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eBay at Six Months: Four-Factor Confusion

by Jim Sherwood

Six months ago, the Supreme Court handed down its opinion in *eBay v. MercExchange*, 126 S.Ct. 1837 (U.S. 2006), reversing the Federal Circuit's general rule that injunctions should issue in patent infringement cases absent exceptional circumstances. The Court stated that injunctions should only issue after a plaintiff has shown each factor of the traditional four-factor test.

“ A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. ”

Id. at 1839. The Court, however, did not provide much guidance for how district courts should apply this test. Although the Court's recitation of the test appears to provide a clear statement for a framework that district courts can apply when determining whether to issue injunctions, for several reasons, the result has mainly been confusion among district courts.

First, the Court failed to definitively answer whether the first factor, irreparable harm, should be presumed after a showing of infringement. District courts have split on this question. The first case to apply the *eBay* four-factor test, *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006), held that eBay did away with the presumption of irreparable harm. Several other district courts followed this lead, but in *Christiana Industries v. Empire Electronics*, 443 F. Supp. 2d. 870 (E.D. Mich. 2006), the district court rejected

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this interpretation of eBay when it issued a preliminary injunction. Likewise, in *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, 452 F.3d 1331 (Fed. Cir. 2006), the Federal Circuit appeared to imply that the presumption survived eBay. The court denied Abbott's motion for a preliminary injunction because Abbott had "not established a likelihood of success on the merits." The court continued, "As a result Abbott is no longer entitled to a presumption of irreparable harm." Although the court ruled that Abbott was not entitled to the presumption, it seemed to suggest that had Abbott shown a likelihood of success, it would have been entitled to the presumption despite eBay. See Posting of Dennis Crouch, <http://patentlaw.typepad.com/> (Aug. 20, 2006). All told, the Supreme Court failed to squarely address the validity of the presumption in eBay, and as a result, courts have read eBay inconsistently.

Second, the Court has created confusion on how to apply the first two factors. In fact, it seems that the Court failed even to state correctly the first two factors. In *Canadian Lumber Trade Alliance v. United States*, 441 F. Supp. 2d 1259 (Ct. Int'l Trade 2006), Judge Pogue, writing for the Court of International Trade, astutely noted, "Although stated as two separate prongs by the Court in eBay, whether something is 'irreparable' requires, to a certain extent, a lack of alternative remedies. . . . Under traditional principles of equity, 'irreparable injury is not an independent requirement for obtaining a permanent injunction; it is only one basis for showing the inadequacy of a legal remedy." *Id.* at 1264 n.4 (citations omitted). Judge Pogue has ample support for his observation. Black's Law Dictionary defines irreparable injury as, "[a]n injury that cannot be adequately measured or compensated by money and is therefore often considered remediable by injunction." BLACK'S LAW DICTIONARY 801 (8th ed. 2004); see also DOUGLAS LAYCOCK, THE DEATH OF THE IRREPARABLE INJURY RULE 4 (1991) ("[E]quitable remedies are unavailable if legal remedies will adequately repair the harm.").

Oddly, when laying out the four-factor test, the eBay Court even cited a case that suggests a different set of factors. See *Amoco Production Co. v. Village of Gambell*, 481 U.S. 531, 546 n.12 (1987) ("The standard for a preliminary injunction is essentially the same as for a permanent injunction with the exception that the plaintiff must show a likelihood of success on the merits rather than actual success."). Thus, it seems that the first two factors should be (1) actual success on the merits and (2) inadequacy of a legal remedy. This quirk in the Court's opinion has not been without effect. In *KEG Technologies, Inc. v. Laimer*, 436 F. Supp. 2d 1364 (N.D. Ga. 2006), the district court declared that even though the first factor (irreparable harm) had been shown, the plaintiff had not shown the second factor (inadequacy of damages). The court allowed the plaintiff time to prepare for an evidentiary hearing because the eBay opinion was handed down on the same day the judge in KEG was asked to issue an injunction. But the question remains, what kind of irreparable harm can be remedied by damages? (Answer: the reparable kind.)

Third, the Court failed to provide guidance on how courts should consider the public interest in protecting patents. For instance, the Eastern District of Texas's application of the public interest factor in two cases has shown how the test lacks rigidity. Judge Folsom in *Tivo, Inc. v. EchoStar Communications Corp.*, 446 F. Supp. 2d 664 (E.D. Tex.), granted the plaintiff an injunction,

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stating that “[t]he public has an interest in maintaining a strong patent system.” Only the day before, however, Judge Folsom stated in *Paice LLC v. Toyota Motor Corp.*, No. 2:04 Civ. 211-DF, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006), that even though “there is a long recognized public interest in enforcing patent rights . . . [r]elief in non-injunctive form also serves this public interest.” Judge Folsom’s opinion shows how, without clear direction, the four-factor test can break down in to a result-oriented test, in which the judge decides whether to issue an injunction, then fills in the four-factor test with convenient quotes from conflicting case law. Similar confusion has resulted on the question of how to deal with future infringement. For instance, in *Telequip Corp. v. The Change Exchange*, No. 5:01 Civ. 1748, 2006 WL 2385425 (N.D.N.Y Aug. 15, 2006), the district court held that “monetary damages are not an adequate remedy against future infringement because the principal value of a patent is its statutory right to exclude.” (citations omitted). In *Voda v. Cordis, Corp.*, No. 03-1512, 2006 WL 2570614 (W.D. Okla.), however, the court issued a compulsory license to remedy future infringement.

All told, the courts are scattered in their applications of *eBay*’s four-factor test. In an upcoming post, I will propose a more concrete version of the four-factor test for courts to apply.

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professays :: 2/07/07 at 9:35 am

I suppose patents still protect the intellectual property.
