

Injunctions keep franchisees in line after mid-term exit

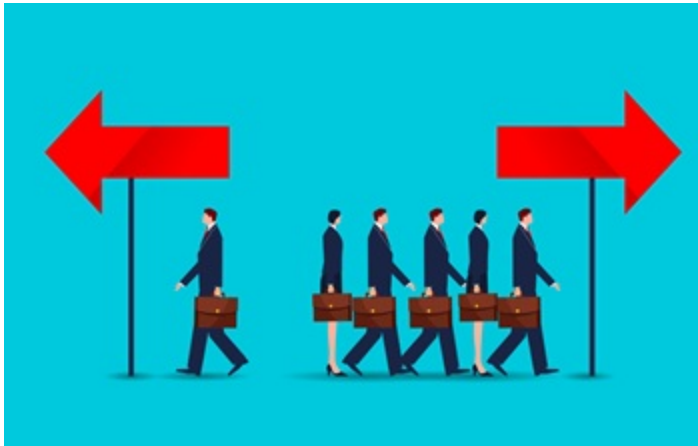
By **Farhad Shekib**

Law360 Canada (July 10, 2026, 10:48 AM EDT) -- When a franchisee walks away mid-term and takes 600 agents with it to a direct competitor, an interlocutory injunction can be the difference between a franchisor's protected system and an open door for every other franchisee to follow.

That was the backdrop in *Keller Williams Realty LLC v. VIP Realty Inc.*, 2025 ONSC 7152, in which the Ontario Superior Court of Justice granted an interlocutory injunction against two former Keller Williams franchisees that had defected to Royal LePage.



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The ruling offers a roadmap for three questions that recur in commercial franchise litigation: (1) how to characterize the injunction sought; (2) what counts as a fundamental breach; and (3) how far in-term non-competes can reach.

The defection

Keller Williams Realty, a Texas-based franchisor operating "market centres" across Ontario, had two of its largest Canadian franchisees — VIP Realty in Ottawa and Associates Realty Solutions in Mississauga — grow from roughly 288 combined agents in 2010 to about 600 by 2025.

In June 2025, with years left on their licence agreements, both franchisees terminated their deals with Keller Williams, rebranded overnight as Royal LePage offices and redirected their old websites to their new pages.

Keller Williams sought an injunction to enforce the agreements' non-competition covenants; the franchisees argued Keller Williams had breached first and forfeited the right to enforce them.

The high bar for a mandatory injunction

The court first had to decide which test applied: the relatively low "serious issue to be tried" standard from *RJR-MacDonald Inc. v. Canada (Attorney General)*, [1994] 1 S.C.R. 311 or the tougher "strong *prima facie* case" standard.

As restoring the status quo would require the franchisees to take affirmative steps, such as unwinding their new Royal LePage operations, Justice Marvin Kurz found the injunction was effectively mandatory. That characterization mattered: mandatory injunctions require the moving party to show a strong *prima facie* case. That is, a strong likelihood on the law and evidence presented that it will succeed at trial.

Dissatisfaction is not repudiation

The franchisees pointed to territorial encroachment, unresolved legal concerns about the business model and a declining brand to justify walking away. The court was unpersuaded.

Both franchisees had grown substantially under the Keller Williams system, expanding their agent counts and buying additional ownership stakes; facts hard to square with a claim that the franchise relationship had become worthless.

The court reiterated that fundamental breach requires depriving a party of substantially the whole benefit of the bargain, not merely underperformance relative to a hypothetical alternative. Franchisees weighing an exit should take note: dissatisfaction, even legitimate dissatisfaction, is rarely enough.

Non-competes hold, especially in-term

The court also rejected challenges to the restrictive covenants on both ambiguity and overbreadth grounds. As the covenants applied only during the life of the agreements, rather than post-termination, they attracted a more favourable review than a typical employment non-compete would.

The court further drew an adverse inference from the franchisees' refusal to produce unredacted copies of their new Royal LePage agreements, reasoning that narrower covenants would likely have been disclosed.

On irreparable harm, the loss of two major franchises to a competitor, along with the risk that other franchisees might conclude covenants can be breached without consequence, tipped the balance decisively toward Keller Williams.

The court was similarly unmoved by the franchisees' argument that an injunction would leave them caught between competing contractual obligations, noting that they had unilaterally created that conflict.

Takeaways for practitioners

The decision offers several practical lessons.

First, how an injunction is framed at the outset can decide the case: relief that requires a defendant to undo what it has already done is likely to be treated as mandatory, triggering the stricter strong *prima facie* standard.

Second, fundamental breach in the franchise context remains a high bar: courts will scrutinize whether the complained-of conduct actually deprived the franchisee of the substance of the bargain, not just whether a better deal was available elsewhere.

Third, in-term non-competes in commercial franchise agreements continue to enjoy considerably more deference from Ontario courts than post-term covenants or employment-based restrictions, particularly where the defecting party benefited from the relationship for years before walking away.

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