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Noncompetes

Texas District Court Awards Preliminary Injunction Enforcing Post-Termination Obligations and Noncompete

A United States District Court for the Southern District of Texas recently granted a motion by Fantastic Sams to enforce a post-termination noncompetition obligation against a nonrenewing franchisee. *Fantastic Sams Franchise Corp. v. Mosley*, 2016 WL 7426403 (Dec. 23, 2016). The franchise agreement contained a noncompetition provision prohibiting the franchisee, Mosley, from operating a hair salon business within five miles of the location of his former Fantastic Sams salon for two years after the expiration of the agreement. Soon after the expiration of the franchise agreement, Mosley opened a new hair salon business, under a new name, approximately two miles from his former Fantastic Sams location.

The court found the post-termination obligations, including the obligation to cease using Fantastic Sams' trademarks and the telephone number associated with the franchise, to be valid and enforceable under Texas law. The court further held that Fantastic Sams was likely to succeed on its claim that Mosley had violated his posttermination obligations and that Fantastic Sams would suffer irreparable harm absent injunctive relief because Mosley's conduct hurt existing franchisees, posed a threat to Fantastic Sams' goodwill, and inhibited the opening of a new Fantastic Sams franchise in the area. The court also held that the balance of hardships favored the grant of injunctive relief because Fantastic Sams would suffer irreparable harm without the injunction, while the harm that Mosley would suffer was self-induced. Moreover, the court held that the public interest would be served through the enforcement of a valid noncompete agreement. Fantastic Sams also sought preliminary injunctive relief on the grounds that Mosley had infringed Fantastic Sams' trademarks and trade dress. The court declined to award injunctive relief on those grounds, finding Fantastic Sams presented insufficient evidence of consumer confusion and that its claimed trade dress consisted primarily of functional elements.

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