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Noncompetes

Court Enforces Noncompete Agreement Using Rule of Reason

A federal court in Michigan recently applied the “rule of reason” doctrine in enforcing a covenant not to compete contained in a Little Caesar franchise agreement. *Little Caesar Enters., Inc. v. Creative Rests., Inc.*, 2017 WL 4778721 (E.D. Mich. Oct. 23, 2017). The noncompete provision restricted the former franchisee from engaging in certain competitive conduct for a one-year period within any “Designated Market Area” and for a two-year period within the Designated Market Area where the franchise at issue was located. The former franchisee moved for partial summary judgment arguing that the noncompete provision was governed by the Michigan Antitrust Reform Act’s reasonableness standard, and that under that standard it was unreasonable and unenforceable. However, the court held that under a recent ruling from the Supreme Court of Michigan, commercial noncompete provisions must be evaluated under the “rule of reason” doctrine, and not under the Michigan Antitrust Reform Act.

The court then held that the noncompete provision did not violate the “rule of reason.” Generally, a noncompete provision violates the “rule of reason” if it may suppress or destroy, rather than promote, competition. The court held that rather than showing that the noncompete agreement had anticompetitive effects in the overall pizza or quick-service restaurant market, the evidence tended to show healthy competition between pizza restaurants in the relevant geographic location. Moreover, although the defendants argued that they had suffered individual injury as a result of the noncompete, the court held that the “rule of reason” protects competition, not individual competitors. Accordingly, the court denied the former franchisee’s motion for partial summary judgment.

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