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LIFE AFTER TERMINATION: ENSURING A SMOOTH TRANSITION

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LIFE AFTER TERMINATION – ENSURING A SMOOTH TRANSITION

I. Introduction

“Termination” sounds so final: An ending, a period at the end of the sentence, done. As both franchisors and franchisees know (or should know), however, a coda generally follows. Almost any post-termination period involves some housekeeping and mop-up, as well as continuing duties that may last for years. It is easy to lose sight of those necessary tasks and obligations while focusing on the termination itself. Pre-planning is essential, and franchisors should standardize their processes, to the extent possible, to ensure that nothing falls through the cracks in the termination and post-termination process.

Much has been written about disputed termination and wrongful termination claims. Unless otherwise noted, this paper will generally assume that the termination described was an uncontested split. It will discuss common post-termination compliance issues and how to address them, including the goals of transition and sources of transition rights, the nuts and bolts of transition, physical de-identification, destruction and return of proprietary materials, transitioning of phone numbers, use and retention of real property rights, repurchasing items of value, the use of non-competes, and Internet issues. The accompanying Appendix includes helpful resources for developing a standard post-termination compliance plan, including checklists, notice/reminder letters to send to terminated franchisees, and sample franchise agreement language.

II. Goals of Transition and Sources of Transition Rights

A. Goals of Transition

A successful transition prevents customer confusion, protects the franchisor’s trademarks, trade secrets and other intellectual property, and preserves the value of the franchise system for the other franchisees and the franchisor. If the location remains in the former franchisee’s hands under a new brand, a successful transition ensures that the former franchisee is able to focus on his or her new business, and preserves the value of the local market for another unit in the former franchise system. In a successful transition, the parties understand in advance their obligations and comply with them.

B. Sources of Transition Rights

In determining transition rights, the starting point is always the franchise agreement. The franchise agreement governs, except as restricted by statute or case law. Well-drafted franchise agreements typically include provisions specifically addressing the franchisee’s obligations upon and following termination, as well as broader language addressing trademarks, trade secrets and other intellectual property, and clauses providing for the survival of such clauses following termination. Appendix 1 contains sample franchise agreement language addressing obligations upon termination.

Regardless of the language in the franchise agreement, state franchise statutes in Arkansas,¹ California,² Connecticut,³ Hawaii,⁴ Michigan,⁵ Rhode Island,⁶ Washington,⁷

¹ ARK. CODE ANN. § 4-72-209 (“Upon termination of any franchise by a franchisor without good cause, the franchisor shall, at the franchisee's option, repurchase at franchisee's net cost, less a reasonable allowance for depreciation or obsolescence, the franchisee's inventory, supplies, equipment, and furnishings purchased by the franchisee from the franchisor or its approved sources; however, no compensation shall be allowed for the personalized items which have no value to the franchisor.”)

² CAL. BUS. & PROF. CODE § 20035 (“In the event a franchisor terminates or fails to renew a franchise other than in accordance with the provisions of this chapter, the franchisor shall offer to repurchase from the franchisee the franchisee's resalable current inventory meeting the franchisor's present standards that is required by the franchise agreement or commercial practice and held for use or sale in the franchised business at the lower of the fair wholesale market value or the price paid by the franchisee. The franchisor shall not be liable for offering to purchase personalized items which have no value to the franchisor in the business which it franchises.”)

³ CONN. GEN. STAT § 42-133f(c) (“Upon termination of any franchise the franchisee shall be allowed fair and reasonable compensation by the franchisor for the franchisee's inventory, supplies, equipment and furnishings purchased by the franchisee from the franchisor or its approved sources under the terms of the franchise or any ancillary or collateral agreement; provided no compensation shall be allowed for personalized items which have no value to the franchisor.”)

⁴ HAW. REV. STAT § 482E-6(3) (“Upon termination or refusal to renew the franchise the franchisee shall be compensated for the fair market value, at the time of the termination or expiration of the franchise, of the franchisee's inventory, supplies, equipment and furnishings purchased from the franchisor or a supplier designated by the franchisor; provided that personalized materials which have no value to the franchisor need not be compensated for. If the franchisor refuses to renew a franchise for the purpose of converting the franchisee's business to one owned and operated by the franchisor, the franchisor, in addition to the remedies provided in this paragraph, shall compensate the franchisee for the loss of goodwill. The franchisor may deduct from such compensation reasonable costs incurred in removing, transporting and disposing of the franchisee's inventory, supplies, equipment, and furnishings pursuant to this requirement, and may offset from such compensation any moneys due the franchisor.”)

⁵ MICH. COMP. LAWS § 445.1527 (d) (“Each of the following provisions is void and unenforceable if contained in any documents relating to a franchise...A provision that permits a franchisor to refuse to renew a franchise without fairly compensating the franchisee by repurchase or other means for the fair market value at the time of expiration of the franchisee's inventory, supplies, equipment, fixtures, and furnishings. Personalized materials which have no value to the franchisor and inventory, supplies, equipment, fixtures, and furnishings not reasonably required in the conduct of the franchise business are not subject to compensation. This subsection applies only if: (i) The term of the franchise is less than 5 years and (ii) the franchisee is prohibited by the franchise or other agreement from continuing to conduct substantially the same business under another trademark, service mark, trade name, logotype, advertising, or other commercial symbol in the same area subsequent to the expiration of the franchise or the franchisee does not receive at least 6 months advance notice of franchisor's intent not to renew the franchise.”)

⁶ RHODE ISLAND § 6-50-5 (“If a dealership is terminated by the grantor, the grantor, at the option of the dealer, shall repurchase all inventories sold by the grantor to the dealer for resale under the dealership agreement at the fair, wholesale market value. This section applies only to merchandise with a name, trademark, label, or other mark on it which identifies the grantor.”)

⁷ WASH. REV. CODE 19.100.180(2)(i) (“For the purposes of this chapter and without limiting its general application, it shall be an unfair or deceptive act or practice or an unfair method of competition and

and Wisconsin⁸ require the franchisor to buy back equipment and inventory under certain circumstances upon termination or non-renewal. These laws differ on, among other things, (1) whether repurchase is required only where there is no good cause for termination/nonrenewal; (2) whether repurchase is required in the case of both termination and nonrenewal; (3) what must be repurchased; and (4) the purchase price. The following chart (an updated version of the chart in Clay A. Tillack and Mark E. Ashton, *Who Takes What: The Parties' Rights to Franchise Materials at the Relationship's End*, 28 FRANCHISE L.J. 88, 124 (Fall 2008)) summarizes the repurchase requirements under state franchise statutes.

State and Statutory Cite	Repurchase if terminated for good cause?	Repurchase required for nonrenewal?	What must be repurchased?	Price?
Arkansas ARK. CODE ANN. § 4-72-209	No	No	Inventory, supplies, equipment, and furnishings purchased from the franchisor or its approved sources, not including personalized items that have no value to the franchisor	Franchisee's net cost less depreciation
California CAL. BUS. & PROF. CODE § 20035	No	Yes	"[R]esalable current inventory meeting the franchisor's present standards that is required by the franchise agreement or commercial practice and held for use or sale in the franchised business"	"[T]he lower of the fair wholesale market value or the price paid by the franchisee"

therefore unlawful and a violation of this chapter for any person to:..Refuse to renew a franchise without fairly compensating the franchisee for the fair market value, at the time of expiration of the franchise, of the franchisee's inventory, supplies, equipment, and furnishings purchased from the franchisor, and good will, exclusive of personalized materials which have no value to the franchisor, and inventory, supplies, equipment, and furnishings not reasonably required in the conduct of the franchise business: PROVIDED, That compensation need not be made to a franchisee for good will if (i) the franchisee has been given one year's notice of nonrenewal and (ii) the franchisor agrees in writing not to enforce any covenant which restrains the franchisee from competing with the franchisor: PROVIDED FURTHER, That a franchisor may offset against amounts owed to a franchisee under this subsection any amounts owed by such franchisee to the franchisor."); Wash. Rev. Code 19.100.180(2)(j) ("Upon termination for good cause, the franchisor shall purchase from the franchisee at a fair market value at the time of termination, the franchisee's inventory and supplies, exclusive of (i) personalized materials which have no value to the franchisor; (ii) inventory and supplies not reasonably required in the conduct of the franchise business; and (iii), if the franchisee is to retain control of the premises of the franchise business, any inventory and supplies not purchased from the franchisor or on his or her express requirement: PROVIDED, That a franchisor may offset against amounts owed to a franchisee under this subsection any amounts owed by such franchisee to the franchisor.")

⁸ WIS. STAT. §135.045 ("If a dealership is terminated by the grantor, the grantor, at the option of the dealer, shall repurchase all inventories sold by the grantor to the dealer for resale under the dealership agreement at the fair wholesale market value. This section applies only to merchandise with a name, trademark, label or other mark on it which identifies the grantor.")

State and Statutory Cite	Repurchase if terminated for good cause?	Repurchase required for nonrenewal?	What must be repurchased?	Price?
Connecticut CONN. GEN. STAT. § 42-133f(c)	Yes	No	Inventory, supplies, equipment, and furnishings purchased by the franchisee from the franchisor or its approved sources, not including personalized items that have no value to the franchisor	"[F]air and reasonable compensation"
Hawaii HAW. REV. STAT. § 482E-6(3)	Yes	Yes	"[I]nventory, supplies, equipment and furnishings purchased from the franchisor or a supplier designated by the franchisor," not including "personalized materials which have no value to the franchisor"; also includes goodwill if the franchisor takes over the location	Fair market value less removal costs and amounts due the franchisor
Michigan MICH. COMP. LAWS § 445.1527	No	Yes ⁹	Inventory, supplies, equipment, fixtures, and furnishings, not including "[p]ersonalized materials which have no value to the franchisor" and items "not reasonably required in the conduct of the franchise business"	Fair market value
Rhode Island R.I. GEN. LAWS § 6-50-5	Yes	No	"all inventories sold by the grantor to the dealer for resale under the dealership agreement"; "applies only to merchandise with a name, trademark, label, or other mark on it which identifies the grantor"	"fair, wholesale market value"
Washington WASH. REV. CODE 19.100.180(2)	Yes	Yes	"[I]nventory, supplies, equipment, and furnishings purchased from the franchisor, and good will, exclusive of personalized materials which have no value to the franchisor, and inventory, supplies, equipment and furnishings not reasonably required in the [course] of the franchise business," with no goodwill payment made if franchisee is given one year's notice and "franchisor agrees in writing not to enforce a covenant" not to compete	Fair market value less money owed franchisor
Wisconsin WIS. STAT. § 135.045	Yes	No	All trademarked inventories sold by the granter to the dealer for resale under the dealership agreement	Fair wholesale market value

⁹ The Michigan statute voids any franchise agreement provision that is not in compliance with the repurchase provision. The provision only applies if the term of the franchise is less than five years and the franchisee is prohibited from operating in the same area under a different trademark or does not receive six months' notice. See MICH. COMP. LAWS § 445.1527

In addition, the franchise statutes in Hawaii,¹⁰ Illinois,¹¹ and Washington¹² require franchisors to pay their former franchisees for local goodwill generated during the life of the relationship in certain circumstances. In Hawaii, a franchisee is entitled to the value of the goodwill of the business if the franchisor refuses to renew for the purpose of converting the franchise into a company-owned outlet.¹³ In Illinois, a franchisor that refuses to renew a franchise must compensate the franchisee “by repurchase or by other means for the diminution in the value of the franchised business caused by the expiration of the franchise” where the franchisee is not permitted to continue “substantially the same business” under a different name or mark “in the same area,” or where notice of the nonrenewal is not given at least six months prior to expiration.¹⁴ In Washington, goodwill must be paid to the franchisee upon the franchisor’s refusal to renew unless the franchisee has been given one year’s notice of nonrenewal and the franchisor agrees in writing not to enforce any covenant not to compete with the franchisor.¹⁵

Beyond the franchise agreement and state franchise statutes, federal law protects trademarks (15 U.S.C. § 1, *et seq.*, the Lanham Act), patents (35 U.S.C. § 1, *et seq.*) and copyrights (17 U.S.C. § 1, *et seq.*), while state trade secret acts¹⁶ protect trade secrets. Federal and state unfair competition/unfair trade practice laws and state laws on non-competes provide additional rights in the transition context.

¹⁰ HAW. REV. STAT § 482E-6(3) (See text in footnote 4 above.)

¹¹ 815 ILCS 705/20 (“ It shall be a violation of this Act for a franchisor to refuse to renew a franchise of a franchised business located in this State without compensating the franchisee either by repurchase or by other means for the diminution in the value of the franchised business caused by the expiration of the franchise where:

(a) the franchisee is barred by the franchise agreement (or by the refusal of the franchisor at least 6 months prior to the expiration date of the franchise to waive any portion of the franchise agreement which prohibits the franchisee) from continuing to conduct substantially the same business under another trademark, service mark, trade name or commercial symbol in the same area subsequent to the expiration of the franchise; or

(b) the franchisee has not been sent notice of the franchisor's intent not to renew the franchise at least 6 months prior to the expiration date or any extension thereof of the franchise.”)

¹² WASH. REV. CODE 19.100.180(2)(i) (See text in footnote 7 above.)

¹³ HAW. REV. STAT § 482E-6(3) (See text in footnote 4 above).

¹⁴ 815 ILCS 705/20 (See text in footnote 11 above).

¹⁵ WASH. REV. CODE 19.100.180(2)(i) (See text in footnote 12 above).

¹⁶ Every state except Massachusetts, New York, and North Carolina has adopted a version of the Uniform Trade Secrets Act. <http://www.uniformlaws.org/LegislativeMap.aspx?title=Trade%20Secrets%20Act> (visited 2/4/2015).

III. Nuts and Bolts of Transition

A. Physical De-Identification

1. Signage

The most visible aspect of most brick-and-mortar franchises is the exterior signage. When there is no plan to keep the location in the franchise system, either by the franchisor or a new franchisee, the signage must be removed or covered to de-identify the property. Prompt removal is important to protect the reputation of the brand. If the location is vacant, remaining signage can frustrate customers and suggests that the brand is failing. If the location continues operating as a similar business, continued display of brand signage may confuse customers, dilute the trademarks, and otherwise infringe on the franchisor's rights.

If the franchise agreement is properly written, one of the franchisee's express contractual obligations should be removal or coverage of all signage, preferably at the franchisee's expense. The franchise agreement should clearly specify the franchisee's signage obligations upon termination. In the termination letter, or otherwise during the termination process, the franchisor should clearly remind the franchisee in writing of its post-termination obligations. A sample letter to a terminated franchisee is included in Appendix 2.

If the franchise agreement requires the franchisee to remove the signage, but the franchisor would prefer coverage, the franchisor could negotiate the issue with the franchisee. Covering the signs may be the best option if the location will be closed for a period of time but is likely to reopen. Removal is generally best if the franchisor has no plans to retain or re-franchise the location. Because covering the signs is likely far cheaper and easier than removal, franchisees are unlikely to resist covering instead of removal.

The franchise agreement language should refer specifically to any signage bearing the franchisor's official name and marks, but should also capture all items bearing all similar names and marks as well. The franchisor should be aware of any post-termination efforts to make only minor changes to the brand's name or look that could cause customer confusion and could violate either the franchisee's post-termination obligations or the franchisor's intellectual property rights. Indeed, courts have found an increased potential for customer confusion when a similar business operates after termination under a similar name.¹⁷

¹⁷ See *Mister Softee, Inc. v. Tsirkos*, No. 14 CIV. 1975 LTS RLE, 2014 WL 2535114, at *10 (S.D.N.Y. June 5, 2014)(granting preliminary injunction in part where terminated franchisee continued to operate ice cream business under the name "Master Softee"); *You Fit, Inc. v. Pleasanton Fitness, LLC*, No. 8:12-CV-1917-T-27EAJ, 2013 WL 521784, at *1 (M.D. Fla. Feb. 11, 2013)(enjoining former "You Fit" franchisees from operating gym under name "Fit U" on grounds of consumer confusion); *Synergistic Int'l Inc. v.*

Where a terminated franchisee has failed to fulfill its post-termination de-identification duties, the franchisor may have several causes of action to assert. These might include common law breach of contract and/or unjust enrichment, as well as trademark infringement and false designation of origin under the Lanham Act. Franchisors should also look to the relevant jurisdiction's trade protection laws to determine if there is a possible cause of action under any unfair trade practices act or unfair competition law.

When franchisees abandon locations or are unresponsive to franchisor demands to remove or cover signage but litigation is not a viable or palatable option, the franchisor must then decide whether to engage in "self-help" to address any exposed signage. This effort can be more complicated when the franchisor does not control the location through ownership, a master lease, or otherwise. A franchisee that has abandoned its location or failed to pay its franchisor has probably stiffed its landlord as well. An embittered landlord who has not been paid may not feel like cooperating with a franchisor seeking to remove or cover signage and may use the franchisor's desire for access as leverage and demand that the franchisor cover the franchisee's past due rent before granting permission to enter. The landlord may even claim that franchisor efforts to address signage constitutes a trespass. Franchisors that do not control the real estate may want to consider requiring location leases to allow franchisors post-termination access for certain purposes, even if rent has not been paid.

If the franchisor does not have clear contractual or other rights to enter, the franchisor should give written notice to the landlord as to what the franchisor intends to do, and when. The written notice should also, at the very least, ask the landlord to contact the appropriate franchisor representative by a date certain if he or she has any questions or concerns. The franchisor should also consider any damage that coverage or removal could cause to external walls, fixtures or landscaping and make plans to address those issues to minimize any post-removal friction with the landlord. In rare instances, the franchisor may find that it is necessary to seek injunctive or other relief against the landlord. Depending on the situation, the franchisor may find that it is difficult to plead a specific legal right to entry. Franchisors have brought actions against uncooperative landlords, alleging false designation of origin or false or misleading representation under the Lanham Act on the basis that the signage is likely to cause consumer confusion or otherwise harm the famous mark by appearing on a vacant space.¹⁸ Common law claims of tortious interference with contract may also be available, depending on whether the landlord was previously aware of the tenant's sign removal obligations.

Windshield Doctor, Inc., No. CV 03-579 FMC CWX, 2003 WL 21468568, at *5 (C.D. Cal. Apr. 28, 2003)(granting injunction on the basis of the similarity of "glass doctor" to "windshield doctor" mark).

¹⁸ 15 U.S.C. § 1125. Note that Lanham Act claims may be difficult to prove if the space is not actively used for a business purpose because the Lanham Act requires that the alleged wrongful affiliation be "use[d] in commerce." *Id.* at § 1125(a)(1).

2. Other Indicia of the Former Franchise Relationship

Of course, signage is not the only indicia of brand identification that may remain. Others items may include brochures, business cards, award plaques, and the like. If the franchisor or a replacement franchisee intends to continue operating at the location, then some of these items may remain and be used at the location, at least if they do not specifically identify the franchisee or its principal. If the franchisee is permitted to continue another business at the location, a simple site-visit inspection should suffice to ensure that the franchisee is not improperly using these materials to suggest or represent a continuing relationship with the franchisor's brand.

Some items may fall into a grey area. For example, if the franchisee is continuing a real estate business at the location, but on his or her own or associated with another brand, can the franchisee continue displaying plaques commemorating awards won when formerly associated with the franchisor? Can the franchisee include references to the prior affiliation and prior successes as a calling card? Some franchise agreements specifically forbid mentioning the former affiliation in advertising and other materials relating to the former franchisee's new business, and courts will generally enforce those provisions. If there is no contractual prohibition, then the franchisor will likely need to rely on intellectual property law, which may not support a cause of action if the former franchisee is clear that the brand affiliation no longer exists.

Franchisors may argue that former franchisees are improperly seeking to capitalize on the franchisor's goodwill and name recognition by advertising their former brand affiliation. Courts are unsettled with respect to whether the franchisee or franchisor owns the goodwill built up at the location after termination. Because the franchisor owns the trademarks, the general rule allows all goodwill to inure to the benefit of the franchisor.¹⁹ Nevertheless, some franchisees have successfully argued that the brand's overall goodwill improved through their particular efforts.²⁰ In determining whether a restrictive covenant can be enforced to bar a franchisee from benefiting from the goodwill acquired among its customers, some courts have distinguished between the "business goodwill" attached to the overall franchise system and the "personal goodwill" attached to the franchisee.²¹ Some states will require goodwill repurchase upon termination under certain circumstances regardless of the language in the agreement.²²

¹⁹ See *Jiffy Lube Intern., Inc. v. Weiss Bros., Inc.*, 834 F.Supp. 683 (D.N.J.,1993); W. Michael Garner & Elliot R. Ginsburg, *Nailing the Blob of Mercury: Goodwill in Franchising*, 33 FRANCHISE L.J. 149 (Fall 2013); Clay A. Tillack and Mark E. Ashton, *Who Takes What: The Parties' Rights to Franchise Materials at the Relationship's End*, 28 FRANCHISE L.J. 88, 124 (Fall 2008) .

²⁰ See, e.g., *Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168 (Tex. 1987).

²¹ See *id.* at 172.

²² HAW. REV. STAT. § 482E-6(3); 815 ILCS 705/20; WASH. REV. CODE § 19.100.180(i).

3. Inventory, Equipment, and Supplies

As summarized in the chart above on pages 3-4, statutes in eight states require the franchisor to repurchase inventory, supplies, equipment, fixtures and/or furnishings upon termination or non-renewal under certain circumstances. Outside of these eight states, franchisees can typically keep non-branded materials, and typically must destroy or return all materials that bear the trademark. The franchisee's obligation to do so is bolstered by typical language in the franchise agreement stating that the former franchisee is not allowed to use the trademark after termination, and requiring the return or destruction of all materials that bear the trademark (that the franchisor is not repurchasing) upon termination. Sample language is in Appendix 1.

Beyond any applicable statutory repurchase requirement, the parties should consider whether to include in the franchise agreement the option for the franchisor to repurchase inventory, equipment, and supplies, as such an option can be an effective way to ensure the former franchisee returns confidential information and trademarked items, fully de-identifies, and stops using elements of the franchise system post-termination.

B. Destruction or Return of Proprietary Materials such as Operations Manuals

A well-drafted franchise agreement requires the destruction or return of proprietary materials, such as operations manuals, upon termination. It also provides that proprietary materials, including the operations manuals, remain franchisor's sole property, and prohibits the franchisee from disclosing or using any confidential information after termination. Sample language is in Appendix 1.

If the agreement does not include such language, or if there is disagreement over the scope of materials encompassed within the contractual language, franchisors may turn to trade secret law. Under the uniform trade secret act, "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.²³ It is by no means a foregone conclusion that marketing and operations procedures, or other elements of the franchise system inside or outside the operations manual, will be protected as trade secrets.²⁴ However, with the right facts, the

²³ http://www.uniformlaws.org/shared/docs/trade%20secrets/utsa_final_85.pdf

²⁴ See Scott P. Sandrock, *Trade Secret Protection and the Terminated Franchise*, 8 FRANCHISE L.J. 3 (Summer 1988), citing *In re Arthur Treacher's Franchisee Litigation*, 537 F.Supp. 311, 322 (E.D. PA. 1982) (cooking process was not a trade secret where hundreds of present or former employees knew it,

franchisor's business systems, formats, methods, business plans, strategic information, product information, recipes, formulas, customer and supplier information, new product development plans, proprietary computer technology or other information inside or outside the operations manual may be trade secrets.²⁵

C. Use and Retention of Real Property Rights

Sometimes the franchisee wants to stay and use the property for other business purposes after termination. If the real estate, either by lease or practicality, is limited in its reasonable use, then continued use could violate a post-termination non-compete provision. See Section III.E. below. Even if continued use would not violate any non-compete obligations, however, the franchisor may want to retain the location or, for various reasons, may prefer that the former franchisee does not retain it. If the franchisor has a master lease, or similar, and simply sublets the location to the franchisee, then the lease documents probably allow the franchisor to maintain control and prevent the former franchisee from continuing to operate at the location if it objects. The franchisor may also be able to rely on the collateral assignment of leases. A sample collateral assignment document is included in Appendix 3. In this situation, the lease becomes collateral for the franchisee's performance of the franchise agreement and thus any default gives the franchisor the right to occupy the premises. The franchisor's interest in the property arises at the time the franchisee signs the franchise agreement, whereupon the franchisee also assigns the lease. The franchisor, in turn, agrees in the franchise agreement not to take over the tenancy unless the franchisee fails to perform. The collateral assignment agreement may also give the franchisor the right to itself assign the lease to a new franchisee of its choosing. The franchisor generally will agree to provide notice to the landlord as well as cure any lease defaults on the lease before exercising its rights to the property. Although a collateral lease can be valuable, franchisors should be wary of assignment agreements that contain too many hurdles to approval by the landlord, because the primary goal is to allow the franchisor swiftly to take control of the property if the franchisee's operation begins to damage the brand.

franchisor had not taken any steps to reasonably enforce its secrecy, and anyone would know that breaded fish must be cooked and that after awhile the product should not be sold).

²⁵ See *Gold Messenger v. McGuary*, 937 P.2d 907, 911 (Colo. Ct. App. 1997) (information in operations manuals was a trade secret); Restatement(Third) of Unfair Competition § 39, cmt. d.; Louis Altman, Callman on Unfair Competition, Trademarks, and Monopolies §§ 14:14-:24 (2005); Scott P. Sandrock, *Trade Secret Protection and the Terminated Franchise*, 8 FRANCHISE L.J. 3 (Summer 1988), *KFC Corp v. Marian-Kay Co., Inc.*, 620 F.Supp. 1160 (S.D. Ind. 1985) (recipe was trade secret); *Susser v. Carvel Corp.*, 206 F. Supp. 636 (S.D.N.Y. 1962) (recipe was trade secret); *Krehl v. Baskin-Robbins Ice Cream Co.*, 664 F.2d 1348 (9th Cir. 1983) (recipe was trade secret). For a further discussion of trade secrets in the franchise context, see Mark S. VanderBroek & Christian B. Turner, *Protecting and Enforcing Franchise Trade Secrets*, 25 FRANCHISE L.J. 191 (Spring 2006).

D. Taking Back Tangible and Non-Tangible Items of Value for Continued Business Use by the Franchisor or Replacement Franchisee

1. Transfer of Phone Numbers

A well-drafted franchise agreement will address who has the right to the phone number used at the franchised location upon contract termination. Because the phone number becomes associated with the brand and appears in paper and online directories that survive the termination of the franchise, franchisors typically require that the phone number be transferred to them at termination. Appendix 4 contains sample language requiring the franchisee to assign to the franchisor the telephone numbers for the franchised location.

Courts typically enforce franchise agreement provisions requiring transfer to the franchisor of specific phone numbers.²⁶ Where there is no provision requiring transfer, courts still enjoin the former franchisee from continuing to use phone numbers that are associated with the brand, but may not require transfer to the franchisor.²⁷

2. Transfer of Customer Lists

In the appropriate industries, a well-drafted franchise agreement will address who has the right to customer lists at termination. Courts enforce franchise agreement provisions requiring franchisees to deliver customer lists to the franchisor at the termination of the relationship.²⁸

E. Restraining Former Franchisee's Post-Termination Behavior

Many franchise agreements restrict post-termination competition. The enforceable scope of these contractual provisions varies by jurisdiction, and many articles and papers have been written on this topic, so it will not be covered in detail here.²⁹

²⁶ See, e.g., *Sunward Elecs., Inc. v. McDonald*, 362 F.3d 17, 26-27 (2d Cir. 2004) (upholding injunction related to ceasing use of telephone numbers; because agreement did not require transfer of phone numbers, remanding to district court to determine least restrictive approach to protecting franchisor's interest in the phone numbers; options included requiring former franchisee to cease use of phone number, and transfer to independent answering service that would inform callers where they could contact the franchisor and franchisee); Clay A. Tillack and Mark E. Ashton, *Who Takes What: The Parties' Rights to Franchise Materials at the Relationship End*, 28 FRANCHISE L.J. 88 (Fall 2008).

²⁷ *Id.*

²⁸ See, e.g., *JTH Tax Inc. v. Knight*, No. 2:13-cv-583, 2014 WL 1050905 (E.D. Va. March 17, 2014); *Allegra Network LLC v. Cormack*, 2012 WL 3583618, No. 11-13087 (E.D. Mich. August 20, 2012); *MarbleLife, Inc. v. Stone Resources, Inc.*, No. 10-2480, 2012 WL 1719439 (E.D. Pa. May 16, 2012); *In re Great Lakes Quick Lube Limited Partnership*, Case No. 12-24163-svk (Bankr. E.D. Wis. Nov. 2, 2012).

²⁹ Peter J. Klarfeld and Mark S. VanderBroek, *Law on Covenants Against Competition Shifts Toward Greater Enforceability by Franchisors*, 31 FRANCHISE L.J. 76 (Fall 2011); Emma Cano and Katie Dolan-

Generally, in most states, to be enforceable, a covenant against competition must be reasonably limited in both time and scope such that it would not impose undue hardship.³⁰ In addition, the restriction must be necessary to protect a legitimate business interest, reasonable in its territorial application, as well as inoffensive to public policy.³¹ If there is no contractual non-compete provision, then the franchisor may be limited to relying on intellectual property infringement or breach of confidentiality and proprietary material obligations.

The remedies for violation of a non-compete are critical if the franchisee refuses to comply. Although damages may be available, if proven, the franchisor typically primarily wants enforceable injunctive relief. If the franchise agreement has an arbitration provision, the franchisor's first analysis should be whether to seek relief in court or in arbitration. Most arbitration rules specifically provide for injunctive-style relief, and some provide for the immediate appointment of an emergency arbitrator to address requests for preliminary relief.³² Specifically, the American Arbitration Association ("the AAA") allows for an arbitrator to "take whatever interim measures he or she deems necessary," which might include "injunctive relief and measures for the protection or conservation of property and disposition of perishable goods."³³

For arbitration agreements entered into after October 1, 2013, the AAA commercial rules also specifically allow a party to make an application for "emergency relief" in the event the party requires a ruling "prior to the constitution of the panel."³⁴ Parties to earlier arbitration agreements may also mutually agree to the application of this emergency rule in order to avoid a court injunction proceeding or to otherwise protect their interests. Under that provision, the moving party must set forth the reasons why it is entitled to such relief and certify that notice has been given to the remaining parties.³⁵ Within one business day, the AAA appoints a single emergency arbitrator to decide the

Galaviz, *If it Looks Like a Duck, Walks Like a Duck, and Quacks Like a Duck: The Enforceability of Noncompetes Against Nonsignatories*, 33 FRANCHISE L.J. 543 (Spring 2014); Barbara A. Bagdon and Mary M. Kellerman, *When Will Courts Issue Preliminary Injunctions to Enforce Restrictive Covenants in Franchise Agreements?*, 28 FRANCHISE L.J. 141 (Winter 2009).

³⁰ *E.g.*, Restatement of Contracts §§ 514-515

³¹ *E.g.*, Klarfeld and VanderBroek, at 77.

³² See *e.g.*, Am. Arbitration Ass'n, Commercial Arbitration Rules, R-37, *available at* https://www.adr.org/aaa/ShowProperty?nodeId=/UCM/ADRSTG_004103; JAMS, Comprehensive Arbitration Rules & Procedures, Rule 24(e), *available at* <http://www.jamsadr.com/rules-comprehensive-arbitration/>.

³³ Am. Arbitration Ass'n, Commercial Arbitration, at R-37.

³⁴ *Id.* at R-38.

³⁵ *Id.*

preliminary, emergency issue.³⁶ Thereafter, “[i]f after consideration the emergency arbitrator is satisfied that the party seeking the emergency relief has shown that immediate and irreparable loss or damage shall result in the absence of emergency relief, and that such party is entitled to such relief, the emergency arbitrator may enter an interim order or award granting the relief and stating the reason therefore.”³⁷ After the traditional panel is appointed in a particular proceeding, the emergency arbitrator loses his or her jurisdiction, and requests for modification or other issues relating to any emergency relief granted must be addressed to the traditionally appointed panel.³⁸ The rule also explicitly provides that a court application for interim relief will not waive the right to arbitrate and even appears to envision a possible hybrid court and arbitration proceeding:

A request for interim measures addressed by a party to a judicial authority shall not be deemed incompatible with this rule, the agreement to arbitrate or a waiver of the right to arbitrate. If the AAA is directed by a judicial authority to nominate a special master to consider and report on an application for emergency relief, the AAA shall proceed as provided in this rule and the references to the emergency arbitrator shall be read to mean the special master, except that the special master shall issue a report rather than an interim award.³⁹

Many international arbitral institutions also provide for some form of emergency relief, either through the appointment of an emergency arbitrator, or through expedited paneling.⁴⁰ The International Chamber of Commerce (the “ICC”), for example, allow a party that needs “urgent interim or conservatory measures” to apply for the appointment of an emergency arbitrator.⁴¹ The application must describe “the circumstances giving rise to the application” as well as give the reasons why the party “cannot await the constitution of an arbitral tribunal.”⁴² The ICC rules make clear, however, that relief under the emergency rules is not available where “the parties have agreed to another

³⁶ *Id.* at R-38(c).

³⁷ *Id.* at R-38(e).

³⁸ *Id.* at R-38(f).

³⁹ *Id.* at R-38(h).

⁴⁰ The Singapore International Arbitration Center (SIAC Rules, art.26(2) and Sch. I), the Stockholm Chamber of Commerce (SCC Rules, Expedited Rules and App’x II), International Chamber of Commerce (ICC Rules art. 29(1) and App’x V), International Centre for Dispute Resolution (ICDR art. 37.1), and the London Court of International Arbitration (LCIA Rules, art.9(1)) all provide expedited relief of some kind. See also Raja Bose and Ian Meredith, *Emergency Arbitration Procedures: A Comparative Analysis*, INT’L ARBITRATION L. REV., 5 Int. A.L.R. 186 (2012).

⁴¹ ICC Rules, art. 29(1).

⁴² *Id.* at App’x V(3).

pre-arbitral procedure that provides for the granting of conservatory, interim or similar measures.”⁴³

Even if the franchise agreement contains an arbitration provision, many franchise agreements contain arbitration “carve-outs” explicitly allowing the franchisor to seek injunctive relief in court for certain types of claims, such as intellectual property and non-compete violations. In addition, some courts have recognized the right to seek injunctive relief “in aid of arbitration,” which may provide court access in the face of an otherwise enforceable obligation to arbitrate.⁴⁴ Courts that have recognized their jurisdiction in cases governed by an arbitration agreement have done so on similar grounds, holding that judicial review is especially necessary where “the withholding of injunctive relief would render the process of arbitration meaningless or a hollow formality because an arbitral award, at the time it was rendered, could not return the parties substantially to the status quo ante”.⁴⁵ International parties to an arbitration agreement might find this tactic particularly useful if any of the materials at issue are in the United States to ensure that they are not relocated, destroyed or otherwise altered before issuance of an award.⁴⁶

The decision whether to seek injunctive relief in court or in arbitration can be difficult. Although the required elements to obtain court injunctive relief vary somewhat by jurisdiction,⁴⁷ they are often strictly applied. Some courts have required detailed proof

⁴³ *Id.* at art. 29(6)(c).

⁴⁴ 609 F.3d 975, 981 (9th Cir. 2010).

⁴⁵ See e.g., 52 F.3d 1373; *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Bradley*, 756 F.2d 1048, 1050 (4th Cir.1985).

⁴⁶ Martin Davies, *Court-Ordered Interim Measures in Aid of International Commercial Arbitration*, 17 AM. REV. INT'L ARB. 299, 299 (2006); Charles N. Browers and W. Michael Tupman, *Court-Ordered Provisional Measures Under the New York Convention*, 80 AM. J. INT'L L. 24, 24 (1986).

⁴⁷ The First Circuit, for example, follows the traditional four-part traditional approach, weighing: “(1) the likelihood of success on the merits; (2) the potential for irreparable harm to the movant in the absence of an injunction; (3) the balance of the movant’s hardship if relief is denied versus the nonmovant’s hardship if the relief is granted; and (4) the effect, if any, of the decision on the public interest.” *Maine Educ. Ass’n Benefits Trust v. Cioppa*, 695 F.3d 145, 152 (1st Cir. 2012). The Second Circuit employs a two-step inquiry, considering: party seeking a preliminary injunction ordinarily must show: “(1) a likelihood of irreparable harm in the absence of the injunction; and (2) either a likelihood of success on the merits or sufficiently serious questions going to the merits to make them a fair ground for litigation, with a balance of hardships tipping decidedly in the movant’s favor.” *Johnson v. Miles*, 355 F. App’x 444, 445-46 (2d Cir. 2009). The Seventh Circuit proceeds in two phases. First, the plaintiff must establish: (1) irreparable injury; (2) no adequate legal remedy; and (3) likelihood of success on the merits. Then, the court balances the harms to each party and the effect on public interest against the plaintiff’s likelihood of success. *Girl Scouts of Manitou Council, Inc. V. Girl Scouts of the U.S., Inc.*, 549 F.3d 1079, 1085-86 (7th Cir. 2008).

that violation of a non-compete has caused the franchisor “irreparable harm.”⁴⁸ A franchisor seeking an injunction must demonstrate that the franchisee’s current actions, if allowed to continue, would cause damage that cannot be undone by a final judgment.⁴⁹ Although some courts have acknowledged the importance of the trademark to the franchisor’s reputation and goodwill,⁵⁰ other courts have rejected the proposition that the potential for damage to the brand automatically constitutes irreparable harm.⁵¹ It can help if the franchise agreement specifically states that the franchisee acknowledges that violation of the non-compete constitutes irreparable harm for purposes of an injunction; however, courts may not find themselves bound by such a provision.⁵²

An arbitrator may not feel as bound by the strict court requirements for an injunction, which could work to the franchisor’s advantage. On the other hand, however, an arbitrator may be less likely than a court to enjoin the activities of a sympathetic franchisee, even if there is a legal basis to do so. In addition, an arbitrator’s injunction is not self-executing, and potentially cannot be confirmed in court (allowing for court enforcement) until there is a final award.⁵³ However, a former franchisee may nonetheless be motivated voluntarily to comply with an arbitrator’s injunction, given that either this arbitrator or a panel under the auspices of the same arbitration proceeding will be the ultimate decision-maker on the merits.

⁴⁸ See *7-Eleven v. Grewal*, No. 1:14-cv-12676 (D. Ma. Nov. 20, 2014) (denying injunctive relief on grounds that petitioner had not demonstrated terminated franchisee’s operation of different convenience store in former 7-Eleven space would cause irreparable harm).

⁴⁹ See *RoDa Drilling Co. v. Siegal*, 552 F.3d 1203, 1210 (2009) (“[A] plaintiff satisfies the irreparable harm requirement by demonstrating a significant risk that he or she will experience harm that cannot be compensated after the fact by monetary damages.”) (citation omitted); Bethany Appleby, Harris Chernow and Sandra G. Gibbs, *Termination Alternatives in Tough Economic Times*, International Franchise Association 43rd Annual Legal Symposium, available at <http://www.wiggin.com/12405>.

⁵⁰ See *Sunward Electronics, Inc. v. McDonald*, 362 F.3d 17, 25 (2d Cir. 2004) (stating that “[w]hen in the licensing context unlawful use and consumer confusion have been demonstrated, a finding of irreparable harm is automatic”); *Krispy Kreme Doughnut Corp. v. Satellite Donuts, LLC*, 725 F. Supp. 2d 389, 397 (S.D.N.Y. 2010) (“[I]rreparable injury necessarily follows from defendants’ unauthorized and unlawful use of Krispy Kreme’s trademarks.”); *Dunkin’ Donuts Franchised Rests. LLC v. Cardillo Capital, Inc.*, No. 2:07CV278 FTM29SPC, 2007 WL 2209245, at *2 (M.D. Fla. July 30, 2007) (referring to the trademark as an “asset of exceptional value”)

⁵¹ *Singas Famous Pizza Brands Corp. v. New York Adver. LLC*, 468 Fed. Appx. 43, 46 (2d Cir. N.Y. 2012) (rejecting proposition that irreparable harm must be assumed in breach of covenant cases).

⁵² See *7-Eleven v. Grewal*, No. 1:14-cv-12676 (D. Ma. Nov. 20, 2014) (essentially ignoring provision)

⁵³ See, e.g., *In re Michaels v. Mariform Shipping, S.A.*, 624 F.2d 411, 413-15 (2d Cir. 1980) (finding that an “interim award” was not “final” and could not be confirmed under the Federal Arbitration Act); *Pacific Reins. Mgmt. Corp. v. Ohio Reins. Corp.*, 935 F.2d 1019, 1022-23 (9th Cir. 1991) (same).

Former franchisees may also seek an end-run around non-compete obligations by hiding behind friends and family members. Fed. R. Civ. P. 65(d)(2)(C) specifically anticipates this problem by allowing courts to enjoin activities of those acting in “active concert and participation” with the wrongdoer.⁵⁴ Courts determining whether a third party acts in “active concert and participation” may consider whether the nonsignatory has a close personal or familial relationship with the franchisee, or otherwise has some measure of influence over day-to-day operations.⁵⁵ In *Bonus of America v. Angel Falls*, for example, a cleaning service franchisee agreed to a non-compete provision that prohibited him from participating in any business of “a like competitive nature” during the life of the agreement and for two years after termination.⁵⁶ The franchisor later discovered that the franchisee was effectively running a similar cleaning service owned by a different company.⁵⁷ Although the third-party company was not a signatory to the agreement, the court held it to be in “active concert and participation” with the franchisee, as shown through various documents that referred to the franchisee by name, including proposals and invoices.⁵⁸ Using Rule 65(d)(2)(C), the court brought the third party company within the purview of its injunction.⁵⁹

IV. Internet Issues

A. Frustrating Process; Art of the Possible; Sometimes it’s a Waiting Game

Transitioning a former franchised unit on the internet is a piecemeal, website-by-website, process. It can be tedious and slow. Naturally, it is easier for sites that the former franchisee controls, and more challenging for sites that generate their content independently of the franchisee. In general, over time, sites with more reliable information (that provide mechanisms for updating and correcting information) tend to be higher on the search engine hit result list. While it is probably impossible to scrub the internet of all references to the former franchisee, with appropriate franchisor effort on the front end, over time customers will see fewer and fewer references on sites they frequent.

⁵⁴ FRCP 65(d)(2)(C); *see also Thompson v. Freeman*, 648 F.2d 1144, 1147 (8th Cir. 1981); Emma Cano and Katie Dolan-Galaviz, *If it Looks Like a Duck, Walks Like a Duck, and Quacks Like a Duck: The Enforceability of Noncompetes Against Nonsignatories*, 33 FRANCHISE L.J. 543 (Spring 2014).

⁵⁵ Cano and Dolan-Galaviz, 33 FRANCHISE L.J. at 550.

⁵⁶ *Bonus of America, Inc. v. Angel Falls Services, L.L.C.*, 2010 WL 2734218 at *2 (D.Minn., July 06, 2010).

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.*

One basic, practical approach to take with a cooperative former franchisee is to perform a Google search by brand and location for the former franchisee to identify the list of potentially problematic websites. Then, the franchisor can create a plan with the former franchisee for each of these websites, to identify which ones the franchisee will update information on (because, for example, the franchisee has a premium account on the site) vs. which sites the franchisor will contact (because, for example, neither the franchisor nor franchisee has any relationship with the site). The franchisor should require the franchisee to provide evidence he performed his part of the plan, and will need to set a schedule to follow up periodically with sites that have not updated their information.

Many popular sites that have generated their content independently of the franchisee contain links that allow website visitors to report updated information. For example, when this paper was drafted in February 2015, yelp.com, tripadvisor.com, and Google Maps allowed site visitors to report inaccurate information (such as a name change). Similarly, as of February 2015, Facebook provides a process for claiming pages that no one had managed. Franchisors should first follow the procedures set up on the site, before investigating any possible legal action.

B. Websites Created by the Former Franchisee

Franchisor best practice is to prohibit franchisees from creating websites for their franchised business, regardless of whether the domain name for the business includes the franchisor's marks. Instead, franchisors should include information about franchisee units on the franchisor's website. Appendix 1 contains sample franchise agreement language addressing domain names.⁶⁰

If the franchise agreement does not contain specific language addressing domain names, franchisors can turn to more generic language in the franchise agreement prohibiting the use of trademarks after termination, as well as protections under the federal Lanham Act. Both should prohibit a former franchisee from using the franchisor's trademark in a domain name.⁶¹

C. Social Media

Franchisees' use of social media should fall under the trademark and advertising provisions of the franchise agreement. However, best practice is to include specific

⁶⁰ For a further discussion of best practices, see Judith A. Powell and Lauren Sullins Ralls, *Best Practices for Internet Marketing and Advertising*, 29 FRANCHISE L.J. 231 (Spring 2010).

⁶¹ See, e.g., *Cardservice Int'l, Inc. v. McGee*, 950 F.Supp. 737 (E.D. Va. 1997) (relying on the Lanham Act; case is outside the franchise context). For a further discussion of franchisors policing the use of their trademarks on the internet, see Alexander G. Tuneski, *Hey, That's My Name! Trademark Usage on the Internet*, 31 FRANCHISE L.J. 203 (Spring 2012).

language in the franchise agreement and the operations manual (which can be updated over time) addressing social media. The social media policy could require franchisees to obtain prior approval before establishing a social media account. To serve brand consistency, the social media policy could include a naming convention, such as the company name followed by the location. The social media policy could provide the franchisor with ownership of the franchisees' social media accounts (which use the name of the franchise, any of the marks, or any confusingly similar terms) and the content thereon. The social media policy could also require the franchisee to take any acts that may be necessary to transfer listings and registrations to the franchisor upon termination or expiration of the franchise agreement. The social media policy could also provide the franchisor with the right to instruct the franchisee to shut down the social media account. Of course, in deciding whether to include such a policy, and the content of such a policy, a franchisor must balance the risk of increasing vicarious and direct liability.⁶²

If a former franchisee continues to use a franchisor's trademark on social media despite demand that he cease, the franchisor should take a two prong approach: (1) pursuing the former franchisee for breach of contract and trademark infringement; and (2) pursuing the social media company. In the second category, the franchisor should attempt to use the social media company's internal processes for stopping the conduct before considering any potential legal action. As of February 2015, when this paper was drafted, the major social networks (Facebook, LinkedIn, and Twitter) all provide online mechanisms for reporting trademark infringement.⁶³

V. Developing the Process and Execution

A. Importance of a Standardized Plan

The heat of the moment, when the franchisor is focusing on effectuating the actual termination and complying with any applicable legal restrictions, is not the time to be first planning for post-termination inspections and compliance. Although some case-by-case customization may be necessary, best practices suggest having a standard post-termination compliance plan and checklist in place for use and reference after every termination. A sample checklist is attached at Appendix 5.

⁶² For a further discussion of social media policies, see Keith Klein & Matthew Fojut, *System Internet Communications*, in *COLLATERAL ISSUES IN FRANCHISING 1*, 38-40 (Kenneth R. Costello ed., 2014).

⁶³ See <https://www.facebook.com/help/223752991080711> (last visited February 7, 2015); <https://www.facebook.com/help/contact/208282075858952> (last visited February 7, 2015); https://help.linkedin.com/app/answers/detail/a_id/30365/kw/trademark (last visited February 7, 2015); <https://www.docuSign.net/MEMBER/PowerFormSigning.aspx?PowerFormId=c6fe80f8-8ab1-4e09-a4e7-a663bb08fa5f> (last visited February 7, 2015); <https://support.twitter.com/articles/18367-trademark-policy> (last visited February 7, 2015); and <https://support.twitter.com/forms/trademark> (last visited February 7, 2015).

There may also be situations where the franchisor weighs the cost and hassle of ensuring 100% compliance in a particular case and concludes that sometimes “good enough is good enough.” The franchisor should be forewarned, however, that terminated franchisees may try to rely on lax enforcement in the future to argue that the franchisor has waived its right to insist on strict compliance in other cases.⁶⁴ Appropriate non-waiver language in the franchise agreement should help the franchisor overcome this argument, although such language’s effectiveness could vary by jurisdiction based on the facts.⁶⁵

If the franchisor has different forms of franchise agreements, due to franchise age or otherwise, the franchisor should compare the checklist obligations against the franchisor’s particular agreement to ensure that it accurately describes the former franchisee’s particular obligations. The franchisor may find that it needs to develop a separate checklist for each version of the franchise agreement that the franchisor has executed.

B. Who Executes the Post-Termination Plan?

A designated franchisor employee or principal should generally be ultimately responsible for coordinating and ensuring post-termination compliance activities. However, area developers, development agents, consultants and investigators may be tasked with inspection and enforcement. How best to assign specific tasks depends on many franchisor-specific factors, including the franchisor’s type, size, and geographic spread.

The process often begins with a notice detailing the former franchisee’s post-termination obligations, with any applicable deadlines. The franchisor may also request that the franchisee acknowledge compliance in writing when each task is completed. Whether or not the franchisee has acknowledged compliance, a franchisor representative should independently confirm compliance, using the franchisor’s post-termination checklist and other relevant materials as a guide. Any violations should be noted and dated, with appropriate detail, and photographed or videotaped as appropriate. The person performing the inspections and taking the photographs or videos should be someone that the franchisor would be comfortable signing an affidavit or testifying in court or arbitration if necessary in the future.

⁶⁴ See *CJ Restaurant Enterprises Inc. v. FMS Management Systems Inc.*, 699 So. 2d 252 (Fla. Dist. Ct. App. 1997).

⁶⁵ See *The Original Great American Chocolate Chip Cookie Co. v. River Valley Cookies, Ltd.*, 970 F.2d 273 (7th Cir. 1992)(“The fact that the Cookie Company may, as the [franchisees] argue, have treated other franchisees more leniently is no more a defense to a breach of contract than laxity in enforcing the speed limit is a defense to a speeding ticket.”); *Dunkin’ Donuts Inc. v. Gav-Stru Donuts, Inc.*, 139 F. Supp. 2d 147, 157 (D. Mass. 2001)(enforcing anti-waiver provisions in the franchise agreement).

The designated franchisor employee or principal should then review the completed checklist and materials confirming compliance before closing the file or planning for any necessary next steps, if any.

VI. Conclusion

A smooth transition requires advance planning and diligent follow-through. On a system-wide basis, smooth transitions are aided by strong franchise documents and comprehensive checklists. We hope this paper assists with both.

APPENDIX 1: SAMPLE FRANCHISE AGREEMENT LANGUAGE

A. Franchisee's Obligations Upon Termination

Upon the termination or expiration of this Agreement:

A. Post-Term Duties. Franchisee will:

(1) within five (5) days, pay all amounts due and owing to Franchisor, Franchisor's affiliates, or any third party under this Agreement, or otherwise related to Franchisee's Center;

(2) cease all use and display of the Marks and of any proprietary materials (including the Manual, and/or any other material provided through Franchisor's intranet or other means of electronic communication) and of all promotional materials furnished or approved by Franchisor;

(3) return to Franchisor by first class prepaid United States mail all customized computer software, the Manual and any other manuals, advertising materials, and all other printed materials relating to the operation of the franchised business;

(4) assign to Franchisor the telephone numbers for the Center (in accordance with the Assignment attached as Exhibit _____ to this Agreement);

(5) not directly or indirectly represent to the public or otherwise hold itself out as a present or former _____ franchisee;

(6) comply with all other applicable provisions of this Agreement (including the confidentiality and noncompete provisions) or any other agreements between Franchisee and Franchisor (or its affiliates) that expressly or by their nature survive the termination or expiration of this Agreement; and

(7) upon Franchisor's demand, assign to Franchisor or Franchisor's designee Franchisee's remaining interest in any lease then in effect for the Center (although Franchisor will not assume any past due obligations).

Without limiting the preceding sentence, upon termination or expiration of this Franchise Agreement for any reason, Franchisee's right to use the name "_____" and the other Marks and the Business System will immediately terminate.

B. Redecoration.

If Franchisee remains in possession of the Center, Franchisee will, at its expense, modify both the exterior and interior appearance of the Center so that it will be easily distinguished from the standard appearance of _____ Centers. At a minimum, such changes and modifications to the premises will include: (1) repainting the premises with

totally different colors; (2) removing all signs, photos, displays and other materials bearing the name " _____ " and other Marks or logos; (3) removing from the premises all fixtures which are indicative of _____ Centers; (4) discontinuing use of the approved employee uniforms and refraining from using any uniforms which are confusingly similar; and (5) discontinuing use of all confidential information regarding the operation of the Center. If Franchisee fails to comply with this Section _____ within thirty (30) days of termination or expiration of this Agreement, Franchisor has the right to enter the Authorized Location and remove all signage, displays or other materials in Franchisee's possession that bear any of the Marks or names or material confusingly similar to the Marks, and Franchisee must reimburse Franchisor for Franchisor's costs incurred in taking such action.

C. Franchisor's Repurchase Rights.

Franchisor has the right but not the obligation, upon providing Franchisee written notice of Franchisor's intent to exercise such right within 60 days after the expiration or termination of this Agreement, to purchase or designate a third party that will purchase all or any portion of the assets of Franchisee's Center including, without limitation, equipment, fixtures, signage, furnishings, supplies, leasehold improvements, licenses, permits, inventory, and leasehold or real property interests in the Center premises. The purchase price for the Center assets will be the fair market value (exclusive of goodwill) as agreed by the parties. If Franchisor and Franchisee cannot agree on the fair market value of the assets, fair market value will be determined by a qualified independent appraiser selected by Franchisor. Franchisor may offset against and reduce the purchase price by any amounts Franchisee owes to Franchisor or Franchisor's affiliates.

In the event the Agreement is terminated or expires, and the parties cannot agree upon the fair market value of the assets, the price determined by the appraiser will be the reasonable fair market value of the assets based on their continuing use in, as, and for the operation of an _____ Center and the appraiser will designate a price for each category of asset (e.g., equipment, fixtures, etc.), but shall not include the value of any goodwill of the Center or business, as such goodwill is attributable to the Marks and the Business System. Within forty-five (45) days after Franchisor's receipt of the appraisal report, Franchisor or its designated purchaser will identify the assets, if any, that it intends to purchase at the price designated for those assets in the appraisal report.

Once the assets are identified and the price is established, whether by agreement of the parties or the appraisal method described above, Franchisor or its designated purchaser and Franchisee will then proceed to complete and close the purchase of the identified assets, and to prepare and execute purchase and sale documents customary for the assets being purchased, in a commercially reasonable time and manner. If applicable, Franchisor and Franchisee will each pay one-half (1/2) of the appraiser's fees and expenses. Franchisor's interest in the Center assets will constitute a lien thereon and may not be impaired or terminated by the sale or other transfer of any of those assets to a third party. Upon Franchisor's or its designated purchaser's exercise of the purchase option and tender of payment, Franchisee agrees to sell and deliver (or

to cause its affiliates to sell and deliver, if applicable) the purchased assets to Franchisor or its designated purchaser, free and clear of all encumbrances, and to execute and deliver, to Franchisor or its designated purchaser a bill of sale and such other documents as may be commercially reasonable and customary to effectuate the sale and transfer of the assets being purchased.

If Franchisor does not exercise its option to purchase under this Section, Franchisee may, subject to Section ____ of this Agreement (Franchisee's Covenant Not To Compete), sell or lease the Center premises and assets to a third party purchaser. Franchisee's agreement with any third-party purchaser must expressly state that it is subject to the terms of Section _____(Franchisee's Covenant Not To Compete) and that the purchaser has no right to use the Marks or Business System in any manner.

Franchisee will cooperate with Franchisor and take all actions reasonably required to protect Franchisor's rights (including Franchisor's rights as to the Center premises) under this Section.

B. Mark Ownership

Franchisor is the owner of the Marks, and Franchisee's use of the Marks shall inure to the benefit of Franchisor. Franchisee disclaims all right, titles, and interest in or to the Marks and the goodwill associated with the Marks.

C. Mark Use

Franchisee's right to use and identify with the Marks and Business System applies only to the operation of the Center at the Authorized Location, and exists concurrently with the term of this Agreement and only so long as Franchisee is in complete compliance with Franchisor's quality standards. Franchisee will have the right to use the Marks and Business System only in the manner Franchisor directs and approves in writing. Franchisee will not have or acquire any rights in any of the Marks or Business System other than the license of the right to use as governed by this Agreement. Franchisee will not during or after the term of this Agreement do anything directly or indirectly which would infringe upon, harm, mislead or contest the rights of Franchisor in the Marks or Business System.

D. Domain Name and Internet

Franchisee will not register or use (except as authorized in writing by Franchisor) any domain names or social media identities that include the name "_____" or the other Marks. Franchisee will comply with the social media policy in the Operations Manual, as such policy may be amended over time. Franchisee's general conduct on any website or other online communication systems, and specifically its use of the Marks, domain names or any advertising, is subject to the provisions of this Agreement. Franchisee's right to use the Marks or Business System on the internet terminates when this Agreement expires or terminates.

E. Operations Manual/Confidential Information

Franchisor will loan Franchisee one (1) copy of, or otherwise make available to Franchisee (through Franchisor's intranet or other means of written or electronic access as designated by Franchisor) the Operations Manual (the "Manual") wherein Franchisor will describe its operational policies, standards, requirements and practices. The Manual and other manuals Franchisor provides to Franchisee will remain Franchisor's sole property.

Franchisee and those individuals who have signed the Personal Guaranty attached hereto as Exhibit _____ will not, during or after the term of this Agreement, communicate, disclose or use for the benefit of any other person or entity any confidential information, knowledge or know-how concerning the Business System. Franchisee will disclose such confidential information only to such of its employees as must have access to it in order to operate Franchisee's business, subject to such persons signing a confidentiality agreement in a form satisfactory to Franchisor. Copies of the executed agreements will be provided to Franchisor upon request. Any and all information, knowledge and knowhow, including the Manual, any other manuals created for use in the operation of the Center, methods, supplier lists, procedures, specifications, techniques, computer programs and other data which Franchisor copyrights or designates as confidential will be deemed confidential for purposes of this Agreement.

APPENDIX 2: SAMPLE LETTER TO A TERMINATED FRANCHISEE

VIA FedEx [Check Franchise Agreement Notice Method]

<DATE>

<ADDRESS>

Re: Notification of Infringement

Dear:

I am an attorney with _____. _____ is owner of the Franchise System which operates under the name _____.

It is my understanding that your establishment, located at <> in <> has not been dis-identified from the _____ system and that you continue to use _____'s Intellectual Property and Proprietary materials. Upon the termination of the Franchise Agreement for store number <>; your license to use the trade dress, Intellectual Property, and Proprietary materials associated with the _____ brand for this location were also terminated. The continued use of these materials is infringing upon the rights _____ holds in these materials. This location needs to be dis-identified immediately. This includes; but is not limited to, the removal of the following list of items from this location:

1. The [distinctive wall artwork] must be completely removed or covered;
2. All menu boards;
3. All [distinctive] wallpaper;
4. All [distinctive] floor tiles;
5. _____ ® logos on [appliances and other equipment];
6. All _____ ® Signage;
7. All Advertising Materials (bag stuffers, point of purchase materials, window signs);
8. _____ ® decals on front window;
9. Carpet with _____ ® logo at the entrance;
10. Front door push bar with _____ ® logo;
11. _____ ® clock;
12. POS computer system containing _____ ® programs;
13. All uniforms, (shirts, visors and aprons);
14. All business forms utilized in the operation of the store are proprietary items of _____ ® restaurants and should be returned to _____;

15. Floor stand promotional unit;
16. Trash Units;
17. Pillar Art;
18. Vertical Wall Art;
19. Black Framed Wall Art;
20. All Art work proprietary to the _____® brand;
21. Banner Art

As outlined above, these materials utilize the Intellectual Property of _____ and are an integral part of the trade dress associated with the _____® brand. The continued use is considered infringement of the Intellectual Property rights _____ holds in these materials. Failure to remove these materials will result in customer confusion.

The above mentioned changes must be made to your establishment within two weeks of your receipt of this letter. Removal of these items must be completed on or before <>. Failure to properly dis-identify the location may result in the immediate commencement of legal proceedings without further notice to you.

It is _____'s wish to resolve this matter amicably. Please provide written confirmation of the receipt of this letter and your willingness to comply with _____'s request within fourteen (14) calendar days of the receipt of this letter. I can be reached via email at _____.

Very truly yours,

APPENDIX 3: COLLATERAL ASSIGNMENT OF LEASE

ADDENDUM TO LEASE

THIS ADDENDUM, is made and entered into as of _____, by and between _____, a _____ ("Landlord"), and _____, a _____ ("Tenant").

RECITALS

1. Landlord and Tenant entered into a Lease dated _____ (the "Lease") pertaining to the real property located at _____, which is more particularly described on Exhibit A attached hereto (the "Leased Premises") allowing for operation of a _____ center pursuant to a License Agreement ("License Agreement") between Tenant and _____ ("Franchisor").

2. Landlord and Tenant desire to incorporate the following terms into the body of the Lease.

NOW, THEREFORE, in consideration of the covenants herein and therein, the parties hereto agree as follows:

TERMS

1. **No Amendment.** Tenant and landlord agree that they will not renew or extend the term of the Lease, without Franchisor's written consent. Tenant and Landlord agree that they will not amend, modify, or alter any other Lease term without Franchisor's written consent.

2. **Use Approval.** Landlord represents that Tenant may operate the Leased Premises as a Franchisor Instant Oil Change service center without violating another tenant's exclusive use provision.

3. **Remodel Rights.** Tenant can remodel, modify, paint and make installations in the interior and on the exterior of the leased premises as may be required by Franchisor from time to time, including without being liable under any continuous operation covenant.

4. **Notice and Opportunity to Cure.** Landlord will deliver to Franchisor a copy of any and all letters or notices sent to Tenant relating to the Tenant or the Leased Premises at the same time that such letters or notices are sent to Tenant. In the event that the notice or letter is a default letter, and Tenant fails to timely cure such default, Landlord shall deliver to Franchisor written notice of such failure to timely cure. This notice to Franchisor shall be a prerequisite for the Landlord's exercise of any remedies resulting from the default. Franchisor shall have a 15 day period (or a reasonable time to cure a non-monetary default not capable of being cured within such 15 day period) following receipt of such written notice to cause a cure of Tenant's default. Franchisor shall have the option, and not the obligation, to affect a cure, in advance of Landlord exercising any remedies. Franchisor's election to cure shall not be deemed an election to assume the Lease, unless and until Franchisor expressly does so in writing.

5. **Collateral Assignment of Lease.** Tenant hereby assigns its right under the lease to Franchisor, and landlord hereby consents to such assignment subject to the following conditions: One of the following shall have occurred: (a) Tenant fails to timely cure a default under the Lease; or (b) Tenant fails to exercise a renewal option under the Lease; or (c) Tenant fails to timely cure a default under the License Agreement; and Franchisor sends written notice to Landlord that Franchisor is exercising its right to accept the assignment of Tenant's rights under the Lease; and Franchisor cures Tenant's default, as applicable, within 15 days of written notice of default to Franchisor, provided, however, any monetary default cure amount shall be limited to an amount equal to two month's Rent. Landlord acknowledges that by executing this Addendum, Franchisor does not hereby assume any liability with respect to the Leased Premises or any obligation as Tenant under the Lease, unless and until Franchisor expressly assumes such liability as described above.

6. **Assignment and Subletting.** Landlord hereby grants Tenant the unrestricted right to assign the Lease or sublet the Premises to Franchisor, an affiliate of Franchisor or another franchisee of Franchisor or any affiliate thereof. Provided, however, Tenant may not assign its interest in the Lease, nor sublet all or any portion of the Leased Premises, without Franchisor's written consent.

7. **Assignment by Franchisor.** At any time following Franchisor's election to take an assignment of Tenant's rights under the Lease, Franchisor may, on written notice, assign the Lease or sublet the Leased Premises to an affiliate of Franchisor or a franchisee approved by Franchisor, without charge or penalty, so long as such assignee or sublessee meets Landlord's reasonable financial qualifications. Upon an assignment, Franchisor shall be released from any further obligations under the Lease. Landlord agrees to execute written documentation confirming any such assignment and release.

8. **Purchase Option.** If Tenant has an option to purchase the Leased Premises (whether under the Lease or otherwise), then in the event that Tenant elects not to exercise its option to purchase, Landlord shall extend the option to purchase to

Franchisor Instant Oil Change Franchising, Inc. ("Franchisor") under the same terms and conditions as offered to Tenant.

9. **De-image and Trademark Use.** Upon the expiration or earlier termination of the Lease for any reason, or upon termination of the License Agreement for any reason, Tenant shall, upon written demand by Franchisor, remove all Franchisor's trademarks from all buildings, signs, fixtures and furnishings, and alter and paint all buildings and other improvements maintained pursuant to the Lease a design and color which is basically different from Franchisor's authorized building design and painting schedule. If Tenant shall fail to make or cause to be made any such removal, alteration or repainting within thirty (30) days after written notice, Franchisor or any affiliate thereof shall have the right to enter upon the Premises, without being deemed guilty of trespass or any other tort, and make or cause to be made such removal, alterations and repainting at the reasonable expense of Tenant, which expense Tenant shall pay Franchisor or its designated affiliate on demand.

10. **Memorandum of Lease.** Landlord and Tenant agree to record a notice substantially in the form of Exhibit "B" hereto, indicating Franchisor's rights hereunder, or, alternatively, to record a Memorandum of Lease containing substantially the following language:

"Landlord and Tenant have granted _____ and its affiliates certain conditional rights, including possession, in and to the Premises."

11. **Notice Procedure.** All notices which Landlord may serve on Franchisor hereunder shall be made in accordance with the Lease to:

[franchisor name]

[address]

[city, state zip]

ATTN: Franchise Operations Department

or such other address as Franchisor may designate from time to time in writing.

12. **Supremacy of Addendum.** Notwithstanding anything to the contrary elsewhere in the Lease or any addendum or amendment thereto, Landlord and Tenant agree that the terms and provisions set forth in this Addendum to Lease shall control and shall not be superseded, terminated or modified without the prior written consent of Franchisor. Landlord acknowledges that Franchisor is not a party to the Lease. However, Franchisor is intended to be a third party beneficiary to the Lease and this Addendum with an independent right to enforce its terms against Landlord and Tenant. Landlord and Tenant hereby waive any claim that Franchisor has no right to enforce this Addendum to Lease.

IN WITNESS WHEREOF, the parties have executed this Addendum as of the date herein above set forth.

LANDLORD:

TENANT:

By: _____

By: _____

Its: _____

Its: _____

Date: _____

Date: _____

EXHIBIT "A"

DESCRIPTION OF THE PREMISES

APPENDIX 4: ASSIGNMENT OF TELEPHONE NUMBERS

This assignment is effective as of the date of termination or expiration of the Franchise Agreement entered into between _____ ("us") and _____ ("you"). You hereby irrevocably assign to us or our designee the telephone number or numbers and listings issued to you with respect to your _____Centers ("telephone numbers"). This assignment is for collateral purposes only and we have no liability or obligation of any kind whatsoever arising from this assignment, unless we desire to take possession and control over the telephone numbers.

We hereby are authorized and empowered upon termination or expiration of the Franchise Agreement and without any further notice to you to notify the telephone company, as well as any other company that publishes telephone directories ("telephone companies"), to transfer the telephone numbers to us or such other person or entity as we designate. You hereby grant to us an irrevocable power of attorney and appoint us as your attorney-in-fact to take any necessary actions to assign the telephone numbers, including but not limited to, executing any forms that the telephone companies may require to effectuate the assignment. This assignment is also for the benefit of the telephone companies, and the telephone companies may accept this assignment and our instructions as conclusive evidence of our rights in the telephone numbers and our authority to direct the amendment, termination or transfer of the telephone numbers, as if they had originally been issued to us. In addition, Franchisee agrees to hold the telephone companies harmless from any and all claims against them arising out of any actions or instructions by us regarding the telephone numbers.

YOU:

US:

APPENDIX 5: POST-TERMINATION COMPLIANCE CHECKLISTS

Sample 1: Site Visit Checklists - Retail

Item List	Continuing Use of Trademark/ Trade Dress/ Trade Secret Confidential Info/ Copyrighted Materials/ Patents?		
Exterior Signs	Yes	No	
Interior Signs	Yes	No	
Other signs with Logo	Yes	No	Specify
Displays			
a. Posters/Menuboard	Yes	No	
b. Menu items			
i. Trademark items	Yes	No	
Point of Purchase materials	Yes	No	
Wall or Counter tiles	Yes	No	
Distinctive Colored Paint	Yes	No	
Building façade - Unique features	Yes	No	
Product build cards	Yes	No	
Manuals	Yes	No	(If yes, return)
Training Videos	Yes	No	(If yes, return)

Product Purchase - Buy Products and Get a Receipt		
Trademark Items	Yes	No
Receipt	Yes	No

Paper Products	Continuing Use of Trademark/ Trade Dress?	
Wraps	Yes	No
Cups	Yes	No
Boxes	Yes	No
Sacks	Yes	No
Napkins	Yes	No
Other	Yes	No

Sample 2: Site Visit Checklist - Service

Item List	Continuing Use of Trademark/ Trade Dress/ Trade Secret/ Confidential Info/ Copyrighted Materials/ Patents?		
Exterior Signs	Yes	No	
Vehicles with TM and/or color	Yes	No	
Equipment with TM and/or color	Yes	No	
Invoices/Office Materials	Yes	No	
Branded Products	Yes	No	
Brochures and Printed Advertising Materials	Yes	No	
Business Cards	Yes	No	
Manuals	Yes	No	(If yes, return)
Training Videos	Yes	No	(If yes, return)

Sample 3: Social Media Checklist - Retail and Service

Social Media List	Status		
Facebook			Yes
Twitter			Yes
YouTube			Yes
LinkedIn			Yes
Pinterest			Yes
MySpace			Yes
Yelp			Yes
Google+			Yes
Foursquare			Yes
Mobile Apps			Yes
Yahoo			Yes
Yellow Pages			Yes
Location Services - Garmin, etc.			Yes
Internet Listing			Yes
Blogs			Yes
Telephone Numbers			Yes