Federal Court of Australia

Girchow Enterprises Pty Ltd v Ultimate Franchising Group Pty Ltd [2021] FCA 1579

|  |  |
| --- | --- |
| File number(s): | NSD 395 of 2020 |
|  |  |
| Judgment of: | **THAWLEY J** |
|  |  |
| Date of judgment: | 14 December 2021 |
|  |  |
| Date of publication of reasons: | 12 January 2022 |
|  |  |
| Catchwords: | **PRACTICE AND PROCEDURE –** application for leave to file a notice and statement of cross-claim – order granted – application for interlocutory relief – where the cross-claim seeks relief broadly the same as that sought by the interlocutory application – examination of whether prima facie case sufficient to warrant relief having regard to the balance of convenience – relief granted |
|  |  |
| Cases cited: | *Beecham Group Ltd v Bristol Laboratories Pty Ltd* (1968) 118 CLR 618  *Lian Fa International Dining Business Corporation v Mu* [2021] FCA 1527 |
|  |  |
| Division: | General Division |
|  |  |
| Registry: | New South Wales |
|  |  |
| National Practice Area: | Commercial and Corporations |
|  |  |
| Sub-area: | Commercial Contracts, Banking, Finance and Insurance |
|  |  |
| Number of paragraphs: | 45 |
|  |  |
| Date of hearing: | 13 - 14 December 2021 |
|  |  |
| Counsel for the Applicants: | Dr A Greinke |
|  |  |
| Solicitor for the Applicants: | Lodhia Lawyers |
|  |  |
| Counsel for the Respondents: | Mr D Moujalli |
|  |  |
| Solicitor for the Respondents: | HWL Ebsworth Lawyers |
|  |  |

ORDERS

|  |  |  |
| --- | --- | --- |
|  | | NSD 395 of 2020 |
|  | | |
| BETWEEN: | GIRCHOW ENTERPRISES PTY LTD  First Applicant  KARIM GIRGIS  Second Applicant  SHERIF ELHAMY WADIE GIRGIS (and others named in the Schedule)  Third Applicant | |
| AND: | ULTIMATE FRANCHISING GROUP PTY LTD  First Respondent  MAZEN HAGEMRAD  Second Respondent  SAMER HUSSEINI (and another named in the Schedule)  Third Respondent | |

|  |  |
| --- | --- |
| order made by: | THAWLEY J |
| DATE OF ORDER: | 14 DECEMBER 2021 |

UPON Ultimate Franchising Group Pty Ltd giving the usual undertaking as to damages AND UPON John Price, Samer Husseini and Jim Dimas undertaking to be jointly and severally liable for any amounts Ultimate Franchising Group Pty Ltd might be liable pursuant to the usual undertaking as to damages:

THE COURT ORDERS THAT:

1. Subject to order 10, that by 17 January 2022 (**the Transition Date**) and thereafter until further order of the Court, the Cross-respondents are to utilise the software and electronic system provided by One Fit Stop Holdings Pty Ltd (**the OFS System**) as the required Licensed Software and the approved POS system pursuant to clauses 11.2(r), 11.16(a), 11.16(b) and 11.16(c) of the Franchise Agreements entered into between the Cross-respondent and the Cross-claimant (the **Franchise Agreements**), for the purposes of:
   1. recording the details of any financial information provided by members who are registered by the Cross-respondents while operating as franchisees pursuant to the Franchise Agreements (**Members**); and
   2. any direct debit arrangements for the payment of membership fees by Members.
2. That by the Transition Date the Cross-respondents are to transfer any existing Member records from the Mindbody system to the OFS System and from the Transition Date and thereafter until further order of the Court the Cross-respondents are restrained from utilising the software and services provided by any service provider other than One Fit Stop Holdings Pty Ltd or Fat Zebra Pty Ltd for the purposes of:
   1. recording the details of any financial information provided by Members; and
   2. any direct debit arrangements for the payment of membership fees by Members,

without the prior written consent of the Cross-claimant or further order of the Court.

1. Subject to order 10, that from the Transition Date and thereafter until further order of the Court, the Cross-respondents are, in respect of each Member recorded in the OFS System, to record the category of membership by which that Member was originally registered, and for new Members to record one of the categories of membership specified by the Cross-claimant as being the category of membership for the new Member.
2. Subject to order 10, that from the Transition Date and thereafter until further order of the Court, the Cross-respondents are restrained from recording any Member in the OFS System as “Staff Family Complimentary” if that is not the true position.
3. Subject to order 10, that from the Transition Date and thereafter until further order of the Court, the Cross-respondents are restrained from recording any Member in the OFS System as having a sale value of “$0.00” if that is not the true position.
4. That from the Transition Date and thereafter until further order of the Court, the Cross-respondents are restrained from utilising the mobile phone software application known as “UFC GYM AU” and operated by the entity known as “Mindbody” for the purpose of:
   1. registering, or recognising the registration of, any person as a Member of a UFC Gym operated by any of the applicants;
   2. allowing access by any Member to the premises of a UFC Gym operated by any of the applicants;
   3. allowing or recognising any booking by any Member for any class or group activity conducted on the premises of a UFC Gym operated by any of the applicants; or
   4. publishing, or causing to be published, any information concerning any class or group activity conducted on the premises of a UFC Gym operated by any of the applicants.
5. That by the Transition Date the Cross-respondents are to send by email to each Member for whom they have an email address or mobile phone number (for those Members for whom they do not have an email address) the following:
   1. A message which reads “As a member of UFC Gym, you should only use the UFC Gym app available for download at https://www.ufcgym.com.au/”; and
   2. a hyperlink to the website of the first respondent (ufcgym.com.au) associated with the words “https://www.ufcgym.com.au/”.
6. That the Cross-claimant facilitate the transfer of member information in accordance with the above orders by:
   1. ensuring that the Cross-respondents have such access to the OFS System as required to comply with these orders;
   2. taking reasonable steps to ensure that changes made by the Cross-respondents to the OFS System will not result in email or text notifications to any Members, except in a manner agreed by the parties;
   3. providing reasonable assistance on request for uploading payment details onto the OFS System; and
   4. not charging the Member for any fee for existing Members being transferred from the Mindbody System to the OFS System.
7. For the avoidance of doubt, order 2 does not prevent the Cross-respondents from maintaining a copy of existing Member records on the Mindbody System or by other means and are not required to delete those records.
8. Orders 1, 3, 4 and 5 above are to apply to any new Members registered by the Cross-respondents with immediate effect.
9. The parties have liberty to apply including to extend the Transition Date.
10. By 25 January 2022 the Cross-respondents file and serve a defence to the cross-claim.
11. By 25 January 2022 the Applicants provide to the Respondents a copy of any proposed Amended Originating Application and Amended Statement of Claim.
12. The costs of the interlocutory application be the Cross-claimants/First-respondents costs in the cross-claim.

Note: Entry of orders is dealt with in Rule 39.32 of the *Federal Court Rules 2011*.

REASONS FOR JUDGMENT

(Revised from transcript)

THAWLEY J:

# INTRODUCTION

1. These proceedings were commenced on 3 April 2020 by three franchisees (the **Franchisees**) and individuals associated with those franchisees. The Franchisees are the “Balcatta Franchisee” (the first applicant), the “Blacktown Franchisee” (the fifth applicant) and the “Castle Hill Franchisee” (the eighth applicant).
2. The respondents are the franchisor, Ultimate Franchising Group Pty Ltd (the first respondent, referred to as “**UFC**”), Mr Hagemrad (the second respondent), Mr Husseini (the third respondent) and Membership Services Australia Pty Ltd (the fourth respondent, referred to as “**MSA**”).
3. UFC operates a franchise system for a network of franchise businesses operating personal fitness gyms under the business name “UFC Gym”. There are 11 UFC Gyms in Australia.
4. UFC entered into franchise agreements with the Balcatta Franchisee, the Blacktown Franchisee and the Castle Hill Franchisee at different times in 2017. The terms of the franchise agreements are materially the same.
5. Clause 2.1 of the franchise agreements grant the relevant franchisee the franchise. It provides:

**2.1 Grant**

We grant you, and you accept from us a limited, non-exclusive right and franchise during the Term to:

(a) establish and fit out the Site at the Premises;

(b) operate the Business:

(i) at the Site;

(ii) in strict conformity with our Standards, Policies and Procedures in our Manual and other Notices;

(iii) under the Business Name;

(iv) using the Business System; and

on the basis that you strictly comply with the terms of this Agreement.

1. UFC emphasises that the grant is to “operate the Business” (para (b)) “in strict conformity with our Standards, Policies and Procedures in our Manual and other Notices” (para ((b)(ii)), “using the Business System” (para (b)(iv)).
2. Clause 1.1 provides various definitions, relevant to cl 2.1, which include

**1.1 Definitions**

|  |  |
| --- | --- |
| **Approved Products and Services** | means the range of products and services that we have approved for sale through your Business, including the specified services of providing access to gymnasium equipment and training and the sale of associated merchandise set out in more detail in the Manual from time to time. |
| **Approved Suppliers** | means those suppliers who have been approved by us to supply goods and services to you for use or sale through your Business |
| **Business** | means the business of the provision of Approved Services and Products operated by you:  (a) from the Site constructed in the Premises;  (b) under the Business Name;  (c) using our Business System,  strictly in accordance with the terms of this Agreement |
| **Business System** | means the business system that we have developed and control that enables you to operate a UFC Gym franchised business marketing and selling Approved Products and Services using each of the following:  (a) the Intellectual Property;  (b) the established goodwill and business reputation established in the Intellectual Property;  (c) the Standards for operation of a franchised business contained in the Manual; and  (d) any other innovations, products or services that we may introduce for use by the Network. |

1. Clause 11.2 is headed “Your [Franchisee’s] Obligations”. It includes:

**11.2 Your Obligations**

As well as other Obligations you have in this Agreement, you must throughout the Term:

…

(e) regularly consult with us and comply with our recommendations in relation to the promotion of your Business;

(f) maintain your Business under the direct supervision of the Nominated Operator in accordance with this Agreement;

…

(r) record all of Your Gross Revenue and Net Revenue in the electronic POS system approved by us;

…

1. Clause 11.9 is headed “Approved Suppliers”. It includes:

**11.9 Approved Suppliers**

In relation to the supply of goods and services including (but not limited to) packaging and merchandise:

…

(d) We will approve suppliers as being Approved Suppliers provided they establish to our satisfaction that their goods or services meet our standards for type, brand positioning, blend, quality, reliability, price, terms, delivery and other criteria.

(e) If you believe that any goods or services, including (but not limited to) packaging or merchandise can be sourced more cheaply, efficiently or effectively from a supplier that is not an Approved Supplier, then you may apply to us in writing to have that supplier appointed as an Approved Supplier. We have the right to require, as a condition of our approval that our representatives be permitted to inspect the proposed supplier’s facilities, and that samples from that supplier be delivered, at our option, either to us or to an independent, certified laboratory designated by us for testing. We are not liable for damage to any sample that results from the testing process. You will pay a charge not to exceed the reasonable cost of the inspection and the actual cost of the testing. We may also require as a condition to our approval, that the supplier present satisfactory evidence of insurance, for example, product liability insurance, protecting us and our franchisees against all claims from the use of the item within the Business System. We will notify you of our determination as to suitability within ten (10) days after receipt of all requested information, and completion of inspection and testing. We reserve the right, at our option, to reinspect the facilities and products of any approved supplier and continue to sample the products at the supplier’s expense and to revoke approval upon the supplier's failure to continue to meet our standards and specifications. Please note that we may refuse any application in our absolute discretion.

(f) We will not unreasonably refuse to add a supplier as an Approved Supplier. However you accept that it will be reasonable for us to refuse to add a supplier as an Approved Supplier where we are not reasonably satisfied that the goods or services including (but not limited to) packaging or merchandise are of the requisite suitability, quality, brand positioning or standard or the supplier cannot reliably supply on a continuous or ongoing basis sufficient volumes to satisfy the requirements of franchisees in the Network or we believe it is not in our legitimate commercial interests to add the supplier as an Approved Supplier, including where we believe that the packaging or merchandise are supplied at too high a price or the terms of supply are not as favourable as other suppliers

1. Clause 11.16 is headed “Technology”. It includes:

**11.16 Technology**

You agree to:

(a) purchase or lease the Electronic Equipment, Software, Licensed Software and Databases from the Approved Suppliers or as we reasonably require;

(b) use and maintain only the Electronic Equipment, Software, Licensed Software and Databases we reasonably require and obtain all related assistance or support from Approved Suppliers or as we reasonably require, but not from us;

(c) use electronic POS systems of the type, model and number we approve;

…

(f) give us full modem, computer, electronic, phone, data or other access to the Electronic Equipment, Software, Licensed Software, Databases and any ancillary services including providing us with physical portal access, security codes and phone numbers. We may require you to program your POS systems to automatically transmit to us all data and reports about the operation of your Business. We also have the right to, at any time without notice, electronically connect with your POS system to monitor or retrieve data stored on the POS system or for any other purpose we deem necessary. There are no contractual limitations on our right to access the information and data on your POS system;

…

1. Clause 14 is headed “Intellectual Property”. It includes:

**14.3 Marks**

You agree that:

…

(d) you will not use the Marks with any prefix, suffix, or other modifying words, terms, designs, or symbols (other than logos we have licensed to you);

…

1. The franchisees pay UFC various fees under the Franchise Agreements. These include a “Royalty Fee” and an “Advertising Contribution”. Clause 4.3 provides:

**4.3 Royalty Fee and Advertising Contribution**

You must pay us the Royalty Fee and the Advertising Contribution during the Term for the ongoing right to:

(a) use our Business System; and

(b) operate the Site as part of the Network.

Such fees are payable fortnightly within 2 Business Days of the end of each calendar week (ending at close of business in Sunday) in respect of the Net Revenue, generated in that week or for such other periods and by such other dates as specified by us from time to time.

1. The “Royalty Fee” is 10% of Net Revenue plus GST. The Advertising Contribution depends on the size of the site and is either 1% or 2% of Net Revenue plus GST.
2. During 2018, UFC decided to utilise a management and billing software system known as One Fit Stop (**OFS**) to manage the membership records and payment arrangements for all UFC Gyms, including those operated by the Franchisees. UFC entered into a Master Services Agreement with One Fit Stop Holdings Pty Ltd (**OFS Pty Ltd**), commenced training all UFC Gyms in the use of the OFS system and arranged for those using a different membership database system to “migrate” their member data to OFS.
3. By January 2019, the Franchisees were using OFS, along with all other UFC Gyms (apart from Wetherill Park, whose agreement with Gladstone did not expire until November 2019) as their sole membership record and payment management system. The POS system was integrated with OFS.
4. As mentioned, these proceedings were commenced on 3 April 2020. The Amended Statement of Claim dated 12 June 2020 alleges that certain misleading or deceptive representations were made which induced the relevant people and entities to enter into the franchise arrangements. The individual applicants provided guarantees. It also alleges that from or about 2017, UFC required the Franchisees to pay fees to MSA for membership services. It alleges that MSA is related to some of the respondents and that the MSA fees were not disclosed in any disclosure documents. In the Originating Application, the applicants seek (amongst other things):

3. Declarations to the effect that:

(a) there are no agreements between any of the applicants and the 4th Respondent;

(b) any such agreements are able to be terminated without cause;

(c) the failure or refusal to pay fees to the fifth respondent [sic – 4th Respondent], or the termination of any such agreements with the 4th Respondent would not be in breach of franchise agreements with the applicants; and/or

(d) such ancillary declarations and orders as the Court thinks fit.

4. Orders restraining the first respondent from:

(a) issuing notices in respect of the failure or refusal to pay fees to the 4th Respondent, or the termination of any such agreements with the 4th Respondent;

(b) otherwise taking steps to terminate the franchise agreements.

1. The argument on this application proceeded by reference to a “Membership Agreement” which provides that members agree to pay to MSA: (1) a “$1.65 service fee” in respect of “weekly instalments”; (2) a $10 “failed payment” fee; and (3) a $12 “once off set up fee”. These fees were referred to as the “MSA fees”. No particular loss to the Franchisees was identified in argument from the payment by members of these fees.
2. Paragraphs 81 to 85 of the Amended Statement of Claim plead:

81 Further or alternatively, the MSA fees were:

(a) in substance an additional fee payable to the franchisor;

(b) unreasonable, exorbitant, and out of all proportion of any reasonable cost of providing the purported services; and

(c) a mechanism by which companies associated with the UFG Franchisor, Maz Hagemrad and Sam Husseini, could extract a profit margin at the expense of the Balcatta Franchisee, the Blacktown Franchisee and the Castle Hill Franchisee;

(d) direct debit services that the franchisees would have been able to acquire without MSA as an intermediary, from third party providers.

82 In the above premises, MSA has been unjustly enriched, in the amount of the MSA fees paid, which is ongoing, at the expense of:

(a) the Balcatta Franchisee;

(b) the Blacktown Franchisee; and

(c) the Castle Hill Franchisee.

83 Accordingly, MSA is liable to in restitution to refund the MSA fees so paid.

84 Further or alternatively, by requiring the payment of MSA fees in the circumstances pleaded above, the UFG Franchisor [namely UFC] engaged in conduct towards each of the respondents in relation to their respective franchises:

(a) in contravention of s 18 of the *Australian Consumer Law;*

(b) contrary to the obligation of good faith in s 6 of the *Franchising Code of Conduct*;

(c) accordingly, in contravention of s 51ACB of the *Competition and Consumer Act 2010* (Cth).

85 By reason of the above contraventions, each of the franchisees have suffered and are likely to suffer loss and damage from the payment of the MSA fees.

1. The evidence on this application did not make clear how MSA was enriched at the expense of the Franchisees.
2. In April 2021, the Franchisees’ solicitors notified UFC’s solicitors of the Franchisees’ intention to “take steps to give effect to direct debit arrangements with their members, so that they will from this point forward collect membership fees and pay the Royalty Fee and Advertising Contribution to the UFC franchisor”. The object was “to cease paying any fees to MSA, and to make arrangements for the provision of their own direct debit and membership services”.
3. The Franchisees continued to use the OFS system until October 2021 at which point the Franchisees began to use a new software system, operated by “Mindbody”. Members have been transitioned by the Franchisees into the new Mindbody system. UFC says that the switch from OFS to Mindbody has resulted in substantial disruption, discord and damage to the UFC Gym system. Members have complained about the effect this has had on the ease of exercise of their rights. These rights include, in relation to certain members, the right to use any gym in the network without payment of an additional fee. Members in the “Ultimate” and “Ultimate VIP” categories can use any UFC gym; members in the “Fitness” category cannot. The exercise of these rights is facilitated by the use of a single software system common to all 11 Australian franchises.
4. The Franchisees also commenced using a new mobile phone app, which they have promoted to members. The new app is “powered by” Mindbody. The existing and new apps are used to gain entry to gyms by scanning a QR code and to book classes and for various other matters. The confusion on the part of members was said by UFC to have been exacerbated by the promotion of the new app bearing the UFC Gym trademark and a mark said to contain an addition or alteration to one of the registered marks (said to be in breach of cl 14.3(d) of the franchise agreements). The use of the new app, powered by Mindbody, can also interfere with the smooth exercise by members of their rights to use UFC gyms other than their “home” gym.
5. The Franchisees maintain that they are “at liberty” to take such steps as they see fit to cease any involvement with MSA, to cease paying any fees to MSA and to make arrangements for the provision of their own direct debit and membership services. The evidence did not establish that the Franchisees paid any fees to MSA. As noted earlier, the evidence suggests that it is members who agreed to pay fees to MSA when signing the relevant “Membership Agreement”. UFC contends that the Franchisees are not “at liberty” to cease using the existing OFS software management system being used across the UFC Gym franchise network or to use the new app powered by Mindbody or to appropriate for their own use the trademarks used in the UFC Gym franchise system.
6. By this application, UFC seeks orders to bring about a return to the position which existed immediately before the steps taken by the Franchisees so that the UFC Gym franchise network can function in the way it did when these proceedings were commenced. UFC says that the issues which have motivated the steps taken by the Franchisees have been placed before the Court for determination and the Court will in due course determine those issues. The Franchisees have also engaged the dispute resolution procedure under the franchise agreements. UFC contends that the Franchisees should not have taken the self help remedy they did.
7. UFC also sought an order granting it leave to file a notice and statement of cross-claim. The filing of these documents was not opposed and leave was granted during the hearing of the interlocutory application. By the cross-claim, UFC seeks orders (amongst other things) requiring the Franchisees to use the OFS system and restraining the Franchisees from using other software providers. The cross-claim seeks relief which is broadly the same as that sought by this interlocutory application.

# PRINCIPLES

1. The relevant principles were recently summarised in *Lian Fa International Dining Business Corporation v Mu* [2021] FCA 1527 at [53] to [61] (Thawley J):

53 The legal principles applicable to the grant of interlocutory relief of the kind presently sought were not contentious. There are two main inquiries. As explained by Gummow and Hayne JJ in *Australian Broadcasting Corporation v O’Neill* (2006) 227 CLR 57 at [65] (and see also at [19] per Gleeson CJ and Crennan J), those main inquiries are:

(1) whether the applicant has a prima facie case in the sense of a sufficient likelihood of success to justify the granting of the interlocutory relief which is sought; this does not mean that the applicant must establish that they are more probable than not to succeed at trial; and

(2) whether the inconvenience or injury the applicant would be likely to suffer if an injunction were refused outweighs the injury the respondent would suffer if the injunction were granted.

54 The two main inquiries cannot be conducted independently of each other, because “an apparently strong claim may lead a court more readily to grant an injunction when the balance of convenience is fairly even” and “[a] more doubtful claim (which nevertheless raises ‘a serious question to be tried’) may still attract interlocutory relief if there is a marked balance of convenience in favour of it” – see: *Bullock v The Federated Furnishing Trades Society of Australasia (No 1)* (1985) 5 FCR 464 at 472 per Woodward J (Smithers and Sweeney JJ agreeing at 467 and 469 respectively); *GlaxoSmithKline Australia Pty Ltd v Reckitt Benckiser Healthcare* *(UK) Ltd* [2013] FCAFC 102 at [81(j)]; (2013) 305 ALR 363 (Bennett, Jagot and Griffiths JJ).

55 It is also relevant to inquire whether the applicant will suffer irreparable harm for which damages are not an adequate remedy. This is sometimes expressed as a third requirement, additional to the two main inquiries – see, for example: *Castlemaine Tooheys Ltd v South Australia* (1986) 161 CLR 148 at 153 (Mason ACJ); *O’Neill* at [19] (Gleeson CJ and Crennan J). It is sometimes expressed as a component of the second inquiry, namely where the balance of convenience lies: *Samsung Electronics Co Ltd v Apple Inc* [2011] FCAFC 156; (2011) 217 FCR 238; 286 ALR 257 at [61] (Dowsett, Foster and Yates JJ); *GlaxoSmithKline* at [81(h)].

56 The extent to which the Court will look into the strength of the prima facie case, and how strong the prima facie case must be, depends on the case, in particular the nature of the rights which the applicant asserts and the practical consequences which are likely to flow if the interlocutory order is made: *Beecham Group Ltd v Bristol Laboratories Pty Ltd* (1968) 118 CLR 618 at 622 (Kitto, Taylor, Menzies and Owen JJ); *Kolback Securities Ltd v Epoch Mining NL* (1987) 8 NSWLR 533 at 535-536 (McLelland J); *Samsung* at [71] to [74].

57 If the interlocutory relief sought by Lian Fa is granted, the practical commercial consequence is that Sharetree Australia would need to rebrand and, presumably, seek to require its franchisees to do likewise. The granting of interlocutory relief will have effectively the same consequences, in respect of use of the marks, as the granting of final relief. Lian Fa accepted that the circumstances were such that it needed to establish “a relatively strong case” for relief, referring to *Samsung* at [87].

58 It follows that an assessment of the evidence as a whole must be undertaken in order to determine the strength of the prima facie case. However, it is not the Court’s function to conduct a preliminary trial, nor (at least generally) to resolve conflicts between the parties’ evidence. The Court “does not undertake a preliminary trial, and give or withhold interlocutory relief upon a forecast as to the ultimate result of the case”: *Beecham* at 622.

1. To this summary may be added that, in assessing the balance of convenience, there may be circumstances where it is relevant that a person took a risk with “eyes open”: *Beecham Group Ltd v Bristol Laboratories Pty Ltd* (1968) 118 CLR 618 at 626 (Kitto, Taylor, Menzies and Owen JJ).

# THE INTERLOCUTORY APPLICATION

1. The relief sought in the Amended Interlocutory Application included:

3. That the first, fifth and eighth applicants are to utilise the software and electronic system provided by One Fit Stop Holdings Pty Ltd (the **OFS System**) as the required Licensed Software and the approved POS system pursuant to clauses 11.2(r), 11.16(a), 11.16(b) and 11.16(c) of the Franchise Agreements entered into between the first, fifth and eighth applicants and the first respondent (the **Franchise Agreements**), for the purposes of:

(a) recording the details of any financial information provided by members who are registered by the first, fifth and eighth applicants while operating as franchisees pursuant to the Franchise Agreements (**Members**); and

(b) any direct debit arrangements for the payment of membership fees by Members.

4. That the first, fifth and eighth applicants are restrained from utilising the software and services provided by any service provider other than One Fit Stop Holdings Pty Ltd or Fat Zebra Pty Ltd for the purposes of:

(a) recording the details of any financial information provided by Members; and

(b) any direct debit arrangements for the payment of membership fees by Members.

without the prior written consent of the first respondent or further order of the Court.

5. That the first, fifth and eighth applicants are, in respect of each Member recorded in the OFS System, to record one of the categories of membership specified by the first respondent as being the category of membership for the Member.

6. That the first, fifth and eighth applicants are restrained from recording any Member in the OFS System as “Staff Family Complimentary” if that is not the true position.

7. That the first, fifth and eighth applicants are restrained from recording any Member in the OFS System as having a sale value of “$0.00” if that is not the true position.

8. That the first, fifth and eighth applicants are restrained from utilising the mobile phone software application known as “UFC GYM AU” and operated by the entity known as “Mindbody” for the purpose of:

(a) registering, or recognising the registration of, any person as a Member of a UFC Gym operated by any of the applicants;

(b) allowing access by any Member to the premises of a UFC Gym operated by any of the applicants;

(c) allowing or recognising any booking by any Member for any class or group activity conducted on the premises of a UFC Gym operated by any of the applicants; or

(d) publishing, or causing to be published, any information concerning any class or group activity conducted on the premises of a UFC Gym operated by any of the applicants.

9. That the first, fifth and eighth applicants are to send by email and mobile phone text message to each Member for whom they have an email address or mobile phone number (and for those Members for whom they have both, by both means) the following:

(a) A message which reads “As a member of UFC Gym, you should only use the UFC Gym app available for download at https://www.ufcgym.com.au/”; and

(b) a hyperlink to the website of the first respondent (ufcgym.com.au) associated with the words “https://www.ufcgym.com.au/”.

1. At the hearing, the Franchisees’ position was that they had little difficulty with agreeing to the substance of Orders 5 to 9 which UFC sought. The Franchisees raised various issues with respect to the form of those orders, including with the time for compliance and the absence of a requirement for reasonable co-operation from UFC. The Franchisees also noted that they had already undertaken to cease using the new app. Whilst this undertaking was given, the evidence also indicated that the new app was still operational in at least certain respects.
2. The real difficulty which the Franchisees had was with Orders 3 and 4 to the extent that those orders would require the members who had been migrated to Mindbody to be migrated back to OFS. There was no real difficulty on the part of the Franchisees with not using Mindbody for future members pending the hearing.

# CONSIDERATION

## Prima facie case

1. UFC contended it had a prima facie case with respect to three matters: first, that it was a breach of the franchise agreements to cease using the OFS system and to commence using Mindbody; secondly, that it was a breach of the franchise agreements to develop and use an unauthorised mobile telephone app; and thirdly, that the use of UFC’s marks (or modifications of them) in the new app constituted breaches of cl 14.3(d) and cl 2.2(b) of the franchise agreements.
2. The Franchisees accepted that UFC had established a prima facie case with respect to the first two matters. The parties accepted it was not necessary to reach a concluded view about whether there was a prima facie case in respect of the third matter.

## Balance of Convenience

1. UFC gave the usual undertaking as to damages and this undertaking was supported by undertakings from its directors. The Franchisees submitted, by reference to financial statements of UFC, that there was considerable doubt about UFC’s capacity to meet any claim for damages. As will be discussed further, no potential claim for substantial damages was identified. In the circumstances, UFC’s undertaking, supported by the undertakings of its directors, is satisfactory.
2. The balance of convenience favours granting the interlocutory relief sought. This will have the effect of restoring the position which existed at the commencement of these proceedings and before the use of the Mindbody software system and the new app.
3. I do not accept the Franchisees’ submission that interlocutory relief should be refused on the basis that it grants the final relief which UFC seeks by its cross-claim. It is the practical consequences which matter: *Lian Fa* at [56]. Practically, the granting of the relief will restore the status quo ante pending determination of the dispute between the parties. The Franchisees will not be permanently prevented from using their own software system or a new app by the grant of interlocutory relief. They will only be prevented from so doing until further order or until the dispute between the parties in these proceedings is heard and determined.
4. The Franchisees did not identify any real loss or damage which would result to them as a result of the granting of the relief apart from the administrative costs of migrating the members back to the OFS system. There was no evidence about what this administrative cost might be or suggestion that it might involve steps which could not be absorbed into existing business operations and carried out by existing staff. To the extent there is administrative expense for the Franchisees in migrating members back to OFS from Mindbody, the migration of the members from the OFS system into the Mindbody system was a step taken voluntarily, likely with knowledge that the entitlement to do it would be challenged – see: [27] above. Notwithstanding the Franchisees’ pleadings which appear to contemplate otherwise, it is the members who apparently pay fees to MSA, not the Franchisees. Those members make no claim concerning the MSA fees which those members agreed to paying when becoming a member. Even if the MSA fees are paid through the Franchisees as an intermediary, as was suggested to be a possibility in the Franchisees’ submissions, there is no apparent loss to the Franchisees.
5. Until the more recent events in October 2021, the 11 Australian UFC gyms operated in the same way as each other so far as concerned their system software. The more recent events have caused some confusion and disappointment amongst a small number of members. An example can be given by reference to a person who registered at the Blacktown UFC Gym but was unable to gain access to the Parramatta UFC Gym. The member complained that he had been misled in being told “You can use any club in Australia”. A representative of the Blacktown Franchisee responded to him that it was now necessary for members to be “set up on the second system” if they were to have access to all UFC Gyms. He stated to the member:

With regards to the incorrect systems, several franchise clubs are in the midst of a major legal dispute against the franchisor for misrepresentations which has meant that a parallel system is in place.

1. The member concludes the email correspondence by saying:

… please just cancel my membership. As I don’t have time to be denied entry into a gym I thought I had a membership to.

1. The number of complaints, however, is limited so far as is disclosed by the evidence on this application.
2. UFC has not been able to obtain the information it wants from the Mindbody system to which it has now been granted read only access. Previously it had full “visibility” through the OFS system of the business operations of each of the 11 Australian franchisees. This information was used for various purposes, including advertising for the benefit of all of the franchises and making business decisions, for example promotions to members or potential members. The transition to Mindbody has also made it difficult for UFC, and perhaps other franchisees in the network, to determine readily whether certain members are current financial members or the membership category to which the member belongs.
3. Further, UFC cannot determine the Franchisees’ correct amount of royalty as a percentage of their revenue in accordance with the Franchise Agreement as it had with the OFS system.
4. The difficulties and concerns are compounded by changes which have been made to data in the OFS system. For example, in relation to members whose “home” gym is Balcatta, the OFS system now contains 773 members in a special category of membership not available to the public, namely “Staff Family Complimentary”. Before 10 October 2021, there were 79 members in this category. This membership provides access to all UFC Gym locations and was intended to be available to staff only. In relation to Blacktown and Castle Hill, certain members were “deactivated” in the OFS and then “reactivated” but at a sale value of $0.00. Blacktown has 101 members who have been reactivated in this way and Castle Hill has 51 such members. There may well be an explanation for all of this, for example, a perceived convenient method of avoiding direct debits to members via the OFS system when those members are now being charged through the Mindbody system. Nevertheless, the consequence is that the uniform business system which the franchise agreements arguably contemplate in order to advance the interests of all of the Australian franchisees as a whole is to some extent compromised.
5. The Franchisees submitted on this application that the changes were made in October 2021 because of various concerns. A major concern, if not the major concern, was that the OFS system “ought to be operated by the Franchisees having full access and control over their own club and members and direct debit arrangements, with the UFC Franchisor having limited ‘read only’ access to membership and POS information”. There was no evidence to suggest that this was a concern or complaint which had been made earlier than October 2021. In any event, the real question is the contractual arrangements between the parties and the legal consequences of their conduct, not whether – after the arrangements have been agreed and put into place – the Franchisees take the view that their commercial or other interests might be better served by different arrangements.

# CONCLUSION

1. Noting the undertakings which UFC and its directors have agreed to give, and having regard to the matters referred to earlier in connection with the prima facie case, and the various considerations just referred to on the issue of balance of convenience, it is preferable to restore the status quo ante until final hearing.
2. Accordingly, the Court will grant the interlocutory relief broadly in the form sought.

|  |
| --- |
| I certify that the preceding forty-five (45) numbered paragraphs are a true copy of the Reasons for Judgment of the Honourable Justice Thawley. |

Associate:

Dated: 12 January 2022

SCHEDULE OF PARTIES

|  |  |
| --- | --- |
|  | NSD 395 of 2020 |
| Applicants |  |
| Fourth Applicant: | PAUL CHAU |
| Fifth Applicant: | ACTIV HEALTH CLUBS PTY LTD |
| Sixth Applicant: | RICHARD KIM |
| Eighth Applicant: | ADVANCED CLUB MANAGEMENT PTY LTD |
| Ninth Applicant: | LAZIZ MIRDJONOV |
| Respondents |  |
| Fourth Respondent: | MEMBERSHIP SERVICES AUSTRALIA PTY LTD |