

Goodwill Hunting: The Challenges in Proving Harm to Franchisor Goodwill in Termination-Related Disputes

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Trust is a crucial element of relationship building: “Trust is the glue of life. It’s the most essential ingredient in effective communication. It’s the foundational principle that holds all relationships.”¹ Without trust in a relationship, leaders micromanage subordinates, spouses monitor each other, and faith in others is generally all but lost. In the context of business, trust is a fundamental precept that fosters growth and development. As a franchisor’s business gains success, it typically considers expansion by opening more company-owned locations, selling franchises, or a combination of both. Deciding to utilize the franchise business model requires the franchisor to trust the franchisees to represent the brand well in the marketplace, particularly in a market that the franchisor might not yet have captured. To do so, the franchisor allows outsiders access to its “secret sauce,” including its trademarks, brand, systems, manuals, processes, products, and other proprietary information.²

There is always a risk that franchisees will either fail to perform or otherwise not comply with system requirements, leading to the termination of the franchise relationship. From the franchisor’s perspective, an all-important and immediate consideration when a terminated franchisee seeks to compete unfairly—either through the unauthorized use of the franchisor’s trademarks or in violation of a restrictive



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1. Stephen R. Covey (@StephenRCovey), Twitter (May 18, 2019, 9:01 AM), <https://twitter.com/StephenRCovey/status/1129748909088235521> (emphasis added).

2. Keller Corp. v. Kelley, 187 P.3d 1133, 1138 (Colo. App. 2008) (“[T]he primary characteristic of a franchise is the license given to the franchisee to trade upon and exploit the franchisor’s goodwill.”).

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covenant—is to take the steps needed to protect its customer goodwill. This is no small or simple task, and, frequently, swift legal action is required. Should the matter reach litigation, injury to, or diversion of, goodwill is a primary component of damage for which a franchisor may seek compensation. But how is an intangible property right such as goodwill protected, proven, or quantified? This article will discuss, and to some extent evaluate, two very distinct questions of harm to franchisor goodwill given the current state of the law: (1) harm in trademark infringement cases; and (2) harm in non-trademark infringement cases. They are both related, but one is much easier to prove no matter the jurisdiction. As this article demonstrates, the clear takeaway is that franchisors must be prepared to come with specific evidence of harm to ensure that they can obtain redress for either trademark infringement or the breach of post-termination restrictive covenants.

I. Defining Franchisor Goodwill

The definition of *business-related goodwill* has taken different forms, from “that element of value which inheres in the fixed and favorable consideration of customers, arising from an established and well-known and well-conducted business”³ and “probability that customers will continue their patronage”⁴ to “a company’s positive reputation in the eyes of its customers and potential customers” that “is generated by repeat business with existing customers . . . or referrals to potential customers.”⁵ In 1993, the U.S. Supreme Court endorsed the shorthand description of goodwill as “the expectancy of continued patronage.”⁶ That definition did not assist taxpayers in evaluating which of its intangible assets are subject to a depreciation allowance, so the U.S. Court of Claims in *Richard S. Miller & Sons, Inc. v. United States* elaborated on the definition:

The term “goodwill” has a varying content, depending on its usage. Goodwill sometimes is used to describe the aggregate of all of the intangibles of a business, including such items as patents, trademarks, leases, contracts, and franchises. Since a normal rate of return usually is calculated on tangible assets only, goodwill has been used as a synonym for the return on all the intangibles of a business. In a more restricted sense, goodwill is the expectancy that the old customers will resort to the old place. It is the sum total of all the imponderable qualities that attract customers and bring patronage to the business without contractual compulsion. Another definition equates goodwill with a rate of return on investment which is above normal returns in the industry and limits it to the residual intangible asset that generates earnings in excess of a normal return on all other tangible and intangible assets.⁷

3. *Des Moines Gas Co. v. Des Moines*, 238 U.S. 153, 165 (1915).

4. *Goodwill*, BLACK’S LAW DICTIONARY (6th ed. 1990).

5. *N. Am. Expositions Co. v. Corcoran*, 898 N.E.2d 831, 846 (Mass. 2009).

6. *Newark Morning Ledger Co. v. United States*, 507 U.S. 546, 555 (1993) (citing *Boe v. Comm’r*, 307 F.2d 339, 343 (9th Cir. 1962)).

7. *Richard S. Miller & Sons, Inc. v. United States*, 537 F.2d 446, 450–54 (Ct. Cl. 1968).

Courts have formulated narrower definitions in the context of franchise law by focusing on how trademarks generate a franchisor's goodwill through "association with the franchisor and serv[ing] as a symbol of brand recognition,"⁸ and noting that it is "goodwill for the [franchisor's] mark, not the specific [franchise]."⁹ Legal lexica such as *Black's Law Dictionary* similarly recognize the interaction between goodwill and trademarks: "Because an established business's trademark or servicemark is a symbol of goodwill, trademark infringement is a form of theft of goodwill. By the same token, when a trademark is assigned, the goodwill that it carries is also assigned."¹⁰ *Merriam-Webster* also recognizes that goodwill is favor garnered through a company's "brands and its good reputation."¹¹

State legislatures also struggle to define goodwill, at least in any sort of uniform fashion. For example, California¹² and North Dakota¹³ have adopted and codified definitions of goodwill that focus on client patronage, although North Dakota excludes from goodwill a right to use the name of any person from whom it was acquired.¹⁴ Although the precise legal definition somewhat varies by source, the consensus is that goodwill reflects the intangibles of a business that make customers want to come back.¹⁵ While injury to goodwill and reputation is a recoverable form of damage, it is "difficult to measure in dollars and cents."¹⁶

II. Proof of Harm to Goodwill Is Not Always Straightforward or Easy

A. *The Need for Injunctive Relief to Prevent Irreparable Harm*

When a business chooses franchising as a method of growth, it relies heavily on the goodwill of its brand to drive consumer traffic.¹⁷ Although owned

8. *Desert Subway, Inc. v. City of Tempe*, 322 F. Supp. 2d 1036, 1041 (D. Ariz. 2003).

9. *Pappan Enters., Inc. v. Hardee's Food Sys., Inc.*, 143 F.3d 800, 806 (3d Cir. 1998).

10. *Goodwill*, BLACK'S LAW DICTIONARY (11th ed. 2019); see also *id.* (defining *goodwill* as "[a] business's reputation, patronage, and other intangible assets that are considered when appraising the business, esp. for purchase; the ability to earn income in excess of the income that would be expected from the business viewed as a mere collection of assets").

11. *Goodwill*, MERRIAM-WEBSTER DICTIONARY, <https://www.merriam-webster.com/dictionary/goodwill> (last visited Jan. 30, 2021).

12. CAL. BUS. & PROF. CODE § 14100.

13. N.D. CENT. CODE § 47-07-10.

14. *Id.*

15. *Spicer v. Maxus Healthcare Partners, LLC*, 616 S.W.3d 59, 111 (Tex. Ct. App. 2020) ("Business goodwill is an intangible asset based on reputation and the relationships that a company has developed with its customers and employees."); *Walsh v. Walsh*, 286 P.3d 1095, 1099 (Ariz. Ct. App. 2012) ("[R]eferred to as the most intangible of intangibles, goodwill is essentially reputation that will probably generate future business." (quoting *Dugan v. Dugan*, 457 A.2d 1, 3 (N.J. 1983))); *Gaskill v. Robbins*, 282 S.W.3d 306, 314 (Ky. 2009) ("Goodwill in a professional practice may be attributable to the business enterprise itself by virtue of its existing arrangements with suppliers, customers or others, and its anticipated future customer base due to factors attributable to the business." (quoting *May v. May*, 589 S.E.2d 536, 545 (W. Va. 2003))).

16. 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:47 (4th ed. 1996).

17. *Get in Shape Franchise, Inc. v. TFL Fishers, LLC*, 167 F. Supp. 3d 173, 202-03 (D. Mass. 2016) (Customer goodwill is "a company's positive reputation in the eyes of its customers or

and operated by separate and distinct individuals or entities, the franchisees are, as a matter of course, required to operate their stores in a uniform manner to create brand consistency.¹⁸ This consistency is achieved through the franchisee's implementation of the required practices and protocols of the franchised concept.¹⁹ The franchisees receive access to manuals, systems, trademarks, and other confidential and proprietary information that combine to create a brand or brand image that is easily recognizable in the minds of consumers.²⁰

If properly drafted, the franchise agreement will contain provisions designed to create strict guidelines by which the franchisee is authorized to use the system, including a license to utilize federal-registered trademarks and other intellectual property.²¹ The franchise agreement typically also obligates the franchisees to maintain the confidentiality of certain types of sensitive business information, abide by in-term and post-termination restrictive covenants, and comply with other provisions that protect the franchisor from competition upon termination of the franchise relationship.²² The underlying rationale for these protective measures is to ensure that the terminated franchisee does not damage or impermissibly use the franchisor's marks and proprietary information in a way that devalues them or brings a negative association to the franchisor's business.²³

It is, of course, common for franchise relationships to end before their expiration, either voluntarily or involuntarily, which is the point at which franchisors must focus on the protection of its most valuable assets: its brand value and goodwill. This focus is also true when franchise agreements reach

potential customers" and "is generated by repeat business with existing customers or by referrals to potential customers." (quoting *N. Am. Expositions Co. Ltd. P'Ship v. Corcoran*, 898 N.E.2d 831, 846 (Mass. 2009)).

18. *Int'l Franchise Ass'n Inc. v. City of Seattle*, 97 F. Supp. 3d 1256, 1264 (W.D. Wash. 2015) ("Most franchise agreements heavily regulate the conduct of the franchisee and include statements about how the franchisee is expected to run the franchise, whether or not the franchisee has an exclusive territory, and when and where the franchisee may open another business. Franchise agreements also contain clauses that outline acceptable outlet 'appearance, hours of operation, location, and product quality' and typically allow franchisors to conduct 'inspections, audits, mystery shopper programs, and so on' of the franchisees.").

19. *Id.*

20. *Anytime Fitness, LLC v. Edinburgh Fitness*, Civil No. 14-348 (DWF/JJG), 2014 WL 1415081, at *1 (D. Minn. 2014) ("When a franchisee joins the AF system, it has access to [trademarks, trade names, service marks, logos, designs, commercial symbols], marketing and advertising systems, training programs, confidential proprietary materials, and other materials to assist in operating the fitness centers."); see also Jason M. Murray & Michael R. Gray, *The Enforcement of Covenants Against Competition*, ABA 28TH ANNUAL FORUM ON FRANCHISING L6, at 1, 3-11 (2005) (identifying cases that have found that a franchisor's method and style of doing business, as well as the goodwill associated therewith, are legitimate business interests).

21. See *TGI Friday's Inc. v. Great Nw. Rests., Inc.*, 652 F. Supp. 2d 763, 766 (N.D. Tex. 2009).

22. See *7-Eleven, Inc. v. Kapoor Bros. Inc.*, 977 F. Supp. 2d 1211, 1228-29 (M.D. Fla. 2013).

23. *Id.* at 1228 (franchisor arguing that restrictive covenants are reasonably necessary to protect its trademarks and goodwill; prevent franchisees' unauthorized use of confidential business information such as business operations manuals, specialized training material, associated advertising and sales material; and preserve and protect important customer relationships that associate franchisor's trademarks with franchisees).

their natural maturity. Whether the parting of ways is amicable and the parties are working together to disentangle themselves, or contentious as a result of a dispute requiring legal action, franchisors must take care to ensure that the goodwill of the business is adequately protected. Franchisors frequently must sue terminated franchisees for trademark infringement, unfair competition, breach of contract, and other causes of action if the franchisee continues to use the franchisor's trademarks or attempts to appropriate the business's goodwill. To prevent irreparable harm to its business, the franchisor often seeks a preliminary injunction, which requires proving a likelihood of success on the claims asserted.²⁴

Injunctive relief is designed to prevent or stop irreparable harm from occurring by restraining the defendant's wrongful conduct. Under the Lanham Act,²⁵ an aggrieved party must establish that it owns a valid, protectable trademark, and that the offending party's use of the mark is likely to cause confusion among customers.²⁶ To obtain injunctive relief in federal court, the party bringing the lawsuit must establish (1) a likelihood of success on the merits; (2) likelihood of irreparable harm; (3) that the balance of the equities weighs in favor of granting the injunction; and (4) that an injunction is in the public interest.²⁷ State courts and arbitration panels do not always apply federal procedural requirements when injunctive relief is sought, so if there is a contractual obligation to arbitrate or the venue is state court, the franchisor should determine the applicable injunctive relief standard that will be applied under the governing state laws or arbitration rules.

1. The Presumption of Harm in Trademark Infringement Cases

Regarding the element of irreparable harm, or as sometimes styled, the absence of an adequate legal remedy, the most logical justification for a judicial restraint is the protection of brand or customer goodwill.²⁸ When seeking injunctive relief on a trademark infringement claim, there is a split in the case law regarding the quantum of proof required to demonstrate irreparable harm.²⁹ In some jurisdictions, courts presume harm to goodwill;³⁰ in others, the franchisor must show actual harm caused by the alleged

24. See, e.g., *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7, 20–21 (2008); see also *Kapoor Bros.*, 977 F. Supp. 2d at 1228–29; *TGI Friday's, Inc.*, 652 F. Supp. 2d at 767–68.

25. 15 U.S.C. § 1125(a).

26. *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1047 (9th Cir. 1999).

27. *Winter*, 555 U.S. at 20.

28. *Id.* (outlining four-part test for motions for preliminary injunctive relief, one of which is that the plaintiff is likely to suffer irreparable harm in the absence of preliminary relief); see also *Doran v. Salem Inn, Inc.*, 422 U.S. 922, 931 (1975) (explaining that the “traditional standard for granting a preliminary injunction requires the plaintiff to show that in the absence of its issuance he will suffer irreparable injury”); *Stanley v. Univ. of S. Cal.*, 13 F.3d 1313, 1320 (9th Cir. 1994) (quoting *Beacon Theaters, Inc. v. Westover*, 359 U.S. 500, 506–07 n.8 (1959)) (“The basis of injunctive relief in the federal courts has always been irreparable harm and inadequacy of legal remedies.”).

29. Compare *infra* Section II.1, with *infra* Section II.2.

30. *Merck Eprova AG v. Gnosis S.p.A.* 760 F.3d 247, 260 (2d Cir. 2014); *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1228 (11th Cir. 2008).

infringement, even if the franchisor has established a likelihood of confusion.³¹ It is paramount to a party's success, in either prosecuting or defending an action, to know exactly what to prove and how courts evaluate whether such proof has been or can be shown.

The U.S. Supreme Court addressed the notion that irreparable harm should be presumed upon a showing of likelihood of confusion in *eBay v. MercExchange, LLC*.³² There, the Court considered whether the traditional four-factor test applied by courts of equity when considering whether to award permanent injunctive relief applies to disputes arising under the Patent Act.³³ At the district court level, MercExchange filed a patent infringement suit against eBay and Half.com.³⁴ The jury found that MercExchange's patent was valid, eBay and Half.com had infringed that patent, and an award of damages was appropriate.³⁵ After the verdict, MercExchange filed a motion for permanent injunction, which the district court denied.³⁶ The Federal Circuit reversed, applying the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances.³⁷

The U.S. Supreme Court on appeal held that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards."³⁸ The Court then explained that neither the district court nor the Federal Circuit fairly applied the traditional four-factor test for injunctive relief because both inappropriately applied categorical rules to the grant or denial of injunctive relief.³⁹ Although *eBay* did not expressly hold that irreparable harm should not be presumed, the Court's ruling called into question such a presumption by indicating that each factor should be evaluated in its own right.⁴⁰

2. The Third and Ninth Circuits Require Proof of Harm to Goodwill

The Eleventh Circuit became the first court to evaluate whether *eBay* applied in trademark infringement cases by questioning whether a finding of likelihood of confusion was sufficient to establish irreparable harm.⁴¹ There, the court vacated a preliminary injunction and noted that "[a]lthough *eBay* dealt with the Patent Act and with permanent injunctive relief, a strong case can be made that *eBay*'s holding necessarily extends to the grant of preliminary injunctions under the Lanham Act" because the language of the Lanham Act

31. *N. Am. Med. Corp.*, 522 F.3d at 1228.

32. *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).

33. *Id.* at 391.

34. *Id.* at 390.

35. *Id.* at 390–91.

36. *Id.* at 391.

37. *Id.*

38. *Id.* at 394.

39. *Id.*

40. See *id.* at 393–94.

41. *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211 (11th Cir. 2008).

“is so similar to the language of the Patent Act”⁴² But the Eleventh Circuit did not go so far as to hold that *eBay* applied and instead remanded the issue for consideration by the district court. This decision laid the path for other courts to begin questioning whether and to what extent *eBay* applied to trademark cases.

The Ninth Circuit became the first federal circuit to reject the majority view of presuming irreparable harm once a likelihood of confusion is established.⁴³ The Third Circuit later joined the Ninth Circuit.⁴⁴ The Ninth and Third Circuits therefore extended the U.S. Supreme Court’s rationale to trademark infringement claims.⁴⁵ Much like the Patent Act at issue in *eBay*, the injunctive relief provision of the Lanham Act is premised upon traditional principles of equity.⁴⁶ Moreover, the language of the Lanham Act makes clear that the legislature did not intend “a major departure from the long tradition of equity practice.”⁴⁷ Under this rationale, because presuming irreparable harm deviates from the application of traditional principles of equity, no presumption of harm can be afforded to parties seeking injunctive relief in Lanham Act.⁴⁸

3. The First, Fifth, and Tenth Circuits Have Doubts About a Presuming Harm

The First, Fifth, and Tenth Circuits have expressed reservations about the continuing validity of the irreparable harm presumption following *eBay*, but have declined to apply *eBay* in the trademark infringement context.⁴⁹ Lower

42. *Id.* at 1228.

43. *Herb Reed Enters., LLC v. Fla. Entm’t Mgmt., Inc.*, 736 F.3d 1239, 1250–51 (9th Cir. 2013) (holding that irreparable harm is not presumed after a showing of likelihood of confusion; those seeking injunctive relief must proffer evidence establishing the likelihood of irreparable harm).

44. *Ferring Pharms., Inc. v. Watson Pharms., Inc.*, 765 F.3d 205, 211–16 (3d Cir. 2014) (finding that, in light of *eBay* and *Winter*, no presumption of irreparable harm is afforded to parties seeking injunctive relief in Lanham Act cases). *But see* *Commodores Entm’t v. McClary*, 648 F. App’x 771, 774 (11th Cir. 2016) (finding that, in light of *eBay*, “a presumption of irreparable harm cannot survive,” but noting that the holding in *eBay* permits a plaintiff to prove irreparable harm using the same evidence the plaintiff proffered to support a showing of a likelihood of success on the merits).

45. *Ferring*, 765 F.3d at 214; *Herb Reed Enters.*, 736 F.3d at 1250–51.

46. *Ferring*, 765 F.3d at 214 (quoting 15 U.S.C. § 1116(a) (“The several courts vested with jurisdiction of civil actions arising under this chapter shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable. . . .”).

47. *Id.* at 215.

48. *Id.* at 216.

49. *Peoples Fed. Sav. Bank v. People’s United Bank*, 672 F.3d 1, 9 (1st Cir. 2012) (noting that a “looming question” exists as to whether the longstanding presumption of irreparable harm can co-exist with *eBay*, but declining to determine whether *eBay* precludes the presumption); *Paulsson Geophysical Servs., Inc. v. Sigmar*, 529 F.3d 303, 312 (5th Cir. 2008) (explaining that it has avoided “expressly adopting” the presumption of irreparable injury, but declining to decide whether a court may presume irreparable injury upon a finding of likelihood of confusion in a trademark case because it was a “difficult question” in light of *eBay*); *Lorillard Tobacco Co. v. Engida*, 213 F. App’x 654, 656–57 (10th Cir. 2007) (explaining that the Tenth Circuit has frequently presumed irreparable injury when a trademark is wrongfully appropriated, and declining to consider whether *eBay* applies in the trademark infringement context).

courts within these and other jurisdictions are also beginning to question the presumption.⁵⁰ Indeed, prior to *eBay*, most circuit courts, including the Second, Fourth, Sixth, Seventh, and Eighth Circuits, presumed irreparable harm if the plaintiff was able to prove a likelihood of confusion.⁵¹ But the *eBay* decision has called the continuing authority or viability of these cases into question as well, leaving lower federal courts unsure as to what the correct approach is in trademark cases.⁵²

4. Congress Amended the Lanham Act in 2020 to Clarify That Irreparable Harm Is Presumed

There were really only two ways to achieve clarity on whether or not there is a presumption of harm in trademark infringement cases: a ruling by the Supreme Court or action by Congress. The latter occurred first when President Trump signed the Trademark Modernization Act of 2020 (TMA) into law on December 27, 2020.⁵³ Included as part of Congress's COVID-19 relief package, the TMA made it easier for trademark registrants to obtain injunctive relief by restoring the presumption of irreparable harm when a trademark is infringed. In particular, Congress amended Section 34(a) of the Lanham Act by adding a rebuttable presumption of irreparable harm upon a

50. *E.g.*, *Pub. Impact, LLC v. Boston Consulting Grp.*, 169 F. Supp. 3d 278, 298 (D. Mass. 2016) (stating that the First Circuit has generally presumed harm in the trademark litigation context if a plaintiff demonstrates likelihood of success on the merits, but noting that whether the presumption still applies in light of *eBay* is an open question); *NYP Holdings v. N.Y. Post Publ'g Inc.*, 63 F. Supp. 3d 328, 341 (S.D.N.Y. 2014) (finding that in light of *eBay*, irreparable harm is no longer presumed, but noting that the Second Circuit has not addressed whether *eBay* applies to preliminary injunctions in trademark infringement suits).

51. *Scotts Co. v. United Indus. Corp.*, 315 F.3d 264, 273 (4th Cir. 2002) (“In Lanham Act cases involving trademark infringement, a presumption of irreparable injury is generally applied once the plaintiff has demonstrated a likelihood of confusion.”); *Fed. Express Corp. v. Fed. Espresso, Inc.*, 201 F.3d 168, 174 (2d Cir. 2000) (“[P]roof of a likelihood of confusion would create a presumption of irreparable harm.”); *Eli Lilly & Co. v. Nat. Answers, Inc.*, 233 F.3d 456, 469 (7th Cir. 2000) (noting that irreparable harm is generally presumed in trademark cases); *Wynn Oil Co. v. Am. Way Serv. Corp.*, 943 F.2d 595, 608 (6th Cir. 1991) (stating that irreparable injury “ordinarily follows” when a likelihood of confusion is demonstrated and determining that it therefore did not need to make specific finding if irreparable harm); *Mut. of Omaha Ins. Co. v. Novak*, 836 F. 397, 403 n.11 (8th Cir. 1987) (“Injury is presumed once a likelihood of confusion has been established.”).

52. Ronald T. Coleman Jr., Trishanda L. Treadwell & Elizabeth A. Loyd, *Applicability of the Presumption of Irreparable Harm After Ebay*, 32 *FRANCHISE L.J.* 3, 5–7 (2012); Scott McIntosh & Jonathan Labukas, *To Presume, or Not to Presume, Irreparable Injury in Trademark Disputes Involving Franchises Following Ebay and Winter*, 36 *FRANCHISE L.J.* 43, 61–68 (2016); Jeffrey M. Sanchez, *The Irreparably Harmed Presumption? Why the Presumption of Irreparable Harm in Trademark Law Will Survive Ebay and Winter*, 2011 *BYU L. REV.* 535, 545–53 (2011); David H. Bernstein & Andrew Gilden, *No Trolls Barred: Trademark Injunctions After Ebay*, 99 *TRADEMARK REP.* 1037, 1045 (2009).

53. Pub. L. 116-260, § 226, 134 Stat. 2208 (2020) (“Section 34 of the Trademark Act of 1946 (15 U.S.C. 1116) is amended in subsection (a) by inserting after the first sentence the following new sentence: ‘A plaintiff seeking any such 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 or upon a finding of likelihood of confusion on the merits for a violation identified in this subsection in the case of a motion for a preliminary injunction or temporary restraining order.’”).

finding of infringement, or of likely success on the merits in the context of injunctive relief.⁵⁴

Only two courts appear to have discussed the TMA in the context of a motion for preliminary injunction.⁵⁵ In *Vineyard House, LLC v. Constellation Brands U.S. Operations, Inc.*, the U.S. District Court for the Northern District of California held that the insertion of the irreparable harm language added via the TMA “only reinforces the appropriateness of a permanent injunction requested by [the trademark registrant].”⁵⁶ The U.S. District Court for the District of Oregon held in *Suzie’s Brewery Co. v. Anheuser-Busch Cos.* that because the plaintiff had “shown a likelihood of success of the merits on its motion for a temporary restraining order . . . Plaintiff is entitled to the benefit of the rebuttable presumption provided in § 1116(a).”⁵⁷ It is significant that district courts within the Ninth Circuit, a circuit that was the first to reject the presumption of harm under *eBay*, are now applying this presumption in light of the TMA. These decisions demonstrate that the TMA was an important step toward uniformity in how courts evaluate requests for injunctive relief in trademark infringement cases.

5. Presumption of Harm to Goodwill Is Important in Trademark Infringement Cases

It makes perfect sense that Congress would build a presumption of harm into the Lanham Act for purposes of seeking injunctive relief. This conclusion is especially true in the context of a franchise relationship, where trademarks serve an outsized purpose and trademark infringement often comes into play. If a terminated franchisee continues using the franchisor’s trademark, or one that is confusingly similar, the consuming public is likely to affiliate the terminated franchisee with the franchisor’s business or concept even though the two are no longer associated and the franchisor is no longer providing any oversight over the quality, actions, and/or performance of the franchisee. Customers could become confused and attribute the poor service, quality, or misdeeds of the terminated franchisee to the franchisor.⁵⁸

For example, assume that a franchise agreement for a “Buffy Burger” franchise has terminated, but the franchisee continues to display exterior or interior signage bearing the franchisor’s marks for several weeks or months while the former franchisee transitions under a new business name. During that time, the former franchisee does not follow the franchise protocols and procedures to ensure the cleanliness of its restaurant. Customers complain

54. 15 U.S.C. § 1116(a).

55. *Vineyard House, LLC v. Constellation Brands U.S. Ops., Inc.*, 515 F. Supp. 3d 1061, 1079 n.16 (N.D. Cal. Jan. 26, 2021); *Suzie’s Brewery Co. v. Anheuser-Busch Cos., LLC*, 519 F. Supp. 3d 839, 851 (D. Or. Feb. 9, 2021).

56. *Vineyard House, LLC*, 515 F. Supp. 3d at 1081 n.16.

57. *Suzie’s Brewery*, 519 F. Supp. 3d at 855.

58. *Ledo Pizza Sys. Inc. v. Singh*, 983 F. Supp. 2d 632, 637 (D. Md. 2013) (use of franchisor’s décor, floor plan, and recipes after termination of franchise agreement caused customer confusion).

that the store has bugs, trash on the tables, and dirty bathrooms. It is not far-fetched, and indeed is likely, that a customer's experience at the rogue Buffy Burger will inform his or her view of other Buffy Burger stores. Further assume that other franchise owners comply with the quality assurance requirements of the Buffy Burger system and, therefore, do not have these same issues. Having a negative experience at one franchised location can result in a domino effect on other franchised locations and, ultimately, harm the overall Buffy Burger brand.

Many courts have thus presumed that, at the preliminary injunction stage, a likelihood of confusion from the infringement of a party's trademark amounts to irreparable harm. In the context of franchise law, the irreparable harm element of injunctive relief typically equates to harm to goodwill.⁵⁹

If irreparable harm is not presumed, the franchisor must hunt for specific examples of how its goodwill is likely to be harmed by infringing conduct of a terminated franchisee.⁶⁰ A shift in customer perception of the business through negative reviews can serve as evidence of an impact on goodwill.⁶¹ So can the testimony of confused customers (if a party can find them and convince them to testify). But that kind of hard evidence is not always easy to locate, especially on the compressed timetable that accompanies a motion for preliminary injunction. Without a presumption, generalities and assumptions likely will not suffice for a court to issue a preliminary injunction, especially if the alleged harm is speculative or not tied to specific actions of the franchisee or examples of potential damage to the brand.⁶²

59. *Get in Shape Franchise, Inc. v. TFL Fishers, LLC*, 167 F. Supp. 3d 173, 202–03 (D. Mass. 2016) (concluding that irreparable harm was shown because “[t]he existence of a competing, small-group, women’s fitness studio at the location of the former [franchisee’s] studio will likely harm [the franchisor’s] goodwill and impair its ability to establish another studio”); *Buffalo Wild Wings Int’l, Inc. v. Grand Canyon Equity Partners, LLC*, 829 F. Supp. 2d 836, 846 (D. Minn. 2011) (finding the potential loss of goodwill qualifies as irreparable harm because “a former franchisee’s continued use of a franchisor’s marks after termination of the franchise agreement poses a substantial risk to the franchisor’s brand reputation and goodwill”); *TGI Friday’s Inc. v. Great Nw. Rests., Inc.*, 652 F. Supp. 2d 763, 771 (N.D. Tex. 2009) (“TGIF has shown that, through defendants’ continued passing off of their restaurants as TGIF franchises after the termination of the franchise agreements, TGIF has lost control over its valuable trademarks and the quality of the restaurants operating under its name. This lost control poses a substantial threat of injury to TGIF’s reputation and the goodwill it has built in its brand. Such injury is irreparable. . . .”); *Desert Subway, Inc. v. City of Tempe*, 322 F. Supp. 2d 1036, 1041 (D. Ariz. 2003) (finding irreparable harm to franchisor demonstrated by loss of goodwill).

60. *See, e.g., Jiffy Lube Int’l, Inc. v. Weiss Bros., Inc.*, 834 F. Supp. 683, 691–93 (D.N.J. 1993).

61. *See, e.g., Life Alert Emergency Response, Inc. v. LifeWatch, Inc.*, 601 F. App’x 469, 474 (9th Cir. 2015) (finding that “numerous and persistent complaints from would-be customers” online constituted harm to reputation and goodwill); *Home Comfort Heating & Air Conditioning, Inc. v. Ken Starr, Inc.*, 2018 WL 3816745, at *9 (C.D. Cal. July 24, 2018) (considering “negative online review and customer complaints . . . intended for Defendant” in analyzing irreparable harm).

62. *See, e.g., Gen. Motors LLC v. KAR Auto Grp. of Decorah, Inc.*, 2020 WL 4937119, at *2–3 (N.D. Iowa Aug. 24, 2020) (finding assumptions based on “experience,” “belief[s]” and “hypotheticals that have no factual basis in the record” insufficient to show irreparable harm to goodwill).

Some courts view franchisees as having built up their own goodwill in their business. Because of the intangible nature of goodwill, it can be an arduous task for a court to evaluate whether the goodwill derives from the overall brand of the business versus the effort put in by the individual franchisee to build a positive reputation in the local community. This local goodwill can be accomplished in a variety of ways, such as providing top-quality customer service, supporting local non-profit organizations, or sponsoring specific style of leadership and training that sets that particular location apart from the rest. So when the franchise relationship terminates, franchisees many times argue that their personal efforts garnered the goodwill of the business and that goodwill does not belong to the franchisor.⁶³ This very fact-driven analysis leaves room for inconsistency by courts, so it is important for franchisors to differentiate between goodwill of the brand and goodwill of the specific franchise location.⁶⁴

B. *Proving Actual Harm to Goodwill in the Context of Enforcing Post-Termination Restrictive Covenants*

Unlike in trademark infringement cases, disputes over the enforcement of post-termination contractual restrictions, such as covenants against competition, require the franchisor to demonstrate, both preliminarily and ultimately at trial, actual harm to its goodwill, thereby justifying the need for injunctive relief.⁶⁵ This proof may be accomplished through a showing that the former franchisee is engaged in competitive activities within its former franchise territory or otherwise is engaged in activity designed to divert customers.⁶⁶ Courts have acknowledged the difficulty of proving the value of

63. Michael J. Boxerman & William K. Whitner, *Recent Trends in Litigating Non-Compete Agreements*, ABA 32ND ANNUAL FORUM ON FRANCHISING W22, at 1, 22 (2009); see also Robert W. Emerson, *Franchise Contract Clauses and the Franchisor's Duty of Care Towards its Franchisees*, 72 N.C. L. REV. 905, 968 (1994) (discussing, generally, that former franchisees may argue that they have an ownership interest in the brand's goodwill based on expending time, energy, and funds to create customer relationships).

64. See, e.g., *LaGuardia Assocs. v. Holiday Hosp. Franchising, Inc.*, 92 F. Supp. 2d 119, 125 (E.D.N.Y. 2000) (explaining that the "hallmark" of a franchise relationship is an exchange of goodwill between the parties, where the franchisor lends its national goodwill to the franchisee who generates the local goodwill).

65. See *Get in Shape Franchise, Inc. v. TFL Fishers, LLC*, 167 F. Supp. 3d 173, 202-03 (D. Mass. 2016) (finding violation of non-competition agreement likely to harm goodwill because "one purpose of a non-compete clause in a franchise agreement is to protect the franchisor's goodwill"); *MarbleLife, Inc. v. Stone Res., Inc.*, 759 F. Supp. 2d 552, 562-63 (E.D. Penn. 2010) (finding irreparable harm because ex-franchisee's breach of covenant not to compete harmed franchisor's goodwill).

66. See, e.g., *Soft Pretzel Franchise Sys., Inc. v. Taralli, Inc.*, 2013 WL 5525015, at *11 (E.D. Pa. Oct. 4, 2013) (irreparable harm shown by potential for customer confusion and damage to goodwill as a result of operating in former franchise territory); *Outdoor Lighting Persps. Franchising, Inc. v. OLP-Pittsburgh, Inc.*, 2012 WL 1313251, at *4 (W.D.N.C. Apr. 17, 2012) (franchisor will suffer irreparable harm to goodwill if former franchisee is not enjoined from operating in former franchise territory).

goodwill.⁶⁷ Because there is not necessarily a presumption of harm to goodwill in non-infringement, unfair competition cases, courts usually require the aggrieved party to put forth some evidence of at least probable harm to goodwill.⁶⁸

1. Non-Compete Provisions Protect the Franchise System

Because harm to goodwill can be not only difficult to prove but also detrimental to a business, franchisors can attempt to protect themselves by including post-termination restrictive covenants in their franchise agreements. By prohibiting a competing business for a reasonable period of time in a certain geographic location, the franchisor helps ensure that its goodwill will not be improperly traded upon by a former franchisee and eliminates the uncertainty inherent in evaluating harm to goodwill calculation. This proactive measure is intended to prevent franchisees from misappropriating the franchisor's business assets, either during the franchise term or following its conclusion. Courts regularly acknowledge that properly tailored restrictive covenants are enforceable to prevent a former franchisee from using the franchisor's trademarks and other confidential and proprietary information.⁶⁹ To balance this consideration with public policy concerns, courts require restrictive covenants to be reasonable in time, geographic scope, and the extent of covered activities.⁷⁰ In other words, these clauses should not, and as a practical matter cannot, result in an unreasonable restraint of trade. This public policy means that the restraint cannot unreasonably limit competition or restrict the franchisee in the exercise of a gainful occupation.⁷¹ Some states, however, go farther and prohibit restrictive covenants as a matter of course and view them as unreasonable restraints on trade in any circumstance. Thus, franchisors must be aware of whether states where franchisees are located permit contractual non-compete clauses and should tailor their franchise agreements accordingly.

Sometimes franchisees deliberately ignore an enforceable covenant and continue or open a competing business. In those circumstances, the court

67. *Sw. Stainless, LP v. Sappington*, 582 F.3d 1176, 1192 (10th Cir. 2009) (“[I]t is so difficult to prove the value of goodwill.”).

68. *See Purugganan v. AFC Franchising, LLC*, 2020 WL 6946558, at *5 (D. Conn. Nov. 25, 2020) (declining to grant injunctive relief because harm to goodwill from operating in former franchise territory was “entirely speculative”); *Anago Franchising, Inc. v. CHMI, Inc.*, 2009 WL 5176548, at *12 (S.D. Fla. Dec. 21, 2009) (declining to grant injunctive relief because franchisor provided “no evidence” of harm to goodwill through business operations in the former franchise territory).

69. *Jiffy Lube Int'l, Inc. v. Weiss Bros., Inc.*, 834 F. Supp. 683, 691 (D.N.J. 1993) (non-compete clause in franchise agreements “is necessary to protect the goodwill” of the franchisor); *O.V. Mktg. Assocs., Inc. v. Carter*, 766 F. Supp. 960, 966 (D. Kan. 1991) (“Courts have recognized certain interests attendant to a franchise that are protectable by restrictive covenants, such as good will, trade secrets, or the ability to secure a new franchise in the territory.”).

70. *See, e.g., Soft Pretzel Franchise Sys., Inc. v. Taralli, Inc.*, 2013 WL 5525015, at *11 (E.D. Pa. Oct. 4, 2013) (covenant not to compete must be “reasonably limited in both time and territory” (quoting *Piercing Pagoda, Inc. v. Hoffner*, 351 A.2d 207, 210 (Pa. 1976))).

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

will examine whether a tangible harm to the franchisor's goodwill has or will occur by evaluating a variety of factors.

2. Factors Courts Consider in Determining Harm to Goodwill

There is no "standard" or pre-set list of factors that courts evaluate, but a review of case law suggests that evidence of at least some of the following may suffice to provide potential harm to goodwill: (1) loss of control over business reputation;⁷² (2) negative customer reviews;⁷³ and (3) access to customer information and other proprietary materials.⁷⁴ Actual harm often is not required, only that harm would likely occur absent a temporary restraining order or preliminary injunction.⁷⁵

In *Pom Wonderful LLC v. Pur Beverages LLC*, a federal district court found that, despite a declaration discussing the inconsistent product and advertising concerns surrounding the infringing use of Pom's marks, the declarations did not constitute evidence of harm.⁷⁶ In particular, Pom had not presented any evidence that its customers knew of the infringer's product or that they had a negative reaction to it or the infringer's advertising.⁷⁷ Nor was there any evidence of a negative impact to Pom's brand image.⁷⁸

In *Tilden Recreational Vehicles v. Belair*, Belair signed an employment non-compete agreement stating he would not work in recreational vehicle sales within fifty miles of Boat-N-RV Superstore (BNRV) for one year after his employment.⁷⁹ When Belair left for BNRV's competitor, Chesaco, BNRV sued for breach of contract and sought a preliminary injunction.⁸⁰ Although BNRV did not present evidence that Belair had already caused harm to its interests, the Third Circuit upheld the district court's finding that BNRV would have suffered irreparable harm if Belair continued to work at Chesaco.⁸¹ During his employment, Belair learned about BNRV's products, pricing strategy, and other information used to compete with BNRV.⁸² By using its (or that) training, confidential information, and personal customer

72. *Herb Reed Enters., LLC v. Fla. Entm't Mgmt., Inc.*, 736 F.3d 1239, 1250–51 (9th Cir. 2013).

73. *JTH Tax LLC v. McHugh*, 2020 WL 1689731, at *2 (W.D. Wash. Apr. 27, 2020) (negative customer reviews); *7-Eleven, Inc. v. Kapoor Bros., Inc.*, 977 F. Supp. 2d 1211, 1226–27 (M.D. Fla. Sept. 13, 2013) (customer complaints).

74. *Basiccomputer Corp. v. Scott*, 973 F.2d 507, 512 (6th Cir. 1992) (employees had access to customer information and pricing information, which harmed employer's goodwill); *Handel's Enters., Inc. v. Schulenburg*, 765 F. App'x 117, 124–25 (6th Cir. 2019) (article published describing franchisee's ice cream as a "replication" of franchisor and that franchisee had "brought [franchisor's] winning formula" to franchisee's new location).

75. *Tilden Recreational Vehicles, Inc. v. Belair*, 786 F. App'x 335, 342 (3d Cir. 2019).

76. *Pom Wonderful LLC v. Pur Beverages LLC*, 2015 WL 10433693, at *7 (C.D. Cal. Aug. 6, 2015).

77. *Id.* at *11.

78. *Id.*

79. *Tilden*, 786 F. App'x at 337.

80. *Id.* at 337–38.

81. *Id.* at 342.

82. *Id.*

goodwill to attract sales and customer loyalty, the court found that Belair might harm BNRV's customer goodwill.⁸³

3. Some Examples of Evidence of Harm

The majority of courts that have evaluated harm caused by a violation of a non-compete provision “have concluded that franchising companies suffer irreparable harm when their former franchisees are allowed to ignore reasonable covenants not to compete.”⁸⁴ Said differently, evidence of the violation is evidence, without more, of the harm. For example, in *Quizno's Corp. v. Kampendab*,⁸⁵ the U.S. District Court for the Northern District of California granted an injunction against a former Quizno's franchisee who violated a covenant not to compete by opening a sandwich shop at the same location at which his Quizno's shop had been located for five years.⁸⁶ The court deemed the non-compete “essential to allow time for the public to stop associating [the new shop] with Quizno's.”⁸⁷ The court also adopted Quizno's argument that it would “not be able to reenter the market as long as the [new shop] [was] in operation and w[ould] therefore lose sales, goodwill, and market presence it once had in the area.”⁸⁸ Notably, the court observed that allowing the franchisee to *willfully* violate the covenant not to compete “sends a message to other franchisees that the Agreement does not protect Quizno's and may be disregarded at will,”⁸⁹ which other courts have adopted as well in franchise cases.⁹⁰

Similarly, in *Bad Ass Coffee Company of Hawaii* (BACH), the U.S. District Court for the District of Utah found irreparable harm resulting from defendants' switch to a Java Cove in the same place where defendants had operated a BACH franchise for six years.⁹¹ According to the court, customers might believe that BACH endorsed Java Cove or that defendants no longer stood by BACH.⁹² The court held these messages could erode goodwill in the marketplace.⁹³ Additionally, BACH suffered harm by customers becoming Java Cove customers and by losing a potential franchisee if it had to compete with Java Cove.⁹⁴

83. *Id.*

84. *Bad Ass Coffee Co. of Hawaii, Inc. v. JH Enterprises, LLC*, 636 F. Supp. 2d 1237, 1249 (D. Utah 2009).

85. *Quizno's Corp. v. Kampendab*, 2002 WL 1012997 (N.D. Ill. May 20, 2002).

86. *Id.* at *7.

87. *Id.*

88. *Id.*

89. *Id.*

90. *See, e.g., Flip Flop Shops Franchise Co. v. Neb*, 2016 WL 9275403, at *8–9 (C.D. Cal. Dec. 5, 2016) (following *Quizno's* and finding irreparable harm because a contrary result would “embolden” future franchisee to violate the non-compete agreement and “jeopardize [franchisor's] entire business model”); *Bad Ass Coffee Co.*, 636 F. Supp. 2d at 1249.

91. *Bad Ass Coffee Co.*, 636 F. Supp. 2d at 1249.

92. *Id.*

93. *Id.*

94. *Id.*

The cases cited in the previous section, as well as others cited in this article, illustrate the importance of putting forth actual evidence of likelihood of harm. Mere conclusory allegations of potential harm are not enough. Rather, courts will look for a specific aspect of the business that may be harmed, particular knowledge the infringer may have that can result in a loss of goodwill, or an example of how the infringement may cause the franchisor to lose control over its brand or reputation.⁹⁵ If harm has already taken place, it would be prudent to submit declarations identifying the specific examples of harm, such as negative customer reviews, customer surveys, or inquiries evidencing customer confusion. If harm is likely, but has not yet occurred, the franchisor should introduce evidence of what knowledge or confidential information the franchisee had access to and/or still retains. The franchisor also should have, at minimum, a credible and knowledgeable employee provide testimony that explains how a competitor's use of that information would be detrimental to the goodwill. Paint a clear picture, do not leave anything to chance, and, when in doubt, err on the side of submitting more evidence, not less.

III. Conclusion

The intangible nature of goodwill does not render it non-existent or incapable of proof. Although courts and legislatures continue to work toward developing a more concrete definition of this element of a business's success, franchisors need to take matters into their own hands when seeking injunctive relief to prevent harm to business reputation or brand. As an initial matter, the franchisor or its counsel should determine the applicable standards of proof required to succeed in obtaining injunctive relief. In cases involving trademark infringement, depending on the facts and applicable law, the franchisor may not need to prove irreparable harm if it can show a likelihood of confusion. Many courts, however, still require actual proof of irreparable harm, including specific damage to goodwill. In those jurisdictions, relying only on conclusory allegations that harm to goodwill is likely to occur is insufficient. Be as specific as possible and identify tangible examples of harm. Although there are no guarantees in life or litigation, preparation and thoroughness are a litigant's best friends.

95. See, e.g., *Purugganan v. AFC Franchising, LLC*, 2020 WL 6946558, at *5 (D. Conn. Nov. 25, 2020) (declining to award injunctive relief because plaintiff "does not explain in any concrete fashion *how* these purchases will harm reputation or goodwill"); *Pom Wonderful LLC v. Pur Beverages LLC*, 2015 WL 10433693, at *5 (C.D. Cal. Aug. 6, 2015) ("A finding of reputational harm may not be based on pronouncements that are grounded in platitudes rather than evidence.") (citations, alterations, and quotation marks omitted).

