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SALINGER AND EBAY: WHEN EQUITABLE CONSIDERATIONS UNDERMINE EXCLUSIVITY

I. INTRODUCTION

When J.D. Salinger wanted to stop someone from exploiting his best-selling novel *Catcher in the Rye*, he sought injunctive relief. Without this remedy, the copyrighted work in which he has the exclusive right to reproduce, distribute, prepare derivative works, publicly perform, and publicly display would be available for all to use.¹ Unlike physical property, which has clearly delineated boundaries, the boundaries of intellectual property are vague, making remedies difficult to assess and enforce. Works under copyright are unique in that their intellectual property encompasses an unquantifiable amount of artistic and creative elements. These elements are impossible to catalogue, so a certain degree of copying is inevitable. An expressive work can rarely come into existence without building off existing works. Thus, a one-size-fits-all approach to resolving infringement claims should not apply uniformly across all areas of intellectual property law.

The right to exclude others from unauthorized use of a work is an important and central feature in copyright.² Yet exclusivity is difficult to enforce with intellectual property because it is a right in intangible property.³ For this reason, preliminary injunctive relief is a necessary remedy for a plaintiff who seeks to prevent continuing infringement during the course of litigation. Traditionally, courts granted preliminary injunctive relief for the plaintiff who could make a *prima facie* showing that her

1. See 17 U.S.C. § 106 (2006).

2. See *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (“The owner of the copyright, if he pleases, may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his property”).

3. See *eBay, Inc. v. MercExchange L.L.C.*, 547 U.S. 388, 395 (2006) (Roberts, C.J., concurring) (The courts have traditionally granted injunctions upon a finding of infringement “given the difficulty of protecting a right to *exclude* through monetary remedies”).

intellectual property rights had been infringed.

Prior to the United States Supreme Court decision in *eBay v. MercExchange L.L.C.*,⁴ a patentee would be granted injunctive relief as a matter of course if patent infringement were proved. The Supreme Court rejected that presumption in *eBay*, deciding that courts must apply a four-factor test in deciding whether to award injunctive relief in patent infringement cases.⁵ That test evaluates (1) whether the party has suffered irreparable injury, (2) the adequacy of legal remedies, (3) the balance of hardships between parties, and (4) the public interest.⁶ Recently, the Second Circuit Court of Appeals decided *Salinger v. Colting*,⁷ holding that the *eBay* four-factor test also applies to preliminary injunctions in copyright infringement cases.⁸

Both *eBay* and *Salinger* illustrate a shift from a property rule towards a liability rule for intellectual property.⁹ A property rule is one that protects property rights absolutely through injunctive relief; a liability rule is one that provides the infringing party pay damages for the harm.¹⁰ The more rigid preliminary injunction standard adopted by the court in *Salinger* in effect operates like a liability rule because injunctive relief now requires the court balance equitable factors by considering potential harm to both parties, which favors monetary remedies. This equitable standard was applied even though harm at the preliminary stage is speculative and the value of the copyright is difficult for a court to ascertain.

4. 547 U.S. 388 (2006).

5. *Id.* at 391 (“According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant injunctive relief”).

6. *Id.*

7. 607 F.3d 68 (2d Cir. 2010).

8. *See id.* at 78, n.7 (“[W]e see no reason that eBay would not apply with equal force to an injunction in any type of case”).

9. *See* Jake Phillips, *eBay’s Effect on Copyright Injunctions: When Property Rules Give Way to Liability Rules*, 24 BERKELEY TECH. L.J. 405, 405-06 (2009) (forecasting *eBay*’s likely effect on injunctions in copyright).

10. *See* Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1092 (1972).

This Note contends that the adoption of the *eBay* standard in copyright cases undermines the goals and weakens the exclusivity that copyright provides. Instead, a property rule preliminary injunction standard that grants injunctive relief on the merits would better serve the goals of copyrights based in expressive works because damages in this context are speculative and based on incomplete information. The owner's value in a copyrighted work is inherently subjective and unique. Neither the parties nor the courts can accurately value the work or the harm caused by the alleged infringer at the preliminary stage. If the defendant can overcome an injunction by showing she is more likely to be economically harmed, or the plaintiff fails to show adequate harm, the copyright owner's essential right to exclude is completely and unfairly undermined.

A property rule standard does not necessarily create a windfall for the plaintiff. By focusing the preliminary inquiry on the merits, the defendant can still prevent an injunction by invoking a valid fair use defense. The fair use defense allows the defendant to weaken the likelihood of success on the merits, and it offers the court a method for denying an injunction when factors beyond the merits weigh in defendant's favor.¹¹ Permanent injunctions, however, may be better served by a full analysis of the *eBay* standard, since each party will have time to present complete information and the court will also have sufficient time to weigh the information.

This Note explores preliminary injunctions in copyright disputes. Part II will outline the goals of copyright as a property interest, the protection of property through the property rule/liability rule dichotomy, and how preliminary injunctions can operate under either rule regime. Part III will illustrate the application of a preliminary injunction in copyright through *Salinger*, the subject opinion of this Case Note. Part IV will analyze preliminary injunctions in copyright under property rule and liability rule regimes, as viewed through the lens of *Salinger*.

11. See 17 U.S.C. § 107 (2006) (there are four statutory factors in a fair use defense); see *infra* note 28 and accompanying text.

II. BACKGROUND

A. The Nature and Goals of Copyright

Copyright exists “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.”¹² It functions to stimulate activity and progress for the general benefit of society.¹³ This utilitarian aim is achieved by granting authors limited monopolies over their works so that they may reap the rewards of their creative efforts.¹⁴ Copyright seeks to find an optimal balance between author incentives and public access to works to promote “the harvest of knowledge.”¹⁵

Exclusive property ownership of a copyright is possible in an original work of authorship that is fixed in any tangible medium of expression.¹⁶ Within an original work, copyright protects many elements that contribute to the complete work.¹⁷ Similar to the concept of private property, intellectual property includes the right to exclude.¹⁸ Without legal remedies for infringement, protection of exclusive copyrights weakens, decreasing the incentive for

12. U.S. CONST. art. I, § 8, cl. 8.

13. See Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1107, 1108, n.12 (1990) (noting that the Supreme Court has summarized the objective of copyright is to “stimulate activity and progress in the arts for the intellectual enrichment of the public”).

14. See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (“Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts”), *superseded by statute*, *Broadcast Music, Inc. v. Claire’s Boutiques, Inc.*, 949 F.2d 1482 (7th Cir. 1991).

15. *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 545 (1985).

16. 17 U.S.C. § 102(a) (2006).

17. RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 41 (7th ed. 2007) (explaining that copyrighted elements cannot be indexed like patents; “copyrights protect an infinitude of sentences, musical phrases, details of architectural blueprints, and other minutiae of expression . . . some amount of inadvertent copying is thus unavoidable”).

18. See 17 U.S.C. § 106 (2006).

authors to pursue ideas.¹⁹

Exclusive rights to intellectual property can be characterized as the ownership of a public good.²⁰ When copyrighted expression is disclosed to the public, the work becomes a public good because it is “nonexcludable” and “nonrivalrous.”²¹ The term “nonexcludable” means that one person cannot exclude another person from using the good.²² When a person reads information contained in a book, the author cannot exclude the reader from that information once it is read.²³ The term “nonrivalrous” means that one person’s use of the information does not reduce the ability of another person to use the information.²⁴ One person’s consumption of information does not reduce the availability of that information for another person’s consumption, thus more than one person at a time can possess the information. Public goods are generally positive for society because unlike tangible goods, the information is free for all to use. But copyright owners usually want to retain control over their work; they want the use of their copyrighted information to be rivalrous.²⁵ Copyright balances these competing interests through substantive requirements for copyright infringement and the fair use defense.

To show infringement of a copyright, the plaintiff must prove ownership of a valid copyright, and copying of constituent elements of the work that are original.²⁶ When these elements are

19. See *Hoehling v. Universal City Studios, Inc.*, 618 F.2d 972, 974 (2d Cir.), *cert. denied*, 449 U.S. 841 (1980) (“The copyright provides a financial incentive to those who would add to the corpus of existing knowledge by creating original works”).

20. See POSNER, *supra* note 17, at 41.

21. Alan Devlin & Neel Sukhatme, *Self-Realizing Inventions and the Utilitarian Foundation of Patent Law*, 51 WM. & MARY L. REV. 897, 914 (2009).

22. *Id.* at 914-15.

23. *Id.* at 915 (“Once the cat is out of the bag, it cannot be put back in”).

24. *Id.*

25. *Id.* (citing Thomas O. Barnett, *Interoperability Between Antitrust and Intellectual Property*, 14 GEO. MASON L. REV. 859, 865 (2007)) (“Although information might want to be free, inventors want to get paid”).

26. 4 DAVID NIMMER, NIMMER ON COPYRIGHT, § 13.01 (citing *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991); Harper &

shown, the plaintiff establishes a prima facie case of infringement. But a prima facie showing of infringement does not leave the defendant without an escape hatch. Section 107 of the Copyright Act provides the fair use defense, which limits the plaintiff's scope of rights.²⁷ Fair use considers four factors: (1) the purpose and character of the use, (2) the nature of the copyrighted work, (3) the amount and substantiality of the portion used, and (4) the effect upon the plaintiff's potential market.²⁸ The broad statutory language of fair use allows discretion in its application to various circumstances.²⁹

B. Protecting Property Rights Under Property and Liability Rules

Property rights in intellectual property can be analyzed under Guido Calabresi and A. Douglas Melamed's oft-cited framework set forth in *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*.³⁰ This framework analyzes whether entitlements, or property rights, should be subject to property, liability, or inalienability rules.³¹ Which rule is appropriate depends on which rule maximizes efficiency.³² Efficiency, in a general sense, is achieved when rights and resources are allocated to the users who value it most.³³ Allocational efficiency

Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 548 (1985)).

27. See 17 U.S.C. § 107 (2006).

28. § 107(1)-(4).

29. See Alex Kozinski & Christopher Newman, *What's So Fair About Fair Use?*, 46 J. COPYRIGHT SOC'Y U.S.A. 513, 515 (1999) ("In drafting the Copyright Act, Congress pretty much punted on this issue, leaving it to courts to just go on making case-by-case determinations as they had done all along. It did list four factors for use to consider, but didn't say anything about what these factors mean or how they should be weighted relative to each other.").

30. Calabresi & Melamed, *supra* note 10.

31. *Id.* at 1089. We are only concerned with property and liability rules in this context.

32. See *id.* at 1093-1101; Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 COLUM. L. REV. 2655, 2661 (1994) (This is grounded in the Coase Theorem, which states that, assuming transaction costs are not prohibitively high, regardless of the initial allocation, property will be transferred to their highest-value use through bargaining); see *infra* note 35.

33. Merges, *supra* note 32, at 2661.

maximizes the value of property thus increasing social welfare.³⁴ When the cost of transferring property to the highest value user becomes prohibitively high, the socially beneficial transaction will not occur.³⁵ Legal rules should therefore operate to overcome failures in achieving the efficient allocation of rights and resources.

Copyright can be freely distributed or transferred by any means of conveyance to achieve efficient allocation.³⁶ When person A values rights in person B's copyright, A can obtain the rights in the copyright by transacting with B. B will only part with the rights if A values the rights more than B. When there are difficult barriers, complexities, or high costs in transacting for the rights, or what constitutes the intellectual property is vague, then a socially beneficial transaction will not occur. The rights will not end up in the hands of the person who values it most.

Now suppose A takes B's property instead of transacting with B. In copyright, that is infringement. B then sues A to recover the stolen property and wins. What remedy should B receive? Under a property rule, B would get the property back, which in copyright halts infringement, and prevents future infringement through an

34. Louis Kaplow & Steven Shavell, *Property Rules Versus Liability Rules: An Economic Analysis*, 109 HARV. L. REV. 713, 758 (1996) (“[L]egal rules are used to promote the social objective of maximizing the value of things, which means channeling things to the parties who place the highest value on them”).

35. See Ronald Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 15 (1960) (“In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on”).

36. See 17 U.S.C. § 101 (2006) (A “transfer of copyright ownership” is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license); § 201(d)(1) (“The ownership of a copyright may be transferred in whole or in part by any means of conveyance”); H.R. Rep. No. 94-1476 at 123, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5738 (Under the principle of unlimited alienability, “ownership of a copyright, or of any part of it, may be transferred by any means of conveyance or by operation of law”).

injunction. This is similar to traditional private property rights in that injunctive relief is the most effective remedy to protect property from being taken.³⁷ The property will not be transferred unless the parties mutually agree upon the value through a voluntary transaction.³⁸ When property owners have an absolute right to exclude, the transaction is channeled into the marketplace.³⁹ Moreover, property rules require the least amount of state intervention in determining the value of the property, which reduces the court's administrative costs.⁴⁰ A mutually agreeable value between A and B is socially desirable because it ensures that property is at its highest value use. Therefore, when parties are able to easily transact with each other, injunctive relief should normally be allowed as a matter of course.⁴¹

Under a liability rule, B would receive monetary damages for the taking, much like a breach of contract or tort suit. A liability rule allows the use of an entitlement for an objectively determined value, usually decided by the court.⁴² A liability rule is favored when beneficial transfers do not occur due to prohibitively high barriers and costs to establishing the value.⁴³ That value, however, is not necessarily one that the buyer would have accepted.⁴⁴ Only rarely can a court determine the values of competing uses accurately, especially when subjective elements are involved.⁴⁵ If B values the rights more than A, yet A can still take the property, then the property is not put to its most valuable use.

The determination as to which rule leads to the efficient allocation of rights and resources depends on the extent and nature

37. Calabresi & Melamed, *supra* note 10, at 1105-06.

38. *Id.*

39. POSNER, *supra* note 17, at 69 ("The law of trespass, by refusing to consider the value of the invader's activity, channels the transaction into the market, where it belongs").

40. Calabresi & Melamed, *supra* note 10, at 1092.

41. POSNER, *supra* note 17, at 69.

42. Calabresi & Melamed, *supra* note 10, at 1092.

43. *Id.* at 1106.

44. *Id.* at 1108.

45. POSNER, *supra* note 17, at 70. ("[C]ourts are likely to underestimate damages systematically, because the plaintiff has the burden of proof and highly speculative evidence is disallowed").

of transaction costs.⁴⁶ Generally, to transfer the rights or to license the rights of any work, the rights holder and the potential user must transact through negotiations to reach a mutually satisfactory value.⁴⁷ Typically, a property rule is favored when there are fewer parties, difficult valuation problems, and generally low costs to transacting.⁴⁸ By contrast, a liability rule is favored when there are many parties, a likelihood of strategic bargaining, and otherwise high transaction costs.⁴⁹ When there are only two parties, and the value of the property at issue is found in its subjective elements, then a property rule is more efficient.

C. Preliminary Injunctions in General

When a copyright holder claims that her work has been infringed, she will often need more immediate protection than a final injunction to prevent ongoing infringement.⁵⁰ Preliminary injunctions also serve to maintain the status quo until a full trial can be held to determine the scope of rights.⁵¹ Sections 502 and 503 of the Copyright Act authorize courts to grant temporary restraining orders, temporary injunctions, and impoundment orders.⁵² The Federal Rules of Civil Procedure authorize courts to grant temporary restraining orders under Rule 65(b).⁵³

46. See Mark A. Lemley & Philip Weiser, *Should Property or Liability Rules Govern Information*, 85 TEX. L. REV. 783, 786-87 (2007) (noting that transaction costs generally include the difficulty and expense of having to negotiate multiple deals, and the risk that some sellers will engage in strategic behavior to try to increase their share of the rents); Merges, *supra* note 32, at 2664; *see supra* note 35.

47. POSNER, *supra* note 17, at 42.

48. Merges, *supra* note 32, at 2664.

49. *Id.*

50. 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 11.1, at 11:4 (2d ed. & Supp. 2005).

51. See NIMMER, *supra* note 26, at § 14.06[A][1][a]; Warner Bros. Inc. v. Dae Rim Trading, Inc., 877 F.2d 1120, 1125 (2d Cir. 1989) (“The purpose of a temporary restraining order is to preserve an existing situation *in statu quo* until the court has an opportunity to pass upon the merits of the demand for a preliminary injunction”).

52. See 17 U.S.C. §§ 502, 503 (2006).

53. See FED. R. CIV. P. 65(b).

A preliminary injunction is considered an “extraordinary remedy.”⁵⁴ The *eBay* Court explained that the remedy should never be awarded as a right.⁵⁵ Still, preliminary injunctions have historically been more readily available in copyright cases than in any other intellectual property context, such as in patents or trademarks.⁵⁶ Even since *eBay*, where the Court held that injunctions do not automatically follow a finding of infringement, lower courts applying the traditional equitable principles have generally granted injunctions for the copyright owner upon a showing of infringement; that is, the courts have upheld strong property rules for copyright owners.⁵⁷

A preliminary injunction is awarded if compensatory remedies are unavailable or inadequate.⁵⁸ Under either preliminary or final injunction analysis, remedies are inadequate when the risk of ongoing harm is irreparable, and will continue to accrue during the course of litigation. Irreparable harm is characterized as harm that will be difficult to undo after the fact with monetary remedies.⁵⁹

In copyright, irreparable harm has commonly been presumed upon a finding of infringement on the substantive merits. The presumption seems appropriate where the copyrighted work is an expressive work, as opposed to a work that is functional in nature because functional works have a more objective value.⁶⁰ Much of

54. See *Winter v. Nat’l Res. Def. Council, Inc.*, 129 S. Ct. 365, 376 (2008) (“A preliminary injunction is an extraordinary remedy . . .”).

55. *eBay, Inc. v. MercExchange L.L.C.*, 547 U.S. 388, 392-93 (noting that the creation of a right and the remedy for violations of that right are separate and distinct provisions); 17 U.S.C. § 502(a) (2006) (A court “may” grant injunctive relief).

56. NIMMER, *supra* note 26, at § 14.06[A][1][b] (noting that despite their extraordinary nature, “in actual practice their issuance is actually ordinary, even common place”).

57. See Phillips, *supra* note 9, at 423 & 423, n.113 (noting all but two copyright cases after *eBay* granted an injunction).

58. *Salinger*, 607 F.3d at 77 (citing *eBay*, 547 U.S. at 391).

59. *Id.* at 81. See GOLDSTEIN, *supra* note 50, § 11.1.1, at 11:5-6 (noting “there is little case law indicating the degree of irreparable harm that a plaintiff must demonstrate to obtain a [temporary injunction]”).

60. See, e.g., *Nat’l Med. Care, Inc. v. Espiritu*, 284 F. Supp. 2d 424, 432 (2003) (comparing the value of copyrighted works that are functional in nature with those that derive value in artistic or creative elements).

the value in an expressive work is based on subjective elements and thus inherently difficult to calculate.⁶¹ This is why the courts have simply presumed that harm is irreparable when infringement is shown.

Ideally, preliminary injunctions operate to prevent harm from accruing, or at least encourage both parties to negotiate and mutually agree on the value of the copyrighted work. But this relief can be oppressively applied by courts⁶² or utilized in an opportunistic manner by the copyright holder.⁶³ Preliminary injunctions may be overly oppressive in cases in which the infringer has merely borrowed a minimal amount of protected elements from another work and incorporated them into a larger, original work of her own.⁶⁴ Even a weak lawsuit can have the effect of forcing the alleged infringer to abandon what may have been a substantial investment in original authorship because the scope of plaintiff's rights are uncertain.⁶⁵ Preliminary injunctions can also force the infringer to settle with the copyright owner on terms that may sacrifice some or all of the value of the infringer's own original authorship.⁶⁶ Since the copyright holder possesses a monopoly over the rights, no settlement can be reached when the author acts as a holdout by refusing to negotiate.⁶⁷ This may

61. See POSNER, *supra* note 17, at 70.

62. See GOLDSTEIN, *supra* note 50, § 11.0, at 11:1 (characterizing injunctive relief as "coercive").

63. See Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509, 512 (2003) (noting that a plaintiff may file a weak lawsuit to impair the defendant's performance in their shared market, or exclude altogether).

64. *Id.* See, e.g., *Salinger*, 607 F.3d at 73-74 (analyzing Colting's fair use defense).

65. See GOLDSTEIN, *supra* note 50, § 11.0, at 11:3; Meurer, *supra* note 63, at 513 (noting that the defendant will likely settle because copyright suits have a high variance in the scope of rights granted).

66. *Id.* See, e.g., *Salinger v. Random House*, 650 F. Supp. 413 (S.D.N.Y. 1987) (Leval, J.), *rev'd*, 811 F.2d 90 (2d Cir. 1987), *cert. denied*, 484 U.S. 890 (1987) (District Court Judge Leval denied a preliminary injunction for a work that quoted unpublished sections of Salinger's works. The Court of Appeals granted the preliminary injunction and the sections were removed).

67. See Daniel Crane, *Intellectual Liability*, 88 TEX. L. REV. 253, 265-66 (2009) (noting that U.S. Antitrust law generally does not impose an obligation

effectively exclude the defendant from the plaintiff's market.⁶⁸

Another controversial issue with preliminary injunctions is that they may operate as an unconstitutional prior restraint on speech.⁶⁹ Courts generally do not allow preliminary relief when its purpose is to restrict otherwise free speech.⁷⁰ An injunction against speech must await a judicial determination that the speech is constitutionally unprotected.⁷¹ Consequently, when preliminary relief is presumptively awarded prior to the establishment of rights, it may violate the defendant's right to free speech under the First Amendment.

The traditional preliminary injunction standard in copyright cases has presumed irreparable harm has a matter of almost categorical right when the plaintiff has established a reasonable probability of success on the merits.⁷² Like many circuits, the Second Circuit traditionally issued preliminary injunctions in copyright cases upon a finding of "(a) irreparable harm and (b)

to license intellectual property on even dominant intellectual property rights holders).

68. Meurer, *supra* note 63, at 512-13.

69. See generally Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147 (1998) (asserting that intellectual property should not be exempted from conventional First Amendment scrutiny and that damage remedies should be favored).

70. See, e.g., *New York Times Co. v. United States*, 403 U.S. 713, 714 (1971) ("Any system of prior restraints of expression comes to this Court bearing a heavy presumption against its constitutional validity").

71. See Andrew Beckerman, *Prior Restraints and Intellectual Property: The Clash between Intellectual Property and the First Amendment from an Economic Perspective*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1, 20-21 (2001) ("The goal of injunctive relief is to restrict dissemination of intellectual property. However, intellectual property comprises information and ideas; any restriction on dissemination may be in conflict with the underlying thrust of the First Amendment, which seeks to prohibit restrictions on speech. This raises a fundamental conflict based on the question of whether intellectual property should be treated as property or as speech.").

72. GOLDSTEIN, *supra* note 50, § 11.1.2, at 11:13-14. See, e.g., *Video Trip Corp.*, 866 F.2d at 51-52 ("[The] existence of irreparable injury is presumed upon a showing of a prima facie case of copyright infringement"); see also *Richard Feiner & Co. v. Turner Entm't Co.*, 98 F.3d 33 (2d Cir. 1996); *ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 66 (2d Cir. 1996); *Hasbro Bradley, Inc. v. Sparkle Toys, Inc.*, 780 F.2d 189 (2d Cir. 1985).

either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief.”⁷³ As noted in *Salinger*, “the overwhelming majority of decisions addressing injunction motions have focused solely on whether the plaintiff has shown a likelihood of success on the merits and irreparable harm, rather than on balancing the hardships.”⁷⁴

D. eBay v. MercExchange L.L.C.’s Effect on Injunctive Relief

The United States Supreme Court decision in *eBay v. MercExchange L.L.C.* has led courts to reject the presumption standard, or any general or categorical rule for that matter. In *eBay*, a patent infringement case, the Court was presented with the issue of whether a permanent injunction should automatically follow a finding of infringement.⁷⁵ The Court held that injunctions do not automatically follow and that the lower courts must apply the “well-established” four-factor test⁷⁶ historically employed by courts of equity.⁷⁷ Although the Court applied that standard to a permanent injunction in a patent case, the decision has been interpreted as applying to both permanent and preliminary injunctions in copyright cases.⁷⁸

eBay involved a business method patent for the operation of electronic marketplaces.⁷⁹ *MercExchange L.L.C.*, the patent

73. *Salinger v. Colting*, 607 F.3d 68, 75 (2d Cir. 2010) (citing *NXIVM Corp. v. Ross Inst.*, 364 F.3d 476 (2d Cir. 2004); *ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 66 (2d Cir. 1996); *Video Trip Corp. v. Lighting Video, Inc.*, 866 F.2d 50 (2d Cir. 1989); *Wainwright Sec., Inc. v. Wall St. Transcript Corp.*, 558 F.2d 91 (2d Cir. 1977)).

74. *Id.* at 75, n.5.

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

76. *See infra* note 86 and accompanying text.

77. *eBay*, 547 U.S. at 391.

78. *See Salinger*, 607 F.3d at 78-79 (citing *Winter v. Nat’l Res. Def. Counsel*, 129 S. Ct. 365, 375-76 (2008)); *see also id.* at 77, n.6 (illustrating the Second Circuit’s district court split concerning whether *eBay* governs preliminary injunctions in copyright).

79. *eBay*, 547 U.S. at 390 (The patent in dispute was U.S. Patent No. 5,845,265, which facilitated the sale of goods between private individuals).

holder, and eBay, an Internet auction website, failed to reach a license agreement for the use of the patent.⁸⁰ eBay continued to use the patent and was subsequently sued for infringement.⁸¹ After finding that eBay infringed, the district court denied MercExchange L.L.C.'s motion for permanent injunctive relief.⁸² The court of appeals reversed stating that there is a "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."⁸³

On grant of writ of certiorari, a unanimous Supreme Court stated that general rules are contrary to the principles of equity that have traditionally guided courts.⁸⁴ The Court first stated that well-established principles of equity apply with equal force to disputes arising under the Patent Act.⁸⁵ Therefore, a permanent injunction is only appropriate when a plaintiff has demonstrated:

(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.⁸⁶

The Court opined that "a major departure from the long tradition of equity practice should not be lightly implied."⁸⁷ Under the Patent Act, "injunctions 'may' issue 'in accordance with the principles of equity.'"⁸⁸ And the creation of a right is distinct from

80. *Id.*

81. *Id.*

82. *Id.* (citing *eBay v. MercExchange L.L.C.*, 275 F. Supp. 2d 695 (2003)).

83. *Id.* at 391 (quoting *eBay v. MercExchange L.L.C.*, 401 F.3d 1323, 1339 (2005)).

84. *Id.* at 393-94.

85. *eBay*, 547 U.S. at 391.

86. *Id.*

87. *Id.* (quoting *Weinberg v. Romero-Barcelo*, 465 U.S. 305, 320 (1982)).

88. *Id.* at 392 (citing 35 U.S.C. § 283) ("The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the

the provision of remedies for violations of that right.⁸⁹ Thus, injunctive relief may not be granted as a matter of course or under categorical rules, such as an automatic grant of injunctive relief upon a finding of infringement.⁹⁰

For additional support, the Court noted that this approach shares similarities with injunctions under the Copyright Act.⁹¹ Both patent and copyright holders possess the right to exclude,⁹² and both Acts provide that courts may grant injunctive relief on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.⁹³ Importantly, the Court explained that it “has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows [copyright infringement].”⁹⁴

The case was remanded because neither the district court nor the court of appeals had applied the traditional equity principles properly because both used categorical rules in their determinations.⁹⁵ The district court used a categorical denial; the court of appeals used a categorical grant.⁹⁶

In Chief Justice Roberts’ concurrence, he noted that courts have historically granted injunctive relief upon a finding of infringement because of the “difficulty of protecting a right to exclude through monetary remedies.”⁹⁷ The court’s “discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided.”⁹⁸ When applying those standards, “a page of history

principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable”).

89. *Id.* at 392 (“The creation of a right is distinct from the provision of remedies for violations of that right”).

90. *Id.* at 393-94.

91. *eBay*, 547 U.S. at 392-93.

92. *Id.* at 392 (citing *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932)).

93. *Id.* at 392 (quoting 17 U.S.C. § 502(a) (2006)).

94. *Id.* See, e.g., *New York Times Co. v. Tasini*, 533 U.S. 483 (2001).

95. *eBay*, 547 U.S. at 393.

96. *Id.* at 394.

97. *Id.* at 395 (Roberts, C.J., concurring).

98. *Id.* (quoting *Martin v. Franklin Capital Corp.*, 546 U.S. 132, 139 (2005)).

is worth a volume of logic.”⁹⁹

Justice Kennedy’s concurrence reiterated that the “right to exclude does not dictate the remedy for a violation of that right.”¹⁰⁰ The fact that history has shown that injunctions are granted in the majority of cases upon a finding of infringement merely illustrates the result of the four-factor test.¹⁰¹ He expressed concern over non-practicing entities or patent trolls, defined as patent holders who extort high licensing fees by threatening suit.¹⁰²

III. SUBJECT OPINION: *SALINGER V. COLTING*

In 2009 the Second Circuit Court of Appeals was presented with the issue of whether a preliminary injunction in copyright should be granted on showing of a likelihood of success on the merits.¹⁰³ In *Salinger v. Colting*, Plaintiff-Appellee J.D. Salinger,¹⁰⁴ author of *The Catcher in the Rye* (“*Catcher*”), brought a copyright infringement and unfair competition suit against Defendant-Appellant Fredrick Colting¹⁰⁵ and his publishers.¹⁰⁶ Colting wrote and published a novel entitled *60 Years Later: Coming Through the Rye* (“*60 Years Later*”), which Salinger claimed was a derivative of *Catcher*.¹⁰⁷ The district court granted Salinger’s

99. *Id.* (quoting *New York Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921) (Holmes, J.)).

100. *Id.* at 396 (Kennedy, J., concurring).

101. *eBay*, 547 U.S. at 396.

102. *Id.* (citing FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, 38-39 (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>) (“An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees”).

103. *Salinger v. Colting*, 607 F.3d. 68, 71 (2d Cir. 2010); see also Archive of Columns on Fredrick Colting, <http://artsbeat.blogs.nytimes.com/tag/fredrick-colting/> (last visited February 20, 2011).

104. See Archive of Articles on J.D. Salinger, http://topics.nytimes.com/top/reference/timestopics/people/s/j_d_salinger/index.html (last visited March 21, 2010).

105. *Id.* at 71 (Colting’s pen name is John David California).

106. *Id.* at 70 (Windupbird Publishing, Ltd., Nicotext A.B., and ABP Inc.).

107. *Id.* A “derivative work” is a work based upon one or more preexisting works, such as a . . . fictionalization . . . or any other form in which a work may

motion for a preliminary injunction based on the Second Circuit's "longstanding standard" that upon a prima facie showing of copyright infringement, irreparable harm is presumed and an injunction will follow.¹⁰⁸ The Second Circuit Court of Appeals affirmed the district court's finding of infringement, yet remanded holding that the presumption standard is contrary to *eBay v. MercExchange L.L.C.*'s injunction standard.¹⁰⁹

A. Facts and Procedural History

In 1951 Salinger published *Catcher*, a coming-of-age story about a sixteen year old boy named Holden Caulfield.¹¹⁰ Colting's *60 Years Later* is the story of a seventy-six year old Holden Caulfield, referred to as Mr. C, and a fictionalized Salinger.¹¹¹

Salinger's infringement claim outlined extensive similarities in character and content.¹¹² He also pointed to the marketing efforts of *60 Years Later* as a sequel of *Catcher*.¹¹³ In response, Colting

be recast, transformed, or adapted. 17 U.S.C. § 101 (2006). A work consisting of editorial revisions, annotations, elaborations, or other modifications, which, as a whole, represent an original work of authorship, is a "derivative work." § 101.

108. *Id.* at 74.

109. *See id.* at 72-74.

110. *Salinger*, 607 F.3d at 70. Holden Caulfield wanders through New York City for several days after being expelled from school. *Id.* During his journey he becomes disillusioned with humanity and considers living as a recluse. *Id.* His younger sister Phoebe dissuades him from self-exile. *Id.* The novel has enjoyed enormous success, selling over thirty-five million copies. *Id.* Unlike his character Holden, Salinger remained a recluse, yet litigiously protected his copyright interests in *Catcher*. *Id.*

111. *Id.* at 72 (The gist of the novel is Salinger is haunted by Holden so he brings him back to life to kill him).

112. *Id.* First, Mr. C is Holden Caulfield, evident by references to events from Holden's story and notable eccentricities. *Id.* Second, Mr. C and Holden share similar story lines: they both "leave an institution, wander around New York City for several days, reconnect with old friends, find happiness with Phoebe, and ultimately returning to a different institution." *Id.* Third, there are broader structural similarities. *Id.*

113. *Id.* The back cover of *60 Years Later* displayed a description stating it is "a marvelous sequel to one of our most beloved classics." *Id.* Also, Colting described *60 Years Later* as "[j]ust like the first novel . . . He's still Holden

argued that his novel was not a sequel, but a critical examination of Holden and Salinger.¹¹⁴ He illustrated differences in each novel's narration and characters.¹¹⁵ Colting also relied on two literary experts to show that *60 Years Later* is a “meta-commentary”¹¹⁶ and “critique”¹¹⁷ of *Catcher* and Holden. In light of these characterizations, Colting claimed that *60 Years Later* fell under the fair use defense.¹¹⁸

The district court was not persuaded by Colting's fair use defense. Under the first factor, the “purpose and character of the use,”¹¹⁹ the court found that *60 Years Later* as a whole lacked “sufficient non-parodic transformative value.”¹²⁰ Although there was some transformative value in the fictionalized character of Salinger, it was insufficient to render the entire novel transformative.¹²¹ The second fair use factor, “the nature of the copyrighted work,”¹²² favored Salinger because *Catcher* is a “creative expression for public dissemination that falls within the core of the copyright's protective purposes.”¹²³ The third factor,

Caulfield, and has a particular view on things.” *Id.* (citing Alison Flood, *Catcher in the Rye Sequel Published, but Not by Salinger*, *Guardian*, May 14, 2009).

114. *Id.*

115. *Id.*

116. *Salinger*, 607 F.3d at 72 (Case Western Reserve University Professor Martha Woodmansee stated that “[60 Years Later] pursues critical reflection on J.D. Salinger and [*Catcher*]” in the form of a novel, similar to how literary scholars do in scholarly journals).

117. *Id.* (University of Tulsa College of Law Professor Robert Spoo claimed that *60 Years Later* was a sustained commentary on and critique of *Catcher*, which revisits and analyzes the attitudes and assumptions of Holden).

118. 17 U.S.C. § 107 (2006) (Fair use provides limitations on exclusive rights when the work is “for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research . . .”).

119. § 107(1).

120. *Salinger*, 607 F.3d at 73.

121. *Id.* at 73-74 (finding it was not transformative for three reasons: first, Colting had made public statements revealing his intention to write a *Catcher* sequel; second, Salinger is a “minor and supporting character”; third, the ratio of borrowed to transformative elements did not weigh in Colting's favor).

122. § 107(2).

123. *Salinger*, 607 F.3d at 74.

“the amount and substantiality of the portion used in relation to the copyrighted work as a whole,”¹²⁴ also favored Salinger because Colting took more than necessary for the purposes of critique.¹²⁵ Finally, for the fourth factor, “the effect of the use upon the potential market for or value of the copyrighted work,”¹²⁶ the court found that the work weighed slightly in Salinger’s favor, relying on the “value in the right *not* to authorize derivative works.”¹²⁷

Without a valid fair use defense, Salinger established a *prima facie* case of infringement. A preliminary injunction was granted without discussing irreparable harm.¹²⁸

B. The Second Circuit Court of Appeal’s Analysis

The court of appeals affirmed the finding of infringement, but remanded the case to apply the *eBay* standard.¹²⁹

The court first explained that preliminary injunctions have traditionally been issued in copyright cases upon a finding of irreparable harm, and either a likelihood of success on the merits or sufficiently serious questions going to the merits to make them a fair ground for litigation along with a balance of hardships tipping decidedly toward the party requesting the preliminary relief.¹³⁰ Indeed, the majority of decisions focused on whether the plaintiff had irreparable harm and a likelihood of success on the merits.¹³¹ And once a plaintiff had shown a likelihood of success on the merits, irreparable harm was typically presumed.¹³² Some decisions interpret the presumption to mean that a plaintiff likely to prevail on the merits does not need to make a detailed showing

124. § 107(3).

125. *Salinger*, 607 F.3d at 74.

126. § 107(4).

127. *Salinger*, 607 F.3d at 74.

128. *See id.* at 73-74 (The district court found Salinger had valid copyrights in *Catcher* and in Holden Caulfield, and there was substantial similarity between *Catcher* and *60 Years Later*, and between Holden and Mr. C, thus meeting the elements of infringement).

129. *Id.* at 74-75, 84.

130. *Id.* at 75.

131. *Id.* at 75, n.5.

132. *Id.* at 75.

of irreparable harm.¹³³ Other decisions interpret the presumption as though it applies automatically.¹³⁴ Overall, most courts have issued injunctions in copyright cases as a matter of course.¹³⁵

Colting raised two arguments on appeal. Colting first argued that the preliminary injunction standard was an unconstitutional prior restraint on speech, and second, that the injunction was in conflict with the Supreme Court's recent decision in *eBay v. MercExchange, L.L.C.*¹³⁶ The court agreed that *eBay* governs preliminary injunctions in copyright, which required the case be remanded, and the prior restraint on speech issue did not need to be addressed.¹³⁷

eBay, like *Salinger*, involved the application of a general rule that irreparable harm is presumed when infringement is found.¹³⁸ The court reasoned that because nothing in the text or logic of *eBay* limits the rule to patent cases, *eBay* strongly indicates that the traditional principles of equity apply to injunctions in any context.¹³⁹ Further, the Supreme Court expressly relied on copyright cases in *eBay*'s reasoning.¹⁴⁰ The creation of a right, through either the Patent Act or the Copyright Act, and the remedies for violations of that right are separate and distinct provisions.¹⁴¹ The language of both Acts implies that injunctions do not automatically follow infringement, which allows the courts

133. *Salinger*, 607 F.3d at 75. See, e.g., *Wainwright Sec., Inc. v. Wall St. Transcript Corp.*, 558 F.2d 91, 94 (2d Cir. 1977) (upon a prima facie showing of infringement, allegations of irreparable injury need not be very detailed because it can normally be presumed).

134. *Salinger*, 607 F.3d at 74. See, e.g., *Rice v. Am. Program Bureau*, 446 F.2d 685, 688 (2d Cir. 1971) ("It is . . . well settled that when a prima facie case is made out a preliminary injunction should issue without the showing of irreparable injury, especially in actions . . . involving dramatico-musical works").

135. *Id.*

136. *Id.* at 76.

137. *Id.*

138. *Id.* at 76.

139. *Id.* at 76 & 78, n.7 (noting there is no reason why *eBay* would not apply with equal force to an injunction in *any* type of case).

140. *Salinger*, 607 F.3d at 78.

141. *Id.* (Both the Patent Act and the Copyright Act provide courts may grant injunctive relief); see 17 U.S.C. § 502(a) (2006); 35 U.S.C. § 283 (2011).

discretion by applying traditional equitable considerations.¹⁴²

The court went on to state that obtaining a preliminary injunction is not easier than obtaining a permanent injunction.¹⁴³ First, *eBay* relied on preliminary injunction cases.¹⁴⁴ The standard for preliminary and permanent injunctions is “essentially the same.”¹⁴⁵ Second, the Supreme Court in *Winter v. Natural Resource Defense Counsel* applied *eBay* to a preliminary injunction.¹⁴⁶ In *Winter*, the Ninth Circuit had preliminarily enjoined the Navy’s use of sonar in training exercises based on a “strong” likelihood of success on the merits and the “possibility” of irreparable harm.¹⁴⁷ The *Winter* Court reversed while emphasizing that the extraordinary remedy must be applied on a case-by-case basis in which courts balance the competing claims of injury and pay particular regard for the public consequences.¹⁴⁸

In accord, the court gave guidance on how to apply the four-factor test to preliminary injunctions in copyright cases. The first factor remained the same in that a court must determine whether a plaintiff has demonstrated “either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the plaintiff’s favor.”¹⁴⁹ The court acknowledged the difficulty of predicting the merits of a copyright claim at the preliminary injunction hearing.¹⁵⁰ Furthermore, this is considerably more difficult when the defendant raises a fair use defense.¹⁵¹

The court then discussed the second and third factors, the

142. *Salinger*, 607 F.3d at 78 (citing *eBay*, 547 U.S. at 392-93).

143. *Id.* at 78-79.

144. *Id.*

145. *Id.* (citing *Amoco Prod. v. Vill. of Gambell*, 480 U.S. 531, 546 (1987)).

146. *Id.* at 79 (citing *Winter v. Nat’l Res. Def. Counsel*, 129 S. Ct. 365, 375-76 (2008)).

147. *Id.* (quoting *Winter*, 129 S. Ct. at 375-76).

148. *Salinger*, 607 F.3d at 79 (quoting *Winter*, 129 S. Ct. at 375-76).

149. *Id.* at 80.

150. *Id.* at 80-81 (citing *Lemley & Volokh*, *supra* note 69, at 201-02).

151. *Id.* at 81 (citing *Leval*, *supra* note 13, at 1132); *see also* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578, n.10 (1994) (noting that “the fair use enquiry often requires close questions of judgment”).

equitable factors, together: whether the plaintiff will suffer irreparable harm in the absence of a preliminary injunction, and the balance of hardships between the parties.¹⁵² Both factors consider the irreparable harm to the parties' legal interests; that is, the author's commercial interests¹⁵³ and their First Amendment interest.¹⁵⁴ Harm is relevant to the extent that it is non-remedial after final adjudication.¹⁵⁵ This type of harm is difficult to replace, difficult to measure, or it is a loss that one should not be expected to suffer.¹⁵⁶ Specifically in copyright cases, the harm may be market confusion or the loss of First Amendment freedoms.¹⁵⁷ Yet, "prov[ing] the loss of sales due to infringement is . . . notoriously difficult."¹⁵⁸ And any amount of time of First Amendment freedoms of is considered irreparable.¹⁵⁹

The court cautiously recognized the influence of the historical tendency to issue preliminary injunctions.¹⁶⁰ Citing empirical studies, it acknowledged that courts have tended to grant preliminary injunctions due to the inadequacies of legal remedies for infringement.¹⁶¹ It also acknowledged the competing concerns addressed in Chief Justice Roberts and Justice Kennedy's concurring opinions in *eBay*.¹⁶²

The final factor, rarely considered in the Second Circuit, is

152. *Id.* at 81.

153. *See id.* at 81, n.9 (citing *New Era Publ'ns Int'l, APS v. Henry Holt & Co.*, 695 F. Supp. 1493, 1526 (S.D.N.Y. 1988) ("the justification of the copyright law is the protection of the *commercial* interest of the artist/author . . . not to coddle artist vanity")).

154. *Salinger*, 607 F.3d at 81.

155. *Id.*

156. *Id.*

157. *Id.* at 81.

158. *Id.* (quoting *Omega Importing Corp. v. Petri--Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971) (Friendly, C.J.)).

159. *Id.* (quoting *Elrod v. Burns*, 427 U.S. 347, 373 (1976)).

160. *Salinger*, 607 F.3d at 82.

161. *Id.* (citing H. Tomás Gómez-Arostegui, *What History Teaches Us About Copyright Injunctions and the Inadequate-Remedy-at-Law Requirement*, 81 S. CAL. L. REV. 1197, 1201 (2008) (noting that the historical record suggests that legal remedies were deemed categorically inadequate).

162. *Id.* (citing *eBay*, 547 U.S. at 395).

whether the public interest would be disserved by an injunction.¹⁶³ The court restated that the object of copyright law is to promote the store of knowledge available to the public, which may already be satisfied by the plaintiff's contribution to the store of that knowledge.¹⁶⁴ First Amendment freedoms are also in the public's interest.¹⁶⁵ An erroneous grant of a preliminary injunction risks enjoining protected speech; in other cases the First Amendment value is "virtually nonexistent."¹⁶⁶

Remanding the case back to the district court, the court affirmed that Salinger was likely to succeed on the merits, and that Colting did not have a valid fair use.¹⁶⁷

IV. ANALYSIS

If a copyright holder wants to benefit from the right to exclude, and faces irreparable harm from infringement, she must be afforded injunctive relief. A preliminary injunction standard in copyright should focus on the copyright owner's likelihood of success on the merits, rather than a balance of the parties' respective harms. Information available in litigation at the preliminary stage is speculative and incomplete in this context.¹⁶⁸ Further, a court is ill-positioned to accurately assess eventual damages post-settlement or at trial because much of the value of a copyright is subjective, rendering the irreparable harm requirement illusory. Favoring a theory of property rule protection based on the merits is socially preferable to a liability rule because it protects an author's incentive to pursue ideas, and ensures that the value of a copyrighted work is not undermined. By contrast, application of a liability rule, which posits that the copyright owner must vindicate her rights by obtaining a settlement or by obtaining damages at trial, makes little sense given the unpredictable nature of damages for copyright infringement as

163. *Id.* at 82.

164. *Id.*

165. *Id.* at 82.

166. *Salinger*, 607 F.3d at 82-83.

167. *Id.* at 83.

168. POSNER, *supra* note 17, at 596.

they extend into the future. The infringement and fair use analysis can offer the same benefits and efficiencies that a liability rule would offer. Thus, the goals of copyright and the protections afforded to copyright holders are better served through a property rule at the preliminary stage.

eBay stated that the grant of a right to exclude and the remedy for its violation are separate and distinct provisions, turning on equitable considerations.¹⁶⁹ This implies that the right to exclude is not absolute. Rather, when equitable considerations control, the right to exclude can be outweighed by other factors, which favors monetary compensation determined *ex post*. Though equitable considerations may better serve patents and their primarily utilitarian function, the approach is not necessarily proper in the copyright context.

A. Copyright Protection Under Property Rules Protects the Value of Copyrighted Works

The efficient allocation of copyrights is best promoted under a property rule, as opposed to a liability rule because transaction costs are low.¹⁷⁰ Property rules are more appropriate for situations in which there are fewer parties, the value of the entitlement is difficult to determine, and transaction costs are otherwise low.¹⁷¹ Likewise, copyright favors a property rule because there are typically two parties, and the value of a copyright is difficult for the courts to determine.¹⁷²

Most importantly, the courts are ill-equipped to accurately and efficiently determine the value of expressive works. Copyrighted works, especially artistic or creative works, have a specialized nature that makes their valuation difficult.¹⁷³ Artistic or creative

169. 547 U.S. at 392.

170. *See* *Merges*, *supra* note 32, at 2664.

171. *Id.*

172. *See id.* (noting that courts are simply not well-situated to value copyright).

173. POSNER, *supra* note 17, at 69 (“The . . . realistic assumption is that only rarely can a court determine the values of competing uses accurately, especially when subjective values are involved”); *Merges*, *supra* note 31, at 2664 (“[A] court called on to set the terms of the exchange would have a difficult time

works derive much of their value in subjective or aesthetic elements, which are best determined in the marketplace. Each copyrighted work is substantively required to be original and therefore unique; there is no common value among them.¹⁷⁴ Moreover, courts would have to account for the complex nature in which these works are traded and disseminated.¹⁷⁵ History has illustrated the unpredictable nature of markets for expressive works through time.¹⁷⁶ Therefore, a property rule that encourages the parties to transact would present a more accurate value of the copyright through the individual assessment in the subjective aesthetic elements of a work. Simply put, the party who values the rights in a particular copyrighted work more will acquire the rights through negotiation, which will maximize the value of the work.

When monetary damages are the favored remedy over injunctive relief, infringers can calculate the damage beforehand and infringe in a cost effective way. Some courts have explicitly struck down the liability rule approach as an “infringe now, pay later” strategy.¹⁷⁷ This has the potential to allow the court to disregard the substantive law because it considers factors other than legal rights.¹⁷⁸ Moreover, without accurate information, there is a risk that damage may be set below the actual level of harm. This

doing so quickly and cheaply, given the specialized nature of the assets and the varied and complex business environments in which they are deployed.”).

174. Kaplow & Shavell, *supra* note 34, at 759-60 (When the owner and taker evaluate similar characteristics, things have either a common value or a component value. In copyright, the work is more likely to have an idiosyncratic value between the owner and taker).

175. *See* Merges, *supra* note 32, at 2664-65. *See, e.g.*, Sheldon v. Metro-Goldwyn Pictures Corp., 309 U.S. 390 (1940) (The court had to value the contributions made by a copyrighted play to a film that incorporated some of its plot elements).

176. *See* Michael J. Clark, *The Perfect Fake: Creativity, Forgery, Art and the Law*, 15 DEPAUL-LCA J. ART & ENT. L. & POL’Y 1, 12 (2004) (noting that from 1960 to 1975, the value of French Impressionist works rose 230%, which in turn saw an increase in the value of much lesser known works).

177. Woods v. Universal City Studios, Inc., 920 F.Supp. 62, 65 (S.D.N.Y. 1996) (“Copyright infringement can be expensive. The Copyright Law does not condone a practice of infringe now, pay later”).

178. *See* John Leubsdorf, *Preliminary Injunctions: In Defense Of The Merits*, 76 FORDHAM L. REV. 33, 36-37 (2007).

would encourage increased infringement further undermining the right to exclude.¹⁷⁹

The inability of copyright holders and licensors to reach an agreement has been used to justify compulsory licensing.¹⁸⁰ A compulsory license scheme is a liability rule that coerces the rights holder to license rights for a predetermined rate.¹⁸¹ This is appropriate only when transaction costs preclude the formation of a market for certain rights or resources, which require statutorily assisted transactions.¹⁸² The market for derivative works of *Catcher* remains untouched, which may never exist without a liability rule regime. But an important distinction is that the derivative market is not the same as a primary market. The statutory licensing scheme was designed for rebroadcast rights and public dissemination, not the authorization of sequels.

Yet, compulsory licensing can undermine an important incentive for producers and users to invest in institutions that reduce the cost of transacting.¹⁸³ One example is the formation of Performing Rights Societies (“PROs”). PROs function as a voluntary liability rule for rights holders in the form of an institution that carries out intellectual property transactions through blanket licenses.¹⁸⁴ A strong property rule provides a baseline for the incentive to contract into liability rules.¹⁸⁵ Thus, property rules can incentivize rights holders to invest in institutions where the value is still determined among the users, rather than the state.

Another characteristic of copyright that favors the adoption of property rules is the nature of transaction costs. There are typically two parties involved (a copyright holder and potential

179. Merges, *supra* note 32, at 2666-67 (“Without accurate information, the damages may be set below the actual level of harm, encouraging the [infringer] to engage in an excessive level of activity . . .”).

180. *Id.* at 2668; see 17 U.S.C. § 115 (2006).

181. *Id.*

182. *Id.*

183. *Id.* at 2662 (noting that institutions such as American Society of Composers, Authors, and Publishers (ASCAP) and patent pools arise when firms modify the strong property rule baseline of intellectual property law by contracting into liability rules).

184. *Id.* at 2669.

185. Merges, *supra* note 32, at 2662.

user), which is considered a low transaction barrier.¹⁸⁶ This is evident in *Salinger* in which there were two parties involved in a dispute over the right to use copyrighted elements of *Catcher*.¹⁸⁷ These two parties could easily engage in discussions, albeit likely through their attorneys, and formulate a mutually beneficial solution between them. It is doubtful that the cost of engaging in such discussion would be overly burdensome.

When there are two parties transacting there are problems particular to a bilateral monopoly.¹⁸⁸ A bilateral monopoly occurs when two parties can only negotiate with one another; only one plaintiff can settle with one defendant.¹⁸⁹ Bargaining to reach an agreement may become prohibitively expensive when a mutually satisfactory settlement is not reached.¹⁹⁰ When a beneficial transaction does not occur, or the transaction costs between the parties exceeds the gains of the transaction, it results in social waste.¹⁹¹ The bilateral monopoly scenario is illustrated in *Salinger*. Salinger has refused to allow the use of his works without even the possibility of negotiating.¹⁹² A lack of useful derivative works may have resulted in depriving public demand for those works. If the market is under served by Salinger's holdout behavior, Salinger's copyrights may not be allocated efficiently. Still it could just as likely be said that Salinger values the copyright more than Colting. In any event, this scenario is theoretical and based on anecdotal assumptions. Just like the valuation of the copyright and the calculation of harm, the societal consequences of Salinger's holdout behavior are speculative.

Whatever negative consequences result from Salinger's refusal to negotiate, that behavior must be reconciled with Salinger's right to exclude and First Amendment right in not speaking. A liability

186. *Id.*

187. *See Salinger*, 607 F.3d at 70.

188. POSNER, *supra* note 17, at 62.

189. *Id.*

190. *Id.*

191. *Id.*

192. *See Salinger*, 607 F.3d at 71 (“Salinger has not published since 1965 and has never authorized any new narrative involving Holden or any work derivative of *Catcher*. [He] has never permitted, and has explicitly instructed his lawyers not to allow, adaptations of his works”).

rule would allow Colting to use Salinger's copyright for monetary damages determined by the court. In Patents, the courts are becoming aware of the negative effects of rights holders refusing to negotiate.¹⁹³ Justice Kennedy's concurrence in *eBay* addressed this very problem of non-practicing entities seeking exorbitant licensing fees from potential licensees.¹⁹⁴ Evidence of this behavior in copyright is rare. Copyrighted works and patents operate in different markets, which raise different issues, such as constitutionally protected speech. The copyright market as a whole has not become a victim of copyright trolls.¹⁹⁵ Moreover, patent law does not provide a fair use equivalent.¹⁹⁶

In sum, a property rule is preferable at the preliminary stage because it maintains the incentive to negotiate a mutually agreeable value to the work. It also ensures the courts will neither undervalue nor overvalue works, which would undermine the utilitarian justifications for copyright. Copyrights are put to their highest value use when parties transact. "It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations outside of the narrowest and most obvious limits."¹⁹⁷

193. See *eBay v. MercExchange L.L.C.*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (citing FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, pp 38-39 (Oct. 2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>).

194. *Id.* ("An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees").

195. See Lionel Bently, *People v. The Author: From the Death Penalty to Community Service*, 32 COLUM. J.L. & ARTS 1, 11-12 (2008) (discussing early "copyright troll" behavior with public performance rights and subsequent changes in Performing Rights Societies).

196. See Lorelei Ritchie De Larena, *What Copyright Teaches Patent Law About "Fair Use" and Why Universities Are Ignoring the Lesson*, 84 OR. L. REV. 779, 809-18 (2005) (proposing a hybrid "fair" patent system, including a statutory copyright-style balancing test, a grant of royalty-bearing compulsory license, and injunctive relief); Maureen A. O'Rourke, *Toward a Doctrine of Fair Use in Patent Law*, 100 COLUM. L. REV. 1177, 1203 (2000) (arguing for a patent fair use doctrine that would still require compensation).

197. *Bleistein v. Donaldson Lithography Co.*, 188 U.S. 239, 251 (1903) (Holmes, J.).

B. Property Rules Better Serve Copyright Goals Because Harm is Difficult to Assess

Weighing harm, like determining objective value, is a difficult role for a court to perform in copyright infringement cases. *Salinger* noted two types of irreparable harm that a party may claim: harm to property interest and loss of First Amendment freedoms.

The first harm is to the plaintiff's property interest caused by market confusion and consequent loss of sales.¹⁹⁸ Proving loss of sales, however, is "notoriously difficult," which is why courts have tended to issue injunctions in this context.¹⁹⁹ To succeed, *Salinger* would have to show that *60 Years Later* became a substitute product for *Catcher*.²⁰⁰ *Salinger* would have to show consumers would purchase *60 Years Later* instead of *Catcher*. It is also feasible that a derivative work may create a positive effect or benefit on the market for *Catcher*.²⁰¹ Either way, the difficulty for both parties and the court is apparent. Without some empirical evidence, harm and benefit are speculative.

The second harm is the loss of First Amendment freedoms. That harm is *Salinger*'s right not to be spoken for vicariously through another.²⁰² *Colting* exploited *Salinger*'s copyright by using a substantial amount of *Catcher*.²⁰³ Because *Salinger* was found to have a likelihood of success on the merits, *Colting* was speaking, in a First Amendment sense, for *Salinger* through the derivative work. Unlike showing market confusion, *Salinger* could simply

198. *Salinger*, 607 F.3d at 34.

199. *Id.* (quoting *Omega Importing Corp. v. Petri--Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971)).

200. POSNER, *supra* note 17, at 44 (explaining that a product is a substitute if a fall in its price will cause the quantity demanded of the other product to fall).

201. See Douglas Lichtman, *Irreparable Benefits*, 116 YALE L.J. POCKET PART 377 (2007), <http://yalelawjournal.org/2007/05/06/lichtman.html> (arguing that irreparable benefits should be considered by the courts for injunctions because they are unintentional, difficult to reverse, affect distribution and incentives, and affect party's behavior during litigation).

202. *Salinger*, 607 F.3d at 81.

203. *Id.* at 83 ("[W]e affirm the District Court's finding that *Catcher* and *60 Years Later* are substantially similar").

claim that he would not like to speak. Competing claims of First Amendment harm require that the court balance the interests and make a value determination. Since each party's First Amendment right is equal, the inquiry turns to the merits, or the public interest factor for that determination. The substantive requirements of infringement harmonize with the public interest factor in that situation because the public has an interest in the court following the substantive law. Finding otherwise may violate due process by undermining the rights conferred by law.²⁰⁴ Thus, the inquiry is again reduced to a likelihood of success on the merits. And as Commentator Nimmer puts it, "if a plaintiff establishes a likelihood of success on the merits of a copyright infringement claim, it would seem erroneous to deny a preliminary injunction simply because actual damages cannot be precisely calculated . . ."²⁰⁵

The difficulty in assessing these harms is further compounded by the information presented at the preliminary stage; it is often incomplete and inaccurate. As noted in *Salinger*, "[p]reparation for a typical copyright trial, even a bench trial, takes many months; the arguments concerning substantially similarity and fair use of another, are sophisticated and fact-intensive."²⁰⁶ Complexity of evidence and subjective determinations would require the court to make a difficult judgment, thus the risk of error is great.²⁰⁷ Weighing speculative evidence of harm in this context may not even be admissible.²⁰⁸

Therefore, when a likelihood of success on the merits is shown, it is easy to justify enjoining such activity.²⁰⁹ Even a presumption

204. Leubsdorf, *supra* note 178, at 37 ("If courts disregard the substantive law, a plaintiff willing to pay can automatically obtain injunctive relief under the liability rule so long as the plaintiff's case is not frivolous").

205. NIMMER, *supra* note 26, at § 14.06[A][3][d].

206. *Salinger*, 607 F.3d at 80-81 (quoting Lemley & Volokh, *supra* note 69, at 201-02).

207. POSNER, *supra* note 17, at 596 (noting that one of the objectives of the procedural system is to minimize the cost of erroneous judicial decisions. When "the judge is being asked to rule in a hurry, on the basis of incomplete information, the risk of error is great").

208. *Id.* at 70; *see supra* note 45.

209. Leval, *supra* note 13, at 1132.

of irreparable harm is probably unnecessary; it merely simplifies and reduces the cost of proving what could be shown without it.²¹⁰

C. The Fair Use Defense Should Weigh More Heavily at the Preliminary Stage

The Second Circuit Court of Appeals in *Salinger* stated that preliminary injunctions should not be easier than obtaining a permanent injunction.²¹¹ It has been argued thus far that the preliminary injunction standard should be based on a likelihood of success on the merits. Accordingly, the merits should be the focus of both parties, meaning the defendant should be allowed to overcome the presumption favoring the copyright owner with a valid fair use defense. The fair use defense can facilitate the efficient allocation of rights and resources similar to a liability rule when transaction costs are high, or when the public is being deprived of useful works. Fair use analysis is also more sensitive to the unique context and subjective nature of copyrighted works where a one-size-fits-all injunction standard fails.

Fair use protects secondary creativity, which is important because most, if not all works draw elements from existing knowledge. Fair use limits the scope of copyright in furtherance of this utilitarian objective to increase the progress of science and useful arts.²¹² Judge Leval of the Second Circuit Court of Appeals, a proponent of a more consistent fair use standard, has argued that “[f]air use should not be considered a bizarre, occasionally tolerated departure from the grand conception of the copyright monopoly.”²¹³ The function of fair use is “integral to copyright’s objectives, which leads to a coherent useful set of principles.”²¹⁴ Yet a “simple definition” is difficult to articulate.²¹⁵ Fair use “must be of a character that serves the copyright objective of stimulating

210. *Id.*

211. *Salinger*, 607 F.3d at 78 (noting that *eBay*, as reinforced by *Winter*, does not permit an “easier” grant of a preliminary than of a permanent injunction).

212. *See* Leval, *supra* note 13, at 1105.

213. *Id.* at 1110.

214. *Id.*

215. *Id.*

productive thought and public instruction without excessively diminishing the incentives for creativity.”²¹⁶

Fair use can remedy a situation in which the transaction costs of negotiating with the copyright owner for permission exceed the value of the user seeking permission.²¹⁷ A fair use standard that can overcome the problem of idiosyncratic values bypasses the need to adopt a liability rule, thus maintaining the property rule incentives for the original copyright holder.²¹⁸ It is clear that Salinger would not grant permission to use his copyright in any situation.²¹⁹ Accordingly, Colting would need to use the fair use defense to show *60 Years Later* is outside the scope of Salinger’s copyright.

The district court found that the fair use defense was likely to fail.²²⁰ Interestingly, in addition to its fair use analyses, the court pointed to Colting’s marketing attempts to position *60 Years Later* as a sequel.²²¹ This may have been a substantial factor in Colting’s failure. Infringement of this nature not only free rides on Salinger’s publicity, but it also undercuts the market, and deprives the copyright owner of the rewards of his creation.²²² Fair use does not excuse users who offer disingenuous ad hoc excuses.

Fair use can also apply when the individual’s use of copyrighted material is thought to generate some positive value to society, which is appropriate given the utilitarian justifications for copyright.²²³ The positive social value may include the value

216. *Id.*

217. See Thomas Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1277 (2008) (arguing the user should be permitted to engage in unauthorized use in cases in which the transaction costs of bargaining for use discourage the user from seeking permission).

218. *Id.*

219. *Salinger*, 607 F.3d at 71 (“[Salinger] has explicitly instructed his lawyers not to allow[] adaptations of his works”).

220. *Id.* at 73.

221. *Id.* at 72; see *supra* note 113.

222. See Leval, *supra* note 13, at 1132 (“[Infringers] free-ride on the copyright owner’s publicity, undercut the market, and deprive the copyright owner of the rewards of his creation. Allowing this practice to flourish destroys the incentive to create and thus deprives the public of the benefits copyright was designed to secure.”).

223. Cotter, *supra* note 217, at 1280 (noting that fair use should apply when

criticism, education purposes, news reporting, or any other purposes listed under section 107 of the Copyright Act.²²⁴ The social value must exceed the value to the copyright owner in preventing the unauthorized use. In *Salinger*, the two statements Colting offered from literary experts Professor Woodmansee and Professor Spoo would have to show that the novel created a positive social benefit. Professor Woodmansee described the work as a “meta-commentary,”²²⁵ while Professor Spoo found the novel to be a “commentary on and critique of *Catcher*.”²²⁶ The district court found these characterizations unpersuasive. Colting claimed it was a commentary only after he previously referenced the work as a sequel.²²⁷ Ultimately, the district court found that the social value in *60 Years Later*, as analyzed through fair use, did not outweigh the value of the work to Salinger.

In sum, fair use provides the defendant a tool for weakening the likelihood of the plaintiff’s success on the merits, or escape the infringement claim altogether. It also provides the courts with a framework of analysis that can be used to prevent opportunistic behavior by the plaintiff who refuses to negotiate, or to protect socially valuable works. Fair use has the potential to facilitate the efficient allocation of rights similar to a liability rule without requiring evidence of harm. A standard relying on the fair use analysis over the balance of harms will not make the grant of a preliminary injunction easier.

V. CONCLUSION

Preliminary injunctions in copyright present a problem with no perfect solution. The one-size-fits-all injunction test does not easily accommodate the differences in intellectual property. The

the social value of the use exceeds the amount by which the owner values preventing the use, which in turn exceeds the user’s expected value from the use. This conclusion might reflect a collective judgment that social welfare is greater if a given use proceeds, despite the fact that the individual user would not or could not pay the owner’s going rate).

224. See 17 U.S.C. § 107 (2006).

225. *Salinger*, 607 F.3d at 72.

226. *Id.*

227. *Id.*

injunction standard should support the societal goals for copyright. Erring toward a property rule at the preliminary stage upholds the important incentives for authors while also sparing the courts from making value determinations and weighing speculative harm. Copyright law provides a method for the courts to balance competing claims without turning to equitable considerations.

Enforcing the right to exclude at the preliminary stage shifts the burden from the plaintiff to the defendant to show her work is outside of plaintiff's scope of rights, rather than making economic arguments regarding harm. While the situation is maintained in status quo, each party can present information on the value and harm. Only after a full trial can each party present a full assessment of their harms and only then can courts weigh that harm accurately.

The courts have long recognized the practicalities of the presumption standard for preliminary injunctions.²²⁸ The presumption standard in the common law and the fair use defense illustrate the evolution of efficiency in copyright in light of its societal goals. Despite *eBay's* claim that a "departure from the long tradition of equity practice should not be lightly implied,"²²⁹ the tradition in the United States has been to presume irreparable harm. In this respect, "a page of history is worth a volume of logic."²³⁰

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228. See Gómez-Arostegui, *supra* note 161, at 1197-98 (arguing that the Supreme Court's reading of the historical injunction standard used by the English Court of Chancery around 1789 is inappropriate in copyright cases. The historical record shows that legal remedies were deemed categorically inadequate in copyright cases).

229. *eBay, Inc. v. MercExchange*, 547 U.S. 388, 391 (2006).

230. *Id.* at 395 (Roberts, C.J., concurring) (quoting *New York Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921) (Holmes, J.)).