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Copyright Injunctions after eBay: An Empirical Study

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COPYRIGHT INJUNCTIONS AFTER *EBAY*: AN EMPIRICAL STUDY

by
*Jiarui Liu**

An interesting yet less explored aspect of the eBay decision, in which the Supreme Court upheld the four-factor test under traditional principles of equity in the patent injunction context, is that the decision referred to what it characterized as long-term practice in copyright law to support the equitable power of lower courts to deny permanent injunctions. This ruling was made against the backdrop of widespread patent holdup where patent owners used the threat of injunctive relief to extract royalties grossly disproportionate to the value of the patented feature to the whole product. The holdup problem, however, is not equally obvious in copyright law.

A close examination of the copyright cases cited in eBay reveals that they are hardly compelling authorities with respect to copyright injunction. The history of copyright law appears to suggest that injunctive relief was routinely available to copyright owners who had succeeded on the merits. More remarkably, empirical evidence shows that the majority of post-eBay decisions on copyright injunctions have totally ignored the eBay decision as well as the four-factor test advocated therein. Even among the cases that did cite eBay, most courts were reluctant to withhold injunctive relief upon a finding of copyright infringement.

This Article argues that the traditional practice of copyright law and the apparent indifference toward the eBay decision may have resulted from rational choices of judges. Copyright holdup is much less pervasive than patent holdup, as interchangeable copyrighted works abound in the marketplace, and copyright law contains built-in mechanisms to control the holdup problem. Copyright injunctions also involve a distinct set of policy concerns, such as reputational harm, fair use, statutory damages, and freedom of speech. Hence, this Article proposes several approaches to reconcile the unique concerns in copyright law and the four-factor test mandated by eBay, with a focus on three scenarios that are particularly susceptible to the holdup problem.

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I. INTRODUCTION

The seminal decision of *eBay v. MercExchange* has fundamentally changed the landscape of patent litigation, as the Supreme Court struck down the general rule of lower courts that a permanent injunction would be automatically granted against patent infringement.¹ The Supreme Court instead held that the well-established principles of equity, including the traditional four-factor test,² should apply to patent infringement cases with equal force. This ruling enhanced the discretionary power of lower courts to deny a motion for permanent

¹ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393–94 (2006).

² See *Amoco Prod. Co. v. Vill. of Gambell*, 480 U.S. 531, 541–44 (1987) (reinstating the four-factor test for preliminary injunction); *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 312–13 (1982) (establishing the four factors in a non-patent context).

injunction, especially in cases concerning the holdup problem³ where patent owners use the threat of patent litigation and injunction as a tool to extract royalties grossly disproportionate to the value of the patented feature in the whole product. There has been no shortage of controversies following the *eBay* decision. While some commentators have applauded the ruling as a crucial step in the right direction of patent law reform,⁴ others have expressed concerns that the resulting uncertainty in injunctive relief might create barriers to licensing negotiation and undermine incentives for innovation.⁵

The *eBay* decision has the potential to influence much broader areas of law than patent litigation.⁶ In particular, an interesting yet less explored aspect of the *eBay* decision is that the Supreme Court referred to long-term practice in copyright law to support the equitable power of lower courts to deny a motion for permanent injunction.⁷ However, a close examination of the copyright cases cited in *eBay* reveals that they are hardly compelling authorities with respect to copyright injunctions.⁸ More remarkably, the history of copyright law appears to suggest that injunctive relief has been routinely available to copyright owners who have succeeded on the merits.⁹

³ For recent articles that discuss the holdup problem, see John M. Golden, Commentary, “*Patent Trolls*” and *Patent Remedies*, 85 TEX. L. REV. 2111 (2007); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007); J. Gregory Sidak, *Holdup, Royalty Stacking, and the Presumption of Injunctive Relief for Patent Infringement: A Reply to Lemley and Shapiro*, 92 MINN. L. REV. 714 (2008).

⁴ See, e.g., Garrett Barten, *Permanent Injunctions: A Discretionary Remedy for Patent Infringement in the Aftermath of the eBay Decision*, 16 U. MIAMI BUS. L. REV. 1, 22 (2007) (praising the new discretionary power in patent cases, which “should promote and encourage more growth in the sciences”); Michael W. Carroll, *Patent Injunctions and the Problem of Uniformity Cost*, 13 MICH. TELECOMM. & TECH. L. REV. 421, 443 (2007) (opining, “*eBay* is a welcome course correction that highlights the importance of context in the functioning of the U.S. patent system”).

⁵ See, e.g., Andrew Beckerman-Rodau, *The Supreme Court Engages in Judicial Activism in Interpreting the Patent Law in eBay Inc. v. MercExchange, L.L.C.*, 10 TULANE J. TECH. & INTELL. PROP. 165, 202 (2007) (“Allowing the judiciary to delve into economic transactions . . . is likely to lead to both improper results and unintended consequences.”); Vincenzo Denicolò et al., *Revisiting Injunctive Relief: Interpreting eBay in High-Tech Industries with Non-Practicing Patent Holders*, 4 J. COMPETITION L. & ECON. 571, 577 (2008) (cautioning against the risk of “under-compensating innovation and . . . reducing the incentives to create more of it”); Paul M. Schoenhard, *Who Took My IP?—Defending the Availability of Injunctive Relief for Patent Owners*, 16 TEX. INTELL. PROP. L.J. 187, 196 (2008) (arguing that “patent rights should be protected by property rules” (capitalization altered)).

⁶ See, e.g., Shyamkrishna Balganesh, *Demystifying the Right To Exclude: Of Property, Inviolability, and Automatic Injunctions*, 31 HARV. J.L. & PUB. POL’Y 593, 598–99 (2008) (discussing the impact of the *eBay* decision on real and personal property law).

⁷ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006).

⁸ See *infra* notes 40–62 and accompanying text.

⁹ See *infra* notes 63–71 and accompanying text.

This Article examines how much the *eBay* decision has guided, and should guide, copyright cases. An empirical study¹⁰ of all post-*eBay* copyright injunction decisions up to June 1, 2010 indicates that the majority of post-*eBay* decisions on copyright injunction still totally ignored the *eBay* decision as well as the four-factor test advocated therein. Even in the small group of cases that did cite *eBay*, courts often applied the four-factor test in a very cursory and mechanical way. In any event, the *eBay* decision has not altered the fact that most courts are reluctant to withhold injunctive relief upon a finding of copyright infringement or a likelihood of success on the merits.

This Article argues that the historical practice of copyright law and the apparent indifference toward the *eBay* decision may have resulted from rational choices of the judges.¹¹ Contrary to recent media outcries about “copyright trolls,”¹² the holdup problem envisaged in *eBay* is likely to be much less pervasive under copyright law than under patent law. The reason is that interchangeable works usually abound in the copyright marketplace as a result of the idea/expression dichotomy that exempts intentional borrowing of ideas and the copying requirement that shelters independent creation from liabilities. Copyright law also contains built-in mechanisms to control the holdup problem, including various compulsory licenses, incentives for negotiation, and collecting societies. In several industries (e.g., music and television) that could have been entangled with copyright holdup, legislative and private initiatives have for the most part transformed them from property-rule regimes into liability-rule regimes, thereby rendering the four-factor test for injunctive relief largely superfluous.

Nevertheless, copyright holdup may still arise in a limited number of cases that involve innocent infringement, substantial redesign costs, and small value of a copyrighted component relative to the overall product.¹³

¹⁰ See *infra* Part IV. This research drew a lot of insights from existing empirical studies, especially Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 U. PA. L. REV. 549 (2008); Mark A. Hall & Ronald F. Wright, *Systematic Content Analysis of Judicial Opinions*, 96 CALIF. L. REV. 63 (2008); William M. Landes, *An Empirical Analysis of Intellectual Property Litigation: Some Preliminary Results*, 41 HOUS. L. REV. 749 (2004).

¹¹ For more detailed discussion of rational ignorance in the patent context, see generally Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495 (2001).

¹² See, e.g., Ashby Jones, *Vegas, Baby! Ruling a Possible Boon to ‘Copyright-Troll’ Suits*, WALL ST. J. LAW BLOG (Sept. 3, 2010, 3:11 PM), <http://blogs.wsj.com/law/2010/09/03/vegas-baby-ruling-a-possible-boon-to-copyright-troll-suits>; Joe Mullin, *Is This the Birth of the Copyright Troll?*, CORP. COUNS. (Aug. 16, 2010), <http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202466627090>.

¹³ A recent case regarding a single tattoo shown in a feature movie once again put copyright injunction into the spotlight of public attention. See, e.g., Noam Cohen, *Citing Public Interest, Judge Rules for ‘Hangover II’*, MEDIA DECODER, N.Y. TIMES BLOGS (May 24, 2011), <http://mediadecoder.blogs.nytimes.com/2011/05/24/citing-public-interest-judge-rules-for-hangover-ii/>; see also Christopher Harkins, *Tattoos and Copyright Infringement: Celebrities, Marketers, and Businesses Beware of the Ink*, 10 LEWIS &

For instance, architectural works, derivative works, and electronic databases have long been the battlefields that are particularly susceptible to the holdup problem. In these cases, the courts, in weighing the availability of copyright injunction, need to take into account a distinct set of policy concerns including reputational harm, fair use, statutory damages, and freedom of speech.

This Article starts with an overview of the *eBay* proceedings in Part II, showing that the holdup problem appeared to be one of the major reasons that prompted the Supreme Court to strengthen the discretionary power to deny a request for injunctive relief. Part III looks into the long-term tradition of copyright injunctions in the pre-*eBay* era, with an emphasis on the three copyright decisions cited in *eBay*. This analysis underscores a peculiarity in *eBay*: the Supreme Court seemingly relied upon the copyright practice, which has traditionally allowed wide uses of injunctive relief, to impose limits on patent injunction. Part IV presents an empirical study of post-*eBay* copyright injunctions, explaining *inter alia* how often the *eBay* decision was quoted and how much it actually affected the availability of injunctive relief. It shows that the vast majority of copyright owners prevailing on the merits were still granted an injunction regardless of whether and how the courts approached the *eBay* decision. Part V explores those unique features in copyright law (e.g., the idea/expression dichotomy and the copying requirement) that naturally limit the scope of copyright holdup. It also highlights special policy concerns that the courts should factor into the weighing of copyright injunction, including reputational harm, fair use, statutory damages, and freedom of speech. Part VI examines two alternative proposals to reconcile the rationales of copyright injunction with the *eBay* decision and the four-factor test. It then tests the proposals against three case studies in which the holdup problem is most likely to happen. Part VII concludes the Article with a summary of the major issues.

II. *EBAY* REVISITED

In the *eBay* case, the plaintiff mainly engaged in the business of licensing technology solutions for electronic commerce. It acquired by assignment three business-method patents¹⁴ that allegedly covered the online markets operated by the two defendants.¹⁵ The plaintiff initially

CLARK L. REV. 314 (2006) (discussing an earlier case where the tattoo artist sued Nike, Inc. after the company featured NBA star Rasheed Wallace's tattoo in an advertisement).

¹⁴ The three patents are Consignment Nodes, U.S. Patent No. 5,845,265 (filed Nov. 7, 1995) (issued Dec. 1, 1998); Method and Apparatus for Using Search Agents to Search Plurality of Markets for Items, U.S. Patent No. 6,085,176 (filed Mar. 8, 1999) (issued July 4, 2000); Facilitating Internet Commerce Through Internetworked Auctions, U.S. Patent No. 6,202,051 B1 (filed Feb. 19, 1999) (issued Mar. 13, 2001).

¹⁵ The online platforms involved were www.ebay.com and www.half.com (now a subsidiary of eBay). *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 390 (2006).

approached the defendants for patent licensing. Once the licensing negotiation broke down, the plaintiff proceeded to file a lawsuit claiming that the defendants willfully infringed the three patents.¹⁶

After a trial, the jury returned a verdict that sustained the validity of two of the patents, found the defendants liable for willful infringement, and awarded a total of \$35 million in damages.¹⁷ In ruling on a number of post-verdict motions, the district court upheld the jury's verdict, but denied the plaintiff's motion for permanent injunction.¹⁸ Recognizing that injunctive relief is governed by traditional equitable principles, the district court exercised its discretion along the following lines: First, the court indicated that the presumption of irreparable harm was sufficiently rebutted in the present case, because the plaintiff existed merely to license its patented technology rather to practice the invention itself, and because it had indicated its willingness to license the patent to the defendants.¹⁹ Second, the court found that monetary damages would be an adequate remedy for similar reasons.²⁰ Third, the court gave much weight to the growing concern over business-method patents and believed the public interest would be served by denying injunction to non-practicing entities.²¹ Finally, the court opined that the balance of hardship also tipped slightly in the defendants' favor, based on the technological difficulties in ensuring full compliance with a permanent injunction, should the defendants choose to design around the patents at issue.²²

On appeal, the Federal Circuit reversed the denial of permanent injunction.²³ It held that, because the right to exclude recognized in a patent was the essence of the concept of property, the general rule was that courts would issue permanent injunctions against patent infringement absent exceptional circumstances concerning the public interest such as the need to protect public health.²⁴ The problems of business-method patents, the willingness of the plaintiff to license the

¹⁶ *Id.* at 390–91; *MercExchange, L.L.C. v. eBay, Inc. (MercExchange III)*, 401 F.3d 1323, 1325 (Fed. Cir. 2005).

¹⁷ *MercExchange, L.L.C. v. eBay, Inc. (MercExchange II)*, 275 F. Supp. 2d 695, 698–99 (E.D. Va. 2003).

¹⁸ *Id.* at 722. The court, however, struck down as duplicative the \$5.5 million award on the '265 patent infringement claim. *Id.* at 710.

¹⁹ *Id.* at 712.

²⁰ *Id.* at 713.

²¹ *Id.* at 713–14.

²² *Id.* at 714–15.

²³ *MercExchange III*, 401 F.3d 1323, 1338–39 (Fed. Cir. 2005).

²⁴ *Id.* at 1338. The Federal Circuit also instated this position in several other cases. *See, e.g., Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (“It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it.”); *W.L. Gore & Assocs., Inc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) (“[A]n injunction should issue once infringement has been established unless there is a sufficient reason for denying it.”).

patents, and the likelihood of continuing disputes over design-around were not sufficiently exceptional to justify a denial of permanent injunction.²⁵

The Supreme Court unanimously held that traditional principles of equity apply with equal force in patent injunction cases and that a plaintiff seeking a permanent injunction must satisfy a four-factor test by demonstrating:

- (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.²⁶

However, the Supreme Court took issue with the way equitable principles were applied by both the Federal Circuit and the district court. While the Federal Circuit erred in categorically granting injunctive relief upon a finding of infringement as a general rule, the district court erred in categorically denying such relief upon the proof of the patentee's willingness to license and lack of activity in practicing the patents.²⁷

Most interestingly, the Supreme Court also diverged internally on how to apply the four-factor test. The concurring opinion by Chief Justice Roberts stressed the long tradition of equity practice in which courts had granted injunctive relief "upon a finding of infringement in the vast majority of patent cases" because of the difficulty in "protecting a right to exclude through monetary remedies" while allowing the defendant to continue the infringing use.²⁸ By contrast, Justice Kennedy appeared to focus more on the contemporary problem of "patent holdup"²⁹ unseen in earlier cases.³⁰ Non-practicing entities often used the threat of permanent injunction as a bargaining tool to charge exorbitant fees, especially where the patented invention was only a small component of the infringing product.³¹ Attention was also brought to the emerging problem of business-method patents, which usually had a high level of ambiguity and

²⁵ *MercExchange III*, 401 F.3d at 1339.

²⁶ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

²⁷ *Id.* at 393–94. On remand, the district court once again denied the motion for permanent injunction. *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 559 (E.D. Va. 2007).

²⁸ *eBay Inc.*, 547 U.S. at 395 (Roberts, C.J., concurring).

²⁹ The problem of "patent holdup" is sometimes called "patent troll" with an apparently negative spin. "The term 'patent troll' was coined in the late 1990s by Peter Detkin, then assistant general counsel at Intel, to refer to patent owners who hide under bridges they did not build to pop out and demand money from surprised passers-by." Mark A. Lemley, *Are Universities Patent Trolls?*, 18 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 611, 613 n.2 (2008).

³⁰ *eBay Inc.*, 547 U.S. at 396 (Kennedy, J., concurring).

³¹ *Id.*

uncertainty.³² In these cases, damages might better serve the public interest and meanwhile suffice to compensate the patentees.

III. THE HISTORY OF COPYRIGHT INJUNCTION—INSIDE AND OUTSIDE *EBAY*

The broad holding in the *eBay* decision has the potential to stir new waves in intellectual-property areas far beyond patent infringement. It nevertheless appears to have attracted much more attention for copyright law than for trademark law.³³ This is not surprising since the Supreme Court actually referred to the long-term practice in copyright law to support the application of equitable principles to injunctive relief in patent cases. The Supreme Court declared that “[t]his approach is consistent with our treatment of injunctions under the Copyright Act,”³⁴ specifically citing three copyright cases: *New York Times Co. v. Tasini*,³⁵ *Campbell v. Acuff-Rose Music, Inc.*,³⁶ and *Dun v. Lumbermen’s Credit*.³⁷

This was by no means the first time that the Supreme Court cross-referenced patent law and copyright law. Recent examples also include two cases that respectively imported “substantial non-infringing use”³⁸ and “inducement of infringement”³⁹ from the Patent Act into copyright cases involving indirect liabilities of information-technology providers. However, the *eBay* decision could potentially be even more controversial, as a close look at the copyright cases cited in *eBay* does not fully support the allegation that there is a long tradition of applying the four-factor test to copyright-injunction cases.

This Part will examine the three cases in detail, followed by a brief review of copyright-injunction practice in general. This analysis reveals that, contrary to the dicta in *eBay*, the historical practice of copyright law was actually to routinely grant the motions for injunctive relief filed by plaintiffs who had prevailed on the merits of copyright claims.

³² *Id.* at 397.

³³ *See, e.g.,* *Canfield v. Health Commc’ns, Inc.*, No. CV 08–890 SVW (JTLx), 2008 WL 961318, at *2 (C.D. Cal. Apr. 1, 2008) (holding that the *eBay* decision is binding on patent and copyright cases and of little relevance to trademark cases). One of the reasons is that a permanent injunction is usually essential to avoid consumer confusions caused by trademark infringement, regardless of any harm to trademark owners.

³⁴ *eBay Inc.*, 547 U.S. at 392.

³⁵ 533 U.S. 483 (2001).

³⁶ 510 U.S. 569 (1994).

³⁷ 209 U.S. 20 (1908).

³⁸ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 440–42 (1984).

³⁹ *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936 (2005).

A. *Three Copyright Precedents in eBay*

1. *Tasini*

In the *Tasini* case, the plaintiffs were freelance authors who wrote articles for newspapers and other periodicals published by the defendants.⁴⁰ The defendants, without consent from the plaintiffs, had copies of their articles incorporated into three databases. Facing the complaint of copyright infringement, the defendants relied on the privilege that the copyright owner of a collective work has under copyright law regarding reproduction and distribution of the contribution “as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.”⁴¹ The Supreme Court eventually held that the privilege was unavailable in this case because each article was “presented to, and retrievable by, the user in isolation, clear of the context the original print publication presented.”⁴²

In response to the argument that such a ruling would “punch gaping holes in the electronic record of history,” the majority stated that an injunction against the inclusion of articles in the databases did not have to follow the finding of copyright infringement, especially where the parties might enter into an agreement between themselves or through collecting societies.⁴³ The decision, however, left remedial issues open for initial weighing in the district court. Therefore, the above discussions on injunctive relief are essentially dicta that call for collective bargaining between authors and publishers rather than for compulsory license.

2. *Campbell*

Likewise, the *Campbell* case is hardly a forceful authority on injunctive relief.⁴⁴ The plaintiff there was the copyright owner of the rock ballad “Oh, Pretty Woman.” The defendants, a popular rap music group, made a rap adaptation of “Oh, Pretty Woman” without securing authorization.⁴⁵ In analyzing the four-factor fair-use test,⁴⁶ the Supreme Court held that the parody, albeit being commercial in nature, could constitute “transformative use” that did not substitute the original work.⁴⁷

Despite this holding, the Supreme Court ultimately did not decide the fair-use issue but remanded the case to the district court for further fact-finding on the impact of the defendants’ adaptation on the

⁴⁰ *Tasini*, 533 U.S. at 487.

⁴¹ 17 U.S.C. § 201 (2006); *Tasini*, 533 U.S. at 487–88.

⁴² *Tasini*, 533 U.S. at 487–88, 499–501.

⁴³ *Id.* at 505.

⁴⁴ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

⁴⁵ The defendants initially sought permission from the plaintiff, which declined to grant a license as happens in many parody cases. *Id.* at 572–73.

⁴⁶ 17 U.S.C. § 107 (2006).

⁴⁷ *Campbell*, 510 U.S. at 579, 580 n.14.

derivative market for non-parody rap versions of “Oh, Pretty Woman.”⁴⁸ Only in a footnote did the Supreme Court talk briefly about injunctive relief: “the goals of the copyright law, ‘to stimulate the creation and publication of edifying matter’ are not always best served by automatically granting injunctive relief when parodists are found to have gone beyond the bounds of fair use.”⁴⁹ This footnote, whether dicta or not, merely concerns a narrow issue of excessive borrowing in a parody and sheds little light on copyright injunction in general.

3. *Dun*

The *Dun* case,⁵⁰ although addressing injunctive relief in a more direct fashion, appears to be a far-fetched precedent as well, considering substantial changes in the legislative context. The plaintiffs there were the publishers and copyright owners of a business directory covering North America.⁵¹ The defendant published a similar directory but only involved the lumber industry. The plaintiffs discovered that the defendant borrowed some of the plaintiffs’ materials without authorization, as evidenced by the same mistakes existing in both books. The plaintiffs then brought a suit in equity requesting an injunction. The Supreme Court found that the defendant’s book contained 25% more names than the plaintiffs’ and “six times as many subjects of information concerning the persons named,” which showed a substantial amount of original and independent labor incurred in collecting the majority of the information therein.⁵² The Supreme Court thus held that “the proportion is so insignificant compared with the injury from stopping [the defendant’s] use of their enormous volume of independently acquired information, that an injunction would be unconscionable.”⁵³

Notably, the *Dun* case was actually decided under the 1870 Copyright Act, which empowered the court, “upon [a] bill in equity, filed by any party aggrieved, to grant injunctions to prevent the violation of any right secured by said laws, according to the course and principles of courts of equity, on such terms as the court may deem reasonable.”⁵⁴ The 1909 Copyright Act, however, added a new section regarding injunctive relief: “if any person shall infringe the copyright in any work protected under the copyright laws of the United States such person *shall* be liable . . . [t]o

⁴⁸ *Id.* at 593–94.

⁴⁹ *Id.* at 578 n.10 (citations omitted) (quoting Pierre N. Leval, Commentary, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1134 (1990)).

⁵⁰ *Dun v. Lumbermen’s Credit Ass’n*, 209 U.S. 20 (1908).

⁵¹ *Id.* at 21.

⁵² *Id.* at 23.

⁵³ *Id.*

⁵⁴ Act of July 8, 1870, ch. 230, § 106, 16 Stat. 198, 215 (repealed 1909). The original 1790 Copyright Act did not contain any injunctive relief until the 1819 amendment. *See Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 352 n.6 (1998).

an injunction restraining such infringement.”⁵⁵ The wording appeared to suggest that copyright owners were entitled to an injunction as a matter of rule. To make things more complicated, the current 1976 Copyright Act is different from each of the previous two versions, providing that the court “may . . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.”⁵⁶ The value of the *Dun* decision as a binding authority therefore seems to be at least questionable after numerous and substantial changes in statutory copyright remedies.⁵⁷ In fact, the *Dun* decision has rarely been cited in subsequent copyright decisions over the last one hundred years.⁵⁸ More importantly, almost no courts have relied on it as authority for a denial of injunctive relief.⁵⁹ In the few decisions that did refer to the *Dun* decision, it was merely cited in dicta,⁶⁰ in dissenting and concurring opinions⁶¹ or as an authority for the finding of no infringement (i.e., insubstantial copying or fair use).⁶² In any event, the *Dun* decision never mentioned the four-factor test advocated in *eBay*.

⁵⁵ Act of Mar. 4, 1909, ch. 320, § 25, 35 Stat. 1075, 1081 (repealed 1976) (emphasis added).

⁵⁶ 17 U.S.C. § 502(a) (2006).

⁵⁷ On a related note, the *Dun* case apparently ceases to be good law for other reasons as well. For instance, the business directory in dispute may be considered lacking creativity and ineligible for copyright protection under current copyright law. See *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 362–364 (1991).

⁵⁸ Westlaw searches (as of June 1, 2010) with the keywords “TE(DUN /5 LUMBERMEN!)” only revealed fifteen copyright decisions citing to the *Dun* case (all fifteen decisions are cited in subsequent notes), in addition to fifteen non-copyright decisions. Given the passing of a hundred years and the frequency with which plaintiffs request injunctive relief in copyright cases, this number is fairly low, especially for a Supreme Court decision. In comparison, the *eBay* decision, decided merely five years ago, has been cited over five hundred times so far.

⁵⁹ Only one case was identified directly citing *Dun* to support a denial of a copyright injunction, *New Era Publ'ns Int'l, ApS v. Henry Holt & Co.*, 695 F. Supp. 1493, 1526 (S.D.N.Y. 1988), *aff'd*, 873 F.2d 576 (2d Cir. 1989). A recent case concerning a preliminary injunction incidentally mentioned that the *eBay* decision cited *Dun*: *Salinger v. Colting*, 607 F.3d 68, 78 (2d Cir. 2010).

⁶⁰ See, e.g., *Silverstein v. Penguin Putnam, Inc.*, 368 F.3d 77, 83–84 (2d Cir. 2004) (reversing the summary judgment for copyright infringement while stating in dicta that a permanent injunction was not compelled); *Marvin Worth Prods. v. Superior Films Corp.*, 319 F. Supp. 1269, 1277 (S.D.N.Y. 1970) (distinguishing *Dun*); *Cravens v. Retail Credit Men's Ass'n*, 26 F.2d 833, 834–35 (M.D. Tenn. 1924) (injunction denied because the defendant had ceased all infringing activities); *Produce Reporter Co. v. Fruit Produce Rating Agency*, 1 F.2d 58, 62 (N.D. Ill. 1924) (distinguishing *Dun*).

⁶¹ *New Era Publ'ns Int'l, ApS v. Henry Holt & Co.*, 873 F.2d 576, 595 (2d Cir. 1989) (Oakes, J., concurring); *Williams & Wilkins Co. v. United States*, 487 F.2d 1345, 1386 (Ct. Cl. 1973) (Nichols, J., dissenting).

⁶² *Mihalek Corp. v. Michigan*, No. 92-1641, 1993 WL 460787, at *3 (6th Cir. Nov. 9, 1993) (citing *Dun* to support a finding of no infringement based on fair use or *de minimis* use); *G.R. Leonard & Co. v. Stack*, 386 F.2d 38, 39 (7th Cir. 1967) (citing *Dun* to support a finding of fair use); *Mathews Conveyor Co. v. Palmer-Bee Co.*, 135 F.2d 73, 84–85 (6th Cir. 1943) (citing *Dun* to support a finding of no substantial copying); *Nat'l Bus. Lists, Inc. v. Dun & Bradstreet, Inc.*, 552 F. Supp. 89, 94 (N.D. Ill. 1982)

B. Traditional Practice of Copyright Injunction

According to existing surveys of leading copyright scholars,⁶³ lower courts regularly granted motions for copyright injunction in the pre-*eBay* era, possibly because of the relatively weak precedential value of those three Supreme Court cases. In dealing with preliminary injunctions, most circuits applied the traditional four-factor test. It was somewhat different from the four-factor test narrated in *eBay* because preliminary-injunction decisions normally did not address “adequacy of remedy at law” as a separate factor and instead included “likelihood of success on the merits” in the equity test.⁶⁴ Furthermore, two important circuits (the Ninth Circuit and Second Circuit) essentially employed a two-factor test centering on likelihood of success on the merits and irreparable injury.⁶⁵ No matter what tests courts applied, a presumption of irreparable injury would normally arise if the plaintiff was able to show a prima facie case of copyright infringement or a reasonable likelihood of success on the merits.⁶⁶

(citing *Dun* to support the argument that “[t]he protection of the compiler’s labor has been a basis for protecting telephone directories”); *Nw. Tel. Sys., Inc. v. Local Publ’ns, Inc.*, No. CV 77-41-M, 1979 WL 1080, at *1–2 (D. Mont. Jan. 25, 1979) (citing *Dun* to address fair use); *Wihtol v. Crow*, 199 F. Supp. 682, 684–85 (S.D. Iowa 1961) (citing *Dun* while discussing fair use); *Triangle Publ’ns, Inc. v. New England Newspaper Publ’g Co.*, 46 F. Supp. 198, 202–03 (D. Mass. 1942) (citing *Dun* to support a finding of no substantial copying and no infringement).

⁶³ See, e.g., 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 13.2.1.1 (3d ed. Supp. 2011); 6 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 22:14 (2009); see also Richard Dannay, *Copyright Injunctions and Fair Use: Enter eBay—Four-Factor Fatigue or Four-Factor Freedom?*, 55 J. COPYRIGHT SOC’Y U.S.A. 449, 456 (2008) (“[F]ew cases have actually denied a permanent injunction despite a finding of infringement. The Supreme Court dicta in *Campbell* and *Tasini* has not gone unnoticed but has been largely unheeded.”).

⁶⁴ See, e.g., *Allied Mktg. Grp., Inc. v. CDL Mktg., Inc.*, 878 F.2d 806, 809 (5th Cir. 1989); *Atari, Inc. v. N. Am. Philips Consumer Elecs. Corp.*, 672 F.2d 607, 613 (7th Cir. 1982).

⁶⁵ The Second Circuit required a showing of: (i) irreparable harm and (ii) either a likelihood of success on the merits, or sufficiently serious questions going to the merits as to make them a fair ground for litigation, plus a balance of hardships tipping towards the plaintiff. See, e.g., *MyWebGrocer, LLC v. HomeTown Info, Inc.*, 375 F.3d 190, 192 (2d Cir. 2004); *NXIVM Corp. v. Ross Inst.*, 364 F.3d 471, 476 (2d Cir. 2004); *Pem-America, Inc. v. Sunham Home Fashions, LLC*, 83 F. App’x 369, 370 (2d Cir. 2003). The Ninth Circuit required a showing of (i) probable success on the merits and the possibility of irreparable harm, or (ii) the existence of serious questions going to the merits and a balance of hardships tipping towards the plaintiff. See, e.g., *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1158 (9th Cir. 2007); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001).

⁶⁶ See, e.g., *Micro Star v. FormGen Inc.*, 154 F.3d 1107, 1109 (9th Cir. 1998); *Country Kids ’N City Slicks, Inc. v. Sheen*, 77 F.3d 1280, 1288 (10th Cir. 1996); *Apple Computer, Inc. v. Formula Int’l, Inc.*, 725 F.2d 521, 526 (9th Cir. 1984); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1254 (3d Cir. 1983); *Atari, Inc.*, 672 F.2d at 620; *Am. Metro. Enters. of N.Y., Inc. v. Warner Bros. Records Inc.*, 389 F.2d 903, 905 (2d Cir. 1968).

Permanent injunctions were available with even more certainty, as long as copyright infringement was found and there was a threat of future infringement.⁶⁷ Likewise, a showing of irreparable injury or inadequacy of remedy at law was rarely required since the merits of the case had been resolved in favor of the plaintiff at the stage of final remedies.⁶⁸ Courts denied prevailing copyright owners permanent injunctions only under “special circumstances”: e.g., where an architect tried to enjoin the completion or sale of a building for which the architectural design was merely a small part of the whole investment;⁶⁹ where a moviemaker who had secured the movie rights from the author of the underlying novel was nevertheless held liable for infringing the renewal right of the author’s heirs;⁷⁰ or where a database (or other compilations) comprised of a large amount of third-party content inadvertently included a single work without due authorization.⁷¹ In any event, the four-factor test under equity principles remained absent in lower court decisions regardless of the ultimate outcome of a motion for a permanent injunction.

IV. POST-*EBAY* COPYRIGHT INJUNCTION—EMPIRICAL EVIDENCE

One might imagine that the unequivocal teaching in *eBay* might have had a significant impact on the way that lower courts adjudicated copyright injunctions.⁷² The empirical evidence suggests otherwise. Not only did the *eBay* decision fall short of altering the outcomes of copyright-injunction cases, but it was also ignored in a large proportion of those cases.

⁶⁷ See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 14.06[B][1][b][i] (2011) (“[T]he traditional formulation . . . characterize[s] as an abuse of discretion the denial of a permanent injunction when liability has been established and there is a threat of continuing infringement.”); see also, e.g., *Harolds Stores, Inc. v. Dillard Dep’t Stores, Inc.*, 82 F.3d 1533, 1555 (10th Cir. 1996); *Olan Mills, Inc. v. Linn Photo Co.*, 23 F.3d 1345, 1349 (8th Cir. 1994); *Walt Disney Co. v. Powell*, 897 F.2d 565, 568 (D.C. Cir. 1990); *Nat’l Football League v. McBee & Bruno’s, Inc.*, 792 F.2d 726, 732 (8th Cir. 1986); *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 976 (9th Cir. 1981), *rev’d on other grounds*, 464 U.S. 417 (1984).

⁶⁸ See, e.g., *Elektra Entm’t Grp., Inc. v. Bryant*, No. CV 03-6381GAF(JTLX), 2004 WL 783123, at *6 (C.D. Cal. Feb. 13, 2004); *Sony Music Entm’t, Inc. v. Global Arts Prods.*, 45 F. Supp. 2d 1345, 1347 (S.D. Fla. 1999).

⁶⁹ *Balsamo/Olson Grp., Inc. v. Bradley Place Ltd. P’ship*, 966 F. Supp. 757, 764–65 (C.D. Ill. 1996).

⁷⁰ *Abend v. MCA, Inc.*, 863 F.2d 1465, 1475 (9th Cir. 1988), *aff’d sub nom. Stewart v. Abend*, 495 U.S. 207 (1990).

⁷¹ *Silverstein v. Penguin Putnam, Inc.*, 368 F.3d 77, 84 (2d Cir. 2004) (concluding that “any protectible interest Silverstein may have would be so slight that it cannot properly be enforced by a preliminary or permanent injunction”).

⁷² See Dannay, *supra* note 63, at 460 (estimating that “[w]hat was once an exotic exception—denial of permanent injunction despite liability—could become an everyday event”).

This Part presents an empirical study based on all reported copyright-injunction decisions during the period from May 15, 2006 (the issuing date of the *eBay* decision) to June 1, 2010.⁷³ The study resulted in a total of 506 decisions that substantively weighed in on the availability of injunctive relief in copyright-infringement cases.⁷⁴ Among the 506 decisions sampled, only 57 (11.3%) cited the *eBay* decision.⁷⁵ Furthermore, the plaintiffs succeeded in obtaining copyright injunction in the vast majority (i.e., 419 or 82.8%) of these decisions.⁷⁶

The following three bar charts set out the overall distribution of the 506 decisions respectively by time, circuit, and subject matter. Figure 1

⁷³ The data collection, mostly conducted in July 2010, contained the following steps: First, a Westlaw search in the “Allfeds” database generated 2349 decisions using the keywords “copyright & injunct! & da(aft 5/15/2006 & bef 6/01/2010).” Second, a Lexis search in the “Federal Court Cases, Combined” database generated 2201 decisions, using the keywords “copyright and injunct! and date(geq (05/15/2006) and leq (06/01/2010)).” Third, a quick comparison of Westlaw and Lexis search results excluded obvious double counts and limited the scope of review for unique Lexis results to 221 decisions. Fourth, an in-depth review of all the remaining decisions further excluded those that were irrelevant or marginally relevant to copyright injunction. The key standard was whether the court weighed in on the availability of injunctive relief in the context of copyright-infringement complaints. Fifth, the in-depth review and subsequent double-check eventually led to a sample of 506 decisions. They were subsequently coded into SPSS for data analysis in light of a code scheme consisting of 116 variables. Notably, such search criteria could leave out the cases where the court granted a motion of summary judgment or motion to dismiss in favor of the defendant, which was essentially equivalent to a denial of injunctive relief. However, such an omission may not significantly affect the analysis of empirical evidence. If our inference is that *eBay* has not changed the injunction practice, the omitted cases (even if included) would only reinforce in the observed correlation between injunctive relief and merits of the case in the pre-*eBay* era. The dataset also excluded temporary restraining orders (TROs). Most TROs are issued without an explanatory opinion. See FED. R. CIV. P. 65(b); 2 GOLDSTEIN, *supra* note 63, § 13.1.1. Likewise, injunctive relief granted in consent or stipulated judgments were naturally omitted, for the courts rarely needed to make a substantive decision in those cases.

⁷⁴ The sample consists of 489 district court decisions (96.6%) and 17 appellate decisions (3.4%). Such percentages imply a rather low appeal rate. See Theodore Eisenberg, *Appeal Rates and Outcomes in Tried and Nontried Cases: Further Exploration of Anti-Plaintiff Appellate Outcomes*, 1 J. EMPIRICAL LEGAL STUD. 659, 663–64 (2004) (noting a 10.9% appeal rate for all district court cases and a 21% appeal rate for all district court cases with a judgment).

⁷⁵ Circuit courts appeared to pay a bit more attention to the *eBay* decision than district courts did. Among the 17 appellate decisions, six decisions (35.3%) cited to *eBay* although this percentage is still quite modest standing alone.

⁷⁶ In the cases where the plaintiffs prevailed on the merits, the win rate further improved to 95%. In addition, the plaintiffs won in eight of the 17 (47.1%) appealed cases. This nearly 50/50 win rate is unsurprising given that the parties are more likely to file appeals in close cases. Also unsurprising is that 5 of the 17 decisions reversed or partially reversed district court decisions, a reversal rate of 29.4%. See Kevin M. Scott, *Understanding Judicial Hierarchy: Reversals and the Behavior of Intermediate Appellate Judges*, 40 LAW & SOC'Y REV. 163, 177 (2006) (estimating approximately a 30% reversal rate for all circuit court decisions).

reveals no decreasing trend over time in the number of motions filed for copyright injunctions, although one would expect that the *eBay* decision could have some deterrent effects on such filings. On the contrary, 2007 (one year after the *eBay* decision) saw a remarkable increase in copyright-injunction cases before the number averaged out in the following years.⁷⁷ Figure 2 confirms the common belief that the Ninth and Second Circuits are the hubs of copyright litigation. It shows that Ninth Circuit courts contributed 29.1% of all the decisions and Second Circuit courts contributed 16.0%, closely followed by Eleventh Circuit courts at 13.2%. These three circuits together accounted for 58.3% of the decisions. Figure 3 illustrates the most frequent subject matters involved in copyright-injunction cases. The four subject matters that each made up more than 10% of the decisions were sound recording (34.8%), software (13.8%), motion picture (11.9%) and music (10.7%).⁷⁸ Also notable is that more than half (52.2%) of the decisions involved online infringement.

Interestingly, of all 54 music decisions, 43 (79.6%) appeared to be initiated by either ASCAP or BMI.⁷⁹ Theoretically speaking, such collecting societies are non-practicing entities that do not exploit copyrighted music compositions themselves but exist only to grant licenses to third-party users. However, none of the 43 decisions ever addressed the holdup problem. As a matter of fact, a motion for injunctive relief was granted in all but one of these decisions.⁸⁰

⁷⁷ This coincided with the final wave of mass litigations that copyright owners lodged against P2P users before they stopped the strategy in 2008. Ryan Nakashima, *RIAA to Stop Suing Music Swappers*, HUFFINGTON POST (Dec. 19, 2008, 11:09 PM), http://www.huffingtonpost.com/2008/12/19/riaa-to-stop-suing-music_n_152522.html.

⁷⁸ Of the 506 decisions, 14 involved more than one subject matter.

⁷⁹ While ASCAP usually worked behind the scenes and had its members appear as the plaintiffs, BMI tended to hold itself out as the named plaintiff in copyright-infringement cases. *Compare* EMI April Music Inc. v. Know Group, LLC, No. 3:05-CV-1870-M, 2006 WL 3203276 (N.D. Tex. Nov. 6, 2006), *with* Broad. Music, Inc. v. J.M. Cirelli, Inc., No. 1:03 CV 2456, 2006 WL 3386911 (N.D. Ohio Nov. 21, 2006).

⁸⁰ The lone exception was *Famous Music Corp. v. 716 Elmwood, Inc.*, No. 05-CV-0885A(M), 2007 WL 5041415, at *9 (W.D.N.Y. Dec. 28, 2007) (rejecting a motion for permanent injunction based on no threat of future infringement).

Figure 1: Distribution by Time

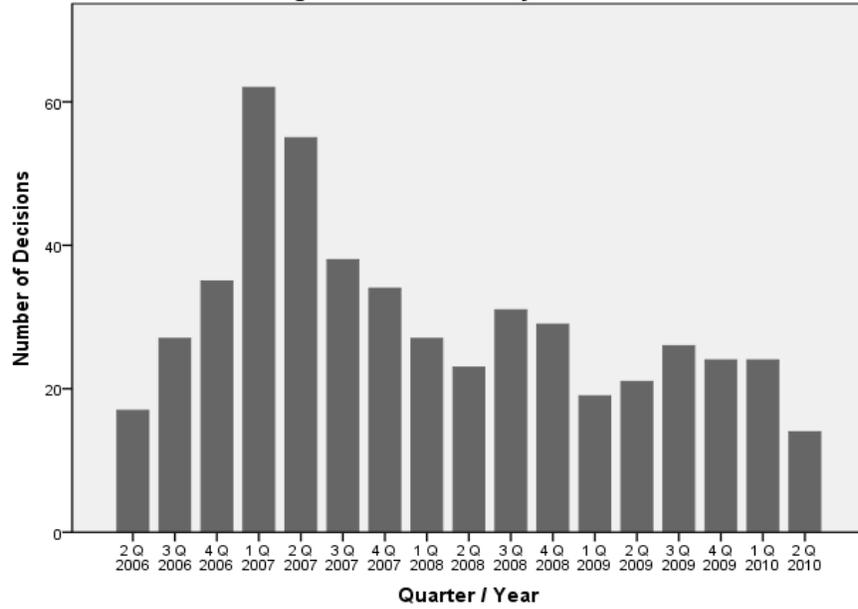
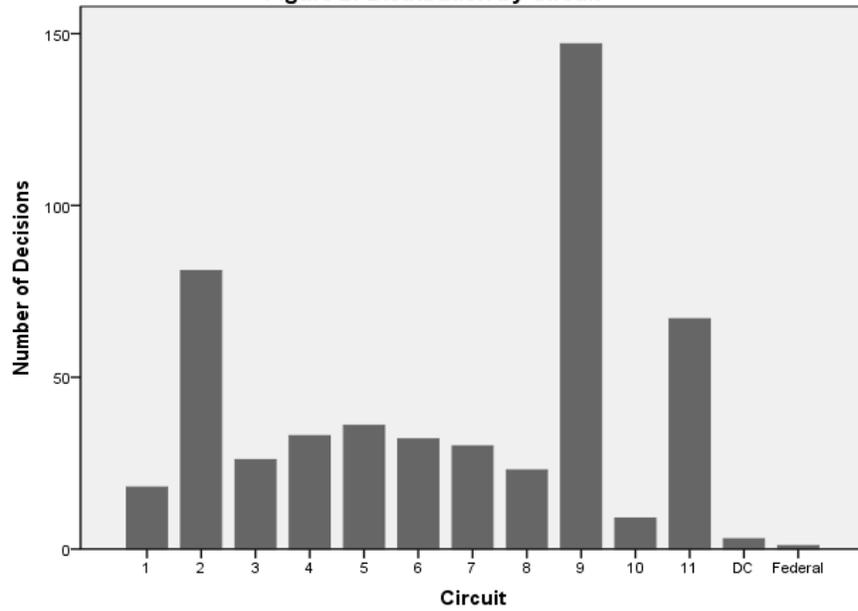
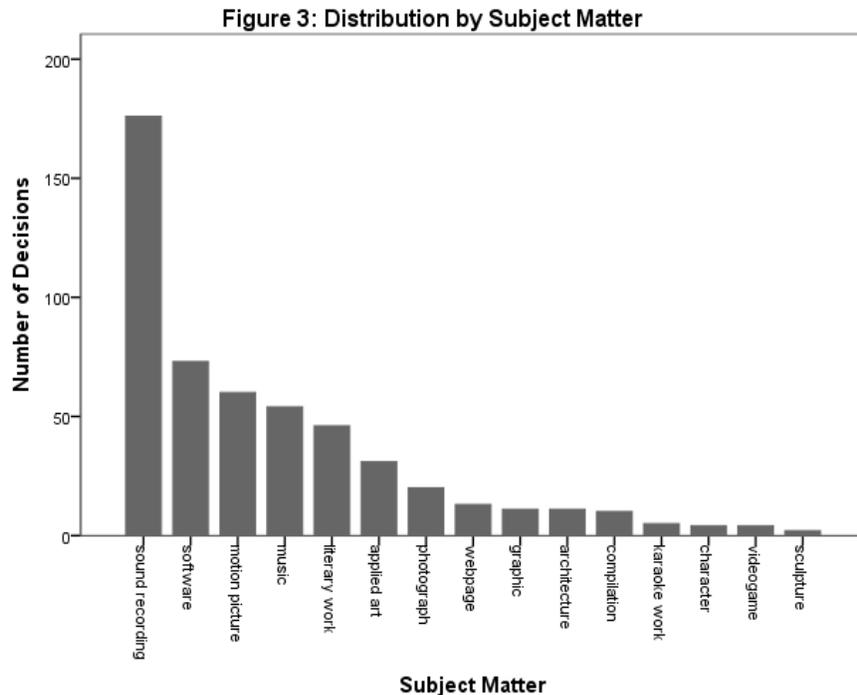


Figure 2: Distribution by Circuit





The following subparts will present further empirical findings separately for preliminary injunctions and permanent injunctions, in light of their differing purposes and functions.

A. *Preliminary Injunctions*

There are a total of 93 preliminary-injunction decisions in the sample, of which only 14 (15.1%) cited the *eBay* decision. As a matter of fact, a more recent Supreme Court decision, *Winter v. Natural Resources Defense Council*, could potentially be more influential in reinstating the four-factor test in the context of preliminary injunctions.⁸¹ During the period from its issuance date (November 12, 2008) to June 1, 2010, this decision was quoted in five (45.5%) out of the 11 decisions regarding copyright preliminary injunctions.

Among the 93 decisions in this group, 52 (55.9%) applied the four-factor test and 32 (34.4%) applied the two-factor test.⁸² Unsurprisingly, those that followed the two-factor test were nearly all Second or Ninth

⁸¹ See *Winter v. Natural Res. Def. Council*, 129 S. Ct. 365, 374–78 (2008).

⁸² Two cases appeared to apply both the four-factor test and the two-factor test. See *Momento, Inc. v. Seccion Amarilla USA*, No. C 09-1223 SBA, 2009 WL 1974798, at *1–3 (N.D. Cal., July 8, 2009); *Jacobsen v. Katzer*, 609 F. Supp. 2d 925, 935–36 (N.D. Cal. 2009).

Circuit cases.⁸³ Only four decisions from these two circuits explicitly rejected the two-factor test.⁸⁴ Nevertheless, it is expected that more courts will start to consult the four-factor test following the forceful support given it by the Second Circuit in the high-profile case, *Salinger v. Colting*.⁸⁵

In terms of grant rates (i.e., the percentages of copyright injunction decisions that granted the motions), a preliminary injunction was granted in 41 (44.1%) of the 93 decisions.⁸⁶ If we only look at the portion of 90 dispositive decisions,⁸⁷ the grant rate rises slightly to 45.6%. Table 1 presents the grant rates broken down by circuit, although the dataset may not be large enough to detect the inter-circuit variance in a statistically significant way. That being said, it is worth noting that, among the only two circuits with more than ten decisions, Ninth Circuit courts produced a substantially higher grant rate (51.9%) than Second Circuit courts (38.9%).

⁸³ The only exception was *Jacobsen v. Katzer*, 535 F.3d 1373, 1378 (Fed. Cir. 2008). That case, however, was heard on appeal from the decision of a district court within the Ninth Circuit.

⁸⁴ *Salinger v. Colting*, 607 F.3d 68, 75–76 (2d Cir. 2010); *Multiquip Inc. v. Water Mgmt. Sys. LLC*, No. CV 08-403-S-EJL, 2009 WL 5064540, at *3 (D. Idaho, Dec. 16, 2009); *Aurora World, Inc. v. Ty Inc.*, 719 F. Supp. 2d 1115, 1167 (C.D. Cal. 2009); *Gowan Co. v. Aceto Agric. Chems*, No. CV-09-1124-PHX-JAT, 2009 WL 2028387, at *4 (D. Ariz. July 10, 2009).

⁸⁵ 607 F.3d at 79.

⁸⁶ This grant rate is not much different from that of patent preliminary injunctions, which is 44.7% for the period from 2000-2010. *Decisions for 2000–2004*, PATSTATS.ORG, <http://patstats.org/2000-04.htm>; *Decisions for 2005–2009*, PATSTATS.ORG, http://patstats.org/2005-2009_composite.htm; *Full Calendar Year 2010 Report*, PATSTATS.ORG, http://patstats.org/2010_full_year_post.htm.

⁸⁷ Dispositive decisions refer to those in which the court came to a conclusion on the availability of injunctive relief, which understandably excludes dismissal without prejudice and remand to a lower court.

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Table 1: Preliminary Injunction Grant Rates by Circuit

		Outcome		Total	
		Granted	Denied		
Circuit	1	Count	2	1	3
		% within Circuit	66.7%	33.3%	100.0%
2		Count	7	11	18
		% within Circuit	38.9%	61.1%	100.0%
3		Count	1	2	3
		% within Circuit	33.3%	66.7%	100.0%
4		Count	4	3	7
		% within Circuit	57.1%	42.9%	100.0%
5		Count	2	2	4
		% within Circuit	50.0%	50.0%	100.0%
6		Count	2	4	6
		% within Circuit	33.3%	66.7%	100.0%
7		Count	2	3	5
		% within Circuit	40.0%	60.0%	100.0%
8		Count	3	2	5
		% within Circuit	60.0%	40.0%	100.0%
9		Count	14	13	27
		% within Circuit	51.9%	48.1%	100.0%
10		Count	2	1	3
		% within Circuit	66.7%	33.3%	100.0%
11		Count	2	6	8
		% within Circuit	25.0%	75.0%	100.0%
DC		Count	0	1	1
		% within Circuit	0.0%	100.0%	100.0%
Total		Count	41	49	90
		% of Total	45.6%	54.4%	100.0%

The grant rates discussed above naturally bring about an intriguing question: What factors actually drove the courts to grant or deny a motion for injunction relief? First and foremost, the likelihood of success on the merits (often in the form of a *prima facie* case of copyright infringement) seemed to totally dictate the outcomes of preliminary injunction motions: among the 90 dispositive decisions, the motion was granted in 100% of the 39 decisions where the plaintiff had demonstrated the likelihood of success on the merits; likewise, the

motion was denied in 100% of the 38 decisions where the court found the merits of the case in favor of the defendant.⁸⁸

Second, even when courts turned to the four-factor test for guidance, they often fell short of weighing the totality of all the factors to determine the ultimate disposition. Of the 52 preliminary-injunction decisions that consulted the four-factor test, only 29 (55.7%) decisions completely applied each of the four factors and the rest missed at least one factor.⁸⁹

Third, when we further narrow our focus onto the dispositive decisions that referred to the four-factor test, the correlation matrix in Table 2⁹⁰ reveals that all the four factors highly correlated with the overall outcome,⁹¹ and they also highly correlated with one another in most cases. Such significant values of correlation coefficients are reflective of the fact that a court would find none of the factors in favor of the defendant⁹² if it decided to grant the preliminary injunction and, conversely, it would find none of the factors in favor of the plaintiff if it decided to deny the preliminary injunction. Such high levels of

⁸⁸ In the remaining 13 decisions where the merits did not clearly favor either party, 11 denied the motion, and two granted the motion. Besides, when Second Circuit and Ninth Circuit courts applied the two-factor test, the dominant force of “likelihood of success on the merits” over the other factor, “irreparable harm,” was quite obvious. In the 12 decisions where the plaintiff prevailed on the merits, all of them found irreparable harm and granted preliminary injunctions. In the 20 decisions where courts did not find the merits in favor of the plaintiff, only one outlier continued to find irreparable harm (but withheld the preliminary injunction nevertheless). *See Lennon v. Premise Media Corp.*, 556 F. Supp. 2d 310, 319 (S.D.N.Y. 2008) (presuming irreparable harm based merely on “a prima facie showing of infringement”). In addition, 25 (78.1%) out of the 32 decisions recognized the presumption of irreparable harm based on a likelihood of success on the merits. Only two decisions explicitly rejected such a presumption. *See Momento, Inc. v. Seccion Amarilla USA*, No. C 09-1223 SBA, 2009 WL 1974798, at *3 (N.D. Cal. July 8, 2009); *Jacobsen v. Katzer*, 609 F. Supp. 2d 925, 936 (N.D. Cal. 2009).

⁸⁹ Twelve (23.1%) of the 52 decisions missed the “irreparable injury” factor, 20 (38.5%) missed the “balance of hardship” factor, and 23 (44.2%) missed the “public interest” factor.

⁹⁰ The correlation matrix consists of the 51 dispositive decisions that applied the four-factor test for a preliminary injunction. The overall outcome is coded as a variable with two values (1=grant and 0=deny). Each of the four factors is coded into two binary variables: favoring grant (1=yes and 0=no) and favoring denial (1=yes and 0=no) so that, if a factor is neutral or omitted, both variables would be coded as 0. In terms of the variable labels, “Merits” refers to “likelihood of success on the merits,” “Factor 1” refers to “irreparable harm,” “Factor 3” refers to “balance of hardship,” and “Factor 4” refers to “public interest.” The “adequacy of remedy at law” factor is not included, as courts rarely applied this factor for preliminary injunctions. *See supra* note 64 and accompanying text.

⁹¹ Nevertheless, the correlation coefficients tend to decrease from factor to factor in the order of “likelihood of success on the merits,” “irreparable harm,” “public interest,” and “balance of hardship.” This trend basically results from the fact that the courts were more likely to skip later factors than earlier factors in the four-factor test.

⁹² The court would find each factor either favoring the plaintiff or neutral, or omit the factor.

consistency among the factors led to a strong impression that most courts tended to determine first whether to grant or withhold injunctive relief, probably based on the merits of copyright infringement claims, and then aligned the four factors to fit the overall outcome.⁹³

Table 2: Correlations Between The Four Factors and the Outcome of Preliminary Injunction

		Out- come	Merits		Factor 1		Factor 3		Factor 4	
			Grant	Denial	Grant	Denial	Grant	Denial	Grant	Denial
Out- come	Coefficient	1.000	.924 ^{**}	-.821 ^{**}	.771 ^{**}	-.726 ^{**}	.736 ^{**}	-.436 ^{**}	.783 ^{**}	-.436 ^{**}
	Sig. (2-tailed)	.	.000	.000	.000	.000	.000	.001	.000	.001
Merits Grant	Coefficient	.924 ^{**}	1.000	-.759 ^{**}	.679 ^{**}	-.671 ^{**}	.639 ^{**}	-.403 ^{**}	.682 ^{**}	-.403 ^{**}
	Sig. (2-tailed)	.000	.	.000	.000	.000	.000	.003	.000	.003
Merits Denial	Coefficient	-.821 ^{**}	-.759 ^{**}	1.000	-.619 ^{**}	.475 ^{**}	-.589 ^{**}	.324 [*]	-.643 ^{**}	.428 ^{**}
	Sig. (2-tailed)	.000	.000	.	.000	.000	.000	.020	.000	.002
Factor 1 Grant	Coefficient	.771 ^{**}	.679 ^{**}	-.619 ^{**}	1.000	-.619 ^{**}	.876 ^{**}	-.266	.919 ^{**}	-.266
	Sig. (2-tailed)	.000	.000	.000	.	.000	.000	.059	.000	.059
Factor 1 Denial	Coefficient	-.726 ^{**}	-.671 ^{**}	.475 ^{**}	-.619 ^{**}	1.000	-.510 ^{**}	.388 ^{**}	-.569 ^{**}	.494 ^{**}
	Sig. (2-tailed)	.000	.000	.000	.000	.	.000	.005	.000	.000
Factor 3 Grant	Coefficient	.736 ^{**}	.639 ^{**}	-.589 ^{**}	.876 ^{**}	-.510 ^{**}	1.000	-.357 [*]	.958 ^{**}	-.250
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.	.010	.000	.076
Factor 3 Denial	Coefficient	-.436 ^{**}	-.403 ^{**}	.324 [*]	-.266	.388 ^{**}	-.357 [*]	1.000	-.342 [*]	.730 ^{**}
	Sig. (2-tailed)	.001	.003	.020	.059	.005	.010	.	.014	.000
Factor 4 Grant	Coefficient	.783 ^{**}	.682 ^{**}	-.643 ^{**}	.919 ^{**}	-.569 ^{**}	.958 ^{**}	-.342 [*]	1.000	-.342 [*]
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.014	.	.014
Factor 4 Denial	Coefficient	-.436 ^{**}	-.403 ^{**}	.428 ^{**}	-.266	.494 ^{**}	-.250	.730 ^{**}	-.342 [*]	1.000
	Sig. (2-tailed)	.001	.003	.002	.059	.000	.076	.000	.014	.

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

B. Permanent Injunctions

There are a total of 413 permanent-injunction decisions in the sample, of which only 43 (10.4%) cited the *eBay* decision and only 70 (16.9%) referred to the four-factor test. Both percentages were much lower than those for preliminary injunctions (15.1% and 55.9%) even

⁹³ That the four factors strongly correlate with one another also makes a logistic-regression model unreliable for this dataset. In statistical terms, the close correlation between independent variables would lead to the problem of “multicollinearity,” which would make it very difficult to obtain unique estimates of the regression coefficients because an unlimited number of combinations of coefficients could potentially work equally well. For more discussions of the “multicollinearity” problem, see ANDY FIELD, *DISCOVERING STATISTICS USING SPSS (AND SEX AND DRUGS AND ROCK’N’ROLL)* 223–24 (3d ed. 2009).

though the *eBay* decision actually addressed permanent injunctions.⁹⁴ In the meantime, 154 (37.3%) of the 413 decisions still acknowledged the traditional test that “a copyright plaintiff is entitled to a permanent injunction when liability has been established and there is a threat of continuing violations,”⁹⁵ and there were 37 more decisions that implicitly followed the traditional test without spelling out the complete formula,⁹⁶ which increased the total percentage acknowledging the traditional test to 46.2%. By contrast, only seven (1.69%) decisions explicitly rejected the traditional test.⁹⁷

Table 3 below introduces the distribution of postures among the permanent-injunction decisions. It is worth noting that 21.8% of the decisions resulted from summary judgment and 68.3% resulted from default judgment,⁹⁸ together accounting for 90.1%. These statistics are consistent with the suggestion that “most infringements are simple piracy,”⁹⁹ which could be quickly resolved without extensive fact-finding or are not even worth the costs for the defendants to actually defend themselves.

⁹⁴ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393–94 (2006).

⁹⁵ *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 976 (9th Cir. 1981), *rev'd on other grounds*, 464 U.S. 417 (1984); *see supra* note 67 and accompanying text. In addition, there are 19 decisions in this group that endorsed both the traditional test and the four-factor test, apparently believing that the two tests are reconcilable. *See, e.g.*, *EMI April Music Inc. v. Rodriguez*, 691 F. Supp. 2d 632, 635 (M.D.N.C. 2010); *Capitol Records, LLC v. McEwan*, No. 5:08-CV-00473-BR, 2009 WL 103611, at *2–3 (E.D.N.C. Jan. 13, 2009).

⁹⁶ *See, e.g.*, *Warner Bros. Records, Inc. v. Brown*, No. C 08-01040 WHA, 2008 WL 4911161, at *2 (N.D. Cal. Nov. 13, 2008); *Virgin Records Am., Inc. v. Johnson*, 441 F. Supp. 2d 963, 966 (N.D. Ind. 2006).

⁹⁷ *See, e.g.*, *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 543 (4th Cir. 2007); *MGM Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197, 1209 (C.D. Cal. 2007).

⁹⁸ If we exclude default judgments, in which courts are arguably less likely to elaborate on the four factors, the sample would include a total of 131 permanent-injunction decisions. Among these decisions, 27 (20.6%) cited *eBay*, and 30 (22.9%) referred to the four-factor test. Thirty-eight (29%) decisions still recognized the traditional test, and 16 more implicitly followed the traditional test, which increased the total percentage acknowledging the traditional test to 41.2%. By contrast, only 6 (4.6%) decisions explicitly rejected the traditional test. A permanent injunction was granted in 105 (80.2%) of the decisions. The grant rate increases to 81.4% within the group of 129 dispositive decisions. In addition, the merits of the case correlated with the overall outcome in 90.7% of the dispositive decisions (courts found no infringement in 11 decisions and all resulted in a denial of permanent injunction; in the 117 decisions where courts did find copyright infringement, 12 still led to a denial of permanent injunction). The rest of the data analysis in this Part remains largely unaffected by the exclusion of default judgments.

⁹⁹ *Leval, supra* note 49, at 1132.

Table 3: Distribution of Permanent Injunction by Posture

	Frequency	Percent	Valid Percent	Cumulative Percent
Motion to Dismiss	2	.5	.5	.5
Summary Judgment	90	21.8	21.8	22.3
Post Trial	39	9.4	9.4	31.7
Default Judgment	282	68.3	68.3	100.0
Total	413	100.0	100.0	

Among the 413 decisions studied here, a permanent injunction was granted in 378 (91.5%) of such decisions. The grant rate increased to 92.2% within the group of 410 dispositive decisions. This rate is substantially higher than that of post-*eBay* permanent injunctions in patent cases as reported in recent studies (at approximately 70%).¹⁰⁰ Table 4 presents the grant rates circuit-by-circuit and shows no significant variance among them, with the Second Circuit producing the lowest grant rate at 82%.

¹⁰⁰ See Benjamin Petersen, Note, *Injunctive Relief in the Post-eBay World*, 23 BERKELEY TECH. L.J. 193, 196 (2008) (setting the grant rate in post-eBay patent cases at 73%); see also *Post-eBay Permanent Injunction Rulings in Patent Cases to 12-4-11*, PATSTATS.ORG, <http://www.patstats.org/Patstats2.html> (last visited Jan. 19, 2012) (download link is at the lower-right) (leading to a grant rate of 75%).

Table 4: Permanent Injunction Grant Rate by Circuit

		Outcome		Total
		Granted	Denied	
Circuit 1	Count	15	0	15
	% within Circuit	100.0%	0.0%	100.0%
2	Count	50	11	61
	% within Circuit	82.0%	18.0%	100.0%
3	Count	22	1	23
	% within Circuit	95.7%	4.3%	100.0%
4	Count	24	2	26
	% within Circuit	92.3%	7.7%	100.0%
5	Count	29	2	31
	% within Circuit	93.5%	6.5%	100.0%
6	Count	25	1	26
	% within Circuit	96.2%	3.8%	100.0%
7	Count	23	2	25
	% within Circuit	92.0%	8.0%	100.0%
8	Count	17	1	18
	% within Circuit	94.4%	5.6%	100.0%
9	Count	108	10	118
	% within Circuit	91.5%	8.5%	100.0%
10	Count	5	1	6
	% within circuit	83.3%	16.7%	100.0%
11	Count	58	1	59
	% within Circuit	98.3%	1.7%	100.0%
DC	Count	2	0	2
	% within Circuit	100.0%	0.0%	100.0%
Total	Count	378	32	410
	% within circuit	92.2%	7.8%	100.0%

Regarding the interaction between various factors and the overall outcome in permanent-injunction decisions, the merits of the case (i.e., a finding of copyright infringement) once again played a major role in deciding the overall outcome, though not so absolute as in preliminary-injunction decisions. Within the 410 dispositive decisions, courts found no infringement in 12 decisions, and all resulted in a denial of a permanent injunction; however, in the 397 decisions where courts did find copyright infringement, 19 still led to a denial of a permanent

injunction.¹⁰¹ As a result, the merits of the case correlated with the overall outcome in 95.4% of the dispositive decisions.

Another factor—"a threat of continuing infringement"—was also highly relevant.¹⁰² In the 188 decisions where courts found a threat of continuing infringement, the motions for permanent injunctions were invariably granted. In the 21 decisions where courts explicitly found no threat, the motions were consistently denied, with only one "semi-exception" in which the motion was partly denied and partly granted.¹⁰³ In this sense, the factual finding of "a threat of continuing infringement" was almost 100% consistent with the overall outcome in permanent-injunction decisions. Such empirical evidence supports the conventional wisdom that a court routinely grants a motion for a permanent injunction if the plaintiff demonstrates both past infringement and a threat of future infringement.

The 70 permanent-injunction decisions that followed the four-factor test generated more complex dynamics than the other decisions in the sample. First, many courts dealt with the test in a rather arbitrary and cursory way, not always based on the totality of the four factors. Of the 70 decisions, only 34 (48.6%) completely applied each of the four factors, and the rest omitted at least one factor.¹⁰⁴ Second, the correlation matrix in Table 5¹⁰⁵ indicates that the correlations between the four factors and the overall outcome were not always as significant for permanent injunctions as for preliminary injunctions. More specifically, the factors tended to have higher correlation coefficients, and hence better correlated with the outcome, when courts found them in favor of the defendant rather than the plaintiff. In other words, although a factor favorable to the plaintiff might not be sufficient to support a permanent

¹⁰¹ In a fairly unique case, the court denied a request for a permanent injunction at summary judgment before resolving the merits of the copyright claims, although the jury later found no infringement. *See Bosch v. Ball-Kell*, No. 03-1408, 2007 WL 2572383, at *1 (C.D. Ill. Aug. 29, 2007); *Bosch v. Ball-Kell*, No. 03-1408, 2006 WL 2548053, at *11 (C.D. Ill. Aug. 31, 2006).

¹⁰² "A threat of continuing infringement" could be relevant as one of the two factors in the traditional test or as a sub-factor related to "irreparable injury" or "inadequacy of remedy at law" in the four-factor test. This finding always follows a finding of copyright infringement but not vice versa.

¹⁰³ *See Universal City Studios Prods. LLLP v. Bigwood*, 441 F. Supp. 2d 185, 192 (D. Me. 2006).

¹⁰⁴ Nineteen (27.1%) of the 70 decisions missed the "irreparable injury" factor, 25 (35.7%) missed the "inadequacy of remedy at law" factor, nine (12.9%) missed the "balance of hardship" factor, and nine (12.9%) missed the "public interest" factor.

¹⁰⁵ The correlation matrix consists of the 67 dispositive decisions that applied the four-factor test in the motions for permanent injunctions. The overall outcome is coded as a variable with two values (1=grant and 0=deny). Each of the four factors is coded into two binary variables: favoring grant (1=yes and 0=no) and favoring denial (1=yes and 0=no) so that, if a factor is neutral or omitted, both variables would be coded as 0. In terms of the variable labels, "Factor 1" refers to "irreparable harm," "Factor 2" refers to "adequacy of remedy at law," "Factor 3" refers to "balance of hardship" and "Factor 4" refers to "public interest."

injunction, the same factor, if otherwise found for the defendant, might just be enough to veto a permanent injunction.

Table 5: Correlations Between The Four Factors and the Outcome of Permanent Injunction

		Out- come	Factor 1		Factor 2		Factor 3		Factor 4	
			Grant	Denial	Grant	Denial	Grant	Denial	Grant	Denial
Out- come	Coefficient	1.000	.143	-.489**	.083	-.489**	.490**	-.696**	.640**	-.859**
	Sig. (2-tailed)	.	.250	.000	.503	.000	.000	.000	.000	.000
Factor 1 Grant	Coefficient	.143	1.000	-.211	.084	-.211	.526**	-.099	.474**	-.040
	Sig. (2-tailed)	.250	.	.086	.499	.086	.000	.424	.000	.750
Factor 1 Denial	Coefficient	-.489**	-.211	1.000	-.170	-.015	-.334**	-.022	-.312*	.569**
	Sig. (2-tailed)	.000	.086	.	.168	.903	.006	.862	.010	.000
Factor 2 Grant	Coefficient	.083	.084	-.170	1.000	-.170	.218	-.058	.176	.005
	Sig. (2-tailed)	.503	.499	.168	.	.168	.076	.642	.154	.971
Factor 2 Denial	Coefficient	-.489**	-.211	-.015	-.170	1.000	-.334**	.702**	-.312*	-.027
	Sig. (2-tailed)	.000	.086	.903	.168	.	.006	.000	.010	.830
Factor 3 Grant	Coefficient	.490**	.526**	-.334**	.218	-.334**	1.000	-.476**	.665**	-.365**
	Sig. (2-tailed)	.000	.000	.006	.076	.006	.	.000	.000	.002
Factor 3 Denial	Coefficient	-.696**	-.099	-.022	-.058	.702**	-.476**	1.000	-.445**	.386**
	Sig. (2-tailed)	.000	.424	.862	.642	.000	.000	.	.000	.001
Factor 4 Grant	Coefficient	.640**	.474**	-.312*	.176	-.312*	.665**	-.445**	1.000	-.550**
	Sig. (2-tailed)	.000	.000	.010	.154	.010	.000	.000	.	.000
Factor 4 Denial	Coefficient	-.859**	-.040	.569**	.005	-.027	-.365**	.386**	-.550**	1.000
	Sig. (2-tailed)	.000	.750	.000	.971	.830	.002	.001	.000	.

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

As a matter of fact, of the 70 permanent-injunction decisions that applied the four-factor test, four (5.7%) found at least one factor in favor of the defendant, and all of them invariably resulted in a denial of a permanent injunction regardless of the outcomes of the other factors.¹⁰⁶ This showing has two implications: On the one hand, courts did not always make an attempt to align the four factors to the overall outcome for permanent injunctions (unlike preliminary injunctions); on the other hand, the plaintiffs were still required to prevail on all the factors in order to obtain a permanent injunction (like a preliminary injunction). From a doctrinal perspective, these findings imply that the four-factor test for a copyright injunction, as applied in the post-*eBay* era, is not a typical equity test in which a court balances the totality of all factors and

¹⁰⁶ They are also the only ones that withheld permanent injunctions among the 70 decisions, which results in a grant rate of 94.3%.

no single factor can determine the overall outcome.¹⁰⁷ An equity test may eventually favor the plaintiff even though some of the factors tip towards the defendant and vice versa. Take fair use (another four-factor test) for example.¹⁰⁸ Courts were generally comfortable in finding some of the factors against fair use regardless of whether the overall outcome supported fair use or not.¹⁰⁹ In terms of copyright injunctions, courts appeared to disagree rhetorically on whether the four-factor test should be a flexible balancing test of equity (like fair use) or a rigid, black-letter rule.¹¹⁰ The empirical evidence, however, reveals that, despite rhetorical differences, the relevant decisions consistently approached the four-factor test as a black-letter rule with several *necessary* elements so that the plaintiff must adequately prove each and every element or suffer a negative outcome.

Examining the denial decisions more closely, we would also find that, very much as in the pre-*eBay* situation,¹¹¹ three of the four decisions once again involved compilations,¹¹² architectural works,¹¹³ and derivative works.¹¹⁴

C. *Sub-Factors*

Post-*eBay* copyright decisions have addressed a wide variety of sub-factors within the framework of the four-factor test. Although none of the sub-factors appear to have been dispositive, they are useful indications of what factual findings courts usually believed to be relevant. This Part sets forth the major sub-factors included in each of the four factors.¹¹⁵ It also presents the numbers and percentages of the decisions that recognized

¹⁰⁷ See generally WARD FARNSWORTH, *THE LEGAL ANALYST: A TOOLKIT FOR THINKING ABOUT THE LAW* 163–71 (2007) (discussing in detail the differences between rules and standards).

¹⁰⁸ Fair use is also widely regarded as an equity test. See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 447–48 (1984) (applying an “equitable rule of reason”); see also S. REP. NO. 94-473, at 62 (1975) (“[S]ince the doctrine is an equitable rule of reason, no . . . applicable definition is possible . . .”).

¹⁰⁹ See Beebe, *supra* note 10, at 588–93.

¹¹⁰ Compare *Auto Inspection Servs., Inc. v. Flint Auto Auction, Inc.*, No. 06-15100, 2006 WL 3500868, at *4 (E.D. Mich. Dec. 4, 2006) (“The standard for preliminary injunction is not a rigid and comprehensive test, and the four factors are to be balanced, not prerequisites that must be satisfied . . .”), with *Live Nation Motor Sports, Inc. v. Davis*, No. 3:06-CV-276-L, 2006 WL 3616983, at *2 (N.D. Tex. Dec. 12, 2006) (“The party seeking such relief must satisfy a cumulative burden of proving each of the four elements enumerated . . .”).

¹¹¹ See *supra* notes 69–71 and accompanying text.

¹¹² *Berry v. Dillon*, 291 F. App’x 792 (9th Cir. 2008).

¹¹³ *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532 (4th Cir. 2007).

¹¹⁴ *Mon Cheri Bridals, Inc. v. Wu*, Civ. No. 04-1739 (AET), 2008 WL 4534191 (D.N.J. Oct. 7, 2008).

¹¹⁵ Major sub-factors refer to those that appear in at least two different decisions studied here.

these sub-factors among the 52 preliminary-injunction decisions and 70 permanent-injunction decisions that followed the four-factor test.

Factor One: Irreparable Injury

- 1) *Presumption of Irreparable Injury* (22, or 42.3%, of preliminary-injunction decisions¹¹⁶ and 19, or 27.1%, of permanent-injunction decisions¹¹⁷): Courts may presume irreparable injury upon a finding of copyright infringement or likelihood of success on the merits. Notably, there were also seven preliminary-injunction decisions and five permanent-injunction decisions that explicitly rejected the presumption as conflicting with *eBay*.¹¹⁸
- 2) *Inadequacy of Damages* (18, or 34.6%, of preliminary-injunction decisions¹¹⁹ and 14, or 20%, of permanent-injunction decisions¹²⁰): Irreparable injury may be established where monetary damages alone are inadequate to compensate the losses caused by infringement. Furthermore, in nine of the decisions studied here, courts found that monetary damages

¹¹⁶ See, e.g., *Gill v. Am. Mortg. Educators, Inc.*, No. C07-5229RBL, 2007 WL 2746946, at *4 (W.D. Wash. Sept. 19, 2007) (“In copyright cases the plaintiff creates a presumption of irreparable injury upon showing a reasonable likelihood of success on merits.”); *Advance Magazine Publishers, Inc. v. Leach*, 466 F. Supp. 2d 628, 638 (D. Md. 2006) (“If a plaintiff establishes a prima facie claim of copyright infringement, the district court may presume that it could show both probable likelihood of success on the merits and irreparable harm, for purposes of granting a preliminary injunction.”).

¹¹⁷ See, e.g., *Pearson Educ., Inc. v. Nugroho*, No. 08 Civ. 8034(DAB)(AJP), 2009 WL 3429610, at *7 (S.D.N.Y. Oct. 27, 2009) (“Because plaintiffs have succeeded in showing that [defendant] infringed their copyrights, irreparable harm may be presumed.”); *Capitol Records, LLC v. McEwan*, No. 5:08-CV-00473-BR, 2009 WL 103611, at *3 (E.D.N.C. Jan. 13, 2009) (“Irreparable injury is presumed when a plaintiff succeeds on the merits.”).

¹¹⁸ See, e.g., *Jacobsen v. Katzer*, 609 F. Supp. 2d 925, 936 (N.D. Cal. 2009) (preliminary injunction); *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 616 F. Supp. 2d 958, 973 (D. Ariz. 2009) (permanent injunction).

¹¹⁹ See, e.g., *Monarch Prods., LLC v. Zephyr Grafix, Inc.*, No. 4:09CV02049 ERW, 2010 WL 1837711, at *5 (E.D. Mo. May 4, 2010) (“In order for there to be an irreparable harm in a particular case, [t]he injury must be of such a nature that money damages alone do not provide adequate relief.” (internal quotation marks omitted) (alteration in original)); *Bestland v. Smith*, No. 06CV00466WYDPAC, 2006 WL 3218893, at *5 (D. Colo. Nov. 6, 2006) (“Irreparable injury is established when the court would be unable to grant an effective monetary remedy after a full trial because such damages would be inadequate or difficult to ascertain.” (internal quotation marks omitted)).

¹²⁰ See, e.g., *CoxCom, Inc. v. Chaffee*, 536 F.3d 101, 112 (1st Cir. 2008) (“The first two of the four factors are satisfied on a showing of substantial injury that is not accurately measurable or adequately compensable by money damages.”) (internal quotation marks omitted); *Microsoft Corp. v. Lopez*, No. C08-1743-JCC, 2009 WL 959219, at *4 (W.D. Wash. Apr. 7, 2009) (“[Plaintiff] has established that it suffered (1) an irreparable injury (2) that cannot be compensated adequately by remedies at law, such as monetary damages . . .”).

were inadequate because of difficulties in calculation.¹²¹ This sub-factor is basically a legal conclusion rather than a factual finding, showing a tendency of courts to incorporate factor-two concerns (i.e., adequacy of remedy at law) into factor one.

- 3) *Continuing Infringement* (Four, or 7.7%, of preliminary-injunction decisions¹²² and 23, or 32.9%, of permanent-injunction decisions¹²³): A threat of continuing infringement may constitute irreparable injury.
- 4) *Loss of Customers* (12, or 23.1%, of preliminary-injunction decisions¹²⁴ and ten, or 14.3%, of permanent-injunction decisions¹²⁵): It may entail a great deal of speculation and guesswork to put a dollar value on the loss of customers, market share, or competitive position resulting from ongoing infringement. The difficulty in measuring such losses gives rise to irreparable injury.

¹²¹ Of these decisions, one involved a preliminary injunction. *See Salinger v. Colting*, 607 F.3d 68, 81 (2d Cir. 2010) (“Harm might be irremediable, or irreparable, for many reasons, including that a loss is . . . difficult to measure . . .”). The other eight involved permanent injunctions. *See, e.g., Warner Bros. Entm’t, Inc. v. Dave Grossman Creations, Inc.*, No. 4:06CV546 HEA, 2010 WL 816339, at *1 (E.D. Mo. Mar. 4, 2010) (“[M]onetary damages are inadequate precisely because actual damages are difficult to compute and Defendants continue to infringe.”).

¹²² *See, e.g., Agdata, LP v. Gupta*, No. 3:08cv419, 2008 WL 4811674, at *8 (W.D.N.C. Oct. 31, 2008) (“[D]amages at law will not remedy the continuing existence of [plaintiff’s] design in [defendant’s] product.” (internal quotation marks omitted)); *DF Inst., Inc. v. Marketshare EDS*, Civ. No. 07-1348 (MJD/AJB), 2007 WL 1589525, at *8 (D. Minn. June 1, 2007) (“[T]here is potential that without an injunction [defendant] could continue to infringe upon [plaintiff’s] copyrights.”).

¹²³ *See, e.g., Microsoft Corp. v. Atek 3000 Computer Inc.*, No. 06 CV 6403(SLT)(SMG), 2008 WL 2884761, at *5 (E.D.N.Y. July 23, 2008) (“[I]rreparable injury is satisfied under the Copyright Act once there is a finding of copyright infringement and a threat of continuing violations.” (internal quotation marks omitted)); *Warner Bros. Entm’t, Inc. v. Carsagno*, No. 06 CV 2676(NG)(RLM), 2007 WL 1655666, at *6 (E.D.N.Y. June 4, 2007) (“Plaintiff has demonstrated irreparable harm in that without an injunction, its copyrighted film remains subject to continued, repeated infringement.”).

¹²⁴ *See, e.g., C.B. Fleet Co. v. Unico Holdings, Inc.*, 510 F. Supp. 2d 1078, 1083 (S.D. Fla. 2007) (“This loss of market share is more than sufficient to establish irreparable harm.”); *Live Nation Motor Sports, Inc. v. Davis*, No. 3:06-CV-276-L, 2006 WL 3616983, at *5 (N.D. Tex. Dec. 12, 2006) (“[Plaintiff] will lose its ability to sell sponsorships or advertisement on the basis that it is the exclusive source of the webcasts, and such loss will cause irreparable harm.”).

¹²⁵ *See, e.g., Major Bob Music v. Heiman*, No. 09-cv-341-bbc, 2010 WL 1904341, at *5 (W.D. Wis. May 11, 2010) (noting that “defendant’s customers may be more inclined to . . . enjoy free entertainment than to purchase plaintiffs’ copyrighted songs”); *Universal Furniture Int’l, Inc. v. Collezione Europa USA, Inc.*, No. 1:04CV00977, 2007 WL 4262725, at *2 (M.D.N.C. Nov. 30, 2007) (“[W]hile the calculation of future damages and profits for each future sale might be possible, any such effort would entail a substantial amount of speculation and guesswork that renders the effort difficult or impossible.” (internal quotation marks omitted)).

- 5) *Harm to Reputation* (14, or 26.9%, of preliminary-injunction decisions¹²⁶ and six, or 8.6%, of permanent-injunction decisions¹²⁷): Closely related to loss of customers, the harm to reputation or good will that often arises from low-quality infringing copies and potential market confusion may be regarded as a form of irreparable injury.
- 6) *Loss of Exclusivity* (Two, or 3.8%, of preliminary-injunction decisions¹²⁸ and nine, or 12.9%, of permanent-injunction decisions¹²⁹): The difficulty in securing the exclusive rights to use and license a copyrighted work while allowing the infringement to continue could constitute irreparable injury. This sub-factor echoed the concern of Chief Justice Roberts in *eBay*.¹³⁰
- 7) *Scale of Infringement* (Nine, or 12.9%, of permanent-injunction decisions¹³¹): The large scale of infringement tips towards a finding of irreparable injury.
- 8) *Online Infringement* (Nine, or 12.9%, of permanent-injunction decisions¹³²): Online infringement tends to be viral in nature

¹²⁶ See, e.g., *Monarch Prods., LLC v. Zephyr Grafix, Inc.*, No. 4:09CV02049 ERW, 2010 WL 1837711, at *5 (E.D. Mo. May 4, 2010) (stating that harm to reputation or goodwill may result in a diminished customer base); *Gaffigan v. Does 1-10*, 689 F. Supp. 2d 1332, 1341 (S.D. Fla. 2010) (“[A]n award of monetary damages alone will not cure the irreparable injury that Plaintiffs will continue to suffer to their reputations and goodwill . . .”).

¹²⁷ See, e.g., *Apple Inc. v. Psystar Corp.*, 673 F. Supp. 2d 943, 949 (N.D. Cal. 2009) (“This harm to [plaintiff’s] reputation and goodwill, supported by compelling evidence, is sufficient to establish irreparable harm.”); *Microsoft Corp. v. Lopez*, No. C08-1743-JCC, 2009 WL 959219, at *4 (W.D. Wash. Apr. 7, 2009) (“The Court is persuaded that Defendant’s infringements harm [plaintiff’s] business reputation and goodwill such that [plaintiff] could not be made whole by a monetary award.”).

¹²⁸ See *Monarch Prods., LLC*, 2010 WL 1837711, at *5 (“The purpose of seeking copyright protection for a particular product is to be able to control the use of that product, and Defendants’ actions limit Plaintiffs’ ability to do just that.”); *Agdata, LP v. Gupta*, No. 3:08cv419, 2008 WL 4811674, at *8 (W.D.N.C. Oct. 31, 2008) (“Irreparable injury often derives from the nature of copyright violations, which deprive the copyright holder of intangible exclusive rights.” (internal quotation marks omitted)).

¹²⁹ See, e.g., *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 544 (4th Cir. 2007) (“Irreparable injury often derives from the nature of copyright violations, which deprive the copyright holder of intangible exclusive rights.”); *Major Bob Music*, 2010 WL 1904341, at *5 (“[U]nauthorized performances of copyrighted musical compositions take away the copyright owner’s ability to control its copyrighted works.”).

¹³⁰ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (Roberts, C.J., concurring).

¹³¹ See, e.g., *Warner Bros. Entm’t, Inc. v. Dave Grossman Creations, Inc.*, No. 4:06CV546 HEA, 2010 WL 816339, at *1 (E.D. Mo. Mar. 4, 2010); *Warner Bros. Entm’t, Inc. v. Carsagno*, No. 06 CV 2676(NG)(RLM), 2007 WL 1655666, at *6 (E.D.N.Y. June 4, 2007).

¹³² See, e.g., *Interscope Recordings v. Tabor*, Civ. No. 08-03068, 2009 WL 708322, at *2 (W.D. Ark. Mar. 16, 2009) (“Once illegally reproduced and distributed via the

because a single copy uploaded online could quickly breed several generations of multiple infringing copies. A lawsuit that has to focus on the past infringement in dispute is ill-suited to address massive losses caused by ensuing third-party infringements.

- 9) *Undue Delay* (Seven, or 13.5%, of preliminary-injunction decisions¹³³): Courts often construed an undue delay in filing a lawsuit or motion for equitable remedy as an indication that the plaintiff would not suffer any irreparable injury that was “real, imminent and significant.”¹³⁴
- 10) *Default Judgment* (Five, or 7.1%, of permanent-injunction decisions¹³⁵): A defaulted defendant, who never bothered to participate in the legal proceedings, did not appear to take copyright law very seriously. As a result, the plaintiff might find it difficult to recover any compensation from the defendant even with a favorable award of damages.
- 11) *Paying Ability* (One, or 1.9%, of preliminary-injunction decisions¹³⁶ and three, or 4.3%, of permanent-injunction decisions¹³⁷): The defendant might not have the financial ability to pay potential damages.

internet, it is impossible to track and quantify any ongoing and, likely, widespread infringement.”); *Capitol Records v. Barrera*, No. C 06-07212 JSW, 2007 WL 1113949, at *5 (N.D. Cal. Apr. 13, 2007) (“When digital works are distributed via the internet, . . . every downloader who receives one of the copyrighted works from Defendant is in turn capable of also transmitting perfect copies of the works. Accordingly, the process is potentially exponential rather than linear, threatening virtually unstoppable infringement of the copyright.” (internal quotation marks omitted) (alteration in original)).

¹³³ *See, e.g.*, *Gowan Co. v. Aceto Agric. Chems.*, No. CV-09-1124-PHX-JAT, 2009 WL 2028387, at *5 (D. Ariz. July 10, 2009) (“[Plaintiff’s] allegation of irreparable harm is undermined by its delay in filing its complaint.”); *Scott-Blanton v. Universal City Studios Prods. LLLP*, 495 F. Supp. 2d 74, 80 (D.D.C. 2007) (“[P]laintiff’s delay in bringing the motion weighs against a finding of irreparable harm.”).

¹³⁴ *See, e.g.*, *Volkswagen AG v. Verdier Microbus & Camper, Inc.*, No. C 09-00231 JSW, 2009 WL 928130, at *6 (N.D. Cal. Apr. 3, 2009) (“The standard under *Winter* requires . . . that the harm is real, imminent and significant, not just speculative or potential.”).

¹³⁵ *See, e.g.*, *Weidner v. Carroll*, No. 06-782-DRH, 2010 WL 310310, at *2 (S.D. Ill. Jan. 21, 2010) (recognizing irreparable injury “as demonstrated by the entering of default judgment in their favor”); *Sony BMG Music Entm’t v. Gray*, No. C 07-4854 WDB, 2008 WL 4239219, at *4 (N.D. Cal. Sept. 15, 2008) (noting that the defendant’s default gave no assurance that she “will cease her infringing behavior”).

¹³⁶ *See Icke v. Adams*, No. 4:06CV00685 ERW, 2007 WL 1063426, at *29 (E.D. Mo. Apr. 5, 2007).

¹³⁷ *See, e.g.*, *Capitol Records Inc. v. Thomas-Rasset*, 680 F. Supp. 2d 1045, 1059 (D. Minn. 2010); *MGM Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197, 1217 (C.D. Cal. 2007) (“[A]n award of monetary damages will be meaningless, and the plaintiff will have no substantive relief, where it will be impossible to collect an award for past and/or future infringements perpetrated by a defendant.”).

- 12) *Fleeting Value* (Three, or 5.8%, of preliminary-injunction decisions¹³⁸): The value of a copyrighted work is “fleeting” to the extent that it would be difficult to quantify the potential losses after copyright infringement has eroded the narrow window of market opportunity.
- 13) *Willful Infringement* (Two, or 2.9%, of permanent-injunction decisions¹³⁹): Irreparable injury was imputed from the fact that the defendant engaged in copyright infringement willfully.

Factor Two: Inadequacy of Remedy at Law

- 1) *Overlapping Between Factor Two and Factor One* (15, or 21.4%, of permanent-injunction decisions¹⁴⁰): Courts recognized that factor two and factor one are largely overlapping in substance. As mentioned above, almost none of the preliminary-injunction decisions addressed “inadequacy of remedy at law” as a separate factor in the four-factor test;¹⁴¹ a number of permanent-injunction decisions also tended to discuss factor-two concerns in the context of factor one.¹⁴² Such practice further underscores the high level of correlation and interchangeability between these two factors. It is therefore unsurprising that the rest of the sub-factors under factor two are almost identical with those under factor one. For this reason, the following paragraphs will quickly run through those sub-factors, avoiding redundant discussions.

¹³⁸ See, e.g., *Icke*, 2007 WL 1063426, at *29 (acknowledging “the vagaries of limited timely public demand”); *Live Nation Motor Sports, Inc. v. Davis*, No. 3:06-CV-276-L, 2006 WL 3616983, at *5 (N.D. Tex. Dec. 12, 2006) (seasonal market found).

¹³⁹ See *EMI April Music Inc. v. Rodriguez*, 691 F. Supp. 2d 632, 635 (M.D.N.C. 2010) (“The court finds that Defendants have infringed Plaintiffs’ copyrights and that such infringement was willful and intentional. Based on the above, the court finds that Plaintiffs have suffered irreparable injury”); *Microsoft Corp. v. Marturano*, No. 1:06cv1747 OWW GSA, 2009 WL 1530040, at *8 (E.D. Cal. May 27, 2009) (“[W]here Defendant’s acts are willful, as is the case here, Plaintiff need not introduce evidence of a threat of future harm.”).

¹⁴⁰ See, e.g., *EMI April Music, Inc. v. White*, 618 F. Supp. 2d 497, 510 (E.D. Va. 2009) (noting that “the requisite analysis for the second factor of the four-factor test inevitably overlaps with that of the first” (internal quotation marks omitted)); *MGM Studios, Inc.*, 518 F. Supp. 2d at 1219 (“As should be expected, this Court’s adequate remedy at law analysis parallels that performed for irreparable harm.”).

¹⁴¹ See *supra* note 64 and accompanying text. As a matter of fact, there is only one preliminary-injunction decision in the sample that addressed “adequacy of remedy at law” as a separate factor in the four-factor test. See *Icke*, 2007 WL 1063426, at *29.

¹⁴² See *supra* notes 119–21 and accompanying text.

- 2) *Continuing Infringement* (One, or 1.9%, of preliminary-injunction decisions¹⁴³ and 29, or 41.4%, of permanent-injunction decisions¹⁴⁴).
- 3) *Inadequacy of Damages* (28, or 40%, of permanent-injunction decisions¹⁴⁵). Of the 28 decisions, nine found that monetary damages were inadequate because of difficulties in calculation.¹⁴⁶
- 4) *Online Infringement* (Eight, or 11.4%, of permanent-injunction decisions¹⁴⁷).
- 5) *Scale of Infringement* (Seven, or 10%, of permanent-injunction decisions¹⁴⁸).
- 6) *Harm to Reputation* (Six, or 8.6%, of permanent-injunction decisions¹⁴⁹).

¹⁴³ See *Icke*, 2007 WL 1063426, at *30 (“Without receiving further injunctive relief . . . [defendant] will execute his stated plan to continue to infringe [plaintiff’s] copyrights . . .”).

¹⁴⁴ See, e.g., *Marturano*, 2009 WL 1530040, at *8 (“[T]here is continued threat that Defendant will continue to engage in this unlawful conduct. Plaintiff’s injury cannot be remedied by monetary compensation alone.”); *Warner Bros. Entm’t, Inc. v. Carsagno*, No. 06 CV 2676(NG)(RLM), 2007 WL 1655666, at *6 (E.D.N.Y. June 4, 2007). (“As there is no assurance in the record against defendant’s continued violation of plaintiff’s copyrights, a remedy at law is insufficient to compensate for plaintiff’s injuries.”).

¹⁴⁵ See, e.g., *Yash Raj Films (USA), Inc. v. Sidhu*, No. CV F 09-0233 AWI GSA, 2010 WL 1032792, at *7 (E.D. Cal. Mar. 19, 2010) (“This court also finds that monetary damages are inadequate to compensate Plaintiff for the injury suffered.”); *Apple Inc. v. Psystar Corp.*, 673 F. Supp. 2d 943, 949 (N.D. Cal. 2009) (“District courts must ascertain whether remedies available at law, such as monetary damages, are inadequate to compensate for the injury suffered.”).

¹⁴⁶ See, e.g., *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 544 (4th Cir. 2007) (“[W]hile the calculation of future damages and profits for each future sale might be possible, any such effort would entail a substantial amount of speculation and guesswork that renders the effort difficult or impossible in this case.”).

¹⁴⁷ See, e.g., *Capitol Records, LLC v. McEwan*, No. 5:08-CV-00473-BR, 2009 WL 103611, at *3 (E.D.N.C. Jan. 13, 2009) (“The remedy available at law for this injury, monetary damages, will only compensate for Defendant’s one-time infringement of each recording, and not for inevitable future transfers.”); *UMG Recordings, Inc. v. Blake*, No. 5:06-CV-00120-BR, 2007 WL 1853956, at *3 (E.D.N.C. June 26, 2007) (“Plaintiffs’ copyrighted recordings can be further transmitted to thousands of other online media distribution system users.”).

¹⁴⁸ See, e.g., *Sony BMG Music Entm’t v. Gray*, No. C 07-4854 WDB, 2008 WL 4239219, at *4 (N.D. Cal. Sept. 15, 2008) (“In the case of file sharing over the internet damages are potentially widespread and substantial.”); *Atl. Recording Corp. v. Pancrazio*, Civ. No. 06-5572 (RBK), 2007 WL 3036744, at *3 (D.N.J. Oct. 16, 2007) (“Where, as here, Defendant’s actions in participating in an online media distribution system have left the copyrighted works at issue vulnerable to widespread infringement, a legal remedy is insufficient and the threatened injury is real.”).

¹⁴⁹ See, e.g., *Yash Raj Films (USA), Inc.*, 2010 WL 1032792, at *7 (“Plaintiff has suffered loss of business reputation and good will, and Defendant’s financial condition makes it doubtful that Defendant will ever be able to adequately pay any substantial amount of statutory damages.”); *Nat’l League of Junior Cotillions, Inc. v.*

- 7) *Paying Ability* (One, or 1.9%, of preliminary-injunction decisions¹⁵⁰ and five, or 7.1%, of permanent-injunction decisions¹⁵¹).
- 8) *Default Judgment* (Five, or 7.1%, of permanent-injunction decisions¹⁵²).
- 9) *Loss of Consumers* (Four, or 5.7%, of permanent-injunction decisions¹⁵³).
- 10) *Repeat Litigation* (Four, or 5.7%, of permanent-injunction decisions¹⁵⁴): A denial of injunctive relief would require repeat litigation for the plaintiff to fully recover the damages caused by ongoing infringement. The prohibitive costs involved in repeat litigation shows that a remedy at law would not be adequate to make the plaintiff whole.
- 11) *Willful Infringement* (Two, or 2.9%, of permanent-injunction decisions¹⁵⁵).

Porter, No. 3:06-cv-508-RJC-DSC, 2010 WL 143710, at *3 (W.D.N.C. Jan. 7, 2010) (“Money damages would not suffice to remedy the harm to the [plaintiff’s] reputation and goodwill.”).

¹⁵⁰ See Icke v. Adams, No. 4:06CV00685 ERW, 2007 WL 1063426, at *30 (E.D. Mo. Apr. 5, 2007).

¹⁵¹ See, e.g., Weidner v. Carroll, No. 06-782-DRH, 2010 WL 310310, at *2 (S.D. Ill. Jan. 21, 2010) (“It is clear that with a net profit of less than \$0.26 per paper, money damages would be inadequate to compensate Plaintiffs for the value of their artistic work.”); Pearson Educ., Inc. v. Nugroho, No. 08 Civ. 8034(DAB)(AJP), 2009 WL 3429610, at *7 (S.D.N.Y. Oct. 27, 2009) (“[Defendant] likely will not be able to satisfy the monetary judgment beyond the [amount] in his E*Trade accounts . . .”).

¹⁵² See, e.g., EMI April Music Inc. v. Rodriguez, 691 F. Supp. 2d 632, 635 (M.D.N.C. 2010) (“Defendants’ failure to appear in this litigation demonstrates their refusal to acknowledge their legal obligations, makes the threat of continued infringement likely, and underscores the ineffectiveness of a remedy at law.”); Disney Enters., Inc. v. Delane, 446 F. Supp. 2d 402, 408 (D. Md. 2006) (“[Defendant] has not appeared or participated in this litigation, and . . . further infringements are a continuing threat, making remedies at law insufficient to compensate for Plaintiffs’ injuries.”).

¹⁵³ See, e.g., MDY Indus., LLC v. Blizzard Entm’t, Inc., 616 F. Supp. 2d 958, 974 (D. Ariz. 2009) (“Because the damage to [plaintiff’s] goodwill and the loss of its customers caused by [defendant] cannot be calculated with any certainty, traditional legal remedies such as monetary damages are inadequate to redress [plaintiff’s] harm.”); Warner Bros. Entm’t Inc. v. RDR Books, 575 F. Supp. 2d 513, 553 (S.D.N.Y. 2008) (“In view of . . . lost sales of Rowling’s companion books and the injury to Rowling as a writer, Plaintiffs have shown that money damages alone are an insufficient remedy.”).

¹⁵⁴ See, e.g., Major Bob Music v. Heiman, No. 09-cv-341-bbc, 2010 WL 1904341, at *5 (W.D. Wis. May 11, 2010) (“It seems highly likely that without an injunction, plaintiffs would have to file a new lawsuit for each violation in order to enforce the copyright laws.”); MGM Studios, Inc. v. Grokster, Ltd., 518 F. Supp. 2d 1197, 1220 (C.D. Cal. 2007) (“[A] legal remedy is inadequate if it would require a multiplicity of suits.” (internal quotation marks omitted)).

¹⁵⁵ See *Rodriguez*, 691 F. Supp. 2d at 635 (finding that, based on the fact that “such infringement was willful and intentional . . . monetary damages are inadequate to provide a complete remedy”); Columbia Pictures Indus., Inc. v. Whitting, Civ. No. SA-06-CA-0133-XR, 2006 WL 1851388, at *3 (W.D. Tex. June 1, 2006) (noting that an

Factor Three: Balance of Hardship

- 1) *Infringing Use* (13, or 25%, of preliminary-injunction decisions¹⁵⁶ and 34, or 48.6%, of permanent-injunction decisions¹⁵⁷): Courts would discount the hardship on a defendant who built her business around infringing activities, as she had little legitimate interest in continuing copyright infringement. To hold otherwise could send a wrong message that the more one relies upon infringement for her livelihood, the more easily she can avoid injunctive relief.
- 2) *Alternative to Infringement* (Eight, or 15.4%, of preliminary-injunction decisions¹⁵⁸ and 11, or 15.7%, of permanent-injunction decisions¹⁵⁹): Courts found reasonable legitimate alternatives to the infringing act for the defendant to achieve the same purpose. The existence of such alternatives would tip the balance of hardship towards the plaintiff and vice versa.
- 3) *Redesign Cost* (Eight, or 15.4%, of preliminary-injunction decisions¹⁶⁰ and three, or 4.3%, of permanent-injunction

injunction was appropriate because “[d]efendant has admitted to willfully and repeatedly infringing Plaintiff’s copyright”).

¹⁵⁶ See, e.g., *Coquico, Inc. v. Rodriguez-Miranda*, Civ. No. 07-1432 (JP), 2007 WL 3034259, at *5 (D.P.R. Oct. 15, 2007) (noting that “any advantages which are built up as a result of the allegedly infringing activity should not be measured in assessing the hardship of granting an injunction”); *Advance Magazine Publishers, Inc. v. Leach*, 466 F. Supp. 2d 628, 638 (D. Md. 2006) (“Defendant cannot claim a cognizable harm in being prevented from making a profit through infringing activity, thus this factor weighs in favor of Plaintiff.”).

¹⁵⁷ See, e.g., *Atl. Recording Corp. v. Anderson*, Civ. No. H-06-3578, 2008 WL 2316551, at *10 (S.D. Tex. Mar. 12, 2008) (“No burden is imposed on Defendant by an injunction to refrain from further infringements because he is merely required to comply with the law.”); *Capitol Records v. Barrera*, No. C 06-07212 JSW, 2007 WL 1113949, at *6 (N.D. Cal. Apr. 13, 2007) (“Indeed, there is no obvious injury if [defendant] is only enjoined from unlawfully reproducing, distributing, or making available for distribution copyrighted recordings.”).

¹⁵⁸ See, e.g., *DF Inst., Inc. v. Marketshare EDS*, Civ. No. 07-1348 (MJD/AJB), 2007 WL 1589525, at *9 (D. Minn. June 1, 2007) (“[T]he harm that [defendant] fears should the Court issue an injunction will not occur since no one is asserting that [defendant] cannot teach its courses using non-infringing materials.”); *Live Nation Motor Sports, Inc. v. Davis*, No. 3:06-CV-276-L, 2006 WL 3616983, at *5 (N.D. Tex. Dec. 12, 2006) (“Even if the court enjoins [defendant] from providing live webcasts of [plaintiff’s] racing events, he may continue to provide a website for racing enthusiasts and authorized links to other racing events.”).

¹⁵⁹ See, e.g., *Warner Bros. Entm’t, Inc. v. Dave Grossman Creations, Inc.*, No. 4:06CV546 HEA, 2010 WL 816339, at *2 (E.D. Mo. Mar. 4, 2010) (“Defendants do not rely solely on the copyrighted images for their licenses, and Defendants can continue to license those images not protected by Plaintiffs’ copyrights.”); *Capitol Records, LLC v. McEwan*, No. 5:08-CV-00473-BR, 2009 WL 103611, at *3 (E.D.N.C. Jan. 13, 2009) (“Defendant, on the other hand, faces little, if any, harm. These recordings will still be just as accessible to Defendant; he will have to pay to download them.”).

¹⁶⁰ See, e.g., *Dellacasa, LLC v. John Moriarty & Assocs. of Fla., Inc.*, No. 07-21659-CIV, 2008 WL 299024, at *18 (S.D. Fla. Feb. 1, 2008) (noting that “[i]f a preliminary

decisions¹⁶¹): It would impose substantial costs on the defendant to redesign her products or businesses (e.g., removing infringing components from final products) to avoid infringement. A high level of redesign cost would most likely tip the balance of hardship towards the defendant and vice versa.

- 4) *Harm to Third-Party Relations* (Six, or 11.5%, of preliminary-injunction decisions¹⁶²): An injunction may force the defendant to breach her contracts or otherwise impair her business relations with third parties.
- 5) *Merits of the Copyright Claim* (Five, or 9.6%, of preliminary-injunction decisions¹⁶³): The likelihood of success on the merits of the copyright claim would negatively correlate with the weight that a court gives to the hardship on the defendant. In other words, the lower the likelihood of success, the more a court would be concerned about the hardship on the defendant.
- 6) *Stage of Development* (Three, or 5.8%, of preliminary-injunction decisions¹⁶⁴ and one, or 1.4%, of permanent-injunction

injunction were issued, the delay in the project would be 10 to 12 months” and cost tens of millions of dollars); *Close to My Heart, Inc. v. Enthusiast Media LLC*, 508 F. Supp. 2d 963, 972 (D. Utah, 2007) (“The issuance of an injunction would cause [defendant] to suffer significant disruption and expense.”).

¹⁶¹ See, e.g., *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 544 (4th Cir. 2007) (noting that “a permanent injunction would impose a draconian burden on [defendant], effectively creating a *lis pendens* on the house”).

¹⁶² See, e.g., *Universal Furniture Int’l, Inc. v. Collezione Europa USA, Inc.*, 196 F. App’x 166, 172 (4th Cir. 2006) (“The district court found that in addition to lost sales, [plaintiff] showed an immediate threat of irreparable injury to its reputation and customer relations due to impending sales of [defendant’s] allegedly similar, but cheaper furniture.”); *Allora, LLC v. Brownstone, Inc.*, No. 1:07CV87, 2007 WL 1246448, at *7 (W.D.N.C. Apr. 27, 2007), (“[T]he granting of an injunction preventing the completion and sale of these homes could cause massive damage to Defendants’ reputations and financial stability.”).

¹⁶³ See, e.g., *Aurora World, Inc. v. Ty Inc.*, 719 F. Supp. 2d 1115, 1170 (C.D. Cal. 2009) (noting that “as [plaintiff] has adduced scant evidence that any U.S. market products are confusingly similar, an injunction would work a hardship on [defendant]”); *Auto Inspection Servs., Inc. v. Flint Auto Auction, Inc.*, No. 06-15100, 2006 WL 3500868, at *9 (E.D. Mich. Dec. 4, 2006) (“Since it is not at all clear whether [defendant] infringed on [plaintiff’s] copyright, the possible harm to [defendant’s] business strongly militates against issuing an injunction.”).

¹⁶⁴ See, e.g., *Scott-Blanton v. Universal City Studios Prods. LLLP*, 495 F. Supp. 2d 74, 81 (D.D.C. 2007) (noting that “the defendants would suffer significant harm if an injunction were granted due to the time and the money” already invested to distribute DVDs and to broadcast the movie in a variety of media); *Allora, LLC*, 2007 WL 1246448, at *8 (opining that “stopping construction of three homes—which are said to be 95 percent, 60 percent, and 30 percent completed at this time—would be an utter waste of resources”).

decisions¹⁶⁵): The hardship on the defendant may depend on the stage of development of the infringing product (e.g., architecture). In other words, the closer the infringing product is to completion, the more hardship an injunction may cause to the defendant.

- 7) *Non-infringing Use* (One, or 1.9%, of preliminary-injunction decisions¹⁶⁶ and three, or 4.3%, of permanent-injunction decisions¹⁶⁷): The defendant may suffer undue hardship if an injunction severely affects her non-infringing activities.
- 8) *Default Judgment* (Two, or 3.8%, of permanent-injunction decisions¹⁶⁸): The fact that the defendant was absent from the legal proceedings put the hardship squarely on the plaintiff.

Factor Four: Public Interest

- 1) *Upholding Copyright Protection* (21, or 40.4%, of preliminary-injunction decisions¹⁶⁹ and 47, or 67.1%, of permanent-injunction decisions¹⁷⁰): It is in the public interest to uphold

¹⁶⁵ See *Christopher Phelps & Assocs., LLC*, 492 F.3d at 545 (noting that an injunction was not appropriate “when the architectural structure is completed and inhabited by the infringer”).

¹⁶⁶ See *Salinger v. Colting*, 607 F.3d 68, 81 (2d Cir. 2010) (“The relevant harm is the harm that (a) occurs to the parties’ legal interests and (b) cannot be remedied after a final adjudication, whether by damages or a permanent injunction.” (footnote omitted)).

¹⁶⁷ See, e.g., *Christopher Phelps & Assocs., LLC*, 492 F.3d at 545 (“[A]n injunction against sale of the house would be overbroad, as it would encumber a great deal of property unrelated to the infringement.”); *Mon Cheri Bridals, Inc. v. Wu*, Civ. No. 04-1739 (AET), 2008 WL 4534191, at *6 (D.N.J. Oct. 7, 2008) (“[T]he difficulty in crafting an injunction to address specific legal violations that would not infringe upon Defendant’s ability to produce unprotectable elements in future dress designs, makes it improper for the Court to issue injunction relief in favor of Plaintiff.”).

¹⁶⁸ See *Warner Bros. Entm’t, Inc. v. Carsagno*, No. 06 CV 2676(NG)(RLM), 2007 WL 1655666, at *6 (E.D.N.Y. June 4, 2007); *Disney Enters., Inc. v. Delane*, 446 F. Supp. 2d 402, 408 (D. Md. 2006).

¹⁶⁹ See, e.g., *RDI of Mich., LLC v. Mich. Coin-Op Vending, Inc.*, 631 F. Supp. 2d 868, 875 (E.D. Mich. 2008) (“[W]hen there is copyright infringement, the public has an interest in upholding copyright protections.”); *Coquico, Inc. v. Rodriguez-Miranda*, Civ. No. 07-1432 (JP), 2007 WL 3034259, at *2 (D.P.R. Oct. 15, 2007) (“[T]he public interest can only be served by upholding copyright protections and, correspondingly, preventing the misappropriation of the skills, creative energies, and resources which are invested in the protected work.” (internal quotation marks omitted)).

¹⁷⁰ See, e.g., *Warner Bros. Entm’t, Inc. v. Dave Grossman Creations, Inc.*, No. 4:06CV546 HEA, 2010 WL 816339, at *2 (E.D. Mo. Mar. 4, 2010) (“[I]t is virtually axiomatic that the public interest can only be served by upholding copyright protections and, correspondingly, preventing the misappropriation of the skills, creative energies, and resources which are invested in the protected work.”); *Carsagno*, 2007 WL 1655666, at *6 (“[T]he public interest would not be disserved by a permanent injunction, as there is a greater public benefit in securing the integrity of [plaintiff’s] copyrights than in allowing [defendant] to make [the] copyrighted

copyright protection and provide an effective incentive for creativity as intended by copyright law.

- 2) *Access to Information* (Three, or 5.8%, of preliminary-injunction decisions¹⁷¹ and six, or 8.6%, of permanent-injunction decisions¹⁷²): An injunction could potentially affect public access to information in two different directions: on the one hand, immediate access to infringing works might be limited; on the other hand, long-term access to more works might be promoted by preserving the incentive for creativity. Courts thus need to take into account both short-term and long-term effects while determining injunctive relief.
- 3) *Market Confusion* (Four, or 7.7%, of preliminary-injunction decisions¹⁷³ and three, or 4.3%, of permanent-injunction decisions¹⁷⁴): The public has a strong interest in preventing confusion in the marketplace caused by infringement.
- 4) *Free Competition* (Four, or 7.7%, of preliminary-injunction decisions¹⁷⁵ and two, or 2.9%, of permanent-injunction

material available to the public.” (internal quotation marks omitted) (alterations in original)).

¹⁷¹ See, e.g., *Salinger*, 607 F.3d at 82 (“By protecting those who wish to enter the marketplace of ideas from government attack, the First Amendment protects the public’s interest in receiving information.” (internal quotation marks omitted)); *Live Nation Motor Sports, Inc. v. Davis*, No. 3:06-CV-276-L, 2006 WL 3616983, at *5 (N.D. Tex. Dec. 12, 2006) (“[T]he court has no reason to believe . . . that racing fans will lose access to live webcasts of [plaintiff’s] Supercross events if he is enjoined from providing the link on his website.”).

¹⁷² See, e.g., *Interscope Recordings v. Tabor*, Civ. No. 08-03068, 2009 WL 708322, at *2 (W.D. Ark. Mar. 16, 2009) (“[A]n injunction against Defendant will be in the public interest, as the ultimate negative impact of record piracy very likely lands on the general public—i.e., record labels may be forced to raise wholesale prices of compact disks to recover their losses.”); *Idearc Media Corp. v. Nw. Directories, Inc.*, 623 F. Supp. 2d 1223, 1234 (D. Or. 2008) (“Nothing in the record suggests that removing the infringing directories from the market would harm the public, given the fact that the directories contain largely identical content.”).

¹⁷³ See, e.g., *Monarch Prods., LLC v. Zephyr Grafex, Inc.*, No. 4:09CV02049 ERW, 2010 WL 1837711, at *7 (E.D. Mo. May 4, 2010) (noting that “preventing confusion in the marketplace” is certainly in the public interest); *Gaffigan v. Does 1-10*, 689 F. Supp. 2d 1332, 1341 (S.D. Fla. 2010) (noting that it is “in the best interest of the general public” to prevent passing off).

¹⁷⁴ See, e.g., *Microsoft Corp. v. Atek 3000 Computer Inc.*, No. 06 CV 6403(SLT)(SMG), 2008 WL 2884761, at *6 (E.D.N.Y. July 23, 2008) (“[T]he public interest lies in the enforcement of the principles recognized by Congress in creating the [Copyright and Lanham] Acts, especially the prevention of consumer confusion.”); *Disney Enters., Inc. v. Law*, No. 6:07-cv-1153-Orl-18CJJK, 2008 WL 203393, at *4 (M.D. Fla. Jan. 23, 2008) (“As the public has a strong interest in being free from the confusion and deception caused by copyright infringement, [plaintiff’s] proposed injunction is not adverse to the public interest.”).

¹⁷⁵ See, e.g., *Nat’l League of Junior Cotillions, Inc. v. Porter*, No. 3:06-cv-508-RJC, 2007 WL 2316823, at *9 (W.D.N.C. Aug. 9, 2007) (“[T]here is a strong public interest in free competition where legal rights are not invaded.”); *DF Inst., Inc. v. Marketshare EDS*, Civ. No. 07-1348 (MJD/AJB), 2007 WL 1589525, at *9 (D. Minn.

decisions¹⁷⁶): Free competition in the marketplace serves the public interest as long as the competition is based on fairness and honesty.

- 5) *Substantial Impact on Third Parties* (Three, or 5.8%, of preliminary-injunction decisions¹⁷⁷): An injunction could have a substantial impact on third parties that were not involved in the infringement.

V. FINDING COPYRIGHT HOLDUP

The above parts have indicated from a descriptive perspective that the *eBay* decision was neither rooted in the well-established practice of copyright law nor effective in altering the adjudication of subsequent copyright injunctions. The following Part will proceed from a prescriptive perspective to examine how much the *eBay* decision and the four-factor test therein *should* guide future copyright cases. It argues that the seeming indifference toward the *eBay* decision may actually result from rational choices of lower courts because the holdup problem in copyright law is much less ubiquitous and involves a different set of policy concerns.

A. Policy Concerns for the Holdup Problem

The Supreme Court in *eBay* merely reinforced the discretionary power of lower courts and did not itself decide on the availability of permanent injunction.¹⁷⁸ Nevertheless, the underlying message is unmistakable: district courts should start to withhold injunctive relief at least in some cases rather than automatically granting such motions without differentiation. Therefore, it is unsurprising that lower courts have given much weight to the concurring opinion by Justice Kennedy,

June 1, 2007) (“The public also has an interest in fair market competition. However, competition based on impermissible copyright violations is not fair.”).

¹⁷⁶ See *Mortg. Mkt. Guide, LLC v. Freedman Report, LLC*, No. 06-cv-140-FLW, 2008 WL 2991570, at *44 (D.N.J. July 28, 2008) (rejecting the argument that an injunction would have the effect of conferring a monopoly, “because [defendant] and [plaintiff’s] other competitors will continue to be able to compete against each other and [plaintiff],” except not with the copyrighted materials); *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 616 F. Supp. 2d 958, 974 (D. Ariz. 2009) (“The public interest may favor full and honest competition, but [defendant] ultimately is an exploiter, not a competitor.”).

¹⁷⁷ See, e.g., *Allora, LLC v. Brownstone, Inc.*, No. 1:07CV87, 2007 WL 1246448, at *8 (W.D.N.C. Apr. 27, 2007) (“[T]he Court would have found the injunction to negatively [a]ffect the lives of numerous third parties as well as waste a number of resources.”); *Auto Inspection Servs., Inc. v. Flint Auto Auction, Inc.*, No. 06-15100, 2006 WL 3500868, at *10 (E.D. Mich. Dec. 4, 2006) (“[S]ince . . . issuing an injunction would essentially ruin a large local employer, the public interest also weighs in favor of not issuing an injunction.”).

¹⁷⁸ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006).

which expressed a more skeptical view toward injunctive relief in the cases of patent holdup.¹⁷⁹

A holdup problem arises when the patentee deliberately withholds a complaint of patent infringement until a downstream producer has incurred substantial sunk costs to design, manufacture and sell the products containing a patented component.¹⁸⁰ With the threat of litigation and injunction at this point, the patentee intends to extract excessive royalties from the downstream producer, oftentimes out of proportion to the small contribution of the patented component to the whole product.

In the wake of the *eBay* case, lower courts, while identifying patent holdup that warranted a denial of a permanent injunction, attached increasing importance to the following fact patterns¹⁸¹: (i) the patentee does not practice the patented invention but merely relies on licensing royalties as revenue streams; therefore, there is no direct competition between the patentee and the downstream producer; (ii) the patentee does not engage in R&D activities, being an assignee of the invention, while the downstream producer has independently developed the product that contains the patented feature; (iii) the patented invention is just a small component of the downstream product; (iv) the downstream product is so complex as to involve multiple patents potentially; and (v) redesigning the downstream product to remove the patented feature would entail substantial expense and time, and cause serious delay in sales of the whole product.

Commentators have pointed to several legal doctrines that actually aggravate the holdup problem under patent law. For instance, many producers tend to forgo any patent searches and simply ignore potentially relevant patents while engaging in R&D for new products.¹⁸² A

¹⁷⁹ See, e.g., *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 582 (E.D. Va. 2007); *Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 444 (D. Del. 2007); *Sundance, Inc. v. DeMonte Fabricating Ltd.*, No. 02-73543, 2007 WL 37742, at *1-2 (E.D. Mich. Jan. 4, 2007); *Voda v. Cordis Corp.*, No. CIV-03-1512-L, 2006 WL 2570614, at *5-6 (W.D. Okla. Sept. 5, 2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211-DF, 2006 WL 2385139, at *2, *6 (E.D. Tex. Aug. 16, 2006); *Finisar Corp. v. DirecTV Grp., Inc.*, No. 1:05-CV-264, 2006 WL 2037617, at *1 (E.D. Tex. July 7, 2006); *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 441, 444 (E.D. Tex. 2006).

¹⁸⁰ See Lemley & Shapiro, *supra* note 3, at 1995.

¹⁸¹ For articles that summarize post-*eBay* trends in patent permanent injunctions, see, generally, Darryl J. Adams & Victoria Wicken, *Permanent Injunctions After eBay v. MercExchange: The Year in Review*, 15 TEX. INTEL. PROP. L.J. 417 (2007); Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): *A Review of the Subsequent Judicial Decisions*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 631 (2007); Bernard H. Chao, *After eBay, Inc. v. MercExchange: The Changing Landscape for Patent Remedies*, 9 MINN. J. L. SCI. & TECH. 543, (2008); Andrei Iancu & W. Joss Nichols, *Balancing the Four Factors in Permanent Injunction Decisions: A Review of Post-eBay Case Law*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 395 (2007); Edward D. Manzo, *Injunctions in Patent Cases after eBay*, 7 J. MARSHALL REV. INTEL. PROP. L. 44 (2007).

¹⁸² See Mark A. Lemley, *Ignoring Patents*, 2008 MICH. ST. L. REV. 19, 21.

patent search would, in many cases, be of very limited help in ascertaining the legal risk of infringement because the wordings in patent claims are inherently deficient to describing the patent's scope,¹⁸³ because the patent research would be incapable of revealing undisclosed applications (especially continuations),¹⁸⁴ and because a substantial portion of patents issued by the PTO would likely be invalidated anyway.¹⁸⁵ Furthermore, a patent search could conversely enhance the risk of patent infringement to the extent that ignoring search results might possibly lead to willful infringement and triple damages.¹⁸⁶ Besides, there is no "independent invention" defense under patent law, so a producer could be liable for infringement even if she develops a product on her own, unaware of existing patents.¹⁸⁷

B. *The Presence of Copyright Holdup*

Although the patent and copyright laws originated from the same constitutional underpinning,¹⁸⁸ they have gradually evolved in divergent directions.¹⁸⁹ Patent law is focused more on functionality and grants exclusive rights merely to new and useful inventions that are not "obvious . . . to a person having ordinary skill in the art."¹⁹⁰ By contrast, copyright law emphasizes variety and diversity, which leads to protection of all original works created independently "plus a modicum of creativity."¹⁹¹ Such different approaches to the encouragement of intellectual creation result in several features in copyright law that could to a great extent mitigate the holdup problem, which is, however, more visible in the patent regime.¹⁹²

¹⁸³ See, e.g., *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 727 (2002) ("[W]e appreciated that by extending protection beyond the literal terms in a patent the doctrine of equivalents can create substantial uncertainty about where the patent monopoly ends.").

¹⁸⁴ See 35 U.S.C. § 122(b)(1)(A) (2006) (patent applications usually published after 18 months).

¹⁸⁵ See John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205 (1998) (46% of patents litigated to judgment are found invalid).

¹⁸⁶ See Mark A. Lemley & Ragesh K. Tangri, *Ending Patent Law's Willfulness Game*, 18 BERKELEY TECH. L.J. 1085, 1100 (2003).

¹⁸⁷ See *Samson Vermont, Independent Invention as a Defense to Patent Infringement*, 105 MICH. L. REV. 475, 494–500 (2006).

¹⁸⁸ U.S. CONST. art. I, § 8, cl. 8 ("The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries[.]").

¹⁸⁹ See PAUL GOLDSTEIN, *COPYRIGHT'S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX* 192 (Stanford Univ. Press 2003) (1994).

¹⁹⁰ 35 U.S.C. § 103(a) (2006).

¹⁹¹ See *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 346 (1991).

¹⁹² The fact that the Supreme Court could not find an appropriate occasion to weigh in on copyright injunctions in a hundred years (except in the dicta of remotely related cases) also appears to suggest that the problem of copyright holdup is not ubiquitous.

First, in line with the purpose of copyright law to foster as wide a variety among works of authorship as possible, the exclusive rights of a copyright owner only extend to actual copying of her copyrighted work.¹⁹³ Independent creation of a work of authorship, even if it happens to be identical to a pre-existing one, would not constitute copyright infringement.¹⁹⁴ In fact, such a work would likely be considered original and entitled to a copyright separate from the pre-existing one. To this extent, copyright law drastically differs from patent law, under which the exclusivity of patent rights is relatively strong, covering not only unscrupulous copying but also independent creation of the same invention. This serves as a powerful incentive to substantial advances, rather than mere differentiation in technological development.¹⁹⁵ For this reason, the holdup problem in the copyright arena normally takes place on a much smaller scale. Unlike downstream manufacturers that have to walk through patent thickets, many authors can take comfort simply from the fact that they engage in independent creation.¹⁹⁶

It also appears that the producers of downstream works are more willing to seek copyright clearance where third-party material is involved. Copyright clearance often becomes a condition precedent for insurance companies to issue an “errors and omissions” policy for major production projects.¹⁹⁷ This practice is understandable considering that the legal risk of copyright infringement is fairly certain, at least in the cases of wholesale copying, partially because the chance of “invalidating” a copyrighted work is rather low, corresponding to the low thresholds for copyright eligibility.¹⁹⁸ As a matter of fact, a denial of injunctive relief would hardly be justifiable in everyday copyright cases “because most

¹⁹³ In other words, the social costs of copyright are limited access to a work created by the author, while the social costs of patent are limited access to certain inventions created either by the patentee or by any third party.

¹⁹⁴ See, e.g., *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 54 (2d Cir. 1936) (“[B]ut if by some magic a man who had never known it were to compose anew Keats’s Ode on a Grecian Urn, he would be an ‘author’ and, if he copyrighted it, others might not copy that poem, though they might of course copy Keats’s.”).

¹⁹⁵ See *supra* note 190 and accompanying text.

¹⁹⁶ A rare exception is “subconscious copying” where the author genuinely believes that she has independently created a work, but in fact has subconsciously copied another work. See *Bright Tunes Music Corp. v. Harrisongs Music, Ltd.*, 420 F. Supp. 177, 180–81 (S.D.N.Y. 1976).

¹⁹⁷ Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. COPYRIGHT SOC’Y U.S.A. 209, 238 (1983).

¹⁹⁸ To establish a prima facie case of copyright infringement, copyright owners usually do not need to present any evidence on originality or copyright ownership other than copyright-registration certificates which give rise to the presumption of the validity of the copyrights. See 17 U.S.C. § 410(c) (2006) (“In any judicial proceedings the certificate of a registration made before or within five years after first publication of the work shall constitute prima facie evidence of the validity of the copyright . . .”).

infringements are simple piracy.”¹⁹⁹ Those infringing works incur no fixed costs of creation and directly compete with the original works in the marketplace. If widespread, they would significantly weaken the incentive for authors to undertake intellectual creation. A denial of a permanent injunction would actually risk encouraging copyright infringement if the worst that could happen to those who forgo clearance were the same as the best that could happen to those who obtain authorization (i.e., payment of reasonable royalties).²⁰⁰ As such, potential users would have minimal incentive to engage in negotiation with copyright owners, which has the potential to destroy the licensing market envisioned by copyright law.

It, however, does not follow that the holdup problem never takes place in the copyright regime. Copyright clearance could be extremely difficult where some authors decline to grant permission simply for non-commercial reasons (e.g., suppressing speech).²⁰¹ In the cases where a large number of copyrighted works are involved in a single production, copyright owners could strategically withhold permission in order to increase their shares in the total package of licensing royalties, which could cause negotiation breakdown.²⁰² Similar strategic behaviors may also occur relating to a single work that is a small component of a larger product, yet very difficult to design around *ex post facto*.²⁰³ Those problems would add to the transaction costs that probably were high already, resulting from the need to track down and negotiate with multiple parties.²⁰⁴ Furthermore, copyright law is a strict-liability regime. It is not

¹⁹⁹ Leval, *supra* note 49, at 1132; *see also* Christopher Phelps & Assocs., LLC v. Galloway, 492 F.3d 532, 546 (4th Cir. 2007) (“In the garden-variety piracy case, [injunctive] orders are routinely issued.”).

²⁰⁰ Notably, if courts are aggressive in awarding statutory damages, it could, however, amount to a de facto permanent injunction. *See infra* note 256 and accompanying text.

²⁰¹ *See, e.g.*, New Era Publ’ns Int’l, ApS v. Carol Publ’g Grp., 904 F.2d 152 (2d Cir. 1990) (the exclusive licensee of copyrights in the works of L. Ron Hubbard, sought injunctive relief to suppress a critical biography written by a former member of the Church); Religious Tech. Ctr. v. Netcom On-Line Commc’n Servs., Inc., 907 F. Supp. 1361 (N.D. Cal. 1995) (the owners of copyrights in the works of L. Ron Hubbard, the founder of the Church of Scientology, sought injunctive relief to enjoin a former member of the Church from posting portions of such works online).

²⁰² The prohibitive transaction costs involved in having to deal with multiple parties are often called the “holdout” problem or the tragedy of “anti-commons.” *See* Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972); Michael A. Heller, *The Tragedy of the Anticommons: Property in the Transition from Marx to Markets*, 111 HARV. L. REV. 621 (1998).

²⁰³ *See supra* note 180 and accompanying text.

²⁰⁴ If the relevant works have been published for a long period of time, the difficulty in tracking down the rightful owners would be greatly amplified and often result in abandonment of the whole project. Copyrighted works for which the owner cannot be identified are sometimes called “orphan works.” But technically speaking, this is not a typical case of the holdup problem because the unfound owner may well

an affirmative defense to copyright infringement that one does not know and has no reason to know about the infringing nature of the disputed use.²⁰⁵ Accordingly, it is not uncommon to see an innocent employer liable for the unscrupulous copying by her employee or a non-fault licensee liable for usage of a work allegedly authorized by the make-believe licensor.²⁰⁶ The holdup problem may likewise emerge in the context of indirect copyright liabilities.²⁰⁷ Various information technologies, ranging from VCRs to search engines and file-sharing, could simultaneously give rise to a vast number of infringing and non-

be more than happy to grant the copyright license. *See generally* U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006).

²⁰⁵ *See, e.g.*, *Repp v. Webber*, 132 F.3d 882, 889 (2d Cir. 1997) (“The fact that infringement is ‘subconscious’ or ‘innocent’ does not affect liability, although it may have some bearing on remedies.”); *D.C. Comics Inc. v. Mini Gift Shop*, 912 F.2d 29, 35 (2d Cir. 1990) (“It is important to note that a finding of innocent infringement does not absolve the defendant of liability under the Copyright Act.”); *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 308 (2d Cir. 1963) (“While there have been some complaints concerning the harshness of the principle of strict liability in copyright law, courts have consistently refused to honor the defense of absence of knowledge or intention.” (citations omitted)).

²⁰⁶ *See, e.g.*, *Douglas v. Cunningham*, 294 U.S. 207, 208–10 (1935) (ruling that, although the publisher innocently accepted the infringing article from another defendant, it was still liable for infringement); *Pinkham v. Sara Lee Corp.*, 983 F.2d 824, 828 (8th Cir. 1992) (holding that an “apparent authority defense is not available to [defendant], as it is generally unavailable in the context of copyright infringement”); *Lottie Joplin Thomas Trust v. Crown Publishers, Inc.*, 592 F.2d 651, 654–55, 658 n.10 (2d Cir. 1978) (ordering a permanent injunction and stating that a showing of “good faith” reliance did not preclude an award of damages); *De Acosta v. Brown*, 146 F.2d 408, 410, 412 (2d Cir. 1944) (rejecting the defendant publisher’s defenses that he was not aware he was infringing and that the infringement could not have been reasonably foreseen); *Massapequa Publ’g Co. v. Observer, Inc.*, 191 F. Supp. 261, 262 (E.D.N.Y. 1961) (holding it was immaterial that the defendants might have been innocent infringers).

²⁰⁷ Indirect copyright liabilities basically consist of two branches: contributory infringement and vicarious liability. Contributory infringement arises when the defendant “induces, causes or materially contributes to the infringing conduct of another,” with actual or constructive “knowledge of the infringing activity.” *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). Vicarious liability will be imposed when the defendant possesses “the right and ability to supervise the infringing conduct” and has “an obvious and direct financial interest in the exploitation of copyrighted materials.” *Id.*; *Shapiro, Bernstein & Co.*, 316 F.2d at 307. More often than not, contributory infringement and vicarious liability were jointly alleged or even merged in practice. *See, e.g.*, *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 261–64 (9th Cir. 1996) (a swap-meet operator was held contributorily and vicariously liable for independent vendors’ sales of infringing goods in the swap meet); *Gershwin Publ’g Corp.*, 443 F.2d at 1162–63 (holding that an artist manager and concert promoter was liable for infringing performance of a music group); *Shapiro, Bernstein & Co.*, 316 F.2d at 307 (concluding that a store owner who retained supervision of and received a share of the profits derived from the sale of bootleg records was liable for copyright infringement occurring in the store).

infringing uses.²⁰⁸ In these cases, it is sometimes prohibitively expensive for technology providers to accurately filter the infringing uses from the non-infringing uses. Therefore, the whole service, including the non-infringing portion, would likely be forced to shut down, even though a permanent injunction is granted only against copyright infringement.²⁰⁹

While copyright holdup arguably does exist under exceptional circumstances, it is usually not as problematic as patent holdup. In most cases, the costs associated with the redesign, recall, and replacement of copyrighted works are not as high as those for products incorporating a patented feature. The intuition is that copyrighted works are relatively freestanding and may be easily separated from other products bundled together. Works in a digital form are notoriously malleable. It would not incur substantial costs to eliminate the infringing components therein if such a task may be carried out through the Internet. For instance, a software update could be transmitted online to cure the infringing codes in an application that is already sold to and installed by end users. Even if an infringing work has been reproduced and distributed in physical form, the costs of making physical media appear to be much more affordable than the costs for such products as microchips and automobiles that are often subjected to patent holdup.

Redesign itself is also relatively straightforward for copyrighted works and, oftentimes, may be quickly completed during the trial of a copyright case.²¹⁰ The reason is that copyrighted works are often good (albeit not perfect) substitutes for each other.²¹¹ The high-degree of substitutability between different works lies in several legal doctrines in copyright law. As mentioned above, independent creation of a work of authorship, even if it happens to be identical to a pre-existing one, would not constitute copyright infringement.²¹² In addition, copyright protection only extends

²⁰⁸ See, e.g., *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 919–20, 933 (2005); *In re Aimster Copyright Litig.*, 334 F.3d 643, 651–52 (7th Cir. 2003); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1014 (9th Cir. 2001).

²⁰⁹ See *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 976 (9th Cir. 1981), *rev'd on other grounds*, 464 U.S. 417 (1984) (suggesting that damages or a continuing royalty would constitute an acceptable resolution for infringement caused by in-home taping of television programs by VCR); see also *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 499–500 (1984) (Blackmun, J., dissenting).

²¹⁰ See, e.g., *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 700 (2d Cir. 1992) (it took the defendant six months to rewrite the whole software upon receipt of the complaint).

²¹¹ See Paul Goldstein, *Copyright*, 55 LAW & CONTEMP. PROBS., no. 2, Spring 1992, at 79, 84 (“Although we would prefer not to admit it, one author’s expression will always be substitutable for another’s.”); Edmund W. Kitch, *Elementary and Persistent Errors in the Economic Analysis of Intellectual Property*, 53 VAND. L. REV. 1727, 1730 (2000) (“[C]opyrights do not prevent competitors from creating works with the same functional characteristics . . .”).

²¹² See *supra* note 194 and accompanying text.

to expressions rather than ideas in a work of authorship.²¹³ The idea/expression dichotomy suggests that a subsequent author could intentionally imitate a pre-existing work as closely as possible, provided that the borrowing is limited to unprotected ideas. Accordingly, similar works from different sources abound in the marketplace due to either coincidental repetitiveness or deliberate imitation.

The short timeframe for redesigning copyrighted works would also diminish the possible losses in sales caused by permanent injunctions. Even in industries featuring network effects²¹⁴ (e.g., software), the downstream producers that redesign copyrighted works would generally have more chances to recover market shares than those that redesign patented components. Network industries tend to generate a strong natural dynamic of “standardization” in order to enlarge the network scale and therefore fully realize network effects.²¹⁵ Once market choices tip towards one set of standards, competing standards tend to rapidly fade away.²¹⁶ Therefore, if a person holds exclusive rights over the standardized features in a product, she would theoretically be able to impose market-entry barriers to latecomers by blocking the use of the proprietary standards.²¹⁷ Unlike patent law, copyright law generally denies protection to standardized elements that are necessary to achieve compatibility, such as software interfaces and user interfaces. Courts often categorized them as unprotectable ideas or methods of operation

²¹³ See 17 U.S.C. § 102 (2006). It should not be an overstatement that most countries of the world recognize the idea/expression dichotomy, as the TRIPS Agreement already incorporates such a rule. See Agreement on Trade-Related Aspects of Intellectual Property Rights art. 9, Apr. 25, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 (“Copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such.”).

²¹⁴ “Network effects” refers to such a market phenomenon that “the utility that a user derives from consumption of the good increases with the number of other agents consuming the good.” Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424, 424 (1985); see also Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CALIF. L. REV. 479, 483 (1998). While most commentators use “network externalities” interchangeably with “network effects,” some others prefer “network externalities” only to mean market failures, such as pollution and congestion. See S.J. Liebowitz & Stephen E. Margolis, *Network Externality: An Uncommon Tragedy*, 8 J. ECON. PERSP., no. 2, Spring 1994, at 133, 135.

²¹⁵ “Products are ‘compatible’ in a broad sense if they work together easily. Standardization means making products similar enough to be compatible.” Joseph Farrell, *Standardization and Intellectual Property*, 30 JURIMETRICS J. 35, 36 (1989).

²¹⁶ In reality, such a tipping may not be complete in every case. Minority products may survive in their own tiny networks, if they can cater to certain consumers who care more about special attributes than about network effects. See Katz & Shapiro, *supra* note 214, at 438.

²¹⁷ See Peter S. Menell, *An Analysis of the Scope of Copyright Protection for Application Programs*, 41 STAN. L. REV. 1045, 1101 (1989) (“[I]n the context of standardized interfaces exact duplication is key.”).

under the idea/expression dichotomy.²¹⁸ It is also generally considered fair use to obtain standardized elements by means of reverse-engineering.²¹⁹ Competitors that need to redesign their products as requested by copyright injunctions would therefore be free to adopt the identical standards and rapidly reintegrate into the existing market (barring any violation of other intellectual property such as patent or trade secrets).

Based on the expense and time of redesigning infringing components in copyrighted works, it appears that in many cases, withholding a *preliminary* injunction rather than a *permanent* injunction (or staying an injunction temporarily to allow redesign) should be sufficient to avoid the negative effects of copyright holdup as well as the danger of significantly undermining the incentive to copyright owners.

It is also noteworthy that there are built-in mechanisms in copyright law to help control the holdup problem. First, compulsory licenses are available for a variety of works and uses.²²⁰ For instance, musical works, which are often used as small components in larger productions, are subject to a “cover” license.²²¹ This means that anyone is allowed to make and distribute phonorecords of a musical work upon payment of statutory royalties as long as the work has been fixed in phonorecords and distributed to the public with due authorization. Sound recordings are subject to similar compulsory licenses for certain forms of webcasting.²²² In addition, copyright law contains provisions that encourage collective bargaining between users and copyright owners.²²³ A variety of collecting societies have also emerged to lower the transaction

²¹⁸ See *Apple Computer, Inc. v. Microsoft Corp.*, 799 F. Supp. 1006, 1025 (N.D. Cal. 1992) (holding that “overly inclusive copyright protection can produce its own negative effects by inhibiting the adoption of compatible standards (and reducing so-called ‘network externalities’)”); see also *Lotus Dev. Corp. v. Borland Int’l, Inc.* 49 F.3d 807, 818 (1st Cir. 1995) (finding it “absurd” to require users to learn different menu commands for each interface).

²¹⁹ See *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1527–28 (9th Cir. 1992) (“[W]here disassembly is the only way to gain access to the ideas and functional elements . . . disassembly is a fair use of the copyrighted work, as a matter of law.”).

²²⁰ See 17 U.S.C. §§ 111, 114, 115, 118, 119, 122 (2006). In contrast, Congress has generally rejected the idea of compulsory license under patent law, with narrow exceptions involving the federal government, 28 U.S.C. § 1498(a) (2006), or critical technology, 42 U.S.C. § 2183 (2006) (nuclear energy patents) and 42 U.S.C. § 7608 (2006) (air-pollution patents); see also *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 n.21 (1980) (noting that “[c]ompulsory licensing of patents often has been proposed, but it has never been enacted on a broad scale”); Sara M. Ford, Note, *Compulsory Licensing Provisions Under the TRIPs Agreement: Balancing Pills and Patents*, 15 AM. U. INT’L L. REV. 941, 953–54 (2000) (summarizing various objections to compulsory licensing of patents).

²²¹ See 17 U.S.C. § 115 (2006).

²²² See *id.* § 114.

²²³ See *id.* §§ 116, 118.

costs in connection with copyright clearance for uses of multiple works.²²⁴ For the most part, such legislative and private initiatives have transformed several industries that could have been entangled with copyright holdup (e.g., music and television) from property-rule regimes into liability-rule regimes, thereby rendering the four-factor test for injunctive relief largely superfluous.

On related notes, commentators at times approach injunctive-relief issues in the theoretical framework of property rule versus liability rule.²²⁵ Some seem to argue that, where the transaction costs are low, property rules are preferable and, where the transaction costs are high, liability rules are preferable.²²⁶ However, this view may be oversimplified and inconsistent with the Coase Theorem,²²⁷ which teaches that the choice of property rules or liability rules does not make much difference to overall social welfare in the cases of low transaction costs. Economists further reveal that, where parties cannot bargain at all due to high barriers to negotiation, and the state can reasonably estimate the costs of activities, liability rules are generally superior.²²⁸ Where parties can bargain but strategic behaviors (one form of transaction costs) prevent the conclusion of a bargain, either a property rule or a liability rule may be superior, depending on the circumstances. If the state systematically underestimates the damages here, property rules could be superior because strategic behaviors could exacerbate social losses under liability rules.²²⁹ In copyright cases (other than those involving orphan works), relevant parties usually have opportunities to bargain with each other; although, strategic behaviors are not uncommon. Copyright damages arguably feature a systematic risk of underestimation, especially for

²²⁴ A few examples of such collecting societies are the American Society of Composers, Authors, and Publishers (ASCAP), Broadcast Music Incorporated (BMI), Society of European Stage Authors & Composers (SESAC), Harry Fox Agency (HFA), and Copyright Clearance Center (CCC). See Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CALIF. L. REV. 1293, 1302–11 (1996).

²²⁵ See Calabresi & Melamed, *supra* note 202, at 1089.

²²⁶ See, e.g., Ian Ayres & J.M. Balkin, *Legal Entitlements as Auctions: Property Rules, Liability Rules, and Beyond*, 106 YALE L.J. 703, 706 n.9 (1996) (“[L]egal scholars have interpreted Calabresi and Melamed to be saying that property rules are more efficient when transaction costs are low.”); James E. Krier & Stewart J. Schwab, *Property Rules and Liability Rules: The Cathedral in Another Light*, 70 N.Y.U. L. REV. 440, 451 (1995) (“When transaction costs are low, use property rules; when transaction costs are high, use liability rules.”); Jake Phillips, Note, *eBay’s Effect on Copyright Injunctions: When Property Rules Give Way to Liability Rules*, 24 BERKELEY TECH. L.J. 405, 411–12 (2009).

²²⁷ See generally R.H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1 (1960).

²²⁸ See Louis Kaplow & Steven Shavell, *Property Rules Versus Liability Rules: An Economic Analysis*, 109 HARV. L. REV. 713, 724–27 (1996).

²²⁹ See A. Mitchell Polinsky, *Resolving Nuisance Disputes: The Simple Economics of Injunctive and Damage Remedies*, 32 STAN. L. REV. 1075, 1103–06 (1980).

future infringement.²³⁰ To this extent, property rules may work better than liability rules. Such an inference is consistent with traditional equity principles by which injunctive relief is more appropriate where the damages are immeasurable.²³¹

C. *Special Concerns in Copyright Law*

For those cases in which courts still need to weigh the propriety of a permanent injunction vis-à-vis the seriousness of copyright holdup, there are several considerations that rarely have parallels in patent law.

1. *Reputational Harm*

Public distribution or performance of the unauthorized version of a copyrighted work could run the risk of damaging the reputation of an author or copyright owner.²³² Such reputational risks are actually more to commercial interests than moral rights, as the increase in popularity often decides the market success of an emerging artist.²³³ One appellate court forcefully articulated this point:

The ultimate commercial success of an “artist” often depends on name recognition and reputation with the value and popularity of each succeeding work depending upon the “name” established through commercial exploitation of preceding works. This can be true whether the “artist” creates musical compositions, video games,

²³⁰ Notably, statutory damages, which are available to copyright owners who have timely filed for registration, could also risk overestimation if used as a benchmark for prospective compensation. *See infra* note 256 and accompanying text. For in-depth analyses on the merits of liability rules, see Mark A. Lemley, *Contracting Around Liability Rules* 23–24, 26 (Stanford Law & Econ. Olin Paper Series No. 415, 2011), available at <http://ssrn.com/abstract=1910284> (providing a number of citations to literature that found undercompensation to intellectual-property owners, but questioning the rationales of such claims).

²³¹ *See supra* note 119–20 and accompanying text.

²³² *See, e.g.*, *Nintendo of Am. Inc. v. Lewis Galoob Toys, Inc.*, No. 90-15936, 1991 WL 5171, at *3 (9th Cir. Jan. 24, 1991) (“A large portion of the harm to Galoob and Nintendo from either granting or denying the preliminary injunction would be financially compensable. However, Nintendo introduced evidence in the court below that the sale of Game Genie could cause irreparable harm to its design strategy, reputation, and its right to create derivative works.”); *Columbus Rose Ltd. v. New Millennium Press*, No. 02 CIV. 2634(JGK), 2002 WL 1033560, at *11 (S.D.N.Y. May 20, 2002) (holding that plaintiff’s “name and artistic reputation are his major assets,” which “cannot be remedied by a monetary award.” (internal quotation marks omitted); *Art Line, Inc. v. Universal Design Collections, Inc.*, 966 F. Supp. 737, 744–45 (N.D. Ill. 1997); *Clifford Ross Co. v. Nelvana, Ltd.*, 710 F. Supp. 517, 520–21 (S.D.N.Y. 1989) (“[I]t is well established that loss to artistic reputation . . . cannot be compensated for in money damages.”), *aff’d*, 883 F.2d 1022 (2d Cir. 1989).

²³³ The Copyright Act only provides a scaled-down version of moral rights for works of visual arts. *See* 17 U.S.C. § 106A (2006).

or concrete statues. Any ultimate success in a lawsuit could have little effect on public perception of who the true creator was.²³⁴

For instance, consider a case in which a foreign producer is about to release her television shows in the United States for the first time.²³⁵ If an infringer edits her shows in a way that severely affects the quality, the public distribution of those unauthorized versions would likely lower the evaluation of the audience toward her works and diminish her chances to explore the U.S. market in the future. Such injury to professional reputation cannot be precisely measured in monetary terms or sufficiently recompensed by any relief other than an injunction.

This problem would not disappear even in cases where the copyright owner is actually willing to license her works. In privately negotiated contracts, copyright owners usually insist on extensive involvement in the editing process, request prior approval for any proposed changes, or otherwise wield quality control over the edited versions. It is unclear whether such quality control is possible in cases where a court denies a permanent injunction and allows the infringement to continue upon payment of court-decided royalties.

On a related note, the fame of an author and her works is often said to be “fleeting.”²³⁶ Entertainment businesses notoriously involve a high degree of uncertainty.²³⁷ The most popular artists and works today may be entirely swept away from the market tomorrow as a result of sudden

²³⁴ *Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 611 (1st Cir. 1988); *see also Ty, Inc. v. GMA Accessories, Inc.*, 132 F.3d 1167, 1173 (7th Cir. 1997) (“The harm is aggravated by differences in appearance and quality control (remember the defective Preston) that while not big enough to rebut an inference of copying could impair Ty’s goodwill, if customers buy Preston thinking it is a Beanie Baby rather than a knockoff. This is a type of loss more commonly associated with trademark cases, but it is applicable to copyright as well Such an award draws additional sustenance from the doctrine of ‘moral right,’ the right of the creator of intellectual property to the preservation of the integrity of his work—a doctrine that is creeping into American copyright law.”).

²³⁵ *See Gilliam v. Am. Broad. Cos.*, 538 F.2d 14 (2d Cir. 1976).

²³⁶ *See, e.g., Concrete Mach. Co.*, 843 F.2d at 611 (“[C]opyright protects the unique and somewhat intangible interest of creative expression. Unlike most property rights, the value of this interest is often fleeting. The popular demand for a new literary, musical, sculptural or other ‘work of authorship,’ often may last only until the next fad. In such situations, the commercial value of the copyright owner’s tangible expression, appropriated by an infringer, may be lost by the time litigation on the claim is complete. Furthermore, monetary recovery at that point may be inadequate to redress the harm.”) (citations omitted); *Atari, Inc. v. N. Am. Philips Consumer Elecs. Corp.*, 672 F.2d 607, 620 (7th Cir. 1982) (reversing the denial of a preliminary injunction by referring to the “short-lived nature of video games”); *Houghton Mifflin Co. v. Stackpole Sons, Inc.*, 104 F.2d 306, 307 (2d Cir. 1939) (opining that the copyright owner “needs protection now when the book is at the height of its sales, or else he may never be able to realize the fruits of ownership”).

²³⁷ *See Goldstein, supra* note 211, at 83; Barry W. Tyerman, *The Economic Rationale for Copyright Protection for Published Books: A Reply to Professor Breyer*, 18 UCLA L. REV. 1100, 1121 (1971).

changes in consumer preferences. Therefore, the market life of a work may only last until the next one comes into fashion. If the narrow window of opportunity is foreclosed by the interference of infringing products, it is extremely difficult to measure market potential that will never have another chance to develop to the full extent.

2. *Fair Use*

If we expect the *eBay* decision to limit the bargaining power of a copyright owner unduly resulting from the holdup problem, we should also be mindful of the possibility that the interaction between the four-factor fair-use test and the four-factor injunction test might actually make potential users worse off in *ex ante* negotiation compared to the pre-*eBay* era.

In borderline cases where the accused use would likely cause harm to the copyright market, but there are prohibitive transaction costs to and compelling public interests in such use, courts have traditionally applied the framework of the four-factor fair-use test that leads either to no liability whatsoever or to damages plus an injunction.²³⁸ Courts overall seem to find comfort in the belief that the all-or-nothing perspective prompts copyright owners and users to work on creative business models to lower transaction costs rather than taking their chances in litigation.²³⁹ With the increased discretion in denying permanent injunctions, there is a realistic possibility that the courts will be more inclined to find copyright infringement in cases that they would have found fair use previously.²⁴⁰ The shift in focus from infringement to remedy could result in a weaker bargaining position for users in *ex ante* negotiation. The reason is that the worst scenario for copyright owners, which is usually their baseline in negotiation, now becomes judge-decided royalties instead of nothing in the pre-*eBay* era. Likewise, it would have an impact on the incentive for copyright owners to develop new business models and streamline market transactions.

Many commentators have pointed to the inherent vagueness, unpredictability, and arbitrariness of the four-factor fair-use test.²⁴¹ Some

²³⁸ Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 791 (2007).

²³⁹ Compare two cases involving fair use, *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913 (2d Cir. 1994) (fair use was denied because of new mechanism to lower transaction costs); and *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973) (fair use was found partially because of high transaction costs).

²⁴⁰ See Leval, *supra* note 49, at 1132–33.

²⁴¹ See Paul Goldstein, *Fair Use in Context*, 31 COLUM. J.L. & ARTS 433, 433 (2008) (“Fair use is the great white whale of American copyright law.”); Alex Kozinski & Christopher Newman, *What’s So Fair About Fair Use?*, 46 J. COPYRIGHT SOC’Y U.S.A. 513, 515 (1999) (“The problem is that we ask courts to engage in a nuanced query to determine whether something is fair use, but don’t provide any way for them to give a nuanced answer.”); Mark A. Lemley, *Should a Licensing Market Require Licensing?*, 70 LAW & CONTEMP. PROBS., no. 2, Spring 2007, at 185, 185–86 (2007) (“Because fair use relies upon a vague, multi-factor test, it is often impossible to know *ex ante* whether

of them, troubled by the muddy regime of fair use, have proposed more frequent uses of court-decided ongoing royalties in lieu of injunctive relief as an attempt to control the error costs of difficult fair-use decisions.²⁴² It is also unsurprising that earlier indications by the Supreme Court of the possibility of replacing injunctive relief with ongoing royalties emerged in the dissenting opinions of two difficult fair-use cases in which the majority found no liability.²⁴³ However, adding yet another four-factor test would further increase the level of uncertainty involved in copyright-infringement cases. This is not to argue that it is unclear as an empirical matter whether the value of increased freedom in secondary uses would outweigh the undermined incentive to original creation.²⁴⁴ This is to argue instead that drawing the lines of entitlement and remedy with a series of indecisive balancing tests would increase the legal risks of doing business in the copyright industries and have chilling effects on both original authors and secondary users. In economic terms, murky copyright standards may generate high risk-bearing costs that would unduly deter investment in intellectual creation at all levels.²⁴⁵ In addition, there would be a significant increase in litigation costs and judicial resources spent on arguing and adjudicating the additional four-factor test.

any particular use will qualify as fair.”); Pierre N. Leval, *Fair Use or Foul?*, 36 J. COPYRIGHT SOC’Y U.S.A. 167, 167 (1989) (observing no one can explain what we mean by fair use); William Patry, *Barton Beebe’s Fair Use Study*, PATRY COPYRIGHT BLOG (May 11, 2007), <http://williampatry.blogspot.com/2007/05/barton-beebes-fair-use-study.html> (contending that fair use is “ad hoc, fact-oriented, allegedly completely equitable in nature, and dependent on a shadowy weighing of vague factors, to say nothing of the luck of the draw in the decision maker”). Cf. Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715 (2011).

²⁴² See, e.g., Kozinski & Newman, *supra* note 241, at 525–26 (proposing that copyright owners should only be compensated by damages for derivative works, eliminating both fair use and injunctive relief); Leval, *supra* note 49, at 1132–33 (1990) (“The customary bias in favor of the injunctive remedy in conventional cases of copyright infringement” should not apply to the cases “raising reasonable contentions of fair use.”).

²⁴³ See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 499–500 (1984) (Blackmun, J., dissenting); *Williams & Wilkins Co.*, 487 F.2d at 1371–72 (Cowen, C.J., dissenting).

²⁴⁴ Courts would probably face this empirical question every time they apply the four-factor injunction test especially for factors three and four, although it may be more appropriate for Congress to answer it.

²⁴⁵ The risk-bearing cost refers to the disutility resulting from having a risk-averse person bear a risk. It is also tantamount to the value that a risk-averse person is willing to pay or forgo to avoid the risk. A person is deemed risk-averse if she prefers higher certainty faced with several different combinations of probability and cost/benefit but having the same expected value. For discussions of risk aversion in intellectual property context, see generally James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882 (2007).

3. *Prospective Compensation*

Where a motion for a permanent injunction is denied, the court may theoretically allow the plaintiff one of two alternative routes to recover from future infringement: repeat litigation or ongoing damages. First, the court may limit the remedies to past infringement and therefore force the plaintiff to file another lawsuit if the infringement persists.²⁴⁶ Presumably, the court would once again withhold the permanent injunction in the new lawsuit for similar reasons so that timely and complete compensation for continuing infringement would require perpetual litigation by the plaintiff. The prohibitive costs involved in repetitive litigation would likely impose undue hardship on the plaintiff, in addition to a huge waste of court resources. Such hardship would essentially undermine the argument for the adequacy of remedy at law, which had initially supported a denial of a permanent injunction in the equity test.²⁴⁷ The impracticability of repeat litigation is further exacerbated in copyright cases, as the duration of copyrights is life plus 70 years, 95 years from publication, or 120 years from creation,²⁴⁸ as opposed to 20 years from application for patents.²⁴⁹ Authors would literally need to fight a lifelong battle of repeat litigation in order to collect the full value of their works during the whole term.

Post-*eBay* patent practice indicates that most courts understandably prefer the second alternative, awarding ongoing damages for future infringement and alleviating the need for repeat litigation.²⁵⁰ Nevertheless, ongoing damages, based on an amount per product or a percentage of the gross revenues of the defendant, may need to overcome more hurdles under copyright law than under patent law. The existing rules for actual damages in copyright, which are mainly focused on past infringement, have an inherent tendency to undercompensate authors if used to measure future infringement. First, as mentioned above, copyright infringement usually inflicts a reputational harm to authors and their works, which may not be quantifiable in monetary terms.²⁵¹ It is likewise difficult to measure the full value of a copyrighted work, the market window of which has been eroded by piracy. Second, a

²⁴⁶ See, e.g., *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 444 (E.D. Tex. 2006) (“severing [plaintiff’s] continuing causes of action for monetary damages due to [defendant’s] continuing post-verdict infringement” in the patent context).

²⁴⁷ See *Lee v. Bickell*, 292 U.S. 415, 421 (1934) (holding that forcing plaintiff to lodge multiple lawsuits to receive legal damages shows the inadequacy of remedy at law).

²⁴⁸ 17 U.S.C. § 302 (2006).

²⁴⁹ 35 U.S.C. § 154(a)(2) (2006). The patent term may be longer than 20 years in limited cases. *Id.* § 155.

²⁵⁰ See, e.g., *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1315 (Fed. Cir. 2007) (remanding to the lower court to reevaluate an ongoing royalty of \$25.00 per infringing vehicle); *Finisar Corp. v. DirecTV Grp., Inc.*, No. 1:05-CV-264, 2006 WL 2037617, at *1 (E.D. Tex. July 7, 2006) (ordering an ongoing royalty of \$1.60 per infringing product).

²⁵¹ See *supra* note 232 and accompanying text.

copyright owner oftentimes maintains a large portfolio of different works by which she is able to cross-subsidize experimental or pioneer works with the revenues from bestsellers.²⁵² Actual damages based on average reasonable royalties would likely undercompensate copyright owners for their business risks in producing a variety of works, while piracy tends to target bestsellers only. Third, the infringer may not have the financial ability to pay a substantial amount of damages. Copyright infringement usually generates less benefit to the infringer than the harm to the author given the fact that the infringer usually charges competitive prices for pirated products but the author charges oligopoly prices for legitimate products. Fourth, ongoing damages could result in uneven bargaining positions between the two parties. If the judge-made royalty rate is too high, the defendant could always demand a lower rate from the plaintiff or simply cease using the copyrighted work.²⁵³ By contrast, if the judge-made rate is too low, the plaintiff would be unable to stop the defendant and therefore have much less leverage to bargain for a higher rate.²⁵⁴ Fifth, the plaintiff would lose the ability to grant an exclusive license in the wake of a judge-made compulsory license. The total royalties from several non-exclusive licenses would probably still be less than that from a single exclusive license because of the erosion of market power by multiple competitors. In addition, once a court awards a certain royalty rate in one case, the plaintiff could find it difficult to obtain any higher rate in future cases or in private negotiation, as other courts and potential users may deem that rate as a benchmark for a reasonable royalty. All of these factors contribute to a “slippery slope” that results in, and rapidly amplifies, a systematic underestimation of copyright damages.

As a matter of fact, it is exactly because copyright damages are notoriously difficult to measure that Congress provides authors an option

²⁵² See Goldstein, *supra* note 211, at 83; Tyerman, *supra* note 237, at 1121.

²⁵³ The dramas surrounding webcasting royalty rates somewhat illustrate the bargaining power of copyright users to demand lower rates under compulsory licenses. The Copyright Arbitration Royalty Panel (“CARP”) set a rate of \$ 0.0007 for simultaneous AM/FM and webcasting and \$ 0.0014 for stand-alone webcasting in 2002. The webcasters complained that such high rates posed a threat to the sustainability of their businesses and called for a different approach based on a percentage of revenue or expenses. They eventually succeeded in reopening the negotiation with the recording industry as endorsed by the Congress and reached a better deal that offered the option of paying 8% of gross revenue or 5% of total expenses in lieu of the CARP rates. Another example is that the Harry Fox Agency charges less than the statutory rate for the cover license. See Denicolò et al., *supra* note 5, at 577; Lemley & Weiser, *supra* note 238, at 828; Merges, *supra* note 224, at 1310–11.

²⁵⁴ However, it does not follow that a copyright owner would never have any chance to bargain if the court has employed liability rules. See Lemley, *supra* note 230, at 23–24 (using movie rental and ISP take-down policies, among others, as examples of parties bargaining around liability rules).

of statutory damages, which is not available under patent law.²⁵⁵ Currently, copyright owners are entitled only to one award of statutory damages (up to \$150,000) per work.²⁵⁶ So after a court has awarded statutory damages for past infringement, it may not be able to use statutory-damages standards again for future infringement. Nevertheless, a court may presumably raise the award of statutory damages closer to the maximum in the first place, taking into account both retrospective and prospective compensation. Under such circumstances, statutory damages could quickly add up to an astronomical figure in cases involving multiple works, resulting in an equally dangerous trend of overcompensation. Excessive damages that cause prohibitive business costs basically amount to a de facto permanent injunction. In a nutshell, it would probably be necessary to clarify the copyright rules on ongoing damages if courts start to deny motions for permanent injunctions more frequently in view of copyright holdup.

On a related note, patent-damages rules only require an infringer to pay actual damages.²⁵⁷ This implies that Congress did not intend the patentee to have a bite of the infringer's profits or any amount in excess of actual damages. A permanent injunction granted to a non-practicing entity may therefore be inconsistent with legislative intent to the extent that it would empower the patentee to negotiate for part of the infringer's profits. On the contrary, a copyright owner whose copyrighted work is infringed is legally entitled to actual damages plus any additional profits of the infringer.²⁵⁸ A permanent injunction that demands profit-sharing would appear to be much more appropriate here without direct conflict with copyright-damages rules.²⁵⁹

4. *Free Speech*

Copyright law often implicates free speech concerns,²⁶⁰ which are, however, rarely present in patent law. Copyright protection, on its face,

²⁵⁵ Compare *Capitol Records Inc. v. Thomas-Rasset*, 680 F. Supp. 2d 1045, 1060 (D.Minn. 2010) ("It would be contrary to Congress's intent and the jury's verdict to deny injunctive relief to Plaintiffs because they took advantage of the option of seeking statutory damages due to the difficulty of proving actual damages."), with *Ty, Inc. v. Le Clair*, 103 F. Supp. 2d 1047, 1051 (N.D. Ill. 2000) (concluding that the availability of statutory damages, which are designed to provide compensation where actual damages are difficult to calculate, eliminates the basis for irreparable harm).

²⁵⁶ 17 U.S.C. § 504(c) (2006).

²⁵⁷ 35 U.S.C. § 284 (2006).

²⁵⁸ See 17 U.S.C. § 504(a).

²⁵⁹ See *Walker v. Forbes, Inc.*, 28 F.3d 409, 412 (4th Cir. 1994) ("By stripping the infringer not only of the licensing fee but also of the profit generated as a result of the use of the infringed item, the law makes clear that there is no gain to be made from taking someone else's intellectual property without their consent.").

²⁶⁰ The intriguing relationship between free speech and copyright has attracted much academic attention. See, e.g., Paul Goldstein, *Copyright and the First Amendment*, 70 COLUM. L. REV. 983 (1970); Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147 (1998); Neil Weinstock Netanel, *Locating Copyright Within the First Amendment Skein*, 54 STAN. L. REV. 1 (2001);

could easily be regarded as a content-based speech restriction that calls for strict scrutiny under free speech principles.²⁶¹ Nevertheless, copyright law has so far successfully weathered a number of challenges from the “freedom of speech” perspective. The Supreme Court has declared on numerous occasions that copyright itself is intended to “be the engine of free expression,”²⁶² copyright law “contains built-in First Amendment accommodations” such as the idea/expression dichotomy and fair use,²⁶³ and freedom of speech “bears less heavily when speakers assert the right to make other people’s speeches.”²⁶⁴ In addition, the First Amendment actually protects two sides of the freedom of speech, including “both the

Jed Rubinfeld, *The Freedom of Imagination: Copyright’s Constitutionality*, 112 YALE L.J. 1 (2002); Eugene Volokh, *Freedom of Speech and Intellectual Property: Some Thoughts After Eldred*, 44 LIQUORMART, and Bartnicki, 40 HOUS. L. REV. 697 (2003); Alfred C. Yen, *A First Amendment Perspective on the Idea/Expression Dichotomy and Copyright in a Work’s “Total Concept and Feel”*, 38 EMORY L.J. 393 (1989).

²⁶¹ See *United States v. Playboy Entm’t Grp., Inc.*, 529 U.S. 803, 813 (2000) (“If a statute regulates speech based on its content, it must be narrowly tailored to promote a compelling Government interest. If a less restrictive alternative would serve the Government’s purpose, the legislature must use that alternative.” (citation omitted)).

²⁶² *Harper & Row, Publishers, Inc., v. Nation Enters.*, 471 U.S. 539, 558 (1985). Notably, the public also has free-speech interests in receiving information. See, e.g., *Va. State Bd. of Pharmacy v. Va. Citizens Consumer Council, Inc.*, 425 U.S. 748, 756 (1976); *Kleindienst v. Mandel*, 408 U.S. 753, 762 (1972); *Red Lion Broad. Co. v. FCC*, 395 U.S. 367, 390 (1969); *Martin v. City of Struthers*, 319 U.S. 141, 143 (1943). Copyright law promotes such interests by providing the public with access to a wide variety of different information products rather than more of the same. Goldstein, *supra* note 260, at 1055 (“[F]irst amendment objectives [are] promoted through accommodation of the public’s interest in access to a diverse range of intellectual expression with maintenance of the property interest necessary to afford incentive to the creation and dissemination of expression.”); David Ladd, *The Harm of the Concept of Harm in Copyright*, 30 J. COPYRIGHT SOC’Y U.S.A. 421, 427–28 (1983) (“Copyright also is intended to support a system, a macrocosm, in which authors and publishers compete for the attention and favor of the public, independent of the political will of the majority, the powerful, and above all the government The marketplace of ideas which the First Amendment nurtures is, then, and must be more widely understood to be, essentially a *copyright* marketplace.”).

²⁶³ *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003); see also *Harper & Row, Publishers, Inc.*, 471 U.S. at 556 (“[The] idea/expression dichotomy ‘strike[s] a definitional balance between the First Amendment and the Copyright Act by permitting free communication of facts while still protecting an author’s expression.” (quoting *Harper & Row, Publishers, Inc., v. Nation Enters.*, 723 F.2d 195, 203 (2d Cir. 1983)) (alteration in original)); *Zacchini v. Scripps-Howard Broad. Co.*, 433 U.S. 562, 578 n.13 (1977) (“[C]opyright law does not abridge the First Amendment because it does not restrain the communication of ideas or concepts[.]” (describing an argument made in Melville B. Nimmer, *Does Copyright Abridge the First Amendment Guarantees of Free Speech and Press?*, 17 UCLA L. REV. 1180 (1970))); *N.Y. Times Co. v. United States*, 403 U.S. 713, 726 n.* (1971) (Brennan, J., concurring) (noting that copyright laws generally have no pertinence to freedom of speech as “copyright laws, of course, protect only the form of expression and not the ideas expressed”).

²⁶⁴ *Eldred*, 537 U.S. at 221.

right to speak freely and the right to refrain from speaking at all.”²⁶⁵ Copyright law arguably protects authors from being forced to speak where or when they choose to be silent. Accordingly, lower courts have rarely recognized an independent free-speech defense against copyright-infringement claims.²⁶⁶ For instance, an appellate court quickly balked at an attempt by a district court to deny a permanent injunction based on freedom of speech.²⁶⁷

It is, however, not inconceivable that the equitable discretion of injunctive relief could function as an additional built-in safeguard for freedom of speech. In theory, overaggressive injunctive relief may sometimes be considered a prior restraint on speech to be prohibited by free speech principles.²⁶⁸ One may naturally find it quite peculiar to argue that copyright interests are significant enough to override freedom of speech, given that courts have not tolerated prior restraint on speech even in the cases where publication of classified documents could endanger national security,²⁶⁹ where disclosure of information might be prejudicial to the right to a fair trial under the Sixth Amendment,²⁷⁰ and where libelous statements might put personal reputation on the line.²⁷¹ In particular, a preliminary injunction appears to be more troubling than a permanent injunction, with the former being granted before the complete record is unearthed and the merits are finally adjudicated.²⁷²

²⁶⁵ *Harper & Row, Publishers, Inc.*, 471 U.S. at 559 (quoting *Wooley v. Maynard*, 430 U.S. 705, 714 (1977)); *see also* *Elrod v. Burns*, 427 U.S. 347, 359–60 (1976); *Salinger v. Colting*, 607 F.3d 68, 81 (2d Cir. 2010).

²⁶⁶ *See, e.g.*, *Eldred v. Reno*, 239 F.3d 372, 375 (D.C. Cir. 2001) (noting that “copyrights are categorically immune from challenges under the First Amendment”); *Nihon Keizai Shimbun, Inc. v. Comline Bus. Data, Inc.*, 166 F.3d 65, 74 (2d Cir. 1999) (“We have repeatedly rejected First Amendment challenges to injunctions from copyright infringement on the ground that First Amendment concerns are protected by and coextensive with the fair use doctrine.”); *Roy Exp. Co. v. Columbia Broad. Sys., Inc.*, 672 F.2d 1095, 1099 (2d Cir. 1982) (“No Circuit that has considered the question . . . has ever held that the First Amendment provides a privilege in the copyright field distinct from the accommodation embodied in the ‘fair use’ doctrine.”); *Wainwright Sec. Inc. v. Wall Street Transcript Corp.*, 558 F.2d 91, 95 (2d Cir. 1977) (“Conflicts between interests protected by the first amendment and the copyright laws thus far have been resolved by application of the fair use doctrine.”).

²⁶⁷ *New Era Publ’ns Int’l, ApS v. Henry Holt & Co.*, 873 F.2d 576, 584 (2d Cir. 1989).

²⁶⁸ *See N.Y. Times Co.*, 403 U.S. at 723 (Douglas, J., concurring) (“[A]ny prior restraint on expression comes to this Court with a ‘heavy presumption’ against its constitutional validity.” (quoting *Org. for a Better Austin v. Keefe*, 402 U.S. 415, 419 (1971))); *see also* *Bantam Books, Inc. v. Sullivan*, 372 U.S. 58, 70 (1963); *Near v. Minnesota ex rel. Olson*, 283 U.S. 697, 713 (1931).

²⁶⁹ *See N.Y. Times Co.*, 403 U.S. at 719.

²⁷⁰ *Neb. Press Ass’n v. Stuart*, 427 U.S. 539, 541 (1976).

²⁷¹ *Tory v. Cochran*, 544 U.S. 734, 736 (2005); *see also* *Kozinski & Newman, supra* note 241, at 516.

²⁷² *See Lemley & Volokh, supra* note 260 at 169–71 (“A permanent injunction, entered following a final determination that the speech is unprotected, is generally seen as constitutional. . . . The . . . [suggestions] that all injunctions are prior restraints are therefore somewhat erroneous overgeneralizations.”).

Without the procedural safeguards of a full trial, a court may end up enjoining speech that later turns out to be legitimate and protected by free-speech principles.²⁷³ To avoid undue prior restraints, it is advisable for courts to evaluate the error costs of a preliminary injunction in relation to the public interest in free flow of ideas and information.²⁷⁴ When the defendant brings forward a colorable claim of fair use or other defense, the court should be more hesitant to grant a preliminary injunction merely upon a showing of “sufficiently serious questions going to the merits to make them fair grounds for litigation”²⁷⁵ or “a better than negligible chance that [the plaintiff] will succeed [on the merits],”²⁷⁶ rather than a likelihood of success on the merits.

VI. RATIONALIZING COPYRIGHT INJUNCTION

A. *Two Proposals*

1. *The Copyright-Specific Rule*

The above analyses suggest that copyright holdup rarely happens in reality because interchangeable copyrighted works abound in the marketplace and copyright law contains built-in mechanisms to control the holdup problem. Empirical evidence also shows that a vast majority of post-*eBay* decisions continue to grant copyright injunctions to the plaintiffs that have prevailed on the merits of copyright claims.²⁷⁷

²⁷³ See *Vance v. Universal Amusement Co.*, 445 U.S. 308, 316 n.13 (1980) (“[A] free society prefers to punish the few who abuse rights of speech *after* they break the law than to throttle them and all others beforehand.”); *Pittsburgh Press Co. v. Pittsburgh Comm’n on Human Relations*, 413 U.S. 376, 390 (1973) (“The special vice of a prior restraint is that communication will be suppressed . . . before an adequate determination that it is unprotected by the First Amendment.”); *Bantam Books, Inc.*, 372 U.S. at 70 (“Any system of prior restraint[] . . . comes to this Court bearing a heavy presumption against its constitutional validity.”).

²⁷⁴ For cases that considered free speech while weighing on preliminary injunction, see, for example, *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1277 (11th Cir. 2001) (“[T]he issuance of the injunction was at odds with the shared principles of the First Amendment and the copyright law, acting as a prior restraint on speech because the public had not had access to [defendant’s] ideas or viewpoint in the form of expression that she chose.”). Cf. *Elvis Presley Enters., Inc. v. Passport Video*, 349 F.3d 622, 626 (9th Cir. 2003) (“We have held that First Amendment concerns in copyright cases are subsumed within the fair use inquiry. In other words, if the use of the alleged infringer is not fair use, there are no First Amendment prohibitions against granting a preliminary injunction.”); *In re Aimster Copyright Litig.*, 334 F.3d 643, 656 (7th Cir. 2003) (“Copyright law and the principles of equitable relief are quite complicated enough without the superimposition of First Amendment case law on them . . .”).

²⁷⁵ See *supra* note 65.

²⁷⁶ *Publ’ns Int’l, Ltd. v. Meredith Corp.*, 88 F.3d 473, 480 (7th Cir. 1996); see also *Jackson v. MPI Home Video*, 694 F. Supp. 483, 489 (N.D. Ill. 1988) (requiring plaintiff to show “a better than negligible probability of success on [the] merits.”).

²⁷⁷ See *supra* note 76 and accompanying text.

Accordingly, one may argue that a copyright-specific rule is warranted to streamline the equity test along the following lines:

First, a copyright injunction should presumably be available on a regular basis upon a finding of infringement or likelihood of success on the merits.

Second, a denial of injunctive relief (despite infringement) may still be desirable under exceptional circumstances that involve (i) innocent infringement, which means the alleged defendant, with a reasonable (yet false) sense of lawfulness, would not have had a chance to negotiate with the copyright owner beforehand—market mechanisms might not work well with such information asymmetry; (ii) substantial redesign costs, which likely result in high royalty rates in *ex post* negotiation; and (iii) small value of the copyrighted work relative to the whole product, which implies that the holdup royalties could reflect much more than the contribution of the work to the overall sales.

Third, while weighing a request for a copyright injunction, courts should be particularly mindful of the special features in copyright law, including reputational harm, fair use, statutory damages, and free-speech concerns.

This streamlined approach, however, appears to be hardly feasible in practice because lower courts would have to go to great lengths to reconcile it with the *eBay* decision as well as a more recent Supreme Court decision, *Winter v. Natural Resources Defense Council*.²⁷⁸ The *Winter* decision reiterated the four-factor test in the context of preliminary injunctions by holding that “[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.”²⁷⁹ It further emphasized that “[t]he 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.”²⁸⁰ Any copyright-specific rule that totally bypasses the weighing of the four factors would arguably be in conflict with these teachings from the Supreme Court. The routine ignorance of binding precedents by lower courts, irrespective of sound policy reasons, would fundamentally hurt the integrity of our legal system built upon the principle of stare decisis.

2. *The Four-Factor Test*

A much less aggressive approach is for lower courts to accommodate the special concerns under copyright law into the analytical framework of the four-factor test. In terms of the first factor (irreparable injury), courts

²⁷⁸ 129 S. Ct. 365 (2008).

²⁷⁹ *Id.* at 374.

²⁸⁰ *Id.* at 381 (quoting *Amoco Prod. Co. v. Vill. of Gambell*, 480 U.S. 531, 546 n.12 (1987)).

may, at least for permanent injunctions, recognize a rebuttable presumption of irreparable injury based on a finding of copyright infringement and a threat of future infringement. First, such a presumption would save judicial resources and promote consistency among different courts without requiring courts to substantially change their conclusions in most cases, given the fact that a finding of copyright infringement already correlates with the grant of a permanent injunction in 95% of relevant post-*eBay* decisions.²⁸¹ Irreparable injury may be safely presumed because, as mentioned above, there are inherent difficulties in the measurement of ongoing damages for future copyright infringement.²⁸² Second, the presumption would be deeply rooted in the traditional practice of permanent injunctions revolving around past infringement and a threat of further infringement.²⁸³ This historical practice maintains a significant influence over post-*eBay* decisions as evidenced by the facts that approximately one-half (46.2%) of the decisions continued to follow the traditional test²⁸⁴ and that “continuing infringement” was the most frequently addressed sub-factor under factors one and two (23 and 29 times, respectively) even within the four-factor test.²⁸⁵ Third, it should be emphasized that, unlike in several pre-*eBay* cases,²⁸⁶ the proposed presumption would be rebuttable by proof of the adequacy of monetary damages or other legal remedies. Neither would it prevent courts from withholding injunctive relief under appropriate circumstances where they found the claim of irreparable injury to be speculative.²⁸⁷

A rebuttable presumption of irreparable injury for permanent injunctions does not appear to run afoul of the *eBay* and *Winter* holdings. Although the *eBay* decision clearly rejected the practice of automatic injunction, this presumption in and of itself would not necessarily guarantee the grant of a permanent injunction because the presumption would be a mere sub-factor under one of the four factors and be

²⁸¹ See *supra* note 101 and accompanying text.

²⁸² See *supra* notes 250–54 and accompanying text.

²⁸³ See *supra* note 67 and accompanying text.

²⁸⁴ See *supra* note 96 and accompanying text.

²⁸⁵ See *supra* notes 123 & 144 and accompanying text.

²⁸⁶ See, e.g., *Beckman Instruments, Inc. v. Cincom Sys., Inc.*, No. 98-55252, 1998 WL 783774, at *1 (9th Cir. Dec. 4, 1998) (holding that a defendant “cannot rebut th[e] presumption by showing that [plaintiff’s] injury is compensable in money damages”); *Cadence Design Sys., Inc. v. Avant! Corp.*, 125 F.3d 824, 827 (9th Cir. 1997) (holding that “a defendant cannot, by asserting the adequacy of money damages, rebut the presumption of irreparable harm that flows from a showing of likelihood of success on the merits of a copyright infringement claim” (footnotes omitted)).

²⁸⁷ See *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988), *aff’d sub nom.* *Stewart v. Abend*, 495 U.S. 207 (1990); *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 976 (9th Cir. 1981), *rev’d on other grounds*, 464 U.S. 417 (1984); *New Era Publ’ns Int’l, ApS v. Henry Holt & Co.*, 695 F. Supp. 1493, 1525–26 (S.D.N.Y. 1988), *aff’d*, 873 F.2d 576 (2d Cir. 1989).

rebuttable in nature.²⁸⁸ Courts might still exercise their equitable discretion to deny a motion for a permanent injunction based on rebuttal evidence or on other factors. The presumption would not shift the overall burden of persuasion either.²⁸⁹ The plaintiff would still need to demonstrate irreparable harm by an initial showing of the threat of future infringement and, when the defendant produces rebuttal evidence, to establish harm by a preponderance of the evidence.

Notably, the proposed presumption appears to be more appropriate for permanent injunctions than for preliminary injunctions. The Supreme Court recently clarified in *Winter* that injunctive relief must be premised on a “likelihood” of irreparable injury rather than only a “possibility” of irreparable injury.²⁹⁰ While a final determination of infringement plus a threat of future infringement may arguably suffice to demonstrate a “likelihood” of irreparable injury, a presumption for preliminary injunctions would require a great deal of speculation, given the incomplete record and indeterminate merits at that early stage of litigation.²⁹¹

Although the *eBay* decision listed “inadequacy of remedy at law” as one of the four factors in the equity test,²⁹² numerous courts explicitly or implicitly confirmed that the concepts of “irreparable injury” and “inadequacy of remedy at law” are indistinguishable in the context of permanent injunctions.²⁹³ In addition, almost none of the preliminary-

²⁸⁸ See *Designer Skin, LLC v. S & L Vitamins, Inc.*, No. CV 05-3699-PHX-JAT, 2008 WL 4174882, at *5 (D. Ariz. Sept. 5, 2008) (“Whatever else might be said against the propriety of a rule that holds that past infringement plus the threat of future infringement equals irreparable harm, it seems clear to this Court that such a rule would not run afoul of *eBay*’s directives.”).

²⁸⁹ See FED. R. EVID. 301 (“In all civil actions and proceedings not otherwise provided for by Act of Congress or by these rules, a presumption imposes on the party against whom it is directed the burden of going forward with evidence to rebut or meet the presumption, but does not shift to such party the burden of proof in the sense of the risk of nonpersuasion, which remains throughout the trial upon the party on whom it was originally cast.”).

²⁹⁰ *Winter v. Natural Res. Def. Council, Inc.*, 129 S. Ct. 365, 375–76 (2008).

²⁹¹ *But cf. Lennon v. Premise Media Corp.*, 556 F. Supp. 2d 310, 319 n.1 (S.D.N.Y. 2008) (“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.”).

²⁹² See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

²⁹³ See *supra* note 140 and accompanying text. For similar cases outside of copyright law, see, for example, *Youngstown Sheet & Tube Co. v. Sawyer*, 343 U.S. 579, 584–85 (1952); *Fleet Wholesale Supply Co. v. Remington Arms Co.*, 846 F.2d 1095, 1098 (7th Cir. 1988); *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 569 n.11 (E.D. Va. 2007) (“The irreparable harm inquiry and remedy at law inquiry are essentially two sides of the same coin; however, the court will address them separately in order to conform with the *four-factor* test as outlined by the Supreme Court.”); see also 1 DAN B. DOBBS, *LAW OF REMEDIES* § 2.5(1), at 125 (2d ed. 1993) (“Many cases have listed both inadequate remedy at law *and* irreparable harm as separate prerequisites to coercive relief. This seems to be an erroneous conflation of

injunction decisions studied here ever addressed “inadequacy of remedy at law” unless in conjunction with factor one.²⁹⁴ Therefore, it is probably safe to conclude as an empirical matter that the outcome of factor two normally follows the outcome of factor one, without need for redundant analysis.

The balance of hardship is likely to be one of the pivotal factors in many copyright cases. In weighing this factor, courts should pay particular attention to three factual patterns that often give rise to the holdup problem. First, an undue hardship may follow from the fact that the defendant was an innocent infringer who did not know, and had no reason to know, of the infringing activities. As a matter of fact, the Copyright Act explicitly recognizes the harshness of enjoining innocent infringers in certain cases.²⁹⁵ In this regard, a number of courts and commentators have further suggested that the balance of hardship should not be given much weight in cases involving willful or reckless defendants who never exercised due care to seek copyright clearance.²⁹⁶ However, this view perhaps went a bit too far in urging courts to totally disregard (rather than discount) any hardship on willful infringers. The state of mind, while certainly a valid sub-factor, is neither the only one nor the decisive one in the balance of hardship.

Second, it may sometimes be prohibitively expensive for the defendant to redesign her products or businesses to avoid infringement. Possible reasons for high redesign cost include that there is a lack of any commercially feasible, legitimate alternative, that the defendant has incurred substantial sunk costs, or that the redesign causes serious delay in the sales of products.²⁹⁷ The balance of hardship would likely tip

the two different kinds of cases, remedial and substantive. Where the issue is remedial, the adequacy and irreparability rules mean the same thing.”)

²⁹⁴ See *supra* note 141 and accompanying text. Cf. John Leubsdorf, *The Standard for Preliminary Injunctions*, 91 HARV. L. REV. 525, 551 (1978) (“The concept of irreparable injury takes on different meanings in different contexts. At trial, it refers to injury for which there is no adequate remedy at law. At the interlocutory hearing, it denotes injury for which there is no adequate remedy—legal or equitable—at final judgment.” (footnote omitted)).

²⁹⁵ See 17 U.S.C. § 405(b) (2006) (providing that, where an infringer was misled by the omission of a copyright notice on a work published before March 1, 1989, the court may allow the infringement to continue on the condition that the infringer pays court-decided reasonable royalties).

²⁹⁶ See, e.g., *United States v. Marine Shale Processors*, 81 F.3d 1329, 1358 (5th Cir. 1996) (“[A] court need not balance the hardship when a defendant’s conduct has been willful.”); *E.F. Johnson Co. v. Uniden Corp. of Am.*, 623 F. Supp. 1485, 1504 (D. Minn. 1985) (“A willful infringer which seeks to profit by copying from others’ creative ideas should not be heard to complain that its interests will be disturbed by an injunction.”); see also RESTATEMENT (SECOND) OF TORTS § 941 cmt. b (1979); James M. Fischer, *What Hath eBay v. MercExchange Wrought?*, 14 LEWIS & CLARK L. REV. 555, 565–66 (2010); Mitchell G. Stockwell, *Implementing eBay: New Problems in Guiding Judicial Discretion and Enforcing Patent Rights*, 88 J. PAT. & TRADEMARK OFF. SOC’Y 747, 751 (2006).

²⁹⁷ See *supra* notes 160–61 and accompanying text.

towards the defendant if the redesign cost required by injunctive relief is tantamount to a legal punishment grossly disproportionate to the wrongfulness of the infringing activities.

Third, the copyrighted work in dispute may only contribute a relatively small value to the overall product. Consequently, a sweeping injunction would run the risk of sacrificing a substantial portion of the independent creation and investment made by the defendant, especially when the infringing and non-infringing elements are inseparably intertwined in the final product. In assessing the hardship on the defendant, courts should be particularly mindful of the impact on legitimate businesses unrelated to the alleged infringement.²⁹⁸ The question whether courts should also accord weight to business interests built around the alleged infringement would distinguish preliminary injunctions from permanent injunctions.

As Judge Posner pointed out, preliminary injunction decisions need to achieve the objective of error cost avoidance:

The judge must try to avoid the error that is more costly in the circumstances. That cost is a function of the gravity of the error if it occurs and the probability that it will occur. The error of denying an injunction to someone whose legal rights have in fact been infringed is thus more costly the greater the magnitude of the harm that the plaintiff will incur from the denial and the greater the probability that his legal rights really have been infringed. And similarly the error of granting an injunction to someone whose legal rights will turn out not to have been infringed is more costly the greater the magnitude of the harm to the defendant from the injunction and the smaller the likelihood that the plaintiff's rights really have been infringed.²⁹⁹

In algebraic terms, a court should “grant the preliminary injunction if but only if $P \times H_p > (1 - P) \times H_d$.”³⁰⁰ Accordingly, a court should pay proportionate attention to all the benefits from the alleged infringement, in case the copyright claims turn out to be meritless after trial.³⁰¹

²⁹⁸ See *supra* notes 166–67 and accompanying text.

²⁹⁹ *Roland Mach. Co. v. Dresser Indus., Inc.*, 749 F.2d 380, 388 (7th Cir. 1984). For copyright decisions that echoed Judge Posner on preliminary injunctions, see, for example, *Allora, LLC v. Brownstone, Inc.*, No. 1:07CV87, 2007 WL 1246448, at *4 (W.D.N.C. Apr. 27, 2007); see also Thomas R. Lee, *Preliminary Injunctions and the Status Quo*, 58 WASH. & LEE L. REV. 109, 154 (2001) (stating that the error-cost-avoidance perspective “has since emerged as the triumphant, dominant theory of preliminary injunctions”).

³⁰⁰ *Am. Hosp. Supply Corp. v. Hosp. Prods. Ltd.*, 780 F.2d 589, 593 (7th Cir. 1986). P stands for the probability of the plaintiff prevailing after trial. H_p refers to the irreparable harm to the plaintiff if an injunction is denied, and H_d refers to the irreparable harm to the defendant if an injunction is granted.

³⁰¹ Preliminary-injunction decisions that accorded little weight to the businesses built around the alleged infringement would only make sense assuming a high probability of success on the merits. See, e.g., *Cadence Design Sys., Inc. v. Avant! Corp.*, 125 F.3d 824, 830 (9th Cir. 1997); *Apple Computer, Inc. v. Franklin Computer*

By contrast, a permanent injunction does not usually involve the error-cost-avoidance goal when the complete record is unearthed and the merits are finally adjudicated.³⁰² If we apply the above formula at this point, P (i.e., the probability of the plaintiff prevailing on the merits) would become one so that the formula would turn into $1 \times H_p > 0 \times H_d$.

This is apparently not the right benchmark for permanent injunctions, implying incongruously that the balance of hardship would always tip towards the plaintiff as long as she suffers any irreparable injury. The problem is probably that the original formula neglects legitimate interests that are unrelated to the alleged infringement and therefore unaffected by the likelihood of success on the merits. As several courts have correctly indicated, only the impact to legitimate interests is cognizable hardship on the defendant at the permanent-injunction stage.³⁰³ The formula could therefore be refined as " $H_p > H_d(\text{Non-infringing})$ " for permanent injunctions and " $P \times H_p > (1 - P) \times H_d(\text{Infringing}) + H_d(\text{Non-infringing})$ " for preliminary injunctions.

With respect to factor four, another salient factor for copyright cases, courts generally recognize the public interest in upholding copyright protection, which is essential to preserving sufficient incentive for creativity and to securing public access to a steady stream of new works in the long run.³⁰⁴ Even in the short run, the market mechanism made possible by copyright law may actually lead to lower price and wider access by virtue of competition among an increasing number of creative works. In the meantime, there are also countervailing public interests. First, undue hardship would arise from an injunction if third parties unrelated to the infringement have relied on the infringing copy in good faith, especially when the plaintiff has unreasonably delayed the filing of the lawsuit.³⁰⁵ For example, if a substantial number of third-party

Corp., 714 F.2d 1240, 1255 (3d Cir. 1983); *Atari, Inc. v. N. Am. Philips Consumer Elecs. Corp.*, 672 F.2d 607, 620 (7th Cir. 1982).

³⁰² Technically speaking, a final decision could still be erroneous. Courts should not be overly concerned about error costs that could not be avoided after the whole proceedings. Otherwise, the balance of hardship would come into play in every kind of legal remedy, e.g., damages.

³⁰³ For post-*eBay* decisions, see *supra* notes 156–57 and accompanying text. For pre-*eBay* decisions, see, for example, *Universal City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 976 (9th Cir. 1981), *rev'd on other grounds*, 464 U.S. 417 (1984) ("In fashioning relief, the district court should not be overly concerned with the prospective harm to appellees. A defendant has no right to expect a return on investment from activities which violate the copyright laws.").

³⁰⁴ See, e.g., *Apple Computer, Inc.*, 714 F.2d at 1255 ("[I]t is virtually axiomatic that the public interest can only be served by upholding copyright protections and, correspondingly, preventing the misappropriation of the skills, creative energies, and resources which are invested in the protected work." (quoting *Klitzner Indus., Inc. v. H.K. James & Co.*, 535 F. Supp. 1249, 1259–60 (E.D. Pa. 1982))); *Atari, Inc.*, 672 F.2d at 620 (noting that an injunction is "necessary to preserve the integrity of the copyright laws which seek to encourage individual effort and creativity by granting valuable enforceable rights").

³⁰⁵ See *supra* note 177 and accompanying text.

residents have moved into houses that infringed an architectural design, an injunction to enjoin further sales of such houses would appear to be inappropriate. Second, if the copyrighted material only constitutes a small portion of a larger product but is very difficult to design around *ex post facto*, an injunction against the infringement would nevertheless deprive the public of access to the overall product, which mostly comprises independent contribution from the defendant. In addition, this consequence would likely disserve the public interest in fostering the creation of derivative works, especially when the defendant is found to be an innocent infringer. Notably, the public interest should not be turned against the grant of injunctive relief simply because the copyrighted work is valuable to the public.³⁰⁶ It is counterintuitive and counterfactual to argue that the more valuable a work is to the public, the less incentive the author deserves, or the worse the market mechanism works for its production and distribution.

B. *Three Case Studies*

In his concurring opinion in *eBay*, Chief Justice Roberts warned against “writing on an entirely clear slate” while exercising equitable discretion, because “a page of history is worth a volume of logic.”³⁰⁷ The following sections will therefore present three case studies derived from the historical practice of copyright injunctions. They exemplify such cases that most likely involve a difficult decision over the grant or denial of injunctive relief due to innocent infringement, substantial redesign cost, and small value of the copyrighted work relative to the overall product. They also illustrate that the four-factor test, applied with attention to the special concerns of copyright law, would fit squarely with the traditional practice.

1. *Architectural Works*

In the first case study,³⁰⁸ the defendant commissioned an architect to design a building. The architect soon returned a plan that was actually copied from the plaintiff’s work. Without knowledge of the infringement, the defendant set out to construct the building based on the design. The plaintiff subsequently detected the copyright infringement from the building skyline and filed a lawsuit requesting a motion for a permanent injunction to stop the construction and sale of the building. In this case, the architectural design is just the initial step of the construction project

³⁰⁶ See *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 559 (1985) (“It is fundamentally at odds with the scheme of copyright to accord lesser rights in those works that are of greatest importance to the public.”).

³⁰⁷ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (Roberts, C.J., concurring) (quoting *N.Y. Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921)).

³⁰⁸ The facts are adapted from *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532 (4th Cir. 2007), and *Allora, LLC v. Brownstone, Inc.*, No. 1:07CV87, 2007 WL 1246448 (W.D.N.C. Apr. 27, 2007).

that entails extensive investment at various stages. Halting the completion and sale of a building under construction would likely incur huge waste. Redesigning a building halfway through would generally require reconstruction from scratch and be unduly costly in any event. As a result, the injunction would impose a draconian burden on the defendant. In addition, such an injunction would likely have a significant impact on a number of third parties, such as contractors working on the site or residents already living in the building. Therefore, both the balance of hardship and the public interest appear to tip towards withholding injunctive relief and awarding reasonable royalties instead.

The stage of construction should play a significant role in the weighing of injunctive relief. If the construction project has not made any meaningful progress, an injunction may not result in as much hardship on the defendant and third parties as when the construction is near completion or has incurred substantial sunk costs.³⁰⁹ The infringer's state of mind is also relevant in this case. An injunction could hardly create any marginal deterrence to an innocent infringer who has exercised due care to seek copyright clearance in the first place. Conversely, courts should be particularly cautious about denying injunctive relief against willful infringers who have attempted to bypass market negotiation. Otherwise, potential users, knowing that the worst that could happen to an infringer (e.g., reasonable royalties) is the same as the best that could happen to a licensee, would have no incentive to seek prior authorization from copyright owners. Given that the probability of being caught is usually less than 100% due to the intangible nature of copyrighted works, the expected royalties for an infringer might actually be less than those for a licensee. This inverted incentive could potentially encourage infringement and destroy the market mechanism for architects.

However, it does not follow that a denial of injunctive relief would be limited to cases involving innocent infringers. Even in cases of willful infringement, there may sometimes exist less restrictive remedies with equally deterrent effects. A court could still opt to withhold injunctive relief and instead rely on statutory damages (up to \$150,000 per work)³¹⁰ to deter the continuation of willful infringement if the potential hardship

³⁰⁹ See *Balsamo/Olson Grp., Inc. v. Bradley Place Ltd. P'ship*, 966 F. Supp. 757, 764 (C.D. Ill. 1996) (withholding permanent injunction by taking into account "the effects of enjoining the construction on nonparties who have a significant interest in the completion of the low income senior housing" (footnote omitted)). *But see* *Nucor Corp. v. Tenn. Forging Steel Serv., Inc.*, 476 F.2d 386, 393 (8th Cir. 1973) (suggesting that permanent injunction may issue against construction of infringing structure if, at time of issuance, "only minimum construction had begun"); *Value Grp., Inc. v. Mendham Lake Estates, L.P.*, 800 F. Supp. 1228, 1235 (D.N.J. 1992) ("[T]his court is hard put to imagine any legitimate injury that will be suffered by the defendants . . . as the house is only in the preliminary construction stage.").

³¹⁰ 17 U.S.C. § 504(c)(2) (2006).

on the defendant is too harsh, the public interest is overwhelming, and the statutory damages are sufficiently large.

The legislative history of copyright law sheds light on why courts tend to be more conservative about injunctive relief that inhibits the completion or sale of a building. Before 1990, architecture was generally classified under “pictorial, graphic, or sculptural works” under the 1976 Copyright Act and fell within the scope of “useful articles” due to its “intrinsic utilitarian function.”³¹¹ Most architecture would therefore be subject to the separability test, by which copyright protection only extends to a design incorporating “pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.”³¹² In this sense, the overall shape of a building would be unlikely to meet the separability test though individual decorative features might meet it. Even architectural plans, which were not “useful articles” per se, enjoyed limited protection before 1990. Most courts held that the construction of a three-dimensional building (i.e., an unprotectable useful article) depicted in a two-dimensional plan did not constitute an act of copying.³¹³ Of course, an architect might still succeed in claiming copyright infringement, for the construction project typically involved unauthorized copying of a two-dimensional plan in another two-dimensional plan. But courts would naturally withhold any injunctive relief against the construction of a building.³¹⁴

The Architectural Works Copyright Protection Act of 1990 significantly strengthened copyright protection for architects, adding architectural works as a new category of protectable subject matter in compliance with the Berne Convention.³¹⁵ Architectural works are defined separately and therefore are no longer evaluated under the separability test applicable to useful articles. Courts have since become more ready to find copyright infringement in copying from a two-dimensional design to a three-dimensional building. However, the pre-1990 skepticism towards injunctive relief involving a building appears to

³¹¹ *Id.* § 101.

³¹² *Id.*

³¹³ *See Baker v. Selden*, 101 U.S. 99, 102–03 (1880) (holding that copyright protection did not extend to the art or manufacture of the useful article described in a work of authorship).

³¹⁴ *See, e.g., Robert R. Jones Assocs., Inc. v. Nino Homes*, 858 F.2d 274, 279–81 (6th Cir. 1988); *Imperial Homes Corp. v. Lamont*, 458 F.2d 895, 899 (5th Cir.1972); *Demetriades v. Kaufmann*, 680 F. Supp. 658, 659–64 (S.D.N.Y. 1988); *Herman Frankel Org. v. Tegman*, 367 F. Supp. 1051, 1053–54 (E.D. Mich. 1973); *DeSilva Constr. Corp. v. Herrald*, 213 F. Supp. 184, 195–96 (M.D. Fla. 1962); *Muller v. Triborough Bridge Auth.*, 43 F. Supp. 298, 299–300 (S.D.N.Y. 1942).

³¹⁵ H.R. REP. NO. 101-735, at 17–21 (1990), *reprinted in* 1990 U.S.C.C.A.N. 6935, 6948–52.

persist, especially when the building is near completion.³¹⁶ The legislative report itself also cautioned that Congress expects “injunctions will be sparingly used” to enjoin a construction that has substantially begun.³¹⁷

2. *Derivative Works*

The second case study involves a derivative work, using a motion picture as an example.³¹⁸ In this case, the defendant had conducted reasonable copyright clearance to secure the license to adapt a novel into a screenplay and shot a movie accordingly. The defendant was, however, unaware that the “licensor” did not hold proper copyrights in the novel. After the movie was released in theaters, the copyright owner brought a copyright action requesting a permanent injunction.

Given that the novel basically underlies the whole storyline of the movie, the redesign costs would probably be equal to the re-shoot costs if an injunction is imposed. Additionally, the movie as a whole contains creative elements much more than the storyline, such as directing, cinematography and acting. These factors all appear to tip toward a denial of the permanent injunction.

However, the court should also be mindful of the risk that copyright infringement would preempt the movie market for the novel author. If the unauthorized movie is of low quality, it could significantly harm the reputation of the author and her work, and drive away the potential audience for any other adaptations. Furthermore, consumer fatigue determines that it is usually not cost effective to release a second adaptation of the same story before several years have passed, regardless

³¹⁶ See, e.g., *Flying J, Inc. v. Cent. CA Kenworth*, 45 F. App'x 763, 767 (9th Cir. 2002) (upholding the damages award as well as the denial of permanent junction by the lower court); *Palmetto Builders & Designers, Inc. v. Unireal, Inc.*, 342 F. Supp. 2d 468, 474 (D.S.C. 2004) (preliminarily enjoining construction of one house by a repeat offender, but declining to extend the injunction to another house near completion); *Bonner v. Dawson*, No. Civ.A. 502CV00065, 2003 WL 22432941, at *8 (W.D. Va. Oct. 14, 2003) (rejecting the request to either destroy or modify the infringing building); *Trueblood v. Davis*, No. 2:97-CV-125 JAB, 1997 WL 34611647, at *4-5 (M.D.N.C. June 12, 1997) (denying preliminary injunction after balancing hardship); *Balsamo/Olson Grp., Inc. v. Bradley Place Ltd. P'ship*, 966 F. Supp. 757, 764-65 (C.D. Ill. 1996) (refusing to enjoin the construction of six buildings which were almost completed at the preliminary injunction stage). *But see* *Modtech Inc. v. Designed Facilities Constr. Inc.*, No. CV 98-2871 CBM (MCx), 1998 WL 718299 (C.D. Cal. Aug. 5, 1998) (preliminary injunction granted); *Richmond Homes Mgmt., Inc. v. Raintree, Inc.*, 862 F. Supp. 1517, 1530 (W.D. Va. 1994), *aff'd in part, rev'd in part*, 66 F.3d 316 (4th Cir. 1995) (permanent injunction granted in general terms); *Ronald Mayotte & Assocs. v. MGC Bldg. Co.*, 885 F. Supp. 148, 153-54 (E.D. Mich. 1994) (preliminary injunction granted).

³¹⁷ H.R. REP. NO. 101-735, at 14, *reprinted in* 1990 U.S.C.C.A.N. at 6945.

³¹⁸ The facts are adapted from *Abend v. MCA, Inc.*, 863 F.2d 1465 (9th Cir. 1988), *aff'd sub nom.* *Steward v. Abend*, 495 U.S. 207 (1990), and *Moonrunners Ltd. P'ship v. Time Warner Inc.*, No. CV 05-1362 GAF (VBKx), 2005 U.S. Dist. LEXIS 41244 (C.D. Cal. June 17, 2005).

of the quality of the first adaptation.³¹⁹ To this extent, the author would probably find it difficult to license another movie within a reasonable period of time if the infringing one is not enjoined.³²⁰

As mentioned above, the reputational harm and an eroded window of market opportunity are typical examples of irreparable injury for which monetary damages are not adequate.³²¹ More importantly, it is questionable how much the defendant would legally be allowed to benefit from her independent contribution in the movie even if the permanent injunction is denied. Legal protection under copyright law does not extend to any part of a derivative work or compilation in which the preexisting material has been used unlawfully.³²² To the extent that the storyline in the original novel is inextricable from the movie, the whole movie could arguably be denied copyright protection.³²³ In a nutshell, the grant of a permanent injunction may be necessary to prevent irreparable injury to derivative markets and, meanwhile, may be unlikely to inflict any additional hardship on the defendant in the cases of substantial copying in screenplays.

The muddy question of injunction against derivative works is rooted in the fact that the derivative right is also a latecomer in the history of copyright law, evolving in a way similar to architectural works. The 1790 Copyright Act, the first U.S. copyright law, essentially contained the rights of reproduction and distribution only, which narrowly covered the literal copying of copyrighted works.³²⁴ Courts usually held that a translation³²⁵ or even an abridgment³²⁶ did not constitute copyright

³¹⁹ See Michael Abramowicz, *A Theory of Copyright's Derivative Right and Related Doctrines*, 90 MINN. L. REV. 317, 320 (2005) (arguing that "substantial time lags may maximize consumer excitement"); William M. Landes & Richard A. Posner, *Indefinitely Renewable Copyright*, 70 U. CHI. L. REV. 471, 486 (2003) (discussing technological externalities created by duplicated uses of the same work).

³²⁰ See *Marvin Worth Prods. v. Superior Films Corp.*, 319 F. Supp. 1269, 1276–77 (S.D.N.Y. 1970).

³²¹ It is fair to say that comparable irreparable injury would also occur to wrongfully enjoined defendants. Once enjoined on the eve, or during the course, of a major release, the movie would probably never realize its full commercial potential after the scheduled window had passed. The threat of injunctive relief would apparently vest great bargaining power in the copyright owner in such cases. Therefore, at the preliminary-injunction stage, the court should require the plaintiff to demonstrate a substantial likelihood of success on the merits (more than 50%) before enjoining the release of a movie.

³²² 17 U.S.C. § 103(a) (2006).

³²³ See, e.g., *Anderson v. Stallone*, No. 87-0592 WDKGX, 1989 WL 206431, at *6–9 (C.D. Cal. Apr. 25, 1989) (holding that a script outline was not entitled to copyright protection because it infringed Rocky Balboa and the other characters from the Rocky series).

³²⁴ See Act of May 31, 1790, ch. 15, § 1, 1 Stat. 124, 124 (repealed 1802). This Act only granted "the sole right and liberty of printing, reprinting, publishing and vending [a] map, chart, book or books, for the term of fourteen years." *Id.*

³²⁵ See *Stowe v. Thomas*, 23 F. Cas. 201, 206, 208 (C.C.E.D. Pa. 1853) (No. 13,514).

³²⁶ See *Lawrence v. Dana*, 15 F. Cas. 26, 59 (C.C.D. Mass. 1869) (No. 8,136).

infringement. It was not until 80 years later that the Copyright Act was eventually amended to show the first trace of the derivative right, i.e., “the right to dramatize or to translate their own works.”³²⁷ The current 1976 Copyright Act provides for an exclusive right “to prepare derivative works based upon the copyrighted work.”³²⁸ A “derivative work” is broadly defined as “a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted.”³²⁹

The judicial skepticism around the derivative right is once again prolonged here, akin to the case of architectural copyrights. First, the derivative right is naturally limited by the judge-made doctrine of the idea/expression dichotomy.³³⁰ Second, the doctrine of “transformative use” created by Judge Leval³³¹ and followed by many courts, including the Supreme Court,³³² has substantially expanded the scope of fair use and consequently shrunk the derivative right. More recently, Judge Kozinski suggested categorically denying injunctive relief against derivative works and remitting plaintiffs to a judicially computed compulsory license fee, apparently troubled by the fact that enjoining a derivative work would deprive the public of access to independent expressions contained therein.³³³ Although this suggestion seems to go a bit too far, there are indeed circumstances in which courts may rightfully withhold injunctive relief against an infringing movie depending on the level of contribution by the copyrighted work and the magnitude of redesign costs.

A feature movie typically contains a number of copyrighted works, most of which play a relatively small role individually, taking music and drawings as examples.³³⁴ Assuming a single song or image in the movie is found to be infringing but the movie has been released into theaters, an injunction to enjoin continuing infringement would probably force the defendant to pull the whole movie out of circulation, jeopardizing all the investment in movie production, market promotion, and other

³²⁷ Act of July 8, 1870, ch. 230, § 86, 16 Stat. 198, 212.

³²⁸ 17 U.S.C. § 106(2) (2006).

³²⁹ *Id.* § 101.

³³⁰ *See generally* Baker v. Selden, 101 U.S. 99 (1880).

³³¹ *See* Leval, *supra* note 49, at 1111.

³³² *See* Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994).

³³³ *See* Kozinski & Newman, *supra* note 241, at 525–26.

³³⁴ *See, e.g.,* Lennon v. Premise Media Corp., 556 F. Supp. 2d 310, 317, 328 (S.D.N.Y. 2008) (preliminary injunction denied regarding a documentary that played fifteen seconds of a well-known song); Berlent v. Focus Features, LLC, No. 06 Civ. 2834(SCR), 2006 WL 1594478, at *1, *3 (S.D.N.Y. June 8, 2006) (preliminary injunction denied regarding the theme song in a blockbuster movie). *But see* Woods v. Universal City Studios, Inc., 920 F. Supp. 62, 63–65 (S.D.N.Y. 1996) (seemingly the only reported decision that ever issued a preliminary injunction to enjoin a feature movie, based upon a finding of infringing use of a single drawing in the movie).

preparations for a series of theater, DVD, and television releases. This consequence would impose undue hardship on the defendant, grossly disproportionate to the contribution of the copyrighted work to the whole movie.

Free-speech interests bear heavily on the availability of an injunction here because the defendant is prohibited from conveying her own expressions and the public is denied access to the non-infringing material in the movie. In these cases, statutory damages may be more appropriate than injunctive relief to compensate the copyright owner and create deterrence to further infringement. At a minimum, courts should withhold a preliminary injunction in order to allow the defendant reasonable time to re-edit the movie and remove the infringing material, and an order of permanent injunction should be strictly forward-looking so that it would not entail any sweeping recall of copies already distributed in the market.

3. *Databases*

The third case study concerns an electronic database that consists of a huge number of third-party works.³³⁵ The database organizer was sued for copyright infringement for accidentally including an unauthorized work in the database. One misplaced work is certainly a small part of the whole database. Deleting it from the database would probably take no more than a few clicks of the mouse. Huge transaction costs in relation to multiple works would not sufficiently justify a denial of a permanent injunction because the increase in transaction costs tends to be in proportion to the increased volume and increased value of the overall database. It does not make much sense to hold that the more infringing works a database contains, the less likely it would be subject to a permanent injunction in court.

Nevertheless, the difficulty in tracking down the infringing files may incur prohibitive costs under certain circumstances. Take, for example, image search engines (e.g., Google) and video-sharing websites (e.g., YouTube). Such online databases are normally automated systems that maintain enormous collections of copyrighted works originating from various third-party sources and are constantly in a dynamic mode. When those services have incidentally contained a small number of infringing files, most courts have so far declined to find infringement but have upheld the defense of fair use.³³⁶ This practice was presumably due to the

³³⁵ The facts are adapted from *N.Y. Times Co. v. Tasini*, 533 U.S. 483 (2001).

³³⁶ See *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 733 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 822 (9th Cir. 2003). For cases involving a non-digital database, see, for example, *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 615 (2d Cir. 2006) (reproducing concert posters in reduced size in a biography of a musical group was regarded as a fair use); *Belushi v. Woodward*, 598 F. Supp. 36, 36–38 (D.D.C. 1984) (a request for temporary restraining order denied to a plaintiff who only had the copyright to one of many photographs reproduced in the defendant's work).

difficulty involved in calculating ongoing damages in a new market that copyright owners themselves have never ventured into. Another possible rationale was to increase the stakes of copyright owners in promptly exploring new markets and devising new business models to overcome transaction costs.³³⁷

In terms of indirect liabilities based on third-party infringing material, courts likewise have tended to acquit a technology provider of either vicarious liability or contributory infringement upon a finding of “substantial non-infringing uses” unless the technology providers had taken affirmative steps to induce copyright infringement by another.³³⁸ However, lower courts should be more ready to decide on the availability of a permanent injunction in similar cases if they begin to follow the concurring opinion of Justice Ginsburg in *Grokster*.³³⁹ Justice Ginsburg suggested that even a substantial number of non-infringing uses would not insulate technology providers from indirect liabilities where the overwhelming uses were for infringement.³⁴⁰ Along this line, a permanent injunction that, on paper, targets only the infringing uses could nevertheless impose undue hardship if it is not in reality commercially feasible to accurately filter the infringing uses from the non-infringing uses.³⁴¹ The defendant would have to face the dilemma of either shutting down the whole service or paying for a settlement in a value that reflects much more than the infringing uses.

In light of these concerns, courts have recently started to grant a more nuanced form of injunctive relief requiring a performance of reasonable filtering, rather than absolute filtering, coupled with statutory damages to create sufficient deterrence.³⁴²

VII. CONCLUSION

The Supreme Court in *eBay*, while enhancing the judicial discretion to deny patent injunctions, purported to base its holding on the long-term practice of copyright law. This analogy, however, is somewhat peculiar because injunctive relief is arguably more crucial and therefore used more frequently under copyright law than under patent law. The holdup problem, with which the Supreme Court was primarily concerned, is less obvious in copyright areas because copyright law on the one hand promotes the abundance of competing works, and on the other hand contains built-in mechanisms to control the holdup problem. To this extent, it is unsurprising that the majority of post-*eBay* copyright

³³⁷ See *supra* note 239 and accompanying text.

³³⁸ See *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 931–33, 937 (2005).

³³⁹ See *id.* at 942 (Ginsburg, J., concurring).

³⁴⁰ *Id.* at 948.

³⁴¹ See *supra* note 209 and accompanying text.

³⁴² See *MGM Studios, Inc. v. Grokster, Ltd.*, 518 F. Supp. 2d 1197, 1219, 1236 (C.D. Cal. 2007); see also Lemley & Weiser, *supra* note 238, at 803 (applauding this trend).

decisions ignored *eBay* and the four-factor test that *eBay* supported. While this outcome may actually result from the rational choices of a majority of judges, it is troubling at a fundamental level that lower courts do not always follow the principle of stare decisis.

One of the solutions would be to adapt the four-factor test to the unique concerns of copyright law. Given the pervasiveness of reputational harm and systematic underestimation of copyright damages, a presumption of irreparable harm may be applicable to permanent injunctions if not to preliminary injunctions. In cases involving innocent infringement, high redesign cost, and a copyrighted work as a small component of a bigger product, the balance of hardship as well as the public interest may mandate a denial of the injunction. Particular attention should be given to the cases of architectural works, derivative works, and databases, which have historically been the breeding grounds for the holdup problem, although neither a grant nor denial of injunctive relief should be automatic.

This Article also aims to illustrate a bigger point regarding the cross-reference between patent law and copyright law³⁴³: Although these two bodies of law share the same constitutional origin, they have increasingly evolved in different directions.³⁴⁴ It therefore warrants a great deal of caution before importing a patent doctrine into copyright law, and vice versa, as evidenced by the recent attempts of the Supreme Court, which arguably created more lasting problems than they actually solved.³⁴⁵ While the *eBay* decision promoted a nuanced, case-by-case approach to handling motions for injunctive relief, it might just be teaching a lesson against a general rule that a patent doctrine would automatically work for copyright law.

³⁴³ See *Salinger v. Colting*, 607 F.3d 68, 78 (2d Cir. 2010) (“[I]t seems clear that the Supreme Court did not view patent and copyright injunctions as different in kind, or as requiring different standards.”).

³⁴⁴ See *supra* note 189 and accompanying text.

³⁴⁵ See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392 (2006); *MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 936 (2005); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 440–42 (1984).