Litigation Against Competitors

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Another franchise system has started to lure franchisees away from yours. Or, more likely, your competitor has accused you of misrepresenting your system's products or services in your latest advertising campaign. Perhaps your rival has hired one or more of your key employees to acquire your trade secrets and other intellectual property—in other words, your entire system—which may be used against you in the marketplace. These are only some of the situations that may lead to litigation between franchisors and their competitors.

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Cases against competitors can be some of the most emotional, protracted litigation that franchisors will ever face. On top of the difficulties caused by the parties' desire to win, their perceived *absolute need* to win, are other factors that make litigation against competitors even trickier than other litigation. These special factors include heightened confidentiality concerns, commercial considerations, and even lurking antitrust dangers about resolving a matter in ways that are deemed "too cooperative" with competitors.

This article will address the pragmatic realities as well as the legal issues involved in lawsuits between one franchisor and another or between a franchisor and its now-competing former employee or franchisee. The aim is to provide guidance and ideas to franchisors in the event that either they see a need to sue a competitor or a competitor sees a need to sue them.

Major Types of Legal Claims in Competitor Litigation

Just as the contexts vary, a wide range of legal claims can be brought in competitor disputes. Among these potential causes of action are those to enforce covenants not to compete; remedy interference with contracts; protect trade secrets, trademarks, trade dress, copyrighted materials, and other intellectual property; challenge false advertising; allege antitrust violations; and prevent unfair competition or similar practices. The key to addressing such claims is to understand the differences among the causes of action and knowing which does or does not apply to a particular competitive situation.

Enforcement of Noncompete Agreements

The most obvious and common category of cases between competitors in franchising involves noncompete claims against former franchisees. This is because most franchise agreements contain clauses of one form or another in which the franchisee agrees not to compete with the franchisor's system during the life of the agreement, during some period following, or both.[1] The object of noncompete clauses in franchise agreements is to protect the franchisor's trade secrets and other confidential business information, as well as its goodwill, market share, and name recognition.[2] Some commentators have compared franchise noncompete clauses to noncompetes in the sale-of-business context.[3]

Entire books have been published on the subject of noncompete enforcement in franchising alone,[4] and enforcement of these clauses often is the focus of litigation between competitors. In these cases, courts in most states routinely grant injunctive relief to stop the former franchisee from competing against its former franchisor. Sometimes a nonsignatory to a franchise agreement, i.e., a party that technically did not subject itself to the clause, attempts to open a competing business aided by information or other resources from a signatory that is not itself bound.[5] Most courts see through these attempts to circumvent noncompetition clauses, and judges generally will not allow the signatory to do indirectly what it cannot do under the terms of a franchise agreement.[6] Thus, whether the new competitor formerly was a franchisee or not, noncompete law may come into play.

One strategy to minimize the risk of this type of litigation is to be as explicit and detailed as possible when drafting the noncompete language in a franchise agreement. The agreement should express that the franchisee understands that use of the franchisor's trademark and business system, goodwill, and customer information all are temporary benefits and expire with franchise agreement termination.[7] An earlier article in this *Journal* analogized the franchisee's temporary use of the franchisor's goodwill to a lease and recommended the use of lease-like language in the franchise agreement as a means of aligning franchisees' unrealistic expectations and assumptions with legal reality.[8] These types of provisions likely will prevent a former franchisee from operating a competing business right at the same location. Further language regarding the geographic and business scope of the covenant not to compete also should be drafted carefully with the governing law taken fully into account. Enforcement of post-termination noncompete clauses varies from state to state.

Tortious Interference

Tortious interference is another common legal doctrine invoked in disputes between franchise competitors, often in conjunction with other claims. The tort of interference can be formulated as either one of two distinct theories: tortious interference with contract or tortious interference with prospective business relations. Courts afford more protection to existing contractual relationships than to potential ones and thus are more likely to be sympathetic to the former claim.

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Tortious Interference with Contract

The highly publicized, recent case involving the Starwood and Hilton hotel chains provides an excellent example of how tortious interference claims can arise in franchising. In *Starwood Hotels & Resorts Worldwide, Inc. v. Hilton Hotels Corp.*, Starwood colorfully accused Hilton of misdeeds such as corporate espionage, theft of trade secrets, and fraud.[9] But one of the most straightforward allegations at the heart of the dispute was that Hilton knowingly and intentionally induced key employees at Starwood to breach contracts with their employer, thereby "tortiously interfering with Starwood's contractual relations" with those employees. The underlying situation no doubt was particularly disturbing to Starwood because, as Starwood stated in the very first paragraph of its filed complaint, "Starwood and Hilton are direct, head-to-head competitors."[10] This case demonstrates that normal competitive tensions can move to the courtroom almost immediately when one company hires employees from another, particularly if the employees were at a high level in their former company: *Starwood* very quickly proceeded from filing to the preliminary injunction stage and ultimately to a settlement that included a permanent injunction by consent.[11]

Lawsuits like these are similar to business divorce cases. Before these situations arise, hiring parties are wise to find out what contracts exist and make sure they are honored, and all employers should take care that their employee contracts protect against employees taking company secrets across the street to a competitor.

Tortious interference claims are difficult for courts to adjudicate, in part because of the fine line between behavior that is part and parcel of normal business competition in our robust free enterprise system and behavior that rises to the level of being tortious and unlawful.[12] Clearly, not all conduct that a competitor dislikes gives rise to the tort of interference. Nor is all interference with a competitor illegal; after all, competitors by nature continually "interfere" with each other legally, especially in trying to obtain customer business. According to the Restatement (Second) of Torts, *unlawful interference with contract* is defined as follows:

> One who intentionally and improperly interferes with the performance of a contract . . . by inducing or otherwise causing the third person not to perform the contract, is subject to liability to the other for the pecuniary loss resulting to the other from the failure of the third person to perform the contract.[13]

Note the requirement that the interference by the third party with the performance of the contract must be both intentional and improper.

In addition to a franchisor interfering with the contractual relationships between a competing franchisor and its employees, tortious interference with contract can include a scenario in which a franchisor intentionally and improperly interferes with the contractual relationships between a competing franchisor and its franchisees. In *Heavener, Ogier Services v. R.W. Florida Region*,[14] for example, an appellate court in Florida affirmed the district court's issuance of a temporary injunction preventing two national real estate franchisors from soliciting each other's franchisees because such solicitation was encouraging the franchisees to breach their existing franchise agreements.[15] The lower court's injunction precluded either franchisor from initiating contact with the other's franchisees that were in existing franchise relationships. And if a competitor's franchisee contacted a franchisor, all the franchisor could do was offer to meet with the interested franchisee after its present contract had expired.[16]

Litigation provides many opportunities for competitors to manifest their aggression toward or distrust of each other, thereby raising the cost for all.

Another example of one franchise system accusing another of trying to induce franchisees to convert was *AFC Enterprises v. Cajun Operating Co.*,[17] a case that apparently settled with trial approaching after more than thirty depositions and the denial of summary judgment.[18]

Tortious Interference with Prospective Business Relations

The *AFC Enterprises* case, in addition to claims for interference with contracts, also included claims for tortious interference with prospective business relations. This type of claim is defined as follows:

> One who intentionally and improperly interferes with another's prospective contractual relation . . . is subject to liability to the other for the pecuniary harm resulting from loss of the benefits of the relation, whether the interference consists of (a) inducing or otherwise causing a third person not to enter into or continue the prospective relation or (b) preventing the other from acquiring or continuing the prospective relation.[19]

One important difference between tortious interference with contracts and tortious interference with prospective business relations is that no actual contract needs to have existed or been breached for the tort of interference with prospective business relationships to occur. Although the "intentional" and "improper" requirements are identical, tortious interference with prospective business relationships can occur through either the inducement of the third party not to enter into the business relationship with the harmed party or the prevention of the harmed party from entering into the relationship with the third party.

Prevention Measures

In order to avoid tortious interference litigation when recruiting new franchisees, franchisors should carefully train their franchise sales staff members to refrain from encouraging franchisees of competing businesses to break off their franchise agreements before those agreements and any applicable noncompete provisions have expired.[20] Also, franchisors (as well as franchisees) should make sure that any actions taken that may adversely affect competing businesses be grounded in legitimate and defensible competitive motives.[21]

Trademark Infringement

Another common example of litigation between competing franchisors arises when a franchise relationship has been terminated but the franchisee persists in using the franchisor's trademark in a now-adverse way. Like lawsuits to enforce covenants not to compete, trademark litigation against former franchisees usually arises very soon after termination of a franchise.[22] One reason for immediacy is that once a licensor loses control of a trademark, the resulting risk of irreparable harm in the form of consumer confusion will be great. This risk of confusion usually is enough to support the grant of a preliminary injunction.[23] In these cases, a former franchisee generally will not be able to avoid liability for trademark infringement if it establishes virtually the same business independent from the former franchisor.[24] The former franchisee even may be found to have engaged in trademark "counterfeiting" under the federal Lanham Act.[25]

For the most part, cases of this type can be prevented or quickly won through standard franchise agreement language limiting use of the franchisor's trademarks after termination, coupled with warnings in advance of and at the time of termination. If necessary, courts will usually grant immediate requests for injunctive relief if the franchisor seeks federal judicial intervention in the event of continued trademark usage after termination.[26]

Other types of trademark litigation between franchise competitors generally are limited to the rare instances in which one system begins to offer a menu item or other product under a name that another already is using. The battle between Steak 'n Shake and Burger King over use of the name *Steakburger* is a juicy example.[27] Another, more recent, trademark case is *Firehouse Restaurant Group v. Scurmount LLC*,[28] in which the dispute related to use of the name *Firehouse*.[29] However, these cases often result from ignorance rather than intentional infringement[30] and are resolved quickly when the second user is informed that a particular name already has been trademarked.

Misappropriation of Trade Secrets

Trade secret misappropriation is another legal claim commonly brought in franchise competitor litigation. In some jurisdictions, such as California, where a statute precludes most restraints on competition, the trade secrets route may be viewed as the only way to prevent a former franchisee from "taking the business across the street."

The Uniform Trade Secrets Act defines *trade secret* as:

> information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[31]

Thus, to qualify as a true trade secret, the economic value of the information is not sufficient; the information also must be the object of reasonable efforts to maintain its secrecy.

The court's decision in *Frosty Bites, Inc. v. Dippin' Dots, Inc.*[32] exemplifies the type of fact pattern in which trade secret misappropriation claims can arise in the franchising world. Frosty Bites had been a former retail dealer of Dippin' Dots (DDI) but had declined DDI's offer to become a franchisee and had instead opened a competing business. In the suit, DDI alleged that Frosty Bites had misappropriated and was now using DDI's trade secrets in operating its business. The district court granted defendant's motion for summary judgment, finding that DDI's failure to use reasonable methods to maintain the secrecy of its purported trade secrets was fatal to its trade secret misappropriation claim as a matter of law.[33]

In other cases, however, reasonable methods were used, and the courts have found for the franchisors. In *American Express Financial Advisors, Inc. v. Yantis*,[34] another example of a trade secret misappropriation case between competitors in franchising, the district court granted the plaintiff broker dealer-franchisor's request for a preliminary injunction to enforce the terms of a covenant not to compete with a former franchisee that had become licensed with a competitor.[35] As with many such litigated matters, *Yantis* was both a trade secret case and a noncompete case, and the presence of trade secrets undoubtedly was important to the court in enforcing the contracts. Similarly, in *Re/Max of America, Inc. v. Viehweg*,[36] a federal district court in Missouri granted the plaintiff franchisor's request for a permanent injunction against a former salesman who stole documents and other information from the franchisor and attempted to use that misappropriated information to improperly benefit the franchisor's competitors.[37]

Franchisors have multiple strategies at their disposal to avoid the need for trade secret litigation.[38] First, the franchise agreement should identify, at least generally, the trade secrets and confidential information to be protected and should prohibit franchisees from disclosing the trade secrets during the life of the agreement or using them after the agreement has been terminated.[39] Key employees and other agents of the franchisee also should be required to sign confidentiality agreements; and the franchisee, upon termination of the franchise agreement, should be required to turn over all copies of the franchise manual or any other written materials that may contain confidential information.[40]

False Advertising

Advertising is one of the purest forms of competitive activity, and naturally the ads that a company publishes are viewed by its competitors. Occasionally, litigation results under the rubric of "false advertising" allegations pursuant to the federal Lanham Act or state laws. Section 43(a) of the Lanham Act provides a cause of action against

> [a]ny person who, on or in connection with any goods or services . . . uses in commerce any word, term, name, symbol, or device, or any combination of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities.[41]

This language provides plenty of fodder for competitors to assert claims. This has happened several times in franchising, although not all of the lawsuits have been well received by the courts.[42] In *Jackson Hewitt v. H & R Block*, the claims challenged comparative advertising under the Lanham Act and New Jersey Consumer Fraud Act.[43] This case settled on the eve of trial after extensive procedural wrangling.[44] *Phoenix of Broward v. McDonald's* involved false advertising claims that Burger King franchisees attempted to lodge as a class action against McDonald's Corporation in relation to its Monopoly-themed advertising and promotion.[45] A federal district court's dismissal of that case on standing grounds was affirmed on appeal.[46] *Pizza Hut v. Papa John's* was another case in which one franchisor challenged another's comparative advertisements,[47] although this challenge ultimately was rejected by another federal appellate court.[48] *Avis Rent A Car System, LLC v. Hertz Corp.* included allegations that defendant had misrepresented the relative size of the two competitors' respective fleets of rental vehicles. An injunction against defendant's advertisements was originally granted but later was reversed on appeal.[49] Obviously, the way to avoid such claims is for a franchisor to avoid making false or misleading statements about its own business or that of its competitors.

Antitrust

Antitrust claims, too, may be raised in competitor litigation, although these types of claims often are both extremely complex and difficult to prove. For example, when a competing manufacturer and a former distributor challenged an ice cream manufacturer's requirement that its distributors not sell any other brands of ice cream, a federal district court in California rejected the antitrust claims because plaintiffs had not shown a sufficient antitrust injury.[50] That court also rejected monopoly claims, finding that defendant did not have monopoly power within the relevant market, nor did it have the power to exclude competitors.[51] Another case, *Coalition for a Level Playing Field v. Autozone*,[52] involved a claim by a mom-and-pop retailer against a large chain of stores. The allegation was that the chain obtained a competitive advantage by violating antitrust law. This lawsuit was dismissed by the district court, which later denied plaintiff's request to amend its allegations, and the dispute soon settled while an appeal was pending.[53]

Other Possible Claims

The competitor litigation claims mentioned above are not, by far, the only possible types of claims. Other causes of action applicable to franchise competitor cases may include unfair competition (somewhat by definition)[54] as well as claims under state deceptive trade practices statutes or consumer fraud acts.[55] Unjust enrichment, defamation, libel, slander, conversion, civil theft, and even fraud or misrepresentation also may find their way into the complaints filed in some cases.

Heightened Practical Considerations in Competitor Litigation

#1: Disclosure Requirements

One vexing consideration for franchisors that either have been parties to competitor litigation in the past or are presently parties to such litigation is whether and to what extent they must disclose details of the lawsuit in their disclosure documents for franchise sales. The Federal Trade Commission and various states have promulgated disclosure requirements for franchisors, including the required disclosure of pending and past litigation.

For example, federal law lays out the requirements for how much information franchisors must disclose to prospective franchisees about pending or past lawsuits in Item 3 of their Federal Disclosure Document (FDD). The first requirement is that the franchisor must disclose any "administrative, criminal, or material civil action alleging a violation of a franchise, antitrust, or securities law, or alleging fraud, unfair or deceptive practices, or comparable allegations" presently pending against the franchisor or an affiliated entity.[56] The franchisor also must disclose any pending "civil actions, other than ordinary routine litigation incidental to the business, which are material in the context of the number of franchisees and the size, nature, or financial condition of the franchise system or its business operations."[57] These categories would appear to include certain types of cases involving competitors, such as antitrust or fraud claims brought by a competitor against a franchisor or any other "material" cases. A determination of whether a civil action against a competitor is material will be made on a case-by-case basis and will depend on whether disclosure of that action would be likely to influence a prospective franchisee's investment decision.[58]

The franchisor also must disclose any "material civil action" to which it was a party in the last fiscal year, to the extent that the case involved the franchise relationship, i.e., the "contractual obligations between the franchisor and franchisee directly relating to the operation of the franchised business."[59] This provision, which could involve competitor litigation cases as described in this article, is drafted so that it does not matter whether the suit was initiated by the franchisor or the franchisee. Also, according to the Federal Trade Commission, suits involving the franchise relationship will be assumed to be material, likely meaning that a materiality analysis turning on the wherewithal of the franchisor will not be necessary if the competitor is a franchisee or former franchisee.[60]

Next, if the franchisor or any of its affiliates has "been held liable in a civil action involving an alleged violation of a franchise, antitrust, or securities law, or involving allegations of fraud, unfair or deceptive practices, or comparable allegations" in the past ten years, the franchisor must continue to disclose this information in Item 3.[61] For purposes of this section, *held liable* means that "as a result of claims or counterclaims, the person must pay money or other consideration, must reduce indebtedness by the amount of an award, cannot enforce its rights, or must take action adverse to its interests."[62] Importantly, the broad definition of *held liable* likely will be included in most settlement agreements.

Finally, the franchisor must disclose whether the franchisor itself or any affiliated entity "is subject to a currently effective injunctive or restrictive order or decree resulting from a pending or concluded action brought by a public agency and relating to the franchise or to a federal, state, or Canadian franchise, securities, antitrust, trade regulation, or trade practice law."[63]

#2: Confidentiality

Another consideration in disputes with competitors is that a party to the litigation may request in discovery certain information that a company would be loath to provide to its competitor. This can include customer information, pricing, copies of tax returns, strategic plans, margin data, and other very sensitive information.

In such situations, the court will be asked to issue a protective order, with or without agreement of opposing parties, preventing the disclosure of confidential business information to competitors or others. The Federal Rules of Civil Procedure permit the court, upon motion and for good cause, to "issue an order to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense. . . ."[64] Specifically, the court is authorized to issue a protective order "requiring that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a specified way."[65] By rule, the requesting party must show the court good cause for the protective order because ordinarily the public has a right to information.[66] However, protection of a party's trade secrets or other legitimately confidential business information is sufficient grounds to acquire a protective order, although the order is open to challenge from the opposing litigant or some other member of the public.[67]

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The existence of a protective order, although helpful, is not always enough to ameliorate the problems inherent in turning over secrets to a competitor. In *Nutratech v. Syntech International*,[68] for example, a case between competitors, the litigants had stipulated that the materials in question should be subject to a court protective order. Defendant, however, argued that certain confidential business information such as overall sales figures and customer/supplier lists, although admittedly not trade secrets, should be for the eyes of the plaintiff's attorney only and should not be shared with plaintiff's president.[69] Plaintiff argued in response that its officers needed to have the information in order to properly prosecute the lawsuit.[70] The district court sided with defendant. It found that disclosure of the confidential business information to plaintiff's president would cause competitive harm to defendant and ordered that the information be designated "attorney's eyes only."[71] As in the *Nutratech* case, the question of who can see the protected documents often becomes a disputed issue.

Because the need to protect confidential information and trade secrets is widely recognized in litigation between competitors and because this issue generally affects both sides in their anticipated disclosure of information, the parties often stipulate to a protective agreement. This stipulation then is entered as a court order. However, neither party in hotly contentious competitor litigation is likely to feel entirely comfortable no matter what order is in place. Having clear guidelines and strong sanctions built into the order is about all that can be done to help.

#3: Settlement Without Violating Antitrust Law

One specific context in which players in the franchise industry can inadvertently open themselves up to potential new claims—antitrust claims—is when they are negotiating settlement agreements with their competitors. Under § 1 of the Sherman Act, any "agreement" that is "in restraint of trade" could be an antitrust violation. This would include some agreements between competitors in settling litigation.

Although it is not a franchise case, *Clorox Co. v. Sterling Winthrop Inc.*[72] provides an example of such a lawsuit. In *Clorox*, plaintiff, a manufacturer of household cleaning products, had previously negotiated a settlement with a competitor resolving patent and trademark litigation. In the settlement, Clorox agreed to certain restrictions on its use of its trademarks. Clorox brought a subsequent lawsuit alleging antitrust claims. The district court rejected these claims, which arose out of Clorox's challenges to its own agreements settling the previous litigation, because plaintiff failed to show any adverse effects of the settlement agreement on its ability to compete in the household cleaning products market.[73] Another example of this type of case is *Joblove v. Barr Laboratories, Inc*. (*In re Tamoxifen Citrate Antitrust Litigation*),[74] in which plaintiffs claimed that defendants used an agreement settling a patent infringement lawsuit among themselves to monopolize the market for a drug manufactured by defendants by suppressing competition from other (generic) versions of the drug. The Second Circuit affirmed the district court's dismissal of the suit and held that the settlement agreement was not an unlawful anticompetitive agreement or an unlawful conspiracy under the Sherman Act.[75]

Although cases like *Clorox* and *Joblove* prove that antitrust allegations often are difficult to substantiate and thus vulnerable to dismissal and summary judgment motions, the mere fact that these cases are brought at all can be extremely costly and time-consuming for all involved. Furthermore, it is easy to see that antitrust claims could be asserted successfully after a settlement by franchise competitors in which they agreed to reduce their level of competition in some way. Therefore, when negotiating settlement agreements with their competitors, franchisors should be mindful of the possibility of such claims being raised at some later date.

#4: Budgetary Impact

Litigation always comes with a cost, but disputes between competitors often can be more expensive than the norm. The reason for heightened costliness boils down to the fact that opposing litigants who also compete against each other in the marketplace may fight in court harder and longer than they would against a noncompetitor. The normal opposing party in business litigation may be a landlord, vendor, creditor, customer, franchisee, or some other category of current or former business associate. Usually such disputes center on who owes who money and how much. Especially when these categories of relationships are ongoing, both sides have incentives to litigate in ways that could preserve the business relationship for their own current or future benefit. Competitors, however, generally do not have a strong desire to protect their relationships with each other; irrational feelings toward competitors are more commonplace.

Litigation provides many opportunities for competitors to manifest their aggression toward or distrust of each other, thereby raising the cost for all concerned. Pleadings by competitors often can be drafted with more detailed accusations. Discovery may be more prying, or opposed with added resentment and vigor. Deposition requests in particular can be more numerous and less polite. All stones get turned. Running into court is common. Customers of one competitor or the other (or mutual customers) get dragged into the fray. The same is true for franchisees and other participants in the franchise system. Publicity is invited, or "bad publicity" is instigated. Retaliation occurs.

All of these aspects of competitor litigation impose indirect costs beyond attorney fees and out-of-pocket expenses. One indirect cost stems from the litigants' distraction from their focus on the marketplace. Corporate time tied up in gathering documents, sitting for depositions, attending court proceedings, and planning case strategies generally could be spent more profitably with customers, prospects, or internal matters.

Nevertheless, companies often treat litigation against competitors as battles that they cannot afford *not* to fight. These lawsuits may become "bet-the-company" or, in franchising, "bet-the-system" litigation.[76] When companies consider this much to be at stake, they pay less attention to cost.

Conclusion

Lawsuits among competitors can be some of the nastiest that the litigation world has to offer. A multiplicity of claims can be lodged under assorted legal theories, each requiring separate facts to be gathered and legal arguments to be made. Emotions can run high as these types of cases generally involve either long-standing enemies or former friends turned competitors. Discovery, Item 3 disclosures, and settlement all become more complex and difficult when the opposing party is a competitor. Faced with the prospect of competitor litigation, franchisors and franchisees alike would be wise to take preventive measures. And if this type of litigation cannot be avoided, parties should at least understand in advance the budgetary and other commitments that their particular case will entail.

Endnotes

1. Michael R. Gray & Jason M. Murray, *Covenants Not to Compete and Nonsignatories: Enjoining Unfair Conspiracies*, 25 Franchise L.J. 107 (2006).
2. *Id.*
3. *Id.* at 112. *But see* Robert W. Emerson, *Franchising Covenants Against Competition*, 80 Iowa L. Rev. 1049, 1052–53 (July 1995) (laying out the differences between franchise noncompetition agreements and sale-of-business or employment noncompete agreements).
4. *See* Michael R. Gray & Tami McKnew, Covenants Against Competition in Franchise Agreements (3d ed. 2012).
5. *See* Gray & Murray, *supra* note 1, at 107.
6. McCart v. H & R Block, 470 N.E.2d 756, 760 (Ind. Ct. App. 1984). As the Indiana Court of Appeals said in enjoining the spouse of a former franchisee from violating the terms of a noncompetition agreement even though he was not technically a party to that agreement, "[T]he rule that a stranger to a covenant may be enjoined from aiding and assisting the covenanter in violating his covenant is supported by an overwhelming weight of authority." *Id.*
7. Gray & Murray, *supra* note 1, at 113.
8. *Id.* at 113–14.
9. No. 09 CIV. 3862 (S.D.N.Y) (filed Apr. 16, 2009).
10. *Id.*
11. *Starwood*, Docket No. 76, Consent Permanent Injunction (filed Dec. 22, 2010).
12. Kevin M. Shelley & David W. Oppenheim, *When Conflicting Principles Collide: The Uncharted Boundary Between Fair Competition and Tortious Conduct*, 22 Franchise L.J. 184, 185 (Winter 2003).
13. Restatement (Second) of Torts § 766 (1979).
14. 418 So. 2d 1074 (Fla. Dist. Ct. App. 1982).
15. *Id.* at 1077.
16. *Id.*
17. Civ. Action No. 2007EV001961E (Fulton Cnty., Ga.) (filed 2007).
18. Pope McGlamry Kilpatrick Morrison & Norwood, P.C., AFC Enterprises Resolves Suit Against Former Franchisees, www.pmkm.com/jay-f-hirsh/afc-enterprises-resolves-suit-against-former-franchisees-2 (last visited Dec. 14, 2012).
19. Restatement (Second) of Torts § 766B (1979).
20. Shelley & Oppenheim, *supra* note 12, at 188–89.
21. *Id.* at 189.
22. Clay A. Tillack & Mark E. Ashton, *Who Takes What: The Parties' Rights to Franchise Materials at the Relationship's End*, 28 Franchise L.J. 88, 90 (Fall 2008).
23. *See, e.g.*, Burger King Corp. v. Mason, 710 F.2d 1480, 1493

(11th Cir. 1983) (stating that "continued trademark use by one whose trademark license has been cancelled satisfies the likelihood of confusion test and constitutes trademark infringement"); *see also* Pappan Enters. v. Hardee's Food Sys., 143 F.3d 800, 807 (3d Cir. 1998) (granting a franchisor's request for a preliminary injunction against a franchisee and finding that any harm to the franchisee was clearly outweighed by irreparable harm to the franchisor from continuing illegal use of its trademark). Notwithstanding this strong legal presumption in favor of granting the licensor a preliminary injunction, Tillack and Ashton recommend that trademark disputes be anticipated and expressly addressed in detail in the franchise agreement in an attempt to minimize the risks of such future trademark disputes. Tillack & Ashton, *supra* note 22, at 90.

24. Med. Shoppe Int'l, Inc. v. S.B.S. Pill Dr., Inc., 336 F.3d 801 (8th Cir. 2003), is an interesting case in which the Eighth Circuit affirmed the district court's grant of a preliminary injunction to a pharmacy licenser against one of its former franchisees for trademark infringement when that franchisee terminated the franchise agreement and then began operating essentially the same pharmacy business, using another name but hiring the same employees and soliciting the same customers. *Id.* at 805.

25. *See* Christopher P. Bussert, *Trademark Counterfeiting: A New Danger that Lurks for Holdover Franchisees*, 15:4 The Franchise Law. (Fall 2012).

26. Ronald T. Coleman Jr., Trishanda L. Treadwell & Elizabeth Loyd, *Applicability of the Presumption of Irreparable Harm After* eBay, 32 Franchise L.J. 9 (Summer 2012) (commenting that irreparable harm is "difficult to dispute" in franchise cases).

27. Steak 'n Shake Co. v. Burger King Corp., No. 4:04-cv-00525-CDP (E.D. Mo.) (filed May 5, 2004).

28. No. 4:09-cv-00618-RBH, 2011 WL 4943889 (D.S.C. Oct. 17, 2011).

29. *See also* Phelan Holdings, LLC v. Wendy's Int'l, Inc., No. 2:11-cv-392-Ft.M-99DNF (M.D. Fla. July 3, 2012) (dispute over use of phrases *You Can't Fake Fresh* and *you can't fake real*).

30. *But see* Two Men & a Truck/Int'l, Inc. v. Thomas, Case No. 8:12CV340 (D. Neb. Nov. 7, 2012) (enjoining competitor that used the name *Two Men and Two Trucks*).

31. Unif. Trade Secrets Act § 1(4) (1985).

32. 2003 U.S. Dist. LEXIS 8472 (N.D. Tex. May 19, 2003).

33. *Id.* at *15.

34. 358 F. Supp. 2d 818 (N.D. Iowa 2005).

35. *Id.* at 833.

36. 619 F. Supp. 621 (E.D. Mo. 1985).

37. *Id.* at 627.

38. Mark S. VanderBroek & Christian B. Turner, *Protecting and Enforcing Franchise Trade Secrets*, 25 Franchise L.J. 191 (Spring 2006).

39. *Id.* at 196.

40. *Id.*

41. 15 U.S.C. § 1125 (a)(1)(B).

42. For example, the *Avis v. Hertz* claim, *infra* note 47, was rejected on appeal by the Second Circuit, as was the *Pizza Hut v. Papa John's* claim, *infra* note 45, by the the Fifth Circuit.

43. Case No. 1:11-cv-00641-AKH (S.D.N.Y.) (filed May 26, 2011).

44. *See* Civ. Docket Case No. 1:11-cv-00641-AKH (S.D.N.Y.) (Feb. 24, 2012) (stipulation of dismissal signed by the court after more than 200 docket entries).

45. 489 F.3d 1156 (11th Cir. 2007).

46. Phoenix of Broward, Inc. v. McDonald's Corp., 489 F.3d 1156, 1160 (11th Cir. 2007).

47. 80 F. Supp. 2d 600 (N.D. Tex. 2000).

48. Pizza Hut, Inc. v. Papa John's Int'l, Inc., 227 F.3d 489 (5th Cir. 2000).

49. 782 F.2d 381 (2d Cir. 1986).

50. *See, e.g.*, *In re* Super Premium Ice Cream Distribution Antitrust Litig., MDL Docket No. 682, 1988 U.S. Dist. LEXIS 7366, at *13 (N.D. Cal. Jan. 23, 1988).

51. *Id.* at *17–18.

52. Case No. 1:04-cv-08540-RJH (S.D.N.Y. 2010).

53. Coal. for a Level Playing Field, L.L.C. v. Autozone, Case No. 1:04-cv-08450-RJH, slip op. at 21 (S.D.N.Y. Sept. 28, 2011); *see also Autozone*, Civil Docket Nos. 118, 119.

54. *See, e.g.*, Zynga, Inc. v. Patmore, Case No. CGC-12-525099 (S.D.N.Y.) (filed Oct. 13, 2012) (involving unfair competition claims and counterclaims between online social game companies).

55. Although the subject is beyond the scope of this article, it should be noted that standing may be a problem for some claims under consumer laws because the competitor may not be protected under those statutes.

56. *See* 16 C.F.R. § 436.5(c)(1)(i)(A).

57. *Id.* § 436.5(c)(1)(i)(B).

58. *See* Fed. Trade Comm'n, Franchise Rule Compliance Guide 35–36 (May 2008).

59. 16 C.F.R. § 436.5(c)(1)(ii).

60. *See* Fed. Trade Comm'n, *supra* note 58, at 36.

61. 16 C.F.R. § 436.5(c)(1)(iii)(B).

62. *Id.*

63. 16 C.F.R. § 436.5(c)(2).

64. Fed. R. Civ. P. 26(c)(1).

65. Fed. R. Civ. P. 26(c)(1)(G).

66. Citizens First Nat'l Bank v. Cincinnati Ins. Co., 178 F.3d 943, 946 (7th Cir. 1999).

67. *Id.*

68. 242 F.R.D. 552 (C.D. Cal. 2007).

69. *Id.* at 554.

70. *Id.* at 554–55.

71. *Id.* at 555–56.

72. 932 F. Supp. 469 (E.D.N.Y. 1996).

73. *Id.* at 473–74.

74. 429 F.3d 370 (2d Cir. 2005).

75. *Id.* at 397–400.

76. Robert Zarco & Quentin Wittrock, Address at the Int'l Franchise Ass'n 42nd Annual Legal Symposium: Bet-the-System Litigation: A "Hands On" Interactive High Level Strategic Dialogue (May 17–19, 2009).