FILED
United States Court of Appeals
Tenth Circuit

August 5, 2021

Christopher M. Wolpert
Clerk of Court

UNITED STATES COURT OF APPEALS

FOR THE TENTH CIRCUIT

SONIC INDUSTRIES, LLC, a Delaware limited liability company; SONIC FRANCHISING, LLC, a Delaware limited liability company; SONIC INDUSTRIES SERVICES, INC., an Oklahoma corporation; AMERICA'S DRIVE-IN BRAND PROPERTIES, LLC, a Kansas limited liability company,

Plaintiffs Counterclaim Defendants - Appellees,

v.

SIMPLE TIE VENTURES, LP, a limited partnership; DONALD R. WELSH, an individual; THOMAS P. SCURRIA, an individual; JEFFREY B. SOLOMON, an individual; SCHAUM'S RESTCO, LP, a Pennsylvania limited partnership; CROSS RESTCO, LP, a Pennsylvania limited partnership; TANGER RESTCO, LP, a Pennsylvania limited partnership; WILLOW GROVE RESTCO, LP, a Pennsylvania limited partnership; LIMERICK RESTCO, LP, a Pennsylvania limited partnership; RAPHO RESTCO, LP, a Pennsylvania limited partnership; EXETER RESTCO, LP, a Pennsylvania limited partnership; UPLAND RESTCO, LP, a Pennsylvania limited partnership; DRUMORE RESTCO, LP, a Pennsylvania limited partnership; MADK, LP, a Pennsylvania limited partnership; LANCONE, LLC, a Pennsylvania limited liability company; BERKSONE, LLC, a Pennsylvania limited liability company; LANCTWO, LLC, a Pennsylvania limited

No. 20-6120
(D.C. No. 5:20-CV-00183-J)
(W.D. Okla.)

liability company; MONT3, LLC, a Pennsylvania limited liability company; MONT1, LLC, a Pennsylvania limited liability company; LANCFOUR, LLC, a Pennsylvania limited liability company; BERKSTWO, LLC, a Pennsylvania limited liability company; MONT2, LLC, a Pennsylvania limited liability company; LANCTHREE, LLC, a Pennsylvania limited liability company; DJTM, LLC, a Pennsylvania limited liability company; OX RESTCO, LP, a Pennsylvania limited partnership; CHESTONE, LLC, a Pennsylvania limited liability company; MARIBOU, LLC, a Pennsylvania limited liability company,

Defendants Counterclaimants - Appellants,

and

SIMPLE TIE VENTURES, LP; DONALD R. WELSH; THOMAS P. SCURRIA; JEFFREY B. SOLOMON,

Defendants Third-Party Plaintiffs,

v.

SONIC RESTAURANTS, INC.,

Third-Party Defendant.

ORDER

Before **HOLMES**, **BALDOCK**, and **MATHESON**, Circuit Judges.

This interlocutory appeal challenges the grant of a preliminary injunction. After the parties completed their appellate briefing, the district court entered a permanent injunction. We dismiss the appeal as moot.

I. FACTUAL AND PROCEDURAL BACKGROUND

Sonic Industries, LLC and its affiliates (collectively, "Sonic") entered into franchise agreements with Simple Tie Ventures, LP and affiliated entities and individuals (collectively, "STV"). In exchange for operating Sonic restaurant franchises and using Sonic's registered trademarks, STV agreed to maintain quality standards at the franchises and pay royalties and other fees to Sonic. After STV failed to pay royalties and fees, Sonic terminated the agreements. Sonic demanded that STV immediately stop operating the franchises, and Sonic gave STV 30 days to cease holding them out as authorized Sonic franchises.

When STV failed to comply, Sonic sued STV for trademark infringement under the Lanham Act, 15 U.S.C. § 1114, and for related contract claims. Sonic alleged that STV was not authorized to use Sonic's trademarks because the franchise agreements had been terminated.

Sonic moved for a preliminary injunction, which the district court granted. It enjoined STV from using Sonic's marks in connection with the terminated restaurants and from holding out the franchises as authorized Sonic franchises.

STV then filed this interlocutory appeal from the grant of the preliminary injunction, invoking our jurisdiction under 28 U.S.C. § 1292(a)(1). After the parties

submitted their appellate briefs, the district court granted most of Sonic's motion for summary judgment and entered a permanent injunction against STV. *See Sonic Indus. LLC v. Simple Tie Ventures LP*, No. 5:20-cv-0183-J (W.D. Okla. July 12, 2021), ECF No. 136. The terms of the permanent injunction mirror those of the preliminary injunction.

At this court's request, the parties submitted briefs addressing whether the permanent injunction moots this appeal.

II. LEGAL BACKGROUND

A district court may enter a preliminary injunction if "(1) the movant is substantially likely to succeed on the merits; (2) the movant will suffer irreparable injury if the injunction is denied; (3) the movant's threatened injury outweighs the injury the opposing party will suffer under the injunction; and (4) the injunction would not be adverse to the public interest." *Fish v. Kobach*, 840 F.3d 710, 723 (10th Cir. 2016) (quotations and alterations omitted). The standard for a permanent injunction is substantially the same. "The only measurable difference between [the standards for a preliminary and permanent injunction] is that a permanent injunction requires showing actual success on the merits, whereas a preliminary injunction requires showing a substantial likelihood of success on the merits." *Prairie Band Potawatomi Nation v. Wagnon*, 476 F.3d 818, 822 (10th Cir. 2007).

"Generally, an appeal from the grant of a preliminary injunction becomes moot when the trial court enters a permanent injunction, because the former merges into

the latter." *Grupo Mexicano de Desarrollo, S.A. v. All. Bond Fund, Inc.*, 527 U.S. 308, 314 (1999); *see also Smith v. Ill. Bell Tel. Co.*, 270 U.S. 587, 588-89 (1926) (granting a motion to dismiss the appeal "on the ground that the order for the interlocutory injunction had become merged in the final decree").

The purpose of a preliminary injunction is "to enjoin, pending the outcome of the litigation, action that [the plaintiff] claims is unlawful." *Grupo Mexicano*, 527 U.S. at 314. If the "lawsuit turns out to be meritorious—if [the plaintiff] is found to be entitled to the permanent injunction that [it] seeks—even if the preliminary injunction was wrongly issued (because at that stage of the litigation the plaintiff's prospects of winning were not sufficiently clear, or the plaintiff was not suffering irreparable injury) its issuance would in any event be harmless error." *Id.* at 314-15. "The final injunction establishes that the defendant *should not have been engaging in the conduct that was enjoined*" because the conduct was actually unlawful. *Id.* at 315.

III. **DISCUSSION**

Grupo Mexicano is controlling and requires dismissal of this appeal as moot.

On appeal, STV argues in its merits brief that the district court erred in entering the preliminary injunction because Sonic had not shown irreparable injury, that the balance of harms weighed in its favor, or that the preliminary injunction was not adverse to the public interest. But under *Grupo Mexicano*, any error the district court may have committed was "harmless." *See id.*

As the Fourth Circuit recently explained, once a defendant is preliminarily enjoined from infringing on the plaintiff's trademarks, an appeal of the preliminary injunction becomes moot if there is a "final decision by the district court that . . . finds that [the plaintiff's] claims are meritorious." *See Fleet Feet, Inc. v. NIKE, Inc.*, 986 F.3d 458, 465 (4th Cir. 2021). In that situation, the defendant cannot save the appeal from mootness by contesting the district court's preliminary injunction analysis because to do so would be to argue "that it should have been free to" unlawfully infringe on the plaintiff's trademarks while the litigation was pending. *Id.* at 466 (citing *Grupo Mexicano*, 527 U.S. at 314-15).

So too here. The permanent injunction required Sonic to show "actual success on the merits." *Prairie Band Potawatomi Nation*, 476 F.3d at 822. The district court's entry of the permanent injunction was a "final decision" that Sonic's claims were "meritorious" and that STV had been infringing Sonic's marks since the franchise agreements were terminated. *See Fleet Feet*, 986 F.3d at 465.

STV thus cannot argue—based on the district court's alleged errors in finding irreparable injury, weighing the balance of the harms, and finding the preliminary injunction would not be adverse to the public interest—"that it should have been free" to continue operating unauthorized franchises, "*even if* it was infringing" on Sonic's marks. *See id.* at 466.

Because the permanent injunction has superseded the preliminary injunction, we dismiss STV's appeal as moot.[1]

Entered for the Court

CHRISTOPHER M. WOLPERT, Clerk

[1] In *Grupo Mexicano*, the Supreme Court announced an exception to the general rule of mootness when "the substantive validity of the final injunction does *not* establish the substantive validity of the preliminary one." *Grupo Mexicano*, 527 U.S. at 315. That exception does not apply here.

Similarly unhelpful are the cases STV cites to argue the appeal is not moot.

In *Stacey G. v. Pasadena Independent School District*, 695 F.2d 949 (5th Cir. 1983), the Fifth Circuit saved a preliminary injunction appeal from mootness because "the final judgment did not in terms resolve the issue . . . whether preliminary injunctive relief was appropriate to require Pasadena to pay the entire interim costs of Stacey's private schooling prior to the final judgment." *Id.* at 955. The *Grupo Mexicano* exception would apply to *Stacey G.* because the question whether the interim relief was valid was separable from the validity of the final relief. Here, the terms of the permanent injunction continued the terms of the preliminary injunction.

To the extent *Associated General Contractors of Minnesota v. International Union of Operating Engineers Twin City Local No. 49*, 519 F.2d 269 (8th Cir. 1975), *Medtronic, Inc. v. Janss*, 729 F.2d 1395 (11th Cir. 1984), and *International Union, United Automobile, Aerospace and Agricultural Implement Workers of America-UAW v. LaSalle Machine Tool, Inc.*, 696 F.2d 452 (6th Cir. 1982), suggest a different outcome based on the ability of an enjoined party to recover for damages incurred by a wrongfully issued preliminary injunction, those cases, which all predate *Grupo Mexicano*, are unpersuasive.