The Second Circuit found that the shoes sold outside the trademark-holder's quality-control mechanisms were not the genuine product and were likely to cause consumer confusion.[127] The plaintiff in *Sunless* argued under *El Greco* that its branded tanning beds and solution constituted an "indivisible whole" product, such that the defendant's use of the beds without the accompanying solution created a non-genuine tanning experience likely to confuse consumers.[128] The district court found, however, and the Sixth Circuit agreed, that the plaintiff failed to "la[y] a sufficient factual predicate to show that consumers view Mystic Tan booths and solutions they spray as a single, integrated product (a "Mystic Tan Experience"), rather than two distinct products that can be mixed and matched."[129] Without that factual record, the plaintiff's analogy to *El Greco*, alone, could not support a preliminary injunction against the defendant's jury-rigged machines.

D. <u>Considerations for Obtaining Preliminary Injunctions to Protect Trade Secrets</u>

A franchisor seeking a preliminary injunction to protect trade secrets faces additional evidentiary burdens to establish the existence of the trade secrets at issue. While trade secret laws vary by state, a plaintiff typically must establish that the information derives independent economic value from remaining secret, as well as the plaintiff's efforts to maintain the information's secrecy. In several ways, a franchisor's chances of obtaining injunctive relief to protect its trade secrets in a given dispute may be foreordained long before litigation arises. Recent decisions, for instance, emphasize the role of routine business practices designed to protect valuable trade secrets and the plaintiff's diligence in protecting the trade secrets before coming to court for relief.[130] Therefore, in addition to showing irreparable harm, a franchisor seeking to enforce trade secrets should be mindful of the additional burdens in proving such claims.

In *PFG Ventures, L.P. v. Kennedy*, the franchisor of Proforma businesses, which sell promotional products, commercial printing, printed apparel, point-of-purchase displays, multi-media services, and related business supplies, sued a competitor along with a former Proforma franchisee that had left the Proforma system to join the competitor.[131] The franchisor sought a preliminary injunction against the competitor to enjoin misappropriation of trade secrets, among other things, and against the franchisee and its principals to enjoin breaches of the franchise agreement and guaranty. The evidence at the hearing showed that while the franchisee was in discussions with the competitor about joining the competitor's business, the franchisee provided certain financial performance, staffing, sales, overhead, and accounting information to the

---

[125] *Id.* (citing *El Greco*, 806 F.2d at 394).

[126] *Id.* at 870.

[127] *Id.* (citing *El Greco*, 806 F.2d at 395).

[128] *Id.* at 870-71.

[129] *Id.* at 871.

[130] *See* PFG Ventures, L.P. v. Kennedy, No. 1:22-cv-01177, 2022 WL 2900713 (N.D. Ohio Jul. 22, 2022).

[131] *Id.* at *1.

competitor.[132] Additionally, the franchisee downloaded the Proforma's marketing materials, templates, and stock pieces.[133] The franchisee also accessed the franchisor's system to download aging reports, accounts receivable information relating to suppliers, and other reports.[134] After providing contractual notice that the franchisee was terminating the franchise, the franchisee provided the competitor with a list of the franchisor's vendors obtained by logging into the franchisor's system and taking screenshots of the information.[135] The franchisee sent various financial reports to the competitor and ran reports in the franchisor's system to obtain information about vendor relationships and payments.[136]

Despite this showing, the court denied Proforma's preliminary injunction motion on its trade secret claim. The court concluded that the franchisor had not met its burden to establish a key element of a trade secret: diligence in protecting the information at issue.[137] Like many businesses, Proforma provided the departing franchisee with a checklist of reminders related to various departure obligations, including as to the handling of confidential, proprietary, and trade secret information.[138] But without evidence that the franchisor "made specific requests for or followed up on this checklist with [the defendant departing franchisee]," the court found this kind of "generic form checklist" insufficient to prove the diligence element of a trade secret.[139] It was also relevant to the court's analysis that the franchisor had not immediately investigated whether the franchisee had retained materials and, if so, what materials the franchisee might have taken with him. The franchisor evidently had no common practice of such investigations, and thus initiated an investigation only months after the departure when a dispute arose with the franchisee.[140] Lastly, the franchisor had no common practice to monitor downloads from its computer networks and systems. The court placed a heavy emphasis on monitoring such downloads as a critical aspect of a trade-secret protection regime, as the effort "requires only minimal diligence."[141] The lack of such efforts persuaded the court that the franchisor in *PFG Ventures* had not adequately protected its trade secrets and thus could not avail itself of injunctive relief in court.[142]

PFG Ventures illustrates at two levels the unique burdens of a franchisor seeking a preliminary injunction to protect trade secrets. First, a franchisor should not rely on conclusory

---

[132] *Id.* at *3.

[133] *Id.*

[134] *Id.*

[135] *Id.*

[136] *Id.*

[137] *Id.* at *7.

[138] *Id.*

[139] *Id.*

[140] *Id.*

[141] *Id.* at *8.

[142] *Id.*

allegations about its efforts to protect the trade secrets at issue. Courts are likely to require a more specific showing to establish that the franchisor is entitled to injunctive relief. Second, moreover, a franchisor's ability to meet that burden to show diligence in protecting the trade secrets will depend heavily on the business practices that plaintiffs put in place (or fail to put in place) well before the dispute has arisen. Thus, franchise businesses should periodically evaluate their practices for protecting trade secret information with a view towards protecting their trade secrets in litigated matters.

E. Expected Presumptions and Notions of Irreparable Harm Still Thrive in Some Jurisdictions

Plaintiffs often benefit from expected presumptions and traditional notions of irreparable harm when seeking preliminary injunctions in some jurisdictions. In multiple recent cases, plaintiffs have obtained preliminary injunctions in trademark disputes relying on the TMA presumption of irreparable harm. Depending on the jurisdiction, plaintiffs in restrictive covenants disputes may also take advantage of judicially created presumptions strongly favoring preliminary injunctions as the favored method to remedy the improper competition.

The court in *Just Between Friends Franchise System, Inc. v. Samone Gibson Enterprises, LLC* found irreparable harm in a trademark dispute based solely on the presumption codified in TMA after finding that the franchisor had established a likelihood of success on the merits of its infringement claims.[143] The dispute arose largely from a terminated franchisee's express refusal to transfer access to certain social media pages that the franchisee had operated during the term of the franchise utilizing the franchisor's marks. In its termination notice, the franchisor of children's and maternity consignment shops requested that the franchisee arrange for the transfer of all such social media pages.[144] During the term of the franchise, the franchisor had administrative access to the pages.[145] After receiving the termination notice, however, the franchisee removed that access and placed the pages solely in the franchisee principal's name.[146] After some dialogue between the parties, the franchisee confirmed that it would not transfer the social media pages, which featured the franchisor's registered marks.[147]

On the merits, the court found that the defendants were using an identical or similar mark in commerce in part because they retained possession of the social media accounts and pages, and had little trouble finding likelihood of consumer confusion.[148] Applying the TMA presumption of irreparable harm, the court granted the franchisor's motion for temporary restraining order and

---

143 Just Between Friends Franchise System, Inc. v. Samone Gibson Enters*., LLC*, No. 23-CV-098-JFH-JFJ, 2023 WL 2496584 (N.D. Okla. Mar. 14, 2023).

144 *Id.* at *2.

145 *Id.*

146 *Id.*

147 *Id.* at *3.

148 *Id.* at *5.

injunctive relief in full, requiring a transfer of the social media pages and other confidential information to the franchisor.[149]

Similar cases can be found in which irreparable harm was established solely by virtue of the TMA presumption. In *Storage Concepts, Inc. v. Incontro Holdings, L.L.C.*, for instance, after concluding that a delay in seeking the injunction was justified (discussed further below), the court found irreparable harm solely because the plaintiff "demonstrate[d] a likelihood of consumer confusion" on its Lanham Act claims.[150] Likewise, in *Rosati v. Rosati*, an action involving the contested expansion of a closely-held family pizza restaurant empire into the market for frozen pizzas sold at grocery stores, the court found irreparable harm based on a long-standing presumption under Seventh Circuit precedent and the then-recently codified amendments to the Lanham Act.[151] After concluding that the plaintiffs had the better argument for establish trademark infringement in violation of the limited scope of the parties' license agreement, the court found that irreparable harm "must be presumed at this stage," and ultimately granted the plaintiffs' motion for preliminary injunction.[152] Particularly in franchise holdover and de-identification disputes, franchisors have had significant success relying on judge-made and statutory presumptions of irreparable harm to support trademark injunctions.[153]

In some jurisdictions, presumptions strongly favoring preliminary injunctive relief in non-compete disputes retain continued vitality. In *Fitness Together Franchise, L.L.C. v. EM Fitness, L.L.C.*, a franchisor of fitness studios sought a preliminary injunction against a former franchisee and several affiliates of the franchisee that had begun operating competing studios at the franchise locations in violation of a contractual covenant not to compete.[154] On the issue of irreparable harm, the federal district court in Colorado explained that the "majority of courts that have considered the question have concluded that franchising companies suffer irreparable harm when their former franchisees are allowed to ignore reasonable covenants not to compete."[155] The court found the presumption particularly strong when a franchisee operates a competing

[149] *Id.* at *6-7.

[150] Storage Concepts, Inc. v. Incontro Holdings, L.L.C., No. 8:20-CV-447, 2021 WL 1789205, at *2 (D. Neb. May 5, 2021).

[151] *See* Rosati v. Rosati, No. 20-cv-07762, 2021 WL 3666432 (N.D. Ill. Aug. 18, 2021).

[152] *Id.* at *11.

[153] In addition to the cases cited above, *see also* El Pollo Loco, Inc. v. MIK Food Inc., No. SA CV 21-01676-DOC-JDE, 2021 WL 6104875 (C.D. Cal. Nov. 1, 2021); Home-Grown Industries of Ga., Inc. v. Mellow Mushroom of Tom's River, LLC, No. 1:22-cv-04919-SCJ, 2023 WL 2179474 (N.D. Ga. Jan. 3. 2023).

[154] Fitness Together Franchise, L.L.C. v. EM Fitness, L.L.C., No. 1:20-cv-02757-DDD-STV, 2020 WL 6119470 (D. Colo. Oct. 16, 2020).

[155] *Id.* at *10 (quoting Bad Ass Coffee Co. of Hawaii v. JH Enters., L.L.C., 636 F. Supp. 2d 1237, 1249 (D. Utah 2009)).

business out of the formerly franchised location.[156] The plaintiff-franchisor succeeded on its motion to enjoin the competing activity.[157]

F. Social Media Can Be a Powerful Tool to Document Infringement for Use in a Preliminary Injunction Motion

In some cases, evidence of infringement captured on social media has been the lynchpin to securing evidence of irreparable harm to clinch the injunction for the claimant. For instance, in *Bahia Bowls Franchising LLC v. DJS LLC*, the franchisor of fast-casual acai and smoothie cafés relied heavily on evidence from the Facebook pages of the franchisee and its principal to establish trademark violations and unfair competition under the Lanham Act.[158] The franchisor had terminated the defendant-franchisee's agreement for failure to pay monthly royalties and gift card statements.[159] Following the termination, the former franchisee allegedly continued operating as an acai and smoothie café, ostensibly under a different name but without removing any of the Bahia Bowls' signage at the location.[160] The former franchisee also continued to use Bahia Bowls' registered trademarks in various Facebook posts promoting the location's continued operation as a fast-casual acai and smoothie café. The franchisor captured evidence of posts using the marks to announce a name change but containing images of the Bahia Bowls marks and Bahia's products and recipes.[161] The franchisor also captured posts from the franchisee's principal announcing that the new restaurant would be offering similar items as the formerly franchised café.[162] An updated Facebook profile picture reflected a stylized Bahia Bowls Acai Café logo nearly identical to the plaintiff-franchisor's registered stylized mark.[163]

The franchisor sought a temporary restraining order to enjoin violations of the post-term covenant not to compete contained in the franchise agreement and to enjoin trademark infringement and unfair competition. The court found that the franchisor had established likelihood of success on the merits of both the contract and trademark claims.[164] As to the Lanham Act claims, the court agreed that the trademark infringement was evidenced by the various Facebook posts identified in the franchisor's verified complaint. The court applied a presumption of irreparable harm as to the trademark claims under Eleventh Circuit precedent, consistent with, but not expressly citing, the TMA.[165] The court also relied on Eleventh Circuit precedent to apply

---

[156] *Id.*

[157] Illustrating that facts do matter, especially in the fact-dependent world of seeking injunctions, the judge who granted the injunction in the *Fitness Together* case is the same judge who denied it in the "unusual if not unique" case of *PostNet v. Wu*, discussed above.

[158] Bahia Bowls Franchising, LLC v. DJS LLC, No. 2:23-cv-94-JLB-NPM, 2023 WL 2303048 (M.D. Fla. Mar. 1, 2023).

[159] *Id.* at *2.

[160] *Id.*

[161] *Id.*

[162] *Id.*

[163] *Id.*

[164] *Id.* at *4-6.

[165] *Id.* at *7.

a presumption of irreparable harm to the franchisor's contract claim for breach of the non-compete, explaining that injunctions are the "normal and favored remedy for violations of restrictive covenants because monetary damages are typically quite difficult to establish and often cannot adequately compensate for that type of breach."[166]

As *Bahia Bowls* illustrates, social media can be a critical tool to document a defendant's infringing conduct. Franchisors that do not offer evidence, through social media or otherwise, to show the alleged infringer's actual and on-going use of the protected intellectual property may fall short of meeting the standard for early injunctive relief.[167] That said, evidence of the defendant's online activities does not guarantee an award of injunctive relief. In at least one recent case, a franchisee rebutted the franchisor's evidence of ongoing improper competitive conduct online by offering declaration testimony explaining that the activity was inadvertent and had ceased.[168] Regardless of the result in a given dispute, these cases confirm that social media and other online activities are fertile grounds for developing and refuting facts to support injunctive relief.

G. <u>Franchisees Face Similar Hurdles</u>

It is not only franchisors that have faced difficulty in recent years obtaining preliminary injunctions. The emerging trends in courts' approaches to the requirement of irreparable harm has also affected franchisees' and distributors' efforts to obtain injunctive relief. As illustrated in *ReBath LLC v. Foothills Service Solutions Company*, discussed above, courts recently have found in several cases that a franchisee's loss of business, failure of the business, and/or termination of the franchise do not automatically amount to harms that are irreparable by money damages.

In *A.B. Corp. v. Dunkin' Donuts Franchising, LLC*, a franchisee of the Dunkin' Donuts system sought a temporary restraining order against Dunkin' Donuts pending a hearing on the franchisee's motion for preliminary injunction.[169] The suit challenged the franchisor's termination of the franchise agreement based on multiple failed Food Safety Review scores and asserted claims against the franchisor under the Connecticut Franchise Act.[170] In assessing irreparable harm for purposes of the motion for temporary restraining order, the court emphasized that the relevant question was whether irreparable harm is threatened to occur before the pending preliminary injunction motion can be heard.[171] It concluded that the franchisee had not offered evidence to support any such immediate irreparable harm. The franchisee had attempted to make that showing by affidavit testimony from one of its officers, who attested that the company was

---

[166] *Id.* at *5.

[167] *See* Buttermilk Sky of TN LLC v. Bake Moore, LLC, No. 4:20-CV-00327, 2020 WL 4673909 (E.D. Tex. Aug. 12, 2020) (finding that plaintiff failed to offer evidence of defendant's continued use of the relevant trademarks and that defendant, by contrast, submitted persuasive photographs showing de-branding and lack of use of franchisor's trade dress).

[168] Mountain Mike's Pizza, LLC v. SV Adventures, Inc., No. 2:21-cv-02387-TLN-AC, 2021 WL 6136178 (E.D. Cal. Dec. 29, 2021).

[169] A.B. Corp. v. Dunkin' Donuts Franchising, LLC, No. 3:22-cv-1474 (SVN), 2022 WL 17337756 (D. Conn. Nov. 30, 2022).

[170] *Id.* at *1-2.

[171] *Id.* at *2.

"almost certain to be driven out of business" by the termination.[172] The court found that testimony to be conclusory and insufficient to justify a temporary restraining order.[173] On the other hand, the court credited the franchisor's evidence that the franchisee had not stopped operations and was still operating as a franchise, undermining the franchisee's claim that it faced imminent irreparable injury.[174]

Although the court agreed with the franchisee that it was likely to succeed on the merits of its procedural challenge under the Connecticut Franchise Act for failure to give sixty-days' notice in advance of the termination, it concluded that the remedy for that claim was limited to the franchisee's lost profits—an injury measurable in money damages.[175] The court thus ruled that "[b]ecause an adequate remedy exists at law in the form of monetary damages, at least on the present record, any injury suffered by Plaintiff as a result of Defendant's failure to comply with the [Connecticut Franchise Act's] sixty-day notice provision is not truly 'irreparable'" as required to justify entry of a temporary restraining order.[176] While the court had previously referenced Second Circuit authority that lost profits "resulting from improper termination" could "threaten the viability" of the franchisee's business,[177] the court did not analyze whether that might be the case under the facts presented, perhaps based on its assessment that the evidence was insufficient to show that the franchisee was likely to be driven out of business in the short term.

Similarly, in *Sashital v. Seva Beauty, LLC*, a district court in Illinois found that the potential termination of a franchise could be compensated by money damages and was not sufficient to support a temporary restraining order.[178] The plaintiffs in *Sashital* had entered franchise agreements to operate fast-casual spa franchises.[179] They alleged that they had been induced to do so by multiple alleged misstatements, false promises, and omissions by the defendant-franchisor, and asserted that in reality it was very difficult to operate their franchises profitably.[180] The franchisees asserted claims under the Illinois Franchise Disclosure Act, the Illinois Consumer Fraud and Deceptive Business Practices Act, and the Illinois Uniform Deceptive Trade Practices Act.[181] They sought a temporary restraining order to prevent the franchisor from terminating their agreements for non-payment of royalties pending issuance of a preliminary injunction or final resolution of the case.[182] The court found that the irreparable harm element was "dispositive"

[172] *Id.* at *4.

[173] *Id.*

[174] *Id.*

[175] *Id.* at *5.

[176] *Id.*

[177] *Id.* at *3.

[178] Sashital v. Seva Beauty, LLC, No. 20 C 4692, 2021 WL 1222895 (N.D. Ill. Mar. 31, 2021).

[179] *Id.* at *1-2.

[180] *Id.* at *1-3.

[181] *Id.* at *4.

[182] *Id.*

because the franchisees could not show any harm that could not be remedied by money damages.[183] The franchisees had argued, unsurprisingly, that the risk of losing their franchise (and thus, their business) was “immeasurable,” in light of the loss of customers and good will.[184] The court rejected the argument because it found that the franchisees had offered no evidence to support those harms. In fact, the court found the irreparable harm argument contrary to the theory of the franchisees’ case—that their franchises were not successful.[185]

In light of these recent cases, a franchisee seeking preliminary injunctions should not assume that courts will automatically accept the potential loss of the franchise business as irreparable by money damages. A franchisee seeking to enjoin termination of a franchise business should be prepared with robust and specific evidence showing the impact that the loss of revenue, customers, and goodwill is likely to have on the viability of the franchise business.

That said, franchisees and distributors have also succeeded in obtaining emergency relief based on traditional arguments supporting irreparable harm, despite some of the cases above suggesting a possible trend against finding irreparable harm in cases involving termination or loss of the franchise business. In *Sym-Agro, Inc. v. Seipasa, S.A.*, a U.S.-based distributor of agricultural products successfully obtained a temporary restraining order from a federal court in Oregon enjoining termination of its exclusive distributor agreement with a Spanish manufacturer as to a certain miticide and fungicide product.[186] The plaintiff-distributor asserted an exclusive right to distribute the product in twelve states, including “any modifications or new versions” of the product.[187] In the suit, the distributor alleged that the manufacturer had developed a new functional equivalent to the product, for which the manufacturer contracted with the distributor’s competitor as the exclusive distributor.[188] Thereafter, when the distributor placed several purchase orders for product under the subject distribution agreement, the manufacturer notified the distributor that it was terminating the agreement based on its failure to meet minimum purchase requirements.[189] The manufacturer allegedly refused to fill the standing orders unless the plaintiff conceded that the agreement was terminated.[190] In support of its motion for a temporary restraining order, the distributor argued that its agricultural customers “operate according to seasonal timetables and cannot accept delays,” such that the termination and failure to fill orders threatened the distributor’s customer base.[191] The district court agreed with the distributor and

[183] *Id.* at *7.

[184] *Id.*

[185] *Id.*

[186] Sym-Agro, Inc. v. Seipasa, S.A., No. 3:21-cv-00429-HZ, 2021 WL 1226541 (D. Or. Mar. 31, 2021).

[187] *Id.* at *1.

[188] *Id.* at *2.

[189] *Id.*

[190] *Id.*

[191] *Id.*

granted the motion enjoining termination of the distributor's agreement and requiring the manufacturer to fill the pending orders.[192]

V. ADDITIONAL CONSIDERATIONS IN SEEKING PRELIMINARY INJUNCTIVE RELIEF

A. When Is the Right Time to Seek Preliminary Injunctive Relief?

A plaintiff's timing can impact whether a court is likely to award injunctive relief. Plaintiffs that delay in seeking an injunction, or that seek an injunction too early, may not be able to show any likelihood of irreparable harm.

Delay is the more common culprit. Because a preliminary injunction is intended to address "an urgent need for speedy action to protect the plaintiff's rights," courts frequently find that "delays in seeking enforcement of those rights … tend[] to indicate at least a reduced need for such drastic, speedy action."[193] Lengthy delays of nearly a year or more after learning of the claimed breach of contract or infringement may be "fatal" to a showing of irreparable harm.[194] Under such circumstances, courts may conclude that any harm asserted by the plaintiff "can be resolved in the normal course of litigation," and does not require imminent relief.[195] Even delays of a few months can undermine a showing of irreparable harm.[196]In a recent case, the court remarked that a one-month delay in seeking an injunction after the franchisor alleged that it had become aware of the franchisee's plan to open a competing restaurant undermined any finding of irreparable harm.[197]

With this in mind, a party seeking to enforce intellectual property rights should evaluate whether pre-litigation attempts at settlement might be considered unreasonable delay if it becomes necessary to seek a preliminary injunction through court action. In some jurisdictions, courts will inquire into whether the settlement efforts stood a reasonable chance of success to

[192] *Id.* at *2-3.

[193] Citibank, N.A. v. Citytrust, 756 F.2d 273, 276 (2d Cir. 1985); *accord* H-1 Auto Care, LLC v. Lasher, No. 21-18110 (ZNQ) (TJB), 2022 WL 13003468, at *4 (D.N.J. Oct. 21, 2022); Two Hands IP LLC v. Two Hands Am., Inc., 563 F. Supp. 3d 290, 300 (S.D.N.Y. 2021).

[194] *See H-1 Auto Care*, 2022 WL 13003468, at *4 ("Plaintiff's 11-month delay in seeking relief demonstrates that its anticipated injuries do not constitute irreparable harm."); Stone Strong, LLC v. Stone Strong of Texas, LLC, No. 4:21-CV-3160, 2021 WL 4710449, at *7 (D. Neb. Oct. 8, 2021) (plaintiff failed to show likelihood of irreparable harm in part because "15 months is a long time to tolerate putatively irreparable harm"); SEBO America, LLC v. K&M Housewares & Appliances Inc., Case No. 1:20-cv-03683-DDD-NRN, 2021 WL 1329077, at *2 (D. Colo. Mar. 18, 2021) ("SEBO's year-plus delay from when it told K&M it had to stop selling SEBO products to when SEBO filed its motion for a preliminary injunction shows that SEBO itself has not understood the harm caused by K&M's actions as causing the sort of imminent harm required [to obtain a preliminary injunction."); Sashital v. Seva Beauty, LLC, No. 20 C 4692, 2021 WL 1222895, at *7 (N.D. Ill. Mar. 31, 2021) (delay of approximately one year between discovery of alleged fraud and request for temporary restraining order "raise[d] questions about [plaintiffs'] claim that they will face irreparable harm if a preliminary injunction is not entered") (internal quotation marks and citation omitted).

[195] *SEBO America*, 2021 WL 1329077, at *2 (plaintiff sought temporary restraining order and preliminary injunction more than a year after terminating authorized dealership agreement with defendant, during which time defendant dealer never ceased selling the plaintiff's products or using the plaintiff's trademarks).

[196] *Two Hands IP LLC*, 563 F. Supp. 3d at 300 (finding delay of three months to be significant).

[197] Mountain Mike's Pizza, LLC v. SV Adventures, Inc., No. 2:21-cv-02387-TLN-AC, 2021 WL 6136178, at *5 (E.D. Cal. Dec. 29, 2021).

determine whether the delay was excusable. While settlement efforts can justify delay in seeking injunctive relief when the claimant introduces evidence of a reasonable "prospect of resolution," settlement discussions without any "reason to believe the defendant[] [will] settle" may not suffice to justify the delay.[198]

Courts may also consider how the party seeking injunctive relief used the time during or after the unsuccessful settlement discussions to determine whether the delay was justified. In one recent case, the court noted that the plaintiff "continued gathering evidence in support of its motion for injunctive relief during the delay."[199] The court accordingly found that a delay of six months in filing suit, plus another two months in seeking injunctive relief, "was not so unreasonably long as to vitiate [the plaintiff's] arguments in favor of irreparable harm."[200] Given these outcomes, a litigant is wise to approach pre-litigation settlement efforts with a view towards explaining to the court why it was reasonable to take the time to explore settlement and how the time devoted to pre-suit efforts was reasonably weighed against the imminence of the harm sought to be enjoined.

On the other hand, seeking injunctive relief too early can also compromise the claim to irreparable harm if the plaintiff has not developed sufficient evidence that such harm is likely or threatened.[201] In *Sr. Ozzy's Franchising LLC v. Morales*, a franchisor sought to enjoin trademark infringement, breaches of a contractual non-compete provision, and trade secret misappropriation after a new franchisee in the development stage suddenly ceased all communications with the franchisor and failed to de-identify the restaurant location following termination by the franchisor. In addition to the clear trademark violations evidenced by the continued use of the franchisor's marks, the franchisor had reason to believe that the franchisee planned to open the restaurant as a competing business using the franchisor's system, including the manual provided to the franchisee. At the time of filing, however, it was "not obvious that Defendants intend[ed] to do so."[202] The court granted the franchisor's preliminary injunction as to the trademark violations, but denied the motion as to the franchisor's non-compete and trade-secret claims because the prospect of harm was still merely speculative.[203]

---

[198] *Two Hands IP LLC*, 563 F. Supp. 3d at 300-301 (delay of three months after sending cease and desist letter based on asserted attempts to settle with the defendants deemed fatal to irreparable harm element because no reason to believe defendants would settle); *see also* Fashion Week, Inc. v. Council of Fashion Designers of Am., Inc., No. 16-cv-5079 (JGK), 2016 WL 4367990, at *4 (S.D.N.Y. Aug. 12, 2016) (delay based on settlement discussions deemed unreasonable under the circumstances of the case).

[199] Storage Concepts, Inc. v. Incontro Holdings, L.L.C., No. 8:20-CV-447, 2021 WL 1789205, at *4 (D. Neb. May 5, 2021) (citing Safety-Kleen Sys., Inc. v. Hennkens, 301 F.3d 931, 936 (8th Cir. 2002) as authority for excusing delay where party was "marshaling its case for a preliminary injunction").

[200] *Id.* at *4. The fact that the delay also coincided with the "height of the COVID-19 pandemic" was also relevant to the court's finding.

[201] *See* Sr. Ozzy's Franchising LLC v. Morales, No. CV-23-00238-PHX-GMS, 2023 WL 2601258, at *5 (D. Ariz. Mar. 22, 2023).

[202] *Id.* at *4.

[203] *Id.* at *5-6.

B. Will a Court Enforce the Parties' Contractual Acknowledgements as to Entitlement to Injunctive Relief?

Many franchise agreements include acknowledgments or stipulations that certain events or defaults may cause irreparable harm or injury incapable of being quantified in money damages and that equitable relief would be appropriate under such circumstances. Courts differ as to the weight they will give to such contractual acknowledgments, with several Circuits holding that such provisions, alone, are insufficient to establish irreparable harm.

Some courts give significant or conclusive weight to such contract provisions as admissions by the defendant that contractual violations or other misconduct will cause irreparable harm.[204] In *Hillstone Restaurant Group Inc. v. Houston's Hot Chicken Inc.*, for instance, the district court held that the defendant franchisor "knowingly entered into a valid and enforceable agreement where [it] specifically stipulated that any material breach on [its] part would constitute irreparable harm to Plaintiff and would entitle Plaintiff to specific performance or injunctive relief."[205] The suit for injunctive relief had been filed by a competing restaurant business against the Houston's Hot Chicken franchise system for breach of a settlement agreement that had resolved a prior trademark infringement suit between the competitors. The court found the stipulations in the parties' agreement conclusive to establish irreparable harm.[206] That said, the plaintiff had also offered evidence establishing harm to its trademarks and goodwill, which bolstered the court's conclusion.[207]

Other courts, however, have emphasized that such contractual acknowledgements of irreparable harm "do not control the question whether preliminary injunctive relief is appropriate."[208] Applying that principle, the Second Circuit in *JTH Tax, LLC v. Agnant* gave little to no weight to a provision in the franchise agreement whereby the franchisee "acknowledge[d] that any breach of the covenants not to compete causes damage to the integrity of Liberty's franchised system, loss of franchisee and customer goodwill and irreparable harm."[209] For that and other reasons, discussed in more detail above, the Second Circuit held that the plaintiff failed to establish irreparable harm.[210] Thus, a litigant seeking preliminary injunctive relief should not rely

---

204 *See* Ticor Title Ins. Co. v. Cohen, 173 F.3d 63, 69 (2d Cir. 1999).

205 Hillstone Rest. Grp. Inc. v. Houston's Hot Chicken Inc., No. CV-22-02004-PHX-MTL, 2023 WL 110926, at *4 (D. Ariz. Jan. 5, 2023).

206 *Id.*

207 *Id.*

208 JTH Tax, LLC v. Agnant, 62 F.4th 658, 674 (2d Cir. 2023) (quoting Baker's Aid v. Hussmann Foodservice Co., 830 F.2d 13, 16 (2d Cir. 1987)); *see also* Barranco v. 3D Sys. Corp., 952 F.3d 1122, 1130 (9th Cir. 2020) (finding that the district court erred in "relying solely on the text of the parties' contract to grant equitable relief"); ComForCare Franchise Sys., LLC v. ComForCare Hillsboro McMinnville Corp., 815 F. App'x 80 (6th Cir. 2020) ("No contract can dictate to a federal district court a decision whether to grant injunctive relief."); Dominion Video Satellite, Inc. v. Echostar Satellite Corp., 356 F.3d 1256, 1266 (10th Cir. 2004) (noting that contractual stipulations "alone are insufficient to support a finding of irreparable harm and an award of injunctive relief"); Smith, Bucklin & Assocs., Inc. v. Sonntag, 83 F.3d 476, 481 (D.C. Cir. 1996) (similar).

209 *JTH Tax, LLC*, 62 F.4th at 674.

210 *Id.*

exclusively on contractual acknowledgments if evidence can be offered to support to the claim to irreparable harm.[211]

C. <u>Are Contractual Liquidated Damages An Adequate Remedy At Law?</u>

Franchise agreements also commonly contain liquidated damages provisions because the harm from certain defaults, including those that result in early terminations or those involving breaches of non-compete provisions, can be extremely difficult to quantify in money damages. At least one court recently refused to grant injunctive relief, however, because the availability of liquidated damages meant that the franchisor's injury was "likely quantifiable in the form of money damages."[212]

In *Doctor's Associates, LLC v. Khononov*, the franchisor of Subway restaurants sought to enjoin the franchisee's operation of a sandwich shop previously operated as a Subway after the franchisee had abandoned the franchise, resulting in termination of the franchise agreement.[213] The franchisor asserted that the franchisee was using non-public Subway information, serving Subway-approved food, and using names, décor, and slogans associated with Subway. The franchisor argued that the alleged misconduct would result in irreparable harm for three reasons: (a) the use of confidential information and trade dress would harm Subway's customer goodwill; (b) the competing store would harm the franchisor's ability to put a new franchise unit in the market; and (c) the franchisee's conduct would harm the whole system by "emboldening other franchisees" to take similar actions.[214] Nevertheless, the district court did not find irreparable harm. It held foremost that the liquidated damages provision contained in the non-compete provision in the Subway franchise agreements "has been successfully enforced," and that the "presence of a bargained-for liquidated damages provision makes it unlikely that any damages [the franchisee] causes by violating the noncompete provision would be unquantifiable or abstract."[215]

Of course, while a liquidated damages provision might provide some compensation to remedy injuries that are difficult to quantify, they may not provide complete redress. In light of *Khononov* and similar cases, a plaintiff seeking injunctive relief in a dispute involving a contract containing liquidated damages provision should be prepared to explain why potential entitlement to liquidated damages does not remedy the ongoing infringement of intellectual property or wrongful competition sought to be enjoined. Even if liquidated damages provide one remedy, it may not be an "adequate" remedy for all harms being suffered.

---

[211] *See* PFG Ventures, L.P. v. Kennedy, No. 1:22-cv-01177, 2022 WL 2900713 (N.D. Oh. Jul. 22, 2022) ("[T]he law does not presume injury and requires proof of harm, even where a contract provides otherwise.").

[212] Doctor's Associates LLC v. Khononov, No. 22-cv-7637 (FB), 2023 WL 184389, at *2 (E.D.N.Y. Jan. 13, 2023).

[213] *Id.* at *2.

[214] *Id.*

[215] *Id.* at *3. The court also found that the presence of several other franchises operating within a three-mile radius of the former franchisee mitigated the potential for loss of customer goodwill and that the prospect of a civil action for damages was sufficient, without injunctive relief, to deter similar behavior by other franchisees and that harm was thus not likely to the system as a whole.

VI. TAKEAWAYS

Temporary and preliminary injunctions are frequently sought in franchise litigation to protect intellectual property during the pendency of the dispute. A franchisor may want to prevent a terminated franchisee from continuing to use the franchise system's trademarks and other intellectual property. That same franchisor may also want to enforce a non-competition restriction. Similarly, a franchisee may ask a court to enjoin a threatened termination until the merits of the franchisor-franchisee dispute have been resolved.

While parties commonly request injunctions, and while courts will often grant them on common and "expected" fact patterns, recent cases remind us that they are never awarded as a matter of right. Courts have denied injunctions when finding that the claimed harm is actually compensable in money damages. Some courts have closely scrutinized requests, finding that a plaintiff's evidence of likelihood of success on the merits or irreparable harm was insufficient, conclusory, or outweighed by a greater harm that the defendant would face if enjoined.

Each case necessarily stands on its own facts, but there are some takeaways that parties can consider when handling injunction requests:

- Check the jurisdiction's or specific judge's recent decisions on injunctions for any unexpected outcomes or even perceived hostility to injunctions in business disputes, and for any favorable (or unfavorable) presumptions the jurisdiction may offer;

- Understand the differences between a "status quo" injunction and a "mandatory injunction," and whether the particular jurisdiction imposes different requirements for each;

- Parties claiming trademark infringement should invoke the presumptions of the recent Trademark Modernization Act, but should also still be prepared with evidence of irreparable harm, just as they should search for and offer evidence of actual confusion and how it will damage their reputation;

- Avoid relying solely on hypothetical harms that might occur if the injunction is granted or denied, but offer concrete and specific evidence;

- Where possible, offer witness testimony and prepare to have those witnesses testify live;

- A franchisor seeking an injunction against a franchisee who has violated brand standards or continues misusing intellectual property should prepare to have specific evidence of the violations (including from investigators, mystery shoppers, and negative customer reviews) and how they can damage the franchisor's reputation;

- Franchisees opposing injunctions against continued operation (or seeking injunctions to prevent termination) should look for specific evidence of harm to them that would be difficult to quantify and compensate with money, such as disrupted relationships and collateral consequences;

- Review the parties' communications for any concessions that might strengthen (or weaken) a claim of irreparable harm;

- Review social media activity to see whether evidence exists to support (or refute) the request;

- Those seeking an injunction should be prepared to explain the timing of the request – including why an injunction may have been immediately sought or why significant time may have elapsed between the alleged wrongdoing and the request.

Perhaps the main takeaway we offer is to remember that injunctions are never a given. Even where there may be a "slam dunk" case, parties seeking and defending against injunctions should be prepared with robust evidence, just as they should be prepared for unexpected outcomes.

BIOGRAPHIES

Anne Horn Baroody is a senior attorney with Bradley Arant Boult Cummings LLP in Atlanta, Georgia. Anne is a trial and appellate litigator, and she represents clients in numerous industries in commercial, unfair competition, franchising, and branding disputes before federal and state courts, the United States Trademark Trial and Appeal Board, and alternative dispute resolution bodies. Anne obtained her J.D. from the University of Georgia School of Law and clerked for the Hon. Orinda D. Evans in the United States District Court for the Northern District of Georgia.

Anne is a member of the Forum's Litigation and Dispute Resolution ("LADR") steering committee and is on the board of the Georgia State Bar Franchise & Distribution Law Section. In 2021, she presented along with Kathryn Kotel and Charles Marion on the topic of *Death by 1,000 Cuts: Defending Against Non-Franchise-Specific Lawsuits Over ADA Website Compliance, Biometric Privacy, TCPA Violations, IP Infringement, and Other Ancillary Claims*. Anne has also published several articles in THE FRANCHISE LAWYER.

Susan Meyer is an Officer at Greensfelder, Hemker & Gale, PC, and serves as the Team Leader of the Trademark, Copyright, Media, and Advertising Group. Susan advises businesses in the areas of intellectual property, franchising, and distribution. She provides practical, value-driven legal counsel as she represents companies in the U.S. and internationally through every stage of development. Susan works with franchisors on compliance issues and strategic planning and serves as outside general counsel for them. In IP, she manages prosecutions, licensing, and dispute resolution, and with extensive experience in trademark law, represents clients before the Trademark Trial and Appeal Board and federal courts. In 2019, Susan was appointed as Norway's Honorary Consul for Illinois. Serving as Royal Norwegian Honorary Consul, Susan assists with consular affairs and helps to facilitate development of business, cultural, and educational relations between Norway and the U.S. In her legal practice, she frequently advises companies on matters related to commerce between the U.S. and Scandinavia. She has spoken on IP and franchising matters at the American Bar Association's Forum on Franchising, the International Franchise Association's Legal Symposium, the European Women's Association, the IWEC Foundation, the Swedish American Chamber of Commerce (SACC-USA) in Sweden, and the Norwegian-American Chamber of Commerce (NACC). She is a past president of NACC Chicago and twice attended the SelectUSA Investment Summit on international trade opportunities as a member of the Norwegian delegation. Susan is an active member of the Norwegian-American Defense and Homeland Security Industry Council (NADIC) and SACC Chicago. Susan serves on the board of Women Entrepreneurs Grow Global (WEGG), a non-profit organization dedicated to helping women-owned businesses expand internationally.

Tom Vanderbloemen is the owner and founder of Vanderbloemen Law Firm, P.A. in Greenville, South Carolina. Tom focuses on intellectual property, franchising, and serving as outside general counsel for business clients. He previously served in this type of outside general counsel role for a fitness franchisor with over 500 units in multiple countries.

Tom grew up in Western North Carolina, received his undergraduate degree from Davidson College and his law degree from Duke University School of Law, and began his legal career at King & Spalding LLP in Atlanta. He later moved to Greenville, where he clerked for the Hon. William B. Traxler, Jr. on the U.S. Court of Appeals for the Fourth Circuit and was a shareholder at Gallivan, White & Boyd, P.A. Tom opened his own firm in 2017.

Tom is an active member of the International Trademark Association, where he has served as a member of the Internet Committee and the Publications Committee. He is also a past Secretary and Board Member of the Carolinas Patent Trademark & Copyright Law Association and a past President of the South Carolina Chapter of the Federal Bar Association.

Tom is particularly grateful for the collegiality and support of the members of the Forum on Franchising, many of whom have been gracious enough to team up with his firm to assist on various franchise matters, including setting up new franchise systems, helping with a franchise system purchase, and working as co-counsel on franchise litigation matters. Tom also co-authored an article with Forum member Vincent Frantz, titled "The Untold Story of the Concurrent Use Trademark Registration," which appeared in the Fall 2021 edition of the *Franchise Law Journal*.

Among Tom's other activities, he sends out a regular newsletter to clients, colleagues, and friends on intellectual property, franchising, and "other legal stuff" (including trivia questions and pictures of the firm's chief in-house counsel and new law clerk, both of whom are four-legged).