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**PROVING IRREPARABLE HARM -- HAVE THE STANDARDS  
CHANGED?**

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## I. INTRODUCTION<sup>1</sup>

Requests for injunctive relief are commonplace in franchise litigation, particularly to enjoin a franchisee's post-termination use of the franchisor's trademarks or trade secrets. While the equitable principles guiding injunctive relief are familiar to most franchise lawyers, two recent Supreme Court cases, *eBay Inc. v. MercExchange, L.L.C.*<sup>2</sup> and *Winter v. Natural Resources Defense Council, Inc.*,<sup>3</sup> may have changed these standards and could have a substantial impact on the future of requests for injunctive relief in franchise litigation.

Irreparable harm is the *sine qua non* of injunctive relief -- a showing of a likelihood of irreparable harm in the absence of an injunction is a critical factor in the injunction analysis, without which a court will not issue an injunction. Historically, irreparable harm has been presumed in intellectual property infringement cases once a likelihood of success on the merits was established. However, it is unclear whether this long-standing presumption remains viable after the Supreme Court's decisions in *eBay* and *Winter*.

This article will discuss the development of the presumption of irreparable harm in intellectual property infringement litigation, followed by the background of *eBay* and *Winter* and a survey of how the circuits have applied these decisions to the presumption of irreparable harm in recent intellectual property infringement and franchise cases. Finally, this article will discuss what this means for future requests for injunctive relief from the perspectives of both franchisors and franchisees.

## II. GENERAL BACKGROUND

### A. The Basics

An injunction is an equitable remedy "by which a court tells someone what to do or not to do."<sup>4</sup> It is "never awarded as of right."<sup>5</sup> Rather, whether an injunction is warranted is subject to

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<sup>1</sup> The authors would like to thank Amy Spivey, University of California, Hastings College of the Law, for her substantial contributions to this article.

<sup>2</sup> 547 U.S. 338 (2006).

<sup>3</sup> 555 U.S. 7 (2008).

<sup>4</sup> *Nken v. Holder*, 556 U.S. 418, 428 (2009).

<sup>5</sup> *Winter*, 555 U.S. at 24.

the discretion of the court guided by traditional principles of equity.<sup>6</sup> The touchstone for injunctive relief “has always been irreparable injury and the absence of legal remedies.”<sup>7</sup>

## **B. Brief Overview of Relevant Factors**

In *Winter v. Natural Resources Defense Council, Inc.*, the Supreme Court recently re-confirmed the traditional four-factor test that a federal court must employ for purposes of determining whether injunctive relief is warranted.<sup>8</sup> In order to obtain a preliminary injunction, a plaintiff “must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.”<sup>9</sup> The standard for a permanent injunction is essentially the same as for a preliminary injunction, except that the plaintiff must actually succeed on the merits rather than show a likelihood of success.<sup>10</sup>

### **1. Likelihood of Success on the Merits**

In order to obtain a preliminary injunction, a plaintiff must first prove that he is “*likely* to succeed on the merits.”<sup>11</sup> Courts have recast the “likely to succeed” factor in a variety of ways, including requiring a plaintiff to demonstrate that there is a “reasonable certainty” or “strong probability” that he will prevail on the merits or that there is a “reasonable probability of success.”<sup>12</sup> While courts differ on their exact formulations of what is required to “succeed on the merits,” they agree that a plaintiff must at least present a *prima facie* case to satisfy this factor.<sup>13</sup>

### **2. Irreparable Harm**

The second factor that a plaintiff must establish is that he is *likely* to suffer irreparable harm in the absence of an injunction. “Speculative injury is not sufficient; there must be more

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<sup>6</sup> *Inland Steel Co. v. United States*, 306 U.S. 153, 156 (1939); *Deckert v. Independence Shares Corp.*, 311 U.S. 282, 290 (1940).

<sup>7</sup> *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312 (1982).

<sup>8</sup> *Winter*, 555 U.S. at 20.

<sup>9</sup> *Id.*

<sup>10</sup> *Amoco Prod. Co. v. Gambell*, 480 U.S. 531, 539 (1987).

<sup>11</sup> *Winter*, 555 U.S. at 20. (emphasis added).

<sup>12</sup> 11A CHARLES ALAN WRIGHT, ARTHUR R. MILLER & MARY KAY KANE, FED. PRAC. & PROC. CIV. § 2948.3, at 184-88 n. 2 (2d ed.) [hereinafter WRIGHT & MILLER].

<sup>13</sup> *Id.*

than an unfounded fear on the part of the applicant.”<sup>14</sup> In *Winter*, the Court reiterated the general standard and held that a “*mere possibility*” of irreparable harm is insufficient to warrant a preliminary injunction.<sup>15</sup> “Issuing a preliminary injunction based only on a possibility of irreparable harm is inconsistent with [the] characterization of injunctive relief as an extraordinary remedy that may only be awarded upon a clear showing that the plaintiff is entitled to such relief.”<sup>16</sup>

In the aftermath of *Winter*, there has been much confusion whether the “sliding scale” approach—which allows courts to adjust the required showing of the likelihood of success and irreparable harm factors, with a stronger showing of one compensating for a weaker showing of another factor—adopted by many circuits remains appropriate.<sup>17</sup> The Second, Seventh and Ninth Circuits have continued to apply the sliding scale test after *Winter*,<sup>18</sup> while the Fourth Circuit has expressly rejected this approach.<sup>19</sup>

### 3. **Balance of Equities**

A court must also balance the equities of the case. This involves balancing the harm to the defendant if an injunction is granted with the harm to plaintiff if an injunction is denied.<sup>20</sup> The balance of the equities must tip in favor of the plaintiff for a court to award injunctive relief.

### 4. **Public Interest**

Finally, a court must consider the effect, if any, on the public if the injunction is granted or denied.<sup>21</sup> In so doing, courts weigh any policy considerations involved in issuing or denying

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<sup>14</sup> 11A WRIGHT & MILLER, § 2948.1, at 153-54.

<sup>15</sup> *Winter*, 555 U.S. at 22 (emphasis added).

<sup>16</sup> *Id.* (citing *Mazurek v. Armstrong*, 520 U.S. 968, 972 (1997) (*per curiam*)). Thus, the Supreme Court rejected the so-called “alternative test” utilized in the Second, Seventh, Eighth and Ninth Circuits, which permitted the issuance of a preliminary injunction upon a lesser showing of harm (*i.e.*, a “mere possibility” of irreparable harm).

<sup>17</sup> Adding to the uncertainty is Justice Ginsberg’s statement in her dissent that “[t]his Court has never rejected [the sliding scale approach], and I do not believe it does so today.” *Winter*, 555 U.S. at 51 (2008).

<sup>18</sup> See *Alliance for the Wild Rockies v. Cottrell*, 632 F.3d 1127, 1131-32 (9th Cir. 2011); *Judge v. Quinn*, 612 F.3d 537, 546 (7th Cir. 2010); *Citigroup Global Mkts., Inc. v. VCG Special Opportunities Master Fund Ltd.*, 598 F.3d 30, 34 (2d Cir. 2010).

<sup>19</sup> *Real Truth About Obama, Inc. v. Fed. Election Comm’n*, 575 F.3d 342, 346 (4th Cir. 2009), *cert. granted, judgment vacated*, 130 S. Ct. 2371 (2010), and *adhered to in part sub nom.*, 607 F.3d 355 (4th Cir. 2010).

<sup>20</sup> *Amoco Prod. Co.*, 480 U.S. at 542 (“[A] court must balance the competing claims of injury and must consider the effect on each party of the granting or withholding of the requested relief.”).

<sup>21</sup> *Winter*, 555 U.S. at 376-77 (citing *Weinberger*, 456 U.S. at 312 (1982)) (“In exercising their sound discretion, courts of equity should pay particular regard for the public consequences in employing the extraordinary remedy of injunction.”).

an injunction. A court may deny an injunction because the public interest would be unduly burdened if the injunction was issued.<sup>22</sup> Courts can also consider the impact that issuing or denying an injunction may pose on any third parties.<sup>23</sup>

### III. PRESUMPTION OF IRREPARABLE HARM IN TRADEMARK AND OTHER IP CASES

#### A. Advent of the Presumption

Courts have long recognized a presumption of irreparable harm to one degree or another in trademark, trade secret, copyright and patent cases. The presumption has varying beginnings, but generally arose because the perceived harms caused by the infringement are intangible in nature or seem to flow naturally from the infringement.

#### 1. Trademark

Since at least the 1960s, courts have opined that trademark infringement resulted in irreparable harm because monetary relief cannot compensate for customer confusion.<sup>24</sup> Thus, as one district court noted, irreparable harm “ordinarily follows when a likelihood of confusion or possible risk to reputation appears” because money damages are difficult to prove and the harm results in “impairment of intangible values” that cannot be undone, “such as the strength of plaintiff’s mark and its reputation and goodwill.”<sup>25</sup>

A 1977 decision from the Northern District of New York appears to be the first case that specifically articulated a “presumption of irreparable harm” in the context of a motion to enjoin trademark infringement.<sup>26</sup> After first reciting the general standard for a preliminary injunction, the court went on to state that in cases involving trademark infringement a “likelihood of irreparable injury can often be presumed.”<sup>27</sup> As support for this pronouncement, the court relied on a case involving copyright infringement.<sup>28</sup> Other courts soon embraced the presumption in

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<sup>22</sup> *Yakus v. United States*, 321 U.S. 414, 441 (1944) (“Courts of equity may, and frequently do, go much further both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved.”).

<sup>23</sup> *Stormans, Inc. v. Selecky*, 586 F.3d 1109, 1138-39 (9th Cir. 2009); *Girl Scouts of Manitou Council, Inc. v. Girl Scouts of the U.S. of Am., Inc.*, 549 F.3d 1079, 1086 (7th Cir. 2008); *N.L.R.B. v. P\*F\*E Nationwide, Inc.*, 894 F.2d 887, 893 (7th Cir. 1990).

<sup>24</sup> See, e.g., *Carling Brewing Co. v. Phillip Morris, Inc.*, 277 F. Supp. 326, 335 (N.D. Ga. 1967) (“infringement of a trademark is, by its very nature, an activity which causes irreparable harm—irreparable in the sense that no final decree of a court can adequately compensate a plaintiff for the confusion that has already occurred.”).

<sup>25</sup> *Koppers Co., Inc. v. Krupp-Koppers (GmbH)*, 517 F. Supp. 836, 849-50 (W.D. Penn. 1981).

<sup>26</sup> *Menley & James Labs. Ltd. v. Approved Pharm. Corp.*, 438 F. Supp. 1061, 1065 (N.D.N.Y. 1977).

<sup>27</sup> *Id.*

<sup>28</sup> *Id.* at 1066 (citing *Wainright Sec., Inc. v. Wall St. Transcript Corp.*, 558 F.2d 91 (2d Cir. 1977)).

trademark infringement cases, with at least one subsequent case relying on a copyright infringement case as support for the presumption.<sup>29</sup>

In *Southern Monorail Co. v. Robbins & Myers, Inc.*, the Fifth Circuit addressed the seeming lack of authority for a presumption of harm in trademark infringement cases.<sup>30</sup> The court cited several district court cases that had adopted a presumption of irreparable harm, but noted that no Fifth Circuit case had expressly adopted a presumption of irreparable harm.<sup>31</sup> The court disposed of the case on other grounds, and therefore did not decide whether a presumption of irreparable harm is warranted in a trademark infringement case.<sup>32</sup> Notwithstanding, courts continued to apply the presumption. Other circuits addressed the issue in the 1980s as well, almost universally holding that there was presumption of irreparable harm in trademark infringement cases once a plaintiff established a likelihood of success on the merits.<sup>33</sup>

## 2. Trade Secret

Courts have not uniformly adopted a presumption of irreparable harm in trade secret cases. The Third Circuit, for example, expressly rejected a presumption of irreparable harm in *Campbell Soup Co. v. ConAgra, Inc.*<sup>34</sup> Some district courts in the Ninth Circuit have also rejected the presumption, citing *Campbell Soup* and its progeny as authority.<sup>35</sup>

Courts recognizing the presumption in trade secret cases have provided a variety of rationales for the presumption. At least one district court in the Ninth Circuit found that irreparable harm was presumed when a defendant violates a statute that provides for injunctive

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<sup>29</sup> See, e.g., *Rodeo Collection, Ltd. v. W. Seventh*, 812 F.2d 1215, 1220 (9th Cir. 1987) (recognizing a presumption of irreparable harm in cases involving trademark infringement, but citing a copyright case as authority).

<sup>30</sup> *S. Monorail Co. v. Robbins & Myers, Inc.*, 666 F.2d 185, 187-88 (5th Cir. 1982).

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> See, e.g., *Maxim's Ltd. v. Badonsky*, 772 F.2d 388, 392 (7th Cir. 1985) (“Maxim's Limited argues that in a [trademark infringement case], irreparable injury is assumed. . . . [W]e agree that there is such a presumption. . . .”); *Church of Scientology Int'l v. Elmira Mission of the Church of Scientology*, 794 F.2d 38, 41-42 (2d Cir. 1986) (“For many years we have consistently held that a preliminary injunction should usually issue when the use of a mark creates a likelihood of confusion in the consumers' minds as to the ownership or sponsorship of a product. Our cases clearly say that establishing a high probability of confusion as to sponsorship almost inevitably establishes irreparable harm. . . . When in the licensing context unlawful use and consumer confusion have been demonstrated, a finding of irreparable harm is automatic.”); *Rodeo Collection, Ltd.*, 812 F.2d at 1220 (recognizing a presumption of irreparable harm, but citing a copyright case as authority).

<sup>34</sup> 977 F.2d 86, 92 (3d Cir. 1992).

<sup>35</sup> See, e.g., *Pac. Aerospace & Elecs., Inc. v. Taylor*, 295 F. Supp. 2d 1188, 1198 (E.D. Wash. 2003); *Symantec Corp. v. McAfee Assocs., Inc.*, No. C-97-20367-JF(EAI), 1998 WL 740798, at \*2 n.6 (N.D. Ca. June 9, 1998).

relief, such as the Uniform Trade Secret Act.<sup>36</sup> A state court in Florida recognized a presumption on the basis that misappropriation and ongoing use of a trade secret are continuing torts, and the prevention of continuing wrongs and of numerous suits are both recognized bases for injunctive relief.<sup>37</sup> Another Florida state court recently applied the presumption based on a statute which specifically provided for a presumption of irreparable harm in cases involving a violation of a contract restricting disclosure of trade secrets.<sup>38</sup> District courts in the Second Circuit have presumed irreparable harm, concluding that “the loss of trade secrets cannot be measured in money damages,” because a trade secret is “lost forever” once it is lost.<sup>39</sup> District courts in other circuits have applied the same reasoning.<sup>40</sup>

### 3. Copyright

A presumption of irreparable harm in the context of copyright infringement first surfaced in the Second Circuit’s 1968 decision in *American Metropolitan Enterprises of N.Y. v. Warner Bros. Records, Inc.*<sup>41</sup> Other circuits gradually adopted a presumption of irreparable harm in copyright infringement cases over the next few years, but the Fifth Circuit expressly declined to accept the presumption.<sup>42</sup> Although *American Metropolitan* provided no reasoning for embracing the presumption, the usual rationale given for the presumption is based on the intangible nature of a copyright and the inherent difficulty in calculating damages for

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<sup>36</sup> *Earthwise Techs., Inc. v. Comfort Living, LLC*, No. C09-5266BHS, 2009 WL 2486159, at \*8 (W.D. Wa. Aug. 12, 2009) (citing Uniform Trade Secrets Act, Wash. Rev. Code Ann. § 19.108.020).

<sup>37</sup> *Dotolo v. Schouten*, 426 So. 2d 1013, 1015 (Fla. Dist. Ct. App. 1983).

<sup>38</sup> *Hilb Rogal & Hobbs of Fla., Inc. v. Grimmell*, 48 So. 3d 957, 959 (Fla. Dist. Ct. App. 2010) (citing Fla. Stat. Ann. § 542.335).

<sup>39</sup> See, e.g., *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 628 (E.D.N.Y. 1996) (citing *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 63 (2d Cir.1984)); *Norbrook Labs. Ltd. v. G.C. Hanford Mfg. Co.*, 297 F. Supp. 2d 463, 492 (N.D.N.Y. 2003) *aff’d*, 126 F. App’x 507 (2d Cir. 2005).

<sup>40</sup> See, e.g., *Verizon Commc’ns Inc. v. Pizzirani*, 462 F. Supp. 2d 648, 658 (E.D. Pa. 2006); *PepsiCo, Inc. v. Redmond*, No. 94 C 6838, 1996 WL 3965, at \*30 (N.D. Ill. Jan. 2, 1996); *Barr-Mullin, Inc. v. Browning*, 424 S.E.2d 226, 230 (N.C. 1993).

<sup>41</sup> 389 F.2d 903, 905 (2d Cir. 1968).

<sup>42</sup> See *Atari, Inc. v. N. Am. Philips Consumer Elecs. Corp.*, 672 F.2d 607, 620 (7th Cir. 1982); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1253 (3d Cir. 1983); *Apple Computer, Inc. v. Formula Int’l Inc.*, 725 F.2d 521, 525-26 (9th Cir. 1984); *W. Publ’g Co. v. Mead Data Cent., Inc.*, 799 F.2d 1219, 1229 (8th Cir. 1986); *Concrete Mach. Co., Inc. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 611-12 (1st Cir. 1988); *Forry, Inc. v. Neundorfer, Inc.*, 837 F.2d 259, 267 (6th Cir. 1988); *Serv. & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680, 692 (4th Cir. 1992); *Country Kids 'N City Slicks, Inc. v. Sheen*, 77 F.3d 1280, 1288-89 (10th Cir. 1996); *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1276 (11th Cir. 2001); but see, *Plains Cotton Coop. Ass’n of Lubbock, Tex. v. Goodpasture Computer Serv., Inc.*, 807 F.2d 1256, 1261 (5th Cir. 1987).

infringement.<sup>43</sup> Courts later adopting the presumption generally accepted this reasoning without question, and cited the Second Circuit's holding in *American Metropolitan* without discussion.<sup>44</sup>

#### 4. Patent

The presumption of irreparable harm in patent infringement cases appears to have originated in 1983 in *Smith International, Inc. v. Hughes Tool Co.*, and also has its genesis in the presumption applied in copyright infringement cases.<sup>45</sup> In *Smith International*, the Federal Circuit held that in a patent infringement dispute "where validity and continuing infringement have been clearly established, . . . immediate irreparable harm is presumed."<sup>46</sup> The court reasoned that the "very nature of the patent right is the right to exclude others," and a patent holder "should be entitled to the full enjoyment and protection of his patent rights."<sup>47</sup> Several years later, the Federal Circuit reiterated the presumption, and further stated that a presumption of irreparable harm applies in trademark infringement cases as well,<sup>48</sup> a rationale frequently cited by other circuits.

The Federal Circuit later transformed the presumption of irreparable harm in patent cases to a general rule that "an injunction should issue once infringement has been established unless there is a sufficient reason for denying it."<sup>49</sup> The reasoning given for this categorical rule is that once infringement has been established, it would be "contrary to the laws of property . . . to deny the patentee's right to exclude others from use of his property."<sup>50</sup> This "general rule" is the rule overturned by the Supreme Court in *eBay Inc. v. MercExchange, L.L.C.*<sup>51</sup>

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<sup>43</sup> 6 PATRY ON COPYRIGHT § 22:50; see also *Country Kids 'N City Slicks, Inc.*, 77 F.3d at 1288-89 (10th Cir. 1996); *Medias & Co., Inc. v. TY, Inc.*, 106 F. Supp. 2d 1132, 1139 (D. Colo. 2000).

<sup>44</sup> See, e.g., *Spectravest, Inc. v. Fleet St., Ltd.*, No. C-88-4539 RFP, 1989 WL 135386, at \*5 (N.D. Cal. Aug. 23, 1989); *Original Appalachian Artworks, Inc. v. Cradle Creations, Inc.*, No. C81-1906A, 1982 WL 1263, at \*4 (N.D. Ga. Jan. 27, 1982).

<sup>45</sup> 718 F.2d 1573, 1581 (Fed. Cir. 1983).

<sup>46</sup> *Id.*

<sup>47</sup> *Id.*

<sup>48</sup> *Roper Corp. v. Litton Sys., Inc.*, 757 F.2d 1266, 1269 (Fed. Cir. 1985).

<sup>49</sup> *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988).

<sup>50</sup> *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989).

<sup>51</sup> *eBay*, 547 U.S. at 393-94.

## **B. Implications in Franchise Litigation**

In franchise cases, a motion for a preliminary injunction is often initiated at the outset of litigation by franchisors in order to protect their rights as trademark holders from infringement. Franchisors seek to enjoin franchisees from using their marks post-termination, when the franchisee uses the marks in a manner not authorized by the franchise agreement, or in the event of an unauthorized transfer. Perhaps the single most important and challenging prerequisite for a franchisor to demonstrate is that it is likely to suffer irreparable harm if a preliminary injunction is not issued.

Notwithstanding the high threshold associated with obtaining the issuance of an injunction, in past cases where a franchisor sought injunctive relief based on the unauthorized use of its trademarks, the court would often automatically presume the existence of irreparable harm once the court determined a likelihood of success on the merits; little else was required from the franchisor to obtain injunctive relief.<sup>52</sup> In intellectual property injunction cases prior to the Supreme Court's *eBay* decision in 2006, many federal courts followed this same path, and presumed irreparable harm once a franchisor demonstrated a likelihood of success on the merits of its infringement claim.<sup>53</sup>

However, the viability of this presumption of irreparable harm in intellectual property infringement cases has been called into question by the Supreme Court's decision in *eBay*. In *eBay*, the Supreme Court of the United States rejected the Federal Circuit's "general rule" that an injunction will issue in a patent infringement case after a finding of likelihood of success on the merits, holding that such categorical rules are in derogation of the traditional principles of equity, and are not appropriate in evaluating a motion for injunctive relief.<sup>54</sup> Courts throughout the circuits have been unclear whether a presumption of irreparable harm is akin to the categorical rule rejected in *eBay*,<sup>55</sup> and franchisors and franchisees should consider the implications of this uncertainty discussed in this article when seeking an injunction against intellectual property infringement.<sup>56</sup>

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<sup>52</sup> See, e.g., *Burger King Corp. v. Hall*, 770 F. Supp. 633, 639-40 (S.D. Fla. 1991) (stating that the plaintiff "is not required to show irreparable injury in order to obtain a preliminary injunction if a prima facie [sic] case of infringement is made").

<sup>53</sup> See, e.g., *McDonald's Corp. v. Robertson*, 147 F.3d 1301, 1310 (11th Cir. 1998).

<sup>54</sup> *eBay*, 547 U.S. at 393-94.

<sup>55</sup> See *infra* Parts V-VI.

<sup>56</sup> See *infra* Part VII.

#### IV. **EBAY INC. v. MERCEXCHANGE, L.L.C. AND WINTER v. NATURAL RES. DEF. COUNCIL**

##### A. **Background and Holding of eBay**

In *eBay Inc. v. MercExchange L.L.C.*, plaintiff, MercExchange, L.L.C. (“MercExchange”) held a business-method patent for an on-line market designed to facilitate the sale of goods between private parties.<sup>57</sup> MercExchange sought to license its patents to defendants, eBay, Inc. (“eBay”) and Half.com, as it had previously done with other companies.<sup>58</sup> The parties failed to reach an agreement and, subsequently, MercExchange filed a patent infringement suit against eBay in the United States District Court for the Eastern District of Virginia.<sup>59</sup> eBay simultaneously maintained an action before the Patent and Trademark Office (“PTO”) challenging the validity of MercExchange’s patents.<sup>60</sup> After a five-week trial, the jury returned a verdict finding that the patents were valid and enforceable and that eBay had infringed on the patents; the jury awarded MercExchange \$35 million in damages.<sup>61</sup>

Following the jury verdict, MercExchange filed a post-judgment Motion for Entry of a Permanent Injunction Order, seeking to prevent the defendants from further infringing on its patents.<sup>62</sup> The district court, however, denied MercExchange’s request for a permanent injunction. In so doing, the district court began its analysis by noting that, although the decision to grant or deny an injunction remains within the discretion of the trial judge, the general rule is that “an injunction should issue once infringement has been established.”<sup>63</sup> The district court proceeded by applying the four factors required by the traditional equitable principles:

- (1) whether the plaintiff would face irreparable injury if the injunction did not issue;
- (2) whether the plaintiff has an adequate remedy at law;
- (3) whether granting an injunction is in the public interest; and

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<sup>57</sup> *eBay*, 547 U.S. at 390.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.*

<sup>60</sup> *Id.* at 391.

<sup>61</sup> *MercExchange, L.L.C. v. eBay, Inc.* 275 F. Supp. 2d 695, 698 (E.D. Va. 2003).

<sup>62</sup> *Id.* at 695.

<sup>63</sup> *Id.* at 711.

- (4) whether the balance of the hardships to the parties weighed in favor of issuing an injunction.<sup>64</sup>

First, the court held that MercExchange would not suffer irreparable harm if the injunction did not issue.<sup>65</sup> The court concluded that the presumption of irreparable harm upon a finding of validity and infringement had been rebutted based on the following findings: (1) MercExchange “does not practice its inventions and exists merely to license its patented technology to others;” (2) “numerous comments” made by the plaintiff to the media “indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement;” and (3) MercExchange’s failure to seek a preliminary injunction.<sup>66</sup>

Second, the court held that there was an adequate remedy at law in that monetary damages would adequately compensate MercExchange based on the fact that MercExchange had “licensed its patents to others in the past and has indicated a willingness to license its patents to [eBay].”<sup>67</sup> The court reasoned that since MercExchange was willing to license its patents, monetary damages could be easily calculated and awarded based on licensing royalties received by MercExchange.<sup>68</sup>

Third, the court found that the public interests were in equilibrium. On one hand, the court recognized that public interest often favors granting an injunction in order to maintain the integrity of the patent system.<sup>69</sup> On the other hand, the court noted that MercExchange “does not practice its patents” and concluded that “the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein.”<sup>70</sup>

Finally, the court held that the balance of the hardships “tips slightly” in favor of denying the injunction. The court indicated that “[t]his case has been one of the more, if not the most, contentious cases that this court has ever presided over” and noting that the “only agreed stipulation at trial was that [the] court had subject matter jurisdiction.”<sup>71</sup> Based on defendants’

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<sup>64</sup> *Id.* at 711-15.

<sup>65</sup> *Id.*

<sup>66</sup> *Id.*

<sup>67</sup> *Id.* at 713.

<sup>68</sup> *Id.* at 710.

<sup>69</sup> *Id.* at 713.

<sup>70</sup> *Id.* at 714.

<sup>71</sup> *Id.*

contention that they could design around the patents and MercExchange's position that a design around is impossible, the court predicted that an injunction would "essentially be opening a Pandora's box of new problems."<sup>72</sup> The court discounted any harm to MercExchange since it does not commercialize its patents, but, rather, only licenses or sues to enforce its patents, and found that any harm it may sustain could be remedied by damages.<sup>73</sup>

MercExchange appealed the district court's denial of its request for a permanent injunction. The Federal Circuit found that the denial of permanent injunction was an abuse of discretion.<sup>74</sup> In reversing the district court, the Federal Circuit articulated a general rule "that a permanent injunction will issue once infringement and validity have been adjudged."<sup>75</sup> The Federal Circuit dismissed the district court's reasons for denying the injunction, concluding that they were not "sufficiently exceptional to justify the denial of a permanent injunction."<sup>76</sup> Specifically, the Federal Circuit held that the district court's concern over the likelihood of continuing disputes is not a sufficient basis for denying a permanent injunction, noting that "even absent an injunction, such a dispute would be likely to continue in the form of successive infringement actions."<sup>77</sup> Further, the Federal Circuit reasoned that injunctions "are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license [them]," concluding that MercExchange's willingness to license its patents should not deprive it of the right to an injunction.<sup>78</sup> Nor did the Federal Circuit agree that MercExchange's failure to move for a preliminary injunction militates against its right to a permanent injunction because they "are distinct forms of equitable relief that have different prerequisites and serve entirely different purposes."<sup>79</sup>

The Supreme Court granted certiorari to determine the appropriateness of the general rule applied by the Federal Circuit that "courts will issue permanent injunctions against patent infringement absent exceptional circumstances."<sup>80</sup> In a unanimous decision, the Supreme Court reversed the Federal Circuit's decision, holding that "neither the district court nor the [Federal Circuit] below fairly applied "traditional equitable principles" in deciding whether the permanent

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<sup>72</sup> *Id.*

<sup>73</sup> *Id.*

<sup>74</sup> *MercExchange, L.L.C. v. eBay*, 401 F.3d 1323, 1339 (Fed. Cir. 2005).

<sup>75</sup> *Id.* at 1338.

<sup>76</sup> *Id.* at 1339.

<sup>77</sup> *Id.*

<sup>78</sup> *Id.*

<sup>79</sup> *Id.*

<sup>80</sup> *eBay*, 547 U.S. at 391.

injunction should issue.<sup>81</sup> In a brief opinion, Justice Thomas recognized that “a major departure from the long tradition of equity practice should not be lightly implied,” and, as such, courts must strictly apply the four factor test pursuant to “well-established principles of equity.”<sup>82</sup> The Court found that both the district court and the Federal Circuit improperly applied expansive principles and relied on broad categorical rules, thus failing to properly apply the four factor test.<sup>83</sup> Specifically, the Court renounced the district court’s conclusion that a “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” is sufficient to establish a lack of irreparable harm.<sup>84</sup> To the contrary, the Court expressly stated that some patent holders, such as university researchers, who simply license their patents, may be able to satisfy the traditional four-factor test, which is consistent with the Court’s decision in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*<sup>85</sup>

The Supreme Court similarly held that the Federal Circuit “departed in the opposite direction from the four-factor test.”<sup>86</sup> Just as the district court erred in its categorical denial of injunctive relief, it was found that the Federal Circuit erred in its categorical grant of such relief.<sup>87</sup> The Court rejected the Federal Circuit’s conclusion that “injunctions should be denied only in the „unusual” case, under „exceptional circumstances” and „in rare instance . . . to protect the public interest.”<sup>88</sup>

The Supreme Court chastised both the district court and the Federal Circuit for applying “expansive principles,” “broad classifications,” and “categorical rule[s]” in the courts’ respective decisions on whether to issue permanent injunctive relief in favor of a patent holder in the wake of a jury finding of patent infringement.<sup>89</sup> The Supreme Court emphasized that “invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a

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<sup>81</sup> *Id.* at 393.

<sup>82</sup> *Id.* at 391.

<sup>83</sup> *Id.* at 393.

<sup>84</sup> *Id.*

<sup>85</sup> *Id.* (citing *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 422-30 (1908)) (reject[ing] the contention that a court of equity has no jurisdiction to grant injunctive relief to a patent holder who has unreasonably declined to use the patent).

<sup>86</sup> *Id.* at 393.

<sup>87</sup> *Id.*

<sup>88</sup> *Id.* at 394.

<sup>89</sup> *Id.* at 393.

determination that [an intellectual property right] has been infringed” must be “consistently rejected.”<sup>90</sup>

## **B. Background and Holding of Winter**

In *Winter v. Natural Resources Defense Council, Inc.*,<sup>91</sup> several environmental organizations sought to enjoin the Navy’s use of “mid-frequency active” (“MFA”) sonar during training exercises in the waters off the coast of southern California (“SoCal”). During these training exercises, ships, submarines and aircraft train together as members of a “strike group,” which may not be certified for deployment until it demonstrates proficiency in the use of active sonar to detect, track and neutralize enemy submarines.<sup>92</sup> The plaintiffs—groups and individuals devoted to the protection of marine mammals and ocean habitats—asserted that MFA sonar causes serious injuries to the greater than 37 species of marine mammals in the SoCal waters, including permanent hearing loss, decompression sickness and major behavioral disruptions.<sup>93</sup> The Navy maintained that it had been conducting MFA sonar training in SoCal waters for 40 years without a single documented sonar-related injury to any marine mammal.<sup>94</sup>

The district court for the Central District of California entered a preliminary injunction prohibiting the Navy from using MFA sonar during its training exercises, holding that the plaintiffs had demonstrated a “probability” of success on the merits of their claims and at least a “possibility” of irreparable harm to the environment,” as was required under Ninth Circuit precedent.<sup>95</sup> The court concluded based on scientific studies, declarations from experts and other evidence on the record, that the plaintiffs had demonstrated a “near certainty” of irreparable injury to the environment, and that this injury outweighed any possible harm to the Navy.<sup>96</sup> On appeal, the Ninth Circuit agreed that preliminary injunctive relief was appropriate. However, the Ninth Circuit held that the blanket injunction prohibiting the Navy from using MFA sonar in SoCal was overbroad and remanded the case to the district court for a narrower remedy.<sup>97</sup>

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<sup>90</sup> *Id.* at 392-93.

<sup>91</sup> 557 U.S. at 7.

<sup>92</sup> *Id.* at 12.

<sup>93</sup> *Id.* at 14.

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* at 17.

<sup>96</sup> *Id.*

<sup>97</sup> *Id.*

On remand, the district court entered a new preliminary injunction, allowing the Navy to conduct its training in SoCal using MPA sonar pursuant to six mitigating restrictions.<sup>98</sup> As relevant to this case, the injunction required the Navy to shut down MFA sonar when a marine mammal was spotted within 2,200 yards of a vessel, and to power down sonar by 6 decibels during conditions known as “surface ducting.”<sup>99</sup>

The Navy then obtained relief from the Executive Branch (the Council on Environmental Quality (“CEQ”)), authorizing it to “implement „alternative arrangements” to NEPA compliance in light of „emergency circumstances.”<sup>100</sup> The CEQ allowed the Navy to continue its training exercises under voluntary mitigation procedures that the Navy had previously adopted. The Navy moved to vacate the district court’s preliminary injunction in light of the CEQ’s actions.<sup>101</sup> The district court refused to do so.<sup>102</sup> On appeal, the Ninth Circuit affirmed the district court, holding that, *inter alia*, a preliminary injunction was appropriate because plaintiffs had carried their burden of establishing a “possibility” of irreparable injury and that the balance of hardships and consideration of the public interest favored the plaintiffs.<sup>103</sup>

A divided Supreme Court reversed, vacating the preliminary injunction. First, the Supreme Court restated the traditional test for a permanent injunction: “A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.”<sup>104</sup> The Supreme Court then rejected the lower court’s sliding scale approach by which a plaintiff who demonstrates a strong likelihood of success on the merits may obtain a preliminary injunction based only on a “possibility” of irreparable harm.<sup>105</sup> The Supreme Court recognized the “frequently reiterated standard” that a plaintiff must demonstrate that irreparable injury is “likely” and held that the “possibility” standard is too lenient and inconsistent with the Court’s characterization of injunctive relief as “an extraordinary remedy that may only be awarded upon a clear showing that the plaintiff is entitled to such relief.”<sup>106</sup> However, the Supreme Court did not make a

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<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> *Id.* at 18.

<sup>101</sup> *Id.* at 19.

<sup>102</sup> *Id.* at 20.

<sup>103</sup> *Id.* at 19-20.

<sup>104</sup> *Id.* at 20.

<sup>105</sup> *Id.* at 21.

<sup>106</sup> *Id.* at 22.

determination of whether plaintiffs, who claim to have established a “near certainty” of irreparable harm, met the “likelihood” test for establishing irreparable harm.<sup>107</sup> Rather, the Court determined even if plaintiffs had demonstrated a likelihood of irreparable injury, such injury would be outweighed by the public interest, and the Navy’s interest, in effective realistic training of its sailors.<sup>108</sup>

The Supreme Court’s decision in *Winter*, like its decision in *eBay*, re-confirmed that a plaintiff must satisfy the traditional equitable test in order to obtain injunctive relief. More specifically, both cases emphasize that neither a more lenient “possibility” of irreparable harm, nor a categorical rule that an injunction will issue is sufficient to warrant the extraordinary relief provided by an injunction. The practical impact of these decisions, however, has been hotly debated.

## V. EXTENSION OF THE *EBAY* AND *WINTER* DECISIONS

### A. What the Pundits Have to Say about the Applicability of the *eBay* and *Winter* Decisions to Trademark Infringement Cases

Scholars disagree as to the scope of *eBay* and *Winter* and whether these decisions will affect the presumption of irreparable harm in cases involving a claim of trademark infringement. Policy considerations underlying the presumptions drive the arguments for maintaining the presumption of irreparable harm in trademark cases, while eliminating it in patent cases. Similarly, scholars arguing that the *eBay* decision will or should eliminate the presumption in trademark cases rely on policy issues as the basis for eliminating the presumption, including similar language in both the Patent Act and Lanham Act.

In his treatise *MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION*, Professor J. Thomas McCarthy argues against extending the *eBay* decision to trademark cases based on what he believes to be material differences between the presumption of irreparable harm in trademark cases and the presumption in patent cases.<sup>109</sup> In *eBay*, the Court struck down a rule providing for an automatic permanent injunction in a patent case after a plaintiff prevailed on the merits.<sup>110</sup> In trademark cases, however, there is no such *automatic* rule; the presumption is rebuttable, not automatic, after a finding of likely success on the merits.<sup>111</sup> McCarthy also briefly distinguishes the harms from patent and copyright infringement from the harms resulting from trademark infringement.<sup>112</sup> As McCarthy notes, one reason the Supreme Court rejected the

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<sup>107</sup> *Id.* at 23.

<sup>108</sup> *Id.*

<sup>109</sup> 5 *MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION* § 30:47 (4th ed. 2012) [hereinafter *MCCARTHY*].

<sup>110</sup> *eBay*, 547 U.S. at 394-95.

<sup>111</sup> 5 *MCCARTHY*, at § 30:47; see also 3-14 *GILSON ON TRADEMARKS* 14.02 (“*eBay* is arguably distinguishable . . . [because] [t]he presumption is rebuttable, unlike the categorical rule overturned in *eBay*.”).

<sup>112</sup> 5 *MCCARTHY*, at § 30:47.

categorical presumption in patent cases was because the Court “has long recognized, „a major departure from the long tradition of equity practice should not be lightly implied,” and “[n]othing in the Patent Act indicates that Congress intended such a departure” from traditional equitable principles.<sup>113</sup> McCarthy argues, however, that trademark infringement warrants a presumption of irreparable harm because such harm inherently flows from a finding of likelihood of confusion; “once a probability of proving likelihood of confusion at trial is shown, the trademark owner’s business goodwill and reputation are at risk.”<sup>114</sup> Harm to goodwill and reputation are inherently irreparable, because they are very real, but “difficult to measure in dollars and cents.”<sup>115</sup>

Other scholars and IP practitioners agree with Professor McCarthy and expand on his arguments.<sup>116</sup> The major harm from patent and copyright infringement, they argue, is the “appropriation of a potential market for the patented invention or copyrighted work,” which they view as strictly monetary in nature.<sup>117</sup> In contrast, the harm resulting from trademark infringement is based on a likelihood of consumers confusing the infringing goods or services with the trademarked goods or services.<sup>118</sup> When consumers confuse the products, the trademark owner loses control of quality, potentially harming its goodwill and reputation.<sup>119</sup> These harms are more intangible and, thus, it is more difficult to quantify the attendant damages. Further, trademark infringement could cause irreversible harm to the trademark holder if a consumer’s negative experience permanently affected the consumer’s view of the trademarked products or services.<sup>120</sup> Continued trademark infringement will only exasperate this harm with other consumers.

Messrs. Bernstein and Gilden also address a historical consideration underlying the Supreme Court’s decision in *eBay*. In his concurrence, Justice Kennedy attributed the presumption of irreparable harm in patent cases partly to the historical pattern of the cases finding irreparable harm. Modern patent infringement cases, however, present a new problem that warrants abandoning the presumption—the “patent troll.”<sup>121</sup> Messrs. Bernstein and Gilden

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<sup>113</sup> *Id.*; *eBay*, 547 U.S. at 391-92.

<sup>114</sup> 5 MCCARTHY, at § 30:47.

<sup>115</sup> *Id.*

<sup>116</sup> David H. Bernstein & Andrew Gilden, *No Trolls Barred: Trademark Injunctions After eBay*, 99 TRADEMARK REP. 1037, 1051-63 (2009).

<sup>117</sup> *Id.* at 1055.

<sup>118</sup> *Id.* at 1053.

<sup>119</sup> *Id.*

<sup>120</sup> *Id.*

<sup>121</sup> Patent trolls are businesses that use patents to obtain licensing fees, instead of creating and marketing the products. These businesses use injunctions as leverage to charge large licensing fees to the alleged patent infringers.

convincingly argue that monetary damages would be an adequate remedy in a case involving a “patent troll.”<sup>122</sup> An analogous “trademark troll” does not exist, particularly because trademark rights, unlike patent rights, are contingent on the use of the trademark in commerce in connection with goods or services. A trademark owner would lose its rights in the mark if it held the mark without using it, and simply intended to extract fees from others wishing to use the mark.<sup>123</sup>

Scholars arguing that *eBay* should apply to trademark infringement cases discuss similarities between the authorizing language for injunctions in the Patent Act and Lanham Act.<sup>124</sup> In *eBay*, the Court held that the Patent Act did not warrant a departure from traditional equitable principles, partly because the Patent Act provides that “injunctive relief „may” issue only „in accordance with the principles of equity.”<sup>125</sup> The Lanham Act contains similar language, stating that courts “shall have power to grant injunctions, according to principles of equity.”<sup>126</sup> Both statutes require courts to apply equitable principles, and some scholars argue that categorical rules and presumptions are contrary to equity.<sup>127</sup>

Professor Sandra Rierson provides a more detailed analysis of the issue in her law review article.<sup>128</sup> In addition to the argument above, Professor Rierson disagrees with the notion that harms from trademark infringement cannot be adequately compensated with money damages.<sup>129</sup> Goodwill, she argues, can often be quantified, although it may sometimes be difficult to do so. Professor Rierson believes that the difficulty in calculating goodwill in some cases does not justify presuming irreparable harm in all situations.<sup>130</sup>

Professor Rierson also argues that developments in trademark law warrant abolishing the presumption based on reasoning similar to the patent troll argument articulated in *eBay*.<sup>131</sup>

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<sup>122</sup> Bernstein & Gilden, *supra* note 114, at 1057, 1059.

<sup>123</sup> *Id.*

<sup>124</sup> See Sandra L. Rierson, *IP Remedies After eBay: Assessing the Impact on Trademark Law*, 2 AKRON INTELL. PROP. J. 163 (2008); David M. Kelly & Douglas A. Rettew, *Why Trademark and Copyright Counsel Should Heed the Patent Precedent of the Supreme Court*, 2 LANDSLIDE, Nov./Dec. 2009, at 15.

<sup>125</sup> *eBay*, 547 U.S. at 392 (quoting Patent Act, 35 U.S.C. § 283).

<sup>126</sup> Lanham Act, 15 U.S.C. § 1116(a).

<sup>127</sup> Rierson, *supra* note 122, at 171-72; Kelly & Rettew, *supra* note 122, at 17-18.

<sup>128</sup> Rierson, *supra* note 122.

<sup>129</sup> *Id.* at 173-74.

<sup>130</sup> *Id.* at 175.

<sup>131</sup> *Id.*

A traditional trademark infringement case involves a competitor using a mark on inferior goods, thereby damaging the reputation of the trademark holder and the sale of its goods. However, trademark use and infringement has evolved since the inception of the presumption of irreparable harm, particularly in cases involving initial interest confusion on the Internet.<sup>132</sup> Initial interest confusion on the Internet often occurs when a consumer searches for a term, and a link to the competitor's site returns in addition to the trademark owner's site because the competitor unlawfully used the mark in its metadata. Rierson argues that the use of a competitor's mark in these types of circumstances may not cause confusion at all; the consumer may understand that a search will return other options.<sup>133</sup> Moreover, if some confusion does occur, the "costs" to fix the mistake is small; the consumer merely clicks a key to return to the initial search results.<sup>134</sup>

Bernstein and Gilden disagree with Rierson with respect to the initial interest confusion issue. While recognizing that some trademark holders may abuse requests for injunctive relief, they argue that doing away with the presumption of irreparable harm in all trademark infringement cases is "an overbroad response."<sup>135</sup> Bernstein and Gilden further argue that the majority of initial interest confusion cases should not even come to the irreparable injury question because there is no confusion, and thus no infringement.<sup>136</sup>

## **B. What the Courts Have to Say About the Applicability of the *eBay* and *Winter* Decisions to Trademark Infringement and Other IP Cases**

### **1. Trademark**

Courts have not reached a consensus on whether and how *eBay* and/or *Winter* apply in trademark infringement cases. With the exception of the Ninth Circuit, all of the courts of appeals that have considered the issue have acknowledged that *eBay* and *Winter* may affect the presumption of irreparable harm in trademark cases, but have declined to decide whether or how these cases apply.<sup>137</sup> Predictably, this has caused uncertainty in the district courts. As discussed below, the district courts have generally followed one of three paths in trademark infringement cases: (i) continue to apply a presumption of irreparable harm; (ii) no longer apply the presumption of irreparable harm; or (iii) recognize that the *eBay* and/or *Winter* decisions call into question the continued viability of the presumption, but decline to decide the issue and then find a "probability" of irreparable harm based on the evidence.

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<sup>132</sup> *Id.*

<sup>133</sup> *Id.*

<sup>134</sup> *Id.*

<sup>135</sup> Bernstein & Gilden, *supra* note 114, at 1065-66.

<sup>136</sup> *Id.* at 1067.

<sup>137</sup> See, e.g., *N. Am. Med. v. Axiom Worldwide*, 522 F.3d 1211, 1216-17 (11th Cir. 2008); *Voice of the Arab World, Inc. v. MDTV Med. News Now, Inc.*, 645 F.3d 26, 31-32 (1st Cir. 2011); *Paulsson Geophysical Servs., Inc. v. Sigmar*, 529 F.3d 303, 313 (5th Cir. 2008); *Lorillard Tobacco Co. v. Engida*, 213 F. App'x 654, 656-57 (10th Cir. 2007).

In *Marlyn Nutraceuticals, Inc. v. Mucos Pharma GmbH & Co.*, the Ninth Circuit applied the presumption of irreparable harm to a trademark infringement case, albeit without analyzing either *eBay* or *Winter*, and is the only court of appeals to continue to apply the presumption after *eBay*.<sup>138</sup> Some district courts in the Ninth Circuit, as well as in other circuits, have similarly applied the presumption without addressing whether *eBay* precludes the presumption.<sup>139</sup> In a subsequent decision in the Ninth Circuit regarding a request for injunctive relief involving a claim for copyright infringement, a different panel criticized the *Marlyn Nutraceuticals* opinion for failing to consider *eBay* and *Winter*.<sup>140</sup> At least one district court in the Ninth Circuit has read this criticism to stand for eliminating the presumption in trademark infringement.<sup>141</sup>

Other courts of appeals addressing *eBay* in trademark infringement cases have dodged the issue.<sup>142</sup> The Eleventh Circuit took this approach in *North American Medical Corp. v. Axiom Worldwide, Inc.*, in which it held that *eBay* was applicable to trademark infringement cases, but declined to explain how it applies, and remanded the case to the district court to decide.<sup>143</sup> Other circuits have also concluded that *eBay* applies in trademark cases, but have similarly neglected to explain how to properly apply the *eBay* rule.<sup>144</sup>

Instead of deciding whether a presumption of irreparable harm is consistent with *eBay*, many courts find a potential for irreparable harm based on the facts.<sup>145</sup> For example, the Fifth

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<sup>138</sup> *MarylN Nutraceuticals, Inc. v. Mucos Pharma GmbH & Co.*, 571 F.3d 873, 877 (9th Cir. 2009).

<sup>139</sup> See, e.g., *T-Mobile USA, Inc. v. Terry*, No. 3:11-CV-5655-RBL, 2012 WL 1409287, at \*8 (W.D. Wash. Apr. 23, 2012); *Hokto Kinoko Co. v. Concord Farms, Inc.*, 810 F. Supp. 2d 1013, 1021 (C.D. Cal. 2012); *Coach v. O'Brien*, No. 10 Civ. 6071(JPO)(JLC), 2012 WL 1255276, at \*17 (S.D.N.Y. Apr. 13, 2011); *Tiramisu Int'l LLC v. Clever Imps. LLC*, 741 F. Supp. 2d 1279, 1287 (S.D. Fla. 2010).

<sup>140</sup> *Flexible Lifeline Sys., Inc. v. Precision Lift Inc.*, 654 F.3d 989, 997 (9th Cir. 2011).

<sup>141</sup> *Leatherman Tool Grp., Inc. v. Coast Cutlery Co.*, 823 F. Supp. 2d 1150, 1157 (D. Or. 2011).

<sup>142</sup> See, e.g., *Voice of the Arab World, Inc.*, 645 F.3d at 26; *N. Am. Med. Corp.*, 522 F.3d at 1216-17; *Paulsson Geophysical Servs., Inc.*, 529 F.3d at 313; *Lorillard Tobacco Co.*, 213 F. App'x at 656-57.

<sup>143</sup> 522 F.3d at 1216-17. On remand, North American Medical did not pursue a preliminary injunction. *N. Am. Med. Corp.*, No. 1:06-CV-1678-JTC (N.D. Ga. July 14, 2006).

<sup>144</sup> See, e.g., *Voice of the Arab World, Inc.*, 645 F.3d at 31 (holding that *eBay* and *Winter* require the court to apply traditional equitable principles, but declining to consider whether a presumption of irreparable harm is consistent with traditional equitable principles); *Paulsson Geophysical Servs., Inc.*, 529 F.3d at 313 (acknowledging *eBay*, but stating that the court has “no need to decide whether a court may presume irreparable injury upon finding a likelihood of confusion in a trademark case” because the facts support a finding of irreparable harm); *Lorillard Tobacco Co.*, 213 F. App'x at 656-57 (declining to consider how *eBay* applies because plaintiffs had not shown they would suffer any irreparable harm that would outweigh the harm to Defendants).

<sup>145</sup> *Nike, Inc. v. Austin*, No. 6:09-CV-796-Orl-28KRS, 2009 WL 3535500, at \*5 (M.D. Fla. Oct. 28, 2009); *Ultimate Resort Holdings, LLC v. Ultimate Resort Network, LLC*, No. CV408-070, 2009 WL 2032036, at \*3 (S.D. Ga. July 8, 2009); *SunEarth, Inc. v. Sun Earth Solar Power Co., Ltd.*, No. C 11-499 CW, 2012 WL 368677, at \*15 (N.D. Cal. 2012); *Skydive Arizona, Inc. v. Quattrocchi*, No. CV-05-2656-PHX-MHM, 2010 WL 1743189, at \*2-\*3 (D. Ariz. Apr. 29, 2010); *Paulsson Geophysical Servs., Inc.*, 529 F.3d at 313 (acknowledging *eBay*, but stating that the court has “no need to decide whether a court may presume irreparable injury upon finding a likelihood of confusion in a trademark case” because the facts support a finding of irreparable harm); *Gayle Martz Inc. v. Sherpa Pet Group LLC*,

Circuit has stated that it had “no need to decide whether a court may presume irreparable injury upon a finding of likelihood of confusion in a trademark case, a difficult question considering the Supreme Court’s opinion in *eBay*.”<sup>146</sup> Instead, the court agreed with the district court that there was a likelihood of irreparable harm because the plaintiff would suffer potential harm to goodwill and the infringement would cause consumer confusion.<sup>147</sup>

Another group of cases have held that *eBay* and *Winter* abolish a presumption of irreparable harm in trademark cases.<sup>148</sup> In circuits where the presumption in copyright cases has been invalidated, some courts cite to those cases for the proposition that a presumption of irreparable harm is no longer viable in trademark infringement cases.<sup>149</sup> Courts extend the reasoning to trademark infringement cases because “there is no language in the court’s rationale that would indicate a different standard” for trademark cases.<sup>150</sup>

A number of courts rely on the Supreme Court’s decision in *Winter* to strengthen the argument that *eBay* abolishes the presumption of irreparable harm in trademark infringement cases. For example, a California district court stated that *Winter* reiterates *eBay*, and requires parties to establish “a clear likelihood of success that the harm is real, imminent and significant, not just speculative or potential”<sup>151</sup> Other courts have held that a motion to enjoin trademark infringement is subject to the “traditional equitable principles, as set forth by the Supreme Court in *eBay*, and more recently in *Winter*,”<sup>152</sup> and a presumption of irreparable harm does not apply

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651 F. Supp. 2d 72, 84 (S.D.N.Y. 2009) (recognizing the uncertainty of the presumption after *eBay*, but finding irreparable harm based on the facts).

<sup>146</sup> *Paulsson Geophysical Servs., Inc.*, 529 F.3d at 313.

<sup>147</sup> *Id.*

<sup>148</sup> See, e.g., *Magna-RX Inc. v. Holley*, No. CV 05-3545-PHX-EHC, 2008 WL 5068977, at \*4 (D. Ariz. Nov. 25, 2008) (denying plaintiff injunctive relief because he failed to provide actual evidence of irreparable harm, and thus did not satisfy the *eBay* test); *Harris Research Inc. v. Lydon*, 505 F. Supp. 2d 1161, 1168 (D. Utah 2007) (“The „Supreme Court recently disapproved the use of categorical rules in connection with injunctive relief in intellectual property actions” and Plaintiff must show irreparable injury to support a preliminary injunction.” (citation omitted)).

<sup>149</sup> See *Groupion, LLC v. Groupon, Inc.*, 826 F. Supp. 2d 1156, 1167 (N.D. Cal. 2011) (relying on *Flexible Lifeline Sys., Inc.*, 654 F.3d at 989, discussed *infra* Part V.B.2); *Ascentive, LLC v. Opinion Corp.*, 842 F. Supp. 2d 450, 478 (E.D.N.Y. 2011) (relying on *Salinger v. Colting*, 607 F.3d 68 (2d Cir. 2010), discussed *infra* Part V.B.2).

<sup>150</sup> *Leatherman Tool Grp., Inc.*, 823 F. Supp. 2d at 1157.

<sup>151</sup> *Groupion, LLC*, 826 F. Supp. 2d at 1167.

<sup>152</sup> *Voice of the Arab World, Inc.*, 645 F.3d at 34.

these principles, but instead assumes irreparable harm without proof that it is not just speculative or potential.<sup>153</sup>

## 2. Trade Secret

As in trademark cases, courts are split on the application of *eBay* and *Winter* to the presumption of irreparable harm in trade secret cases. The Second Circuit questioned the presumption of irreparable harm in trade secret cases in *Faiveley Transport Malmo AB v. Wabtec Corporation*, holding that a presumption of irreparable harm does not automatically arise once a plaintiff has established that a trade secret has been misappropriated.<sup>154</sup> However, the court also concluded that “a rebuttable presumption of irreparable harm might be warranted in cases where there is a danger that, unless enjoined, the misappropriator of trade secrets will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets.”<sup>155</sup>

Some district courts, particularly in the Second Circuit, have gone further than *Faiveley*, holding that there is no longer a presumption of irreparable harm in trade secret cases.<sup>156</sup> For example, a district court from the Eastern District of New York recently concluded that *eBay* forbids a presumption in any case, not just in patent infringement cases.<sup>157</sup> Similar to the tack taken by many courts in trademark cases, some courts have questioned whether a presumption of irreparable harm remains appropriate, but decline to decide the issue and instead find irreparable harm based on harm to the trade secrets owner’s reputation and goodwill.<sup>158</sup>

Another approach some courts have taken is to effectively combine the trade secret claim with a trademark or copyright infringement claim for purposes of determining whether and what injunctive relief is appropriate. Courts have found irreparable harm based on the presumption as still viable in trademark infringement cases in the Ninth Circuit, but also enjoin the disclosure or use of trade secrets.<sup>159</sup> For example, in *TM Computer Consulting, Inc. v.*

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<sup>153</sup> *Groupion, LLC*, 826 F. Supp. 2d at 1167; *Maxim Integrated Prods., Inc. v. Quintana*, 654 F. Supp. 2d 1024, 1030 (N.D. Cal. 2009).

<sup>154</sup> 559 F.3d 110, 118-19 (2d Cir. 2009).

<sup>155</sup> *Id.* at 118.

<sup>156</sup> See, e.g., *Liberty Power Corp., LLC v. Katz*, No. 10-CV-1938 (NGG)(CLP), 2011 WL 256216, at \*5 (E.D.N.Y. Jan. 26, 2011) (relying on *Salinger*, 607 F.3d at 78, discussed *infra* Part V.B.2); *Morgan Stanley & Co., Inc. v. Seghers*, No. 10 Civ. 5378(DLC), 2010 WL 3952851, at \*5 (S.D.N.Y. Oct. 8, 2010).

<sup>157</sup> *Liberty Power Corp., LLC*, 2011 WL 256216, at \*5.

<sup>158</sup> See, e.g., *TMX Funding, Inc. v. Impero Techs., Inc.*, No. C 10-00202 JF (PVT), 2010 WL 2077011, at \*7 (N.D. Cal. May 21, 2010).

<sup>159</sup> See, e.g., *Baskin Robbins Franchising LLC v. Bardale, Inc.*, No. 1:10-cv-01535 AWI GSA, 2011 WL 70557, at \*6 (E.D. Cal. Jan. 10, 2011); *TM Computer Consulting, Inc. v. Apothacare, LLC*, Civ. No. 08-6267-HO, 2008 WL 4238913, at \*10 (D. Or. Sept. 11, 2008).

*Apothecare*, the court found irreparable harm based on trademark infringement, stating that “[o]nce plaintiff has demonstrated a likelihood of confusion, it is ordinarily presumed that the plaintiff will suffer irreparable harm if injunctive relief is not granted.”<sup>160</sup> The scope of the injunction, however, also “enjoined [defendants] from disclosing any of plaintiff’s confidential and proprietary information and trade secrets.”<sup>161</sup>

Many courts discuss *Winter* in trade secret cases, noting a plaintiff must prove that he is “likely to suffer irreparable harm in the absence of preliminary relief—a mere „possibility” of irreparable harm is insufficient.”<sup>162</sup> One court in California felt this language “casts doubt upon the validity of [the] presumption,” but did not decide whether the presumption still survives *Winter*.<sup>163</sup> A district court in Idaho went further and interpreted this language as meaning a plaintiff in a trade secret case may no longer rely on a presumption of irreparable harm.<sup>164</sup>

### 3. Copyright

Since *eBay*, courts have almost universally abandoned the presumption of irreparable harm in copyright infringement cases.<sup>165</sup> The Ninth Circuit most recently addressed the issue in *Flexible Lifeline Systems, Inc. v. Precision Lift, Inc.*<sup>166</sup> In *Flexible Lifeline Systems*, the court extended *eBay*’s holding to copyright infringement cases based on the logic applied by the *eBay* Court. In *eBay*, the Court drew parallels between the Copyright Act and the Patent Act because the language that authorizes injunctive relief in both Acts is permissive.<sup>167</sup> The Patent Act provides that a court “may” issue an injunction “in accordance with the principles of equity.”<sup>168</sup> Similarly, the Copyright Act states courts “may” grant injunctive relief “on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.”<sup>169</sup> The *eBay* Court found

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<sup>160</sup> *TM Computer Consulting, Inc., LLC*, 2008 WL 4238913, at \*10.

<sup>161</sup> *Id.*

<sup>162</sup> *TMX Funding, Inc.*, 2010 WL 2077011, at \*7.

<sup>163</sup> *Id.*

<sup>164</sup> *Rapid Hot Flow, LLC v. Rocky Mountain Oilfield Servs., LLC*, No. 4:10-CV-00601-EJL-MHW, 2011 WL 902137, at \*2 (D. Idaho Mar. 15, 2011).

<sup>165</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 994-1000; *Salinger*, 607 F.3d at 77-79; *CoxCom, Inc. v. Chaffee*, 536 F.3d 101, 112 (1st Cir. 2008); *Peter Letterese & Assocs. v. World Inst. of Scientology Enters. Int’l*, 533 F.3d 1287, 1323 (11th Cir. 2008); *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 543 (4th Cir. 2007).

<sup>166</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 994-1000.

<sup>167</sup> *eBay*, 547 U.S. at 392.

<sup>168</sup> 35 U.S.C. § 283.

<sup>169</sup> 17 U.S.C. § 502(a).

this similarity persuasive, going so far as to state that its holding abolishing the categorical rule of an injunction in patent infringement cases “is consistent with [the] treatment of injunctions under the Copyright Act.”<sup>170</sup> The Ninth Circuit and other circuits have concluded that this passage means the Supreme Court also intended to abolish the presumption in copyright infringement cases.<sup>171</sup>

Some courts in addressing the continued viability of a presumption of irreparable harm in copyright infringement cases after *eBay*, also rely on *Winter*.<sup>172</sup> For example, the Ninth Circuit held that “*Winter* reaffirms the principles relied upon in *eBay*: a plaintiff must satisfy the four-factor test in order to obtain equitable injunctive relief.”<sup>173</sup> The court went on to conclude that “a standard which presumes irreparable harm without requiring any showing at all” is not allowed under Supreme Court precedent.<sup>174</sup>

### **C. Extension of *eBay* Decision to Preliminary Injunctions**

Since *eBay* involved a permanent injunction involving patent infringement, courts have been unsure whether the Supreme Court’s holding also applies to preliminary injunctions. Some district courts have declined to apply *eBay* to requests for a preliminary injunction, reasoning that the Supreme Court only addressed the issue in the context of a request for a permanent injunction.<sup>175</sup> Other courts have declined to apply *eBay* because the presumption serves equitable considerations in a preliminary injunction analysis.<sup>176</sup> As one court explained, “[a] presumption temporarily removing the need to prove irreparable harm may serve the ends of equity at this early stage of the litigation even if it would be inappropriate where the record is complete” because “the record on a motion for a preliminary injunction is to some degree incomplete.”<sup>177</sup>

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<sup>170</sup> *eBay*, 547 U.S. at 392.

<sup>171</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 995-96; *Salinger*, 607 F.3d at 78.

<sup>172</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 996-97; *Salinger*, 607 F.3d at 79-80.

<sup>173</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 996-97.

<sup>174</sup> *Id.* at 997.

<sup>175</sup> See, e.g., *Eisai Co., Ltd. v. Teva Pharm. USA, Inc.*, Civ. No. 05-5727 (HAA)(ES), 2008 WL 1722098, at \*10 (D.N.J. Mar. 28, 2008); *Christiana Indus. v. Empire Elecs., Inc.*, 443 F. Supp. 2d 870, 884 (E.D. Mich. 2006).

<sup>176</sup> See *Lennon v. Premise Media Corp.*, 556 F. Supp. 2d 310, 319 n.1 (S.D.N.Y. 2008); *Rebel Debutante LLC v. Forsythe Cosmetic Grp., Ltd.*, 799 F. Supp. 2d 558, 579 (M.D.N.C. 2011).

<sup>177</sup> *Lennon*, 556 F. Supp. 2d at 319 n.1; see also Bernstein & Gilden, *supra* note 114, at 1044.

The courts of appeals that have considered the matter take a contrary view.<sup>178</sup> For example, the Ninth Circuit held in a copyright infringement case that the *eBay* ruling applies to both preliminary and permanent injunctions because, for among other reasons, the Court in *eBay* relied on a preliminary injunction case in its analysis.<sup>179</sup> Further, the Ninth Circuit noted that the Supreme Court has held that “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.”<sup>180</sup>

Other circuits have advanced similar reasons to those adopted by the Ninth Circuit, but additionally rely on the Supreme Court’s decision in *Winter* to support extending *eBay* to preliminary injunctions.<sup>181</sup> In *Winter*, the Supreme Court reiterated the traditional four-factor test discussed in *eBay* in holding that a plaintiff seeking a preliminary injunction must prove that he is *likely* to suffer irreparable harm without an injunction.<sup>182</sup> Categorically applying a presumption of irreparable harm would not meet this standard, but would instead effectively establish irreparable harm without any proof.<sup>183</sup>

## VI. REVIEW OF KEY SUBSEQUENT FRANCHISE CASES

District courts have either applied or acknowledged *eBay* and *Winter* in a number of franchise cases. With the exception of one case involving a claim for copyright infringement, all of the cases involve a franchisee’s post-termination use of the franchisor’s trademarks. The majority of these cases found that the franchisor had made an adequate showing of irreparable harm based on the facts; a few, however, continued to apply the presumption of irreparable harm without discussion of *eBay*.<sup>184</sup> One case did not apply the traditional presumption of irreparable harm, instead finding that irreparable harm is “automatic” because the franchise continued to use the trademarks after termination of the agreement.<sup>185</sup> Whatever the approach,

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<sup>178</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 996; *Salinger*, 607 F.3d at 77-79; *Voice of the Arab World, Inc.*, 645 F.3d at 32-33; *Bethesda Softworks, L.L.C. v. Interplay Entm’t Corp.*, 452 F. App’x 351, 354 (4th Cir. 2011).

<sup>179</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 996 (citing *eBay*, 547 U.S. at 391).

<sup>180</sup> *Id.* (quoting *Amoco Prod. Co.*, 480 U.S. at 546 n.12).

<sup>181</sup> See, e.g., *Voice of the Arab World, Inc.*, 645 F.3d at 32-35; *Salinger*, 607 F.3d at 77-79; *Bethesda Softworks, L.L.C.*, 452 F. App’x at 354.

<sup>182</sup> *Winter*, 555 U.S. at 22.

<sup>183</sup> *Flexible Lifeline Sys., Inc.*, 654 F.3d at 996.

<sup>184</sup> See, e.g., *Mister Softee Inc. v. Nidal Awawda*, No. CV 11-01632-PHX-FJM, 2011 WL 6846440, at \*1 (D. Ariz. Dec. 29, 2011); *Red Head, Inc. v. Fresno Rock Taco, LLC*, No. C-08-5703 EMC, 2009 WL 37829, at \*2 (N.D. Cal. Jan. 5, 2009); *Country Inns & Suites By Carlson, Inc. v. Nayan, LLC*, No. 1:08-CV-624-SEB-DML, 2008 WL 4735267, at \*7 (S.D. Ind. Oct. 28, 2008).

<sup>185</sup> *Krispy Kreme Doughnut Corp. v. Satellite Donuts, LLC*, 725 F. Supp. 2d 389, 397-98 (S.D.N.Y. 2010).

the courts in franchise cases have found irreparable harm and enjoined the franchisee from continued use of the franchisor's trademarks after the termination of the franchise agreements.

As noted, and notwithstanding the Supreme Court's decision in *eBay* and subsequent case law, some courts continue to apply a presumption of irreparable harm in franchise cases, often without discussing *eBay*. For example, in *Mister Softee Inc. v. Nidal Awawda*, the Arizona district court applied the presumption without discussing *eBay*, stating that "once a plaintiff establishes a likelihood of confusion in a trademark infringement action, it is „ordinarily presumed" that irreparable harm will result in the absence of injunctive relief."<sup>186</sup> At least one California district court applied the presumption based on precedent in the Ninth Circuit.<sup>187</sup> In *Wetzel's Pretzels, LLC v. Johnson*, the court applied the presumption because the presumption was still valid based on the Ninth Circuit's recent use of the presumption in *Marlyn Nutraceuticals, Inc.*<sup>188</sup> The court went on, however, to recognize that some circuits have interpreted *eBay* as barring a presumption of irreparable harm in trademark infringement cases, and also analyzed irreparable harm based on the facts. The court found irreparable harm because "unless Plaintiff is allowed to protect its marks, its ability to control its reputation and goodwill associated with the marks will be significantly reduced."<sup>189</sup>

Most of the other franchise cases that mention *eBay* follow an analysis similar to that embraced by the district court in *Wetzel's Pretzels*; the district court is unsure whether to apply the presumption, but finds irreparable harm based on the evidence.<sup>190</sup> One notable case discussing the uncertainty of the presumption post-*eBay* is *Petro Franchise Systems v. All American Properties*.<sup>191</sup> In *Petro Franchise Systems*, the franchisor argued that it would suffer irreparable harm in the absence of an injunction because of the threatened loss of control over its trademarks.<sup>192</sup> The franchisees argued that the franchisor had failed to establish irreparable

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<sup>186</sup> *Mister Softee Inc.*, 2011 WL 6846440, at \*1; see also *Allegra Network LLC v. Reeder*, Civ. A. No. 1:09-CV-912, 2009 WL 3734288, at \*3 (E.D. Va. Nov. 4, 2009); *Best W. Int'l, Inc. v. Patel*, 523 F. Supp. 2d 979, 991-92 (D. Ariz. 2007); *Anytime Fitness, Inc. v. Reserve Holdings, LLC*, Civ. No. 08-4905 (MJD/JJK), 2008 WL 5191853, at \*7 (D. Minn. Oct. 8, 2008); *Big O Tires, LLC v. JDV, LLC*, Civ. No. 08-CV-1046-WYD, 2008 WL 4787619, at \*5 (D. Colo. Oct. 31, 2008); *Domino's Pizza Franchising, LLC v. Yeager*, No. 09-14704, 2010 WL 374116, at \*4 (E.D. Mich. Jan. 25, 2010); *TMC Franchise Corp. v. Millennium Vision, LLC*, No. CV-10-2423-PHX-DGC, 2010 WL 5276999, at \*1 (D. Ariz. Dec. 17, 2010).

<sup>187</sup> See *Wetzel's Pretzels, LLC v. Johnson*, 797 F. Supp. 2d 1020, 1028 (C.D. Cal. 2011).

<sup>188</sup> *Id.*

<sup>189</sup> *Id.*

<sup>190</sup> See, e.g., *Dunkin' Donuts Franchised Rests. LLC v. ABM Donuts, Inc.*, No. CA 11-270 S, 2011 WL 6026129, at \*6 (D.R.I. Oct. 4, 2011), report and recommendation adopted, No. CA 11-2705, 2011 WL 6026120 (D.R.I. Dec. 2, 2011); *Buffalo Wild Wings Int'l, Inc. v. Grand Canyon Equity Partners, LLC*, 829 F. Supp. 2d 836, 845-46 (D. Minn. 2011); *Sylvan Learning Inc. v. Learning Solutions, Inc.*, 795 F. Supp. 2d 1284, 1299 (S.D. Ala. 2011).

<sup>191</sup> *Petro Franchise Sys. v. All Am. Properties*, 607 F. Supp. 2d 784, 793-96 (W.D. Tex. 2009).

<sup>192</sup> *Id.* at 793.

harm because it had not made a specific showing of irreparable harm.<sup>193</sup> The court rejected the franchisees’ argument, finding that “[e]ven if irreparable harm is not presumed, it may easily be found in this case” based on the possible harm to the franchisor’s reputation and goodwill, and the fact that consumer confusion would be “almost certain” because the franchisees were holding themselves out as authorized Petro franchises.<sup>194</sup>

At least one franchise case in the Southern District of Florida, *Burger King Corp. v. Cabrera*, followed a path similar to the courts of appeals by finding that the presumption is now “questionable” after *eBay*, but declining to decide whether or not the presumption is still valid.<sup>195</sup> The court recognized that, “[u]ntil recently, the law in this Circuit applied a presumption of irreparable harm once a plaintiff established a likelihood of success on the merits of a trademark infringement claim.”<sup>196</sup> After conducting an analysis of the *eBay* decision, the Court concluded that “[w]hile the complete contours of *eBay* have yet to be developed, the Supreme Court has clearly expressed its disapproval for the use of categorical rules in connection with injunctive relief in intellectual property actions.”<sup>197</sup> The court did not decide whether the presumption is still viable, however, because the court found no likelihood of success on the merits of the trademark infringement claim.<sup>198</sup>

Several cases have not mentioned a presumption at all, but instead find a likelihood of irreparable harm from the facts. For example, in *Burger King Corp. v. Huynh*, the court stated that in trademark cases, “a sufficiently strong showing of likelihood of confusion . . . may by itself constitute a showing of a substantial threat of irreparable harm.”<sup>199</sup> The complaint alleged that “Defendants have not tendered to [Burger King Corporation] or removed all Burger King . . . items bearing the [Burger King Corporation] Marks, name, symbols and/or slogans.” The court found these allegations sufficient to establish that “consumers will be confused into concluding the restaurants are supervised, sponsored and endorsed by [Burger King Corporation]” and awarded a permanent injunction.<sup>200</sup>

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<sup>193</sup> *Id.*

<sup>194</sup> *Id.* at 794.

<sup>195</sup> *Burger King Corp. v. Cabrera*, No. 10-20480-Civ., 2010 WL 5834869, \*8 (S.D. Fla. 2010) *report and recommendation adopted*, No. 10-20480-Civ., 2011 WL 677374 (S.D. Fla. 2011) (citing *North Am. Med. Corp.*, 522 F.3d at 1227).

<sup>196</sup> *Id.*

<sup>197</sup> *Id.*

<sup>198</sup> *Id.*

<sup>199</sup> 2011 WL 6190163, at \*6-7.

<sup>200</sup> *Id.*

Two cases in New York district courts found irreparable harm without addressing *eBay*, but instead discussed irreparable harm based on the nature of the parties' relationship.<sup>201</sup> In *Krispy Kreme Doughnut Corp. v. Satellite Donuts*, the court held that "in a licensor/licensee case, the reasons for issuing a preliminary injunction for trademark infringement are more compelling than in the ordinary case. When in the licensing context unlawful use and consumer confusion have been demonstrated, a finding of irreparable harm is *automatic*."<sup>202</sup> *ERA Franchise Systems, LLC v. Kings Realty No. 1, Inc.* interpreted this concept similarly, but instead stated that use after termination was a "compelling" reason for finding irreparable harm, instead of holding that a finding of irreparable is automatic.<sup>203</sup>

Although courts have not directly analyzed the effect of *eBay* in trade secret cases involving franchises, at least one court has enjoined a franchisee's use of the franchisor's trade secrets after finding that irreparable harm was likely if the franchisee was not enjoined from using the franchisor's trademarks. In *Sylvan Learning, Inc.*, the court discussed the franchisor's trade secrets in the decision, but ultimately issued a preliminary injunction based on the franchisee's trademark infringement and breach of the franchise agreement.<sup>204</sup> The injunction's scope included trade secrets by preventing defendant from using "any and all of the Licensed Marks, proprietary programs, systems, techniques, or materials."<sup>205</sup>

## VII. PROVING OR DISPROVING IRREPARABLE HARM IN A POST-EBAY WORLD

### A. From the Franchisor's Perspective

In light of the uncertainty whether a presumption of irreparable harm remains viable in trademark cases, franchisors must be prepared to plead and prove irreparable harm. While each case is unique, courts have historically found sufficient evidence of threatened irreparable harm to warrant an injunction based on: (i) provisions in the franchise agreement; (ii) the potential harm to the franchisor's goodwill or reputation; (iii) the franchisor's loss of control over its trademarks; (iv) consumer confusion; and (v) the relationship of the parties. Courts continue to cite these harms as sufficient evidence of potential irreparable harm post-*eBay*.

Many franchise agreements include a provision in which the franchisee acknowledges that its continued use of the franchisor's trademarks or proprietary materials constitutes irreparable harm. Relying on these and similar provisions, a number of courts have found that a franchisor will suffer irreparable harm if a franchisee is permitted to continue using the

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<sup>201</sup> *Krispy Kreme Doughnut Corp.*, 725 F. Supp. 2d at 397-98; *ERA Franchise Sys., LLC v. Kings Realty No. 1, Inc.*, No. 07-CV-5319 (JS)(WDW), 2009 WL 2424123, at \*4 (E.D.N.Y. July 30, 2009) (finding irreparable harm without discussion of *eBay*).

<sup>202</sup> *Krispy Kreme Doughnut Corp.*, 725 F. Supp. 2d at 397 (citing *Church of Scientology Int'l*, 794 F.2d at 44).

<sup>203</sup> *ERA Franchise Sys., LLC*, 2009 WL 2424123, at \*4 (citing *Church of Scientology Int'l*, 794 F.2d at 44).

<sup>204</sup> *Sylvan Learning Inc.*, 795 F. Supp. 2d at 1304.

<sup>205</sup> *Id.* at 1302.

franchisor's trademarks after the termination of the franchise agreement.<sup>206</sup> One court found such a provision persuasive because the franchisees "expressly agreed that their continued use of [franchisor's] trademarks after the Agreements were terminated constitutes irreparable injury."<sup>207</sup> However, such a provision in the agreement should not be the only evidence presented of irreparable harm because, as one district court observed, "such a provision in a contract is not binding on the Court, and without more, it does not establish irreparable injury."<sup>208</sup>

Harm or potential harm to the franchisor's reputation and/or goodwill is often cited as evidence of irreparable harm,<sup>209</sup> because "[a] trademark epitomizes the goodwill of a business."<sup>210</sup> This type of harm is irreparable because "a former franchisee's continued use of a franchisor's marks after termination of the franchise agreement poses a substantial risk to the franchisor's brand reputation and goodwill."<sup>211</sup> The harm to goodwill is inherently irreparable because "it is virtually impossible to ascertain the precise economic consequences of intangible harms, such as damage to reputation and loss of goodwill,"<sup>212</sup> which makes the argument of irreparable harm even stronger.<sup>212</sup> "In cases involving competing businesses offered by a former franchisee, the potential harm . . . arises from [the franchisee]'s ability to trade on the knowledge and customer relationships gained as a . . . franchise, which impacts on [the franchisor]'s good will and its interest in re-franchising the market."<sup>213</sup>

Courts have articulated irreparable harm based on potential harm to goodwill and reputation in a number of different scenarios. One court found harm to the "valuable name and trademark" of a well-known, national franchisor as the injury "especially justifying injunctive relief," because of the considerable effort and money the franchisor invested in developing the goodwill associated with the name.<sup>214</sup> Similarly, another court stated that a franchisor offering

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<sup>206</sup> See, e.g., *Sylvan Learning Inc.*, 795 F. Supp. 2d at 1299; *Dunkin' Donuts Franchised Rests. LLC*, 2011 WL 6026129, at \*6; *Krispy Kreme Doughnut Corp.*, 725 F. Supp. 2d at 398.

<sup>207</sup> *Krispy Kreme Doughnut Corp.*, 725 F. Supp. 2d at 397; see also *Ticor Title Ins. Co. v. Cohen*, 173 F.3d 63, 69 (2d Cir. 1999) (same).

<sup>208</sup> *Sylvan Learning Inc.*, 795 F. Supp. 2d at 1299.

<sup>209</sup> *Buffalo Wild Wings Int'l, Inc.*, 829 F. Supp. 2d at 845-46; *Century 21 Real Estate, LLC v. Destiny Real Estate Props.*, 4:11-CV-38 JD, 2011 WL 6736060, at \*7 (N.D. Ind. Dec. 19, 2011).

<sup>210</sup> *Dunkin' Donuts Franchised Restaurants LLC*, 2011 WL 6026129 at \*6 (quoting *Dunkin' Donuts Inc. v. N. Queens Bakery, Inc.*, 216 F. Supp. 2d 31, 40 (E.D.N.Y. 2001)).

<sup>211</sup> *Buffalo Wild Wings Int'l, Inc.*, 829 F. Supp. 2d at 846.

<sup>212</sup> *Ty, Inc. v. Jones Group*, 237 F.3d 891, 902 (7th Cir. 2001) (quoting *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 16 (7th Cir. 1992)).

<sup>213</sup> *Singas Famous Pizza Brands Corp. v. New York Adver. LLC*, No. 10 Civ. 8976(RJH), 2011 WL 497978, at \*8 (S.D.N.Y. Feb. 10, 2011), *aff'd*, 468 F. App'x 43 (2d Cir. 2012) (citing *ServiceMaster Residential/Commercial Serv., L.P. v. Westchester Cleaning Serv., Inc.*, No. 01 Civ. 2229(JSM), 2001 WL 396520, at \*3 (S.D.N.Y. Apr. 19, 2001)).

<sup>214</sup> *Century 21 Real Estate, LLC*, 2011 WL 6736060, at \*7.

evidence that “its marks are widely known and associated exclusively” with the franchisor and its approved franchisees has a strong showing of irreparable harm because the marks “represent and embody [the franchisor’s] considerable goodwill and favorable reputation,” and any damage would be irreparable.<sup>215</sup> Another court stated that, in a situation where the infringement arises because the franchisee continues to operate as a business similar to the franchisor’s, the danger of lost goodwill “can be particularly true where the [franchisee’s] business operates out of the same location” because the franchisee operating as a “renegade . . . franchise” could more easily damage the franchisor’s reputation if customers believe the franchisor is authorizing the franchise.<sup>216</sup> A California district court also found evidence of contention between the franchisor and franchisee sufficient to establish a likelihood of irreparable harm because to allow the franchisee to continue hold itself out to customers as authorized by the franchisor while the parties were in dispute “would be only to invite injury to [the franchisor’s] goodwill and reputation.”<sup>217</sup>

Another related type of potential irreparable harm is the franchisor’s loss of control over the franchise, trademarks, or goodwill. Courts often group this type of potential harm together with the potential harm to a franchisor’s reputation and goodwill. One court found irreparable harm because “unless [the franchisor] is allowed to protect its marks, its ability to control its reputation and goodwill associated with the marks will be significantly reduced,” and thus the likelihood of harm to franchisor’s reputation and goodwill is increased.<sup>218</sup> Courts have found irreparable harm based on loss of control even where the terminated franchise continued to operate the business within the franchise standards or under superior standards.<sup>219</sup> “[I]f the Franchisees’ services are different in any way, the common denominator is Plaintiffs’ loss of control over their goodwill,” and “[h]owever that loss may manifest itself, it constitutes a substantial threat of irreparable harm.”<sup>220</sup> Moreover, loss of control of the trademark itself is irreparable “since a [franchisor] who fails to monitor his trademark risks a determination that it has been abandoned.”<sup>221</sup> As one district court explained it, proof that a former franchisee is still

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<sup>215</sup> *Gold’s Gym Licensing, LLC v. K-Pro Mktg. Grp., Inc.*, No. 09-CV-1211 (PJS/RLE), 2009 WL 2253247, at \*2 (D. Minn. July 28, 2009); see also *Buffalo Wild Wings Int’l, Inc.*, 829 F. Supp. 2d at 845-46.

<sup>216</sup> *Singas Famous Pizza Brands Corp.*, 2011 WL 497978, at \*8 (citing *ServiceMaster Residential/Commercial Serv., L.P.*, 2001 WL 396520, at \*3).

<sup>217</sup> *Century 21 Real Estate LLC v. All Prof’l Realty, Inc.*, Nos. CIV. 2:10-2751, CIV. 2:10-2846, 2011 WL 221651, at \*12 (E.D. Cal. Jan. 24, 2011).

<sup>218</sup> *Wetzel’s Pretzels, LLC*, 797 F. Supp. 2d at 1028; see also *7-Eleven, Inc. v. Spear*, No. 10-cv-6697, 2011 WL 830069, at \*6 (N.D. Ill. Mar. 3, 2011) (same).

<sup>219</sup> *Opticians Ass’n of Am. v. Indep. Opticians of Am.*, 920 F.2d 187, 195 (3d Cir. 1990) (“[T]he key in these cases is not better use, but rather, lack of control which potentially might result in a damaged reputation.”); see also *TGI Friday’s Inc. v. Great Nw. Restaurants, Inc.*, 652 F. Supp. 2d 763, 771 (N.D. Tex. 2009); *Petro Franchise Sys.*, 607 F. Supp. 2d at 795.

<sup>220</sup> *Petro Franchise Sys., LLC v. All Am. Properties, Inc.*, 607 F. Supp. 2d 781, 795 (W.D. Tex. 2009).

<sup>221</sup> *Little Caesar Entes, Inc. v. R-J-L Foods, Inc.*, 796 F. Supp. 1026, 1035 (E.D. Mich. 1992); see also *Gorenstein Enters., Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (“The owner of a trademark has a duty to ensure the consistency of the trademarked good or service. If he does not fulfill this duty, he forfeits the trademark.”).

using the marks supports a finding of imminent irreparable harm because “the potential for harm as a result of improper use of the mark is immediate.”<sup>222</sup>

Some courts have also found that a strong likelihood of customer confusion is sufficient to establish irreparable harm.<sup>223</sup> In trademark infringement cases, “a sufficiently strong showing of likelihood of confusion . . . may by itself constitute a showing of a substantial threat of irreparable harm.”<sup>224</sup> Courts often relate customer confusion to the other harms described above, stating that “consumer confusion . . . shows a likelihood of damage to goodwill associated with the marks”<sup>225</sup> and that the franchisor “no longer possesses control over its valuable trademarks or its reputation.”<sup>226</sup> If consumers are confused into believing the franchisor authorized the franchisee’s use of its mark, the customers will assume the franchisee is still affiliated with the franchisor, and will likely attribute to the franchisor any change in the products or services or harm to goodwill.<sup>227</sup> Evidence that the franchisee continues using the franchisor’s marks without authorization can support a pleading that consumers will be confused into thinking the franchisee’s use of the marks is supported by the franchisor.<sup>228</sup>

Finally, as discussed in Part VI.B, two district courts in New York recently found the irreparable harm based on the parties’ relationship. The courts relied on a pre-*eBay* franchise stating that “in a licensor/licensee case the reasons for issuing a preliminary injunction for trademark infringement are more compelling than in the ordinary case.”<sup>229</sup> One court held that a finding of irreparable harm is “automatic” in a licensor/licensee relationship after unlawful use and customer confusion has been established.<sup>230</sup> Another court found the relationship a

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<sup>222</sup> *7-Eleven, Inc.*, 2011 WL 830069, at \*6.

<sup>223</sup> *Burger King Corp. v. Huynh*, No. 11-22602-CIV, 2011 WL 6190163, at \*6-7 (S.D. Fla. Dec. 5, 2011) (citing *McDonald’s Corp.*, 147 F.3d at 1310); *Medi-Weightloss Franchising USA, LLC v. Medi-Weightloss Clinic of Boca Raton, LLC*, No. 8:11-cv-2437-T-30MAP, 2012 WL 260902, at \*8 (M.D. Fla. Jan. 3, 2012), *report and recommendation adopted sub nom.*, *Medi-Weightloss Franchising USA, LLC v. Medi-Weightloss Clinic of Boca Raton, LLC*, No. 8:11-cv-2437-T-30MAP, 2012 WL 260776 (M.D. Fla. Jan. 30, 2012); *Singas Famous Pizza Brands Corp.*, 2011 WL 497978, at \*9; *Hasbro, Inc. v. Lanard Toys, Ltd.*, 858 F.2d 70, 73 (2d Cir. 1988).

<sup>224</sup> *Burger King Corp.*, 2011 WL 6190163, at \*7 (citing *McDonald’s Corp.*, 147 F.3d at 1310).

<sup>225</sup> *Singas Famous Pizza Brands Corp.*, 2011 WL 497978, at \*9.

<sup>226</sup> *TGI Friday’s Inc.*, 652 F. Supp. 2d at 771.

<sup>227</sup> *Id.*

<sup>228</sup> *See Burger King Corp.*, 2011 WL 6190163, at \*7; *TGI Friday’s Inc.*, 652 F. Supp. 2d at 770-71.

<sup>229</sup> *Church of Scientology Int’l v. Elmira Mission of the Church of Scientology*, 794 F.2d 38, 42 (2d Cir.1986)).

<sup>230</sup> *Krispy Kreme Doughnut Corp.*, 725 F. Supp. 2d at 397 (citing *Church of Scientology Int’l*, 794 F.2d at 44).

“compelling” factor in finding irreparable harm.<sup>231</sup> A franchise agreement with a licensing component could strengthen the support of irreparable harm in the Second Circuit.<sup>232</sup>

As discussed above, the potential irreparable harm that a franchisor may suffer is often in some way related to the effect on the franchisor’s goodwill and reputation in the absence of an injunction, with some courts recognizing harm based on the relationship of the parties or provisions in the franchise agreement. Whatever the potential irreparable harm may be, franchisors should no longer rely on a presumption of irreparable harm when seeking an injunction, but instead be prepared to both articulate and prove the irreparable harm it will likely suffer in the absence of an injunction.

## **B. From the Franchisee’s Perspective**

Perhaps the single most important and challenging element for a franchisor to demonstrate when pursuing a preliminary injunction is that it is likely to suffer irreparable harm if such preliminary injunction is not issued. In an attempt to conjure up irreparable harm, franchisors rely heavily on presumptions of irreparable harm because there may be little to no evidence of actual irreparable injury. However, categorical rules such as an automatic “presumption” of irreparable harm have arguably been discarded by the Supreme Court.<sup>233</sup> The Supreme Court’s holding in *eBay* recognized that broadly applicable analytical shortcuts are not strictly accurate or reliable for every situation.<sup>234</sup> Accordingly, such “rules of thumb” are entirely inappropriate for the rigorous appraisal and evaluation required by the principles of equity when a court is considering the extraordinary remedy of issuing an injunction.<sup>235</sup>

The franchisor’s application for a preliminary injunction is the typical aftermath of the franchisor’s purported termination of the franchise agreement. It is typical for franchisors to use the termination of the franchise agreement as to the basis to lodge arguments that the franchisee’s continued operation will cause a “likelihood of consumer confusion.” However, as one district court noted, “it is clear that irreparable harm does not automatically follow from a substantial showing of likelihood of confusion.”<sup>236</sup> Rather, before consumer confusion even becomes an issue, the threshold prerequisite that a franchisor must prove is unauthorized

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<sup>231</sup> *ERA Franchise Systems, LLC*, 2009 WL 2424123, at \*4 (citing *Church of Scientology Int’l*, 794 F.2d at 44).

<sup>232</sup> See *Krispy Kreme Doughnut Corp*, 725 F. Supp. 2d at 396 (recognizing the franchise agreement granted a license of the trademark to the franchisee); *ERA Franchise Systems, LLC*, 2009 WL 2424123, at \*1 (finding that the franchise agreement permitted the franchisee to use the franchisor’s marks).

<sup>233</sup> *eBay*, 547 U.S. at 393-94.

<sup>234</sup> *Id.*

<sup>235</sup> *Id.*

<sup>236</sup> *Solar Cosmetics Labs, Inc. v. Sun-Fun Prods., Inc.*, 941 F. Supp 1185, 1189 (M.D. Fla. 1996).

use.<sup>237</sup> Under decisions such as the Eleventh Circuit's in *McDonald's Corp. v. Robertson*, unauthorized use can only be demonstrated by some type of showing that the franchisor not only terminated the contract but, more importantly, *properly* terminated the contract purporting to authorize the trademark's use.<sup>238</sup> In other words, the burden is on the franchisor to demonstrate proper termination of the franchise agreement more so than simply the act of termination, otherwise, there is no unauthorized use.<sup>239</sup>

Franchisees must steadfastly maintain that any automatic presumption of irreparable harm constitutes an impermissible analytical device of the type proscribed by the Supreme Court in *eBay*. It is well-established law that when a party moves for preliminary injunction, there is a presumption that it already possesses evidentiary support for its motion.<sup>240</sup> Indeed, courts have routinely dismissed preliminary injunction motions where the moving party has failed to attach evidence that would support their claim for irreparable harm.<sup>241</sup> Franchisees should insist that franchisors supply sufficient evidence to establish irreparable harm in order to comply with the increased burden that the *eBay* decision requires them to satisfy in order to obtain the issuance of an injunction.

Franchisees also seek to enjoin franchisors from encroaching on its protected area, terminating its franchise agreement, or refusing to renew its franchise agreement. In these situations, franchisees may demonstrate irreparable harm from total loss of business, difficulty in computing damages and loss of customers or goodwill. The most typical method franchisees use to demonstrate irreparable harm is the loss of business flowing from termination. Courts have rejected franchisor's arguments that lost business is calculable and found irreparable harm where a franchisee's loss of business will result in a loss of customer base and community goodwill going beyond "simple economic loss."<sup>242</sup> Similarly, courts are willing to enter injunctive relief where franchisees are able to demonstrate that their damages cannot be accurately

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<sup>237</sup> *McDonald's Corp.*, 147 F.3d at 1308 ("[W]e find that the Lanham Act's requirement that a franchisor demonstrate that unauthorized trademark use occurred to prevail on the merits of a trademark infringement claim against a franchisee necessitates some type of showing that the franchisor properly terminated the contract purporting to authorize the trademarks' use, thus resulting in the unauthorized use of trademarks by the former franchisee." (emphasis in original)).

<sup>238</sup> *Id.*

<sup>239</sup> *Id.*

<sup>240</sup> See *AVO Multi-Amp Servs. Corp. v. Technical Diagnostic Servs., Inc.*, No. Civ.A.3:97-CV-3168-P, 1998 WL 25568, at \*2 (N.D. Tex. Jan. 14, 1998).

<sup>241</sup> See *Waller v. City of St. Petersburg*, No. 8:05CV146T23MSS, 2005 WL 2416024, at \*2 (M.D. Fla. Sept. 30, 2005) (holding that plaintiffs conclusory allegations of irreparable harm without any detailed evidence of the nature or the extent of the prospective harm is grounds for denial of preliminary injunction).

<sup>242</sup> *Bray v. QFA Royalties LLC*, 486 F. Supp. 2d 1237, 1249 (D. Colo. 2007); *Semmes Motors, Inc. v. Ford Motor Co.*, 429 F.2d 1197, 1205 (2d Cir. 1970) (having run the business for 20 years, family's loss of car dealership was not entirely measurable in monetary terms).

calculated.<sup>243</sup> Simply stated, just like franchisors, franchisees must also supply evidence demonstrating irreparable harm.

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<sup>243</sup> *Manpower Inc. v. Mason*, 405 F. Supp. 2d 959, 974 (E.D. Wis. 2005); *Virgin Islands Port Auth. v. Virgin Islands Taxi Ass'n*, 979 F. Supp. 344, 352 (D.V.I. 1997).

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Robert Zarco has earned international recognition as an experienced trial and appellate lawyer in the area of franchise law by primarily representing franchisees throughout the world in various litigation and arbitration matters involving most of the major franchise systems. He has also provided expert testimony on franchise issues before various state legislatures and actively lobbies both federal and state congressmen, representing the franchisees' interests and promoting the enactment of "Fair Franchising" legislation.

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