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Preliminary Injunctions

Federal Court Enjoins Owners of Former Franchisee from Operating Competing Business and Using Franchisor's Confidential Information

A federal court in Michigan granted a franchisor, Liberty Tax, a preliminary injunction against the owners of its former franchisee in *JTH Tax, Inc. v. Magnotte*, 2020 WL 127949 (E.D. Mich. Jan. 10, 2020). On January 16, 2018, after significant defaults, Liberty Tax terminated multiple franchise agreements with franchisee Reliable Income Tax. Liberty's notice of termination reminded Reliable and its owners, the Magnottes, of their post-termination restrictive covenants regarding noncompetition, nonsolicitation, and return of customer information. Despite this, in January 2019, the Magnottes launched "Phoenix Tax" within the restricted territory, actively solicited former clients of Reliable, and failed to return to the franchisor client information and the confidential Liberty Tax Operations Manual. The franchisor brought suit and sought a preliminary injunction against both the Magnottes and Reliable.

The court granted Liberty's request for injunctive relief against the Magnottes, finding that all four factors the court is required to balance weighed in the franchisor's favor. First, the Magnottes failed to perform their post-termination obligations and violated the legally binding terms of the franchise agreements. Thus, Liberty would be likely to succeed on the merits of its breach of contract claim. Second, the court found that Liberty was suffering an ongoing, irreparable injury due to the Magnottes' violation of the posttermination noncompetition and nonsolicitation covenants, and would continue to do so without injunctive relief. Finally, the court found that the last two factors (the harm to others and the public interest) were satisfied. Preliminary injunctive relief would force the Magnottes to cede an improperly gained competitive advantage and require them to abide by the post-termination restrictive covenants contained in the franchise agreements. The court found that the Magnottes' compliance with their contractual commitments would not cause substantial harm. Further, the court held that enforcing the Magnottes' contractual obligations served the public interest. Thus, for those reasons, the court granted Liberty's request for a preliminary injunction against the Magnottes. The court did not grant the preliminary injunction against Reliable, however, because there was no evidence that Reliable was properly served and no attorney filed an appearance on its behalf.

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