BLOGS
Noncompetes

Federal Court in Arizona Enforces Covenant Not to Compete Against Former Franchisee

An Arizona federal court enjoined a former ReBath franchisee from violating a covenant not to compete in *ReBath LLC v. New England Bath Inc.*, Bus. Franchise Guide (CCH) ¶ 15,801 (D. Ariz. July 15, 2016). ReBath, a bathroom remodeling franchisor, discovered that franchisee New England Bath, Inc. ("NEBI") conducted business outside of its exclusive territory in breach of its franchise agreement, and demanded payment of liquidated damages. NEBI refused to pay the damages and, after the agreements expired, also failed to comply with its post-expiration obligations, including a covenant not to compete with ReBath. ReBath filed suit and moved for an injunction to bar NEBI from continuing to operate a competing remodeling business in violation of the noncompete clause. NEBI argued that the noncompete clause was unenforceable for two reasons. First, NEBI argued that the covenant was unreasonable in geographic scope because it prohibited any competing activity within fifty miles of the territory. Second, NEBI argued that the covenant was substantively overbroad because it prohibited competition with ReBath in any capacity.

The court disagreed on both points. First, relying on similar cases in the franchise context, the court held that the covenant's fifty-mile radius was geographically reasonable in scope and necessary to protect ReBath's goodwill and customer bases in the territory and surrounding area. Second, relying on the plain language of the agreement, the court held that the covenant was not substantively overbroad because, despite NEBI's contentions, it only prohibited NEBI from engaging in activities related to bathroom remodeling and did not encompass the other kitchen remodeling or plumbing work that NEBI also performed.

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