

A solid yellow right-angled triangle pointing towards the top-left corner.

## BLOGS

Noncompetes

# Federal Court Enforces Noncompete Provision and Finds Harm to Goodwill Satisfies Jurisdictional Monetary Threshold

In *Rita's Water Ice Franchise Co., LLC v. S.A. Smith Enterp., LLC*, 2011 U.S. Dist. LEXIS 2595 (E.D. Pa. Jan. 11, 2011), a Pennsylvania federal court recently granted the franchisor's motion for preliminary injunction against a former franchisee, finding the post-termination covenant not to compete to be reasonable, and that success on the merits was likely. The franchisee operated a Rita's Water Ice franchise before starting its own competing dessert business at the same location. The Rita's franchise agreement contained a covenant restricting the former franchisee from competing for two years within a three-mile radius of its formerly licensed territory and of any other Rita's shop.

As an initial matter, the parties disputed whether the amount in controversy exceeded \$75,000 for diversity jurisdiction purposes. Although the franchisee argued that the total lost future royalties was only \$35,000, the court held that the value of the damages alleged by Rita's in the complaint exceeded the jurisdictional threshold. The court found that it had jurisdiction because Rita's sought "damages for injury to its goodwill in an amount representing ongoing and future lost profits" based on the franchisee's unjust enrichment and unfair competition, which consisted of using Rita's proprietary system and equipment. In finding irreparable harm, the court again focused on injury to Rita's goodwill. The court explained that a franchisee who violates the post-term covenant irreparably harms a franchisor's ability to retain its established customer base and business reputation in that area.