

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

CIVIL MINUTES – GENERAL

Case No. SACV 12-733-JST (MLGx)

Date: August 29, 2012

Title: The Tutoring Center Franchise Corp. v. Collin Smith and Sharon Smith

Present: **Honorable JOSEPHINE STATON TUCKER, UNITED STATES DISTRICT JUDGE**

Ellen Matheson

Deputy Clerk

N/A

Court Reporter

ATTORNEYS PRESENT FOR PLAINTIFF: ATTORNEYS PRESENT FOR DEFENDANT:

Not Present

Not Present

PROCEEDINGS: (IN CHAMBERS) ORDER HOLDING DEFENDANTS IN CONTEMPT AND AWARDED ATTORNEYS' FEES

I. Background

On June 19, 2012, the Court granted Plaintiff The Tutoring Center Franchise Corporation's ("TCFC's") unopposed motion for a preliminary injunction, and ordered Defendants and former TCFC franchisees Collin Smith and Sharon Smith ("Defendants") to comply with the following ("the Preliminary Injunction"):

1. Refrain from using, through advertising or in any other manner, (i) any confidential methods, procedures and techniques associated with TCFC or its system; (ii) "The Tutoring Center" trademarks and any distinctive forms, slogans, signs, symbols, logos or devices associated with "The Tutoring Center" trademarks or TCFC's system; and (iii) all signs, advertising materials, stationery, forms and any other article displaying any of "The Tutoring Center" trademarks;
2. Return to TCFC, its Operating Manual or any other manuals, customer lists, records, files, instructions, brochures, agreements, disclosure statements or other materials provided by TCFC to Defendants relating to the operation of their former Tutoring

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Center franchised business, and refrain from using any such information obtained from TCFC;

3. Refrain from utilizing the telephone and facsimile number, the internet address, electronic mail addresses and internet domain names that were utilized in the operation of their former Tutoring Center franchised business and assign to TCFC, their right, interest, and/or title in all such telephone and facsimile numbers, internet addresses, electronic mail addresses, and internet domain names; and

4. Refrain from posting any regular, classified, telephone directory, internet, or any other listings associated with the TCFC's trademarks.

(Order Granting Pl.'s Mot. for Prelim. Inj., Doc. 14.) On June 26, 2012, Chris Barber, a TCFC employee visited Defendant's former TCFC center and discovered purported violations of the Preliminary Injunction. (Mem. of P. & A. at 6, Doc. 15-1.) On July 3, 2012, TCFC filed an ex parte application ("Application") for an order to show cause ("OSC") re: civil contempt and sanctions against Defendants. (Appl., Doc. 15.) The Application asks the Court to coerce Defendants' compliance with the Preliminary Injunction through either a \$50,000 penalty, plus an additional \$5,000 per day until Defendants comply, or imprisonment of one or both of Defendants until they agree to comply with the Preliminary Injunction. (Mem. of P. & A. at 2-3.) Defendants also request attorneys' fees, in the amount of \$21,825, associated with the Application. (*Id.* at 23.) On July 6, 2012, Defendants responded to the Application, asserting that they had substantially complied with the Preliminary Injunction, and that as of July 9, 2012, they would shut down their business. (Resp. to Pl.'s Appl., Doc. 16; Smith Decl. ¶ 11, Doc. 17.) Notably, this was the first mention that Defendants would close their business. On July 6, 2012, the Court granted the Application, and set an OSC hearing for August 10, 2012, at 2:30 p.m. (Doc. 19.)

On July 10, 2012, TCFC filed another ex parte application ("Second Application"), to shorten time for the hearing on the OSC. (Second Appl., Doc. 20.) The Second Application was based on alleged continuing violations of the Preliminary Injunction observed on July 8, 2012. (Mem. at 4, Doc. 20-1.) On July 12, 2012, Defendants filed a response stating that, as they had

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indicated in their response to the first Application, they shut down their business on July 9, 2012, the day after TCFC employees observed continuing violations. (Resp. to Pl.’s Second Appl., Doc. 21.) On July 16, 2012, the Court denied the Second Application, and ordered TCFC to inform the Court by July 19, 2012, whether the OSC hearing remained necessary. (Doc. 23.)

On July 19, 2012, TCFC filed a notice informing the Court that the OSC hearing remains necessary. (Notice, Doc. 24.) TCFC argues that, according to the most recent declaration of Defendant Collin Smith, Defendants were not in full compliance with the Preliminary Injunction until July 11, 2012. (*Id.* at 2.) TCFC asserts that because the ex parte applications were necessary to force compliance, it is still entitled to its attorneys’ fees. (*Id.*) Defendants filed a response, arguing that TCFC’s claim for attorneys’ fees to enforce post-termination obligations is encompassed by the complaint filed in this action, and therefore, an OSC hearing is inappropriate. (Doc. 25.)

II. Legal Standard

“A contempt fine accordingly is considered civil and remedial if it either coerce[s] the defendant into compliance with the court’s order, [or] . . . compensate[s] the complainant for losses sustained.’ Where a fine is not compensatory, it is civil only if the contemnor is offered an opportunity to purge.” *Koninklijke Philips Electronics, N.V. v. KXD Tech., Inc.*, 539 F.3d 1039, 1042 (9th Cir. 2008) (quoting *United Mine Workers v. Bagwell*, 512 U.S. 821, 829 (1994)) (alterations omitted). Attorneys’ fees incurred in seeking contempt are compensatory damages. *In re Dyer*, 322 F.3d 1178, 1195 (9th Cir. 2003). Accordingly, Plaintiff asks the Court to hold Defendants in civil contempt.

To hold Defendants in civil contempt, the Court must “determine (1) that [Defendants] violated [a] court order, (2) beyond substantial compliance, (3) not based on a good faith and reasonable interpretation of the order, (4) by clear and convincing evidence.” *In re Dual-Deck Video Cassette Recorder Antitrust Litig.*, 10 F.3d 693, 695 (9th Cir. 1993). “‘Substantial compliance’ . . . is not vitiated by ‘a few technical violations’ where every reasonable effort has been made to comply.” *Id.* (quoting *Vertex Distrib., Inc. v. Falcon Foam Plastics, Inc.*, 689 F.2d 885, 891 (9th Cir. 1982)).

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III. Discussion

The Preliminary Injunction required Defendants to refrain from using “all signs, advertising materials, stationery, forms and any other article displaying any of ‘The Tutoring Center’ trademarks[.]” In June 26, 2012, correspondence, Defendants’ counsel represented that Defendants were still offering generic tutoring services, but that “[t]he business name and all signs have been changed.” (Mulcahy Decl., Ex. 1, Doc. 15-33.) However, Plaintiff presented clear and convincing evidence that Defendants merely removed “The” from signage displaying “The Tutoring Center.” (Barber Decl., Exs. 6-8, Doc. 15-14.) This conduct appears to be nothing more than an attempt “to make minimal changes . . . in order to test the outer boundaries of [the Preliminary Injunction].” *Wolfard Glassblowing Co. v. VanBragt*, 118 F.3d 1320, 1323 (9th Cir. 1997).

The Preliminary Injunction also required Defendants to return its Operating Manual and other materials provided to Defendants by Plaintiff. Although Defendants explain that they were initially confused about how to “return” the electronic file containing the Operating Manual (Smith Decl. ¶ 5), Plaintiff’s counsel clarified in a conversation with Defendants’ counsel on June 26, 2012, that Defendants should mail the disk with the electronic copy of the Operating Manual to Plaintiff’s corporate office. (Mulcahy Decl., Ex. 1.) Defendants’ counsel represented in a June 26, 2012, letter that Defendants “w[ould] mail the disk with the electronic copy of the Operating Manual, as well as any other paper documents that were provided by [Plaintiff], directly to the corporate office.” (*Id.*) Nonetheless, Defendants did not mail these items until a week later, on July 3, 2012, after Plaintiff filed its ex parte application for an order to show cause hearing. (Smith Decl. ¶ 7, Ex. A.)

Finally, the Preliminary Injunction required Defendants to refrain “from utilizing the telephone . . . number . . . that [was] utilized in the operation of [Defendants’] former Tutoring Center franchise[.]” Plaintiff presented clear and convincing evidence that, as of June 27, 2012, a caller who dialed the former telephone number for Defendants’ business would hear a message directing the caller to Defendants’ new number. (Edward Thalheimer Decl. ¶¶ 41-42, Doc. 15-2.) Defendants did not respond to this purported violation in their papers, and defense counsel vaguely stated at oral argument that the forwarding number message was due to actions by the phone company. Defendants’ attempt to continue to utilize their previous number by redirecting callers to their new number is a clear violation of the Preliminary Injunction.

On the basis of this conduct, that Court concludes that Defendants violated the Preliminary Injunction by clear and convincing evidence, and that the violations were neither

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“technical” nor de minimis. Accordingly, the Court finds that Defendants were in contempt of the Preliminary Injunction. Although it is undisputed that Defendants are now in compliance, Plaintiff incurred attorneys’ fees in its attempts to secure compliance by filing an ex parte application for an order to show cause hearing. Plaintiff incurred attorneys’ fees in the amount of \$21,825 in filing its ex parte application (Mulcahy Decl. ¶¶ 12-18, Doc. 15-32), and Defendants have not challenged the reasonableness of these fees. Accordingly, the Court awards attorneys’ fees in the amount of \$21,825 to Plaintiff.

IV. Conclusion

For the foregoing reasons, the Court finds Defendants in contempt of the Preliminary Injunction and orders Defendants to pay \$21,825 in attorneys’ fees to Plaintiff within 60 days.

Initials of Preparer: enm