

Adding Onto eBay

With 4th Circuit decision, new uncertainty about injunctions extends to copyright cases.

By Edwin Komen & Susan M. Hwang

It can be a fatal mistake to overlook remedies and their required elements of proof. Most lawyers feel comfortable giving opinions on liability (in their own fields of expertise, of course) and often assume that the usual remedies will simply fall into place. Nowhere could such an assumption prove more embarrassing, if not worse, than on the shifting sands of permanent injunctions in copyright cases. Once thought to routinely follow liability, such “automatic” injunctions may be history.

Case in point: Most attorneys probably took little notice of a recent dispute before the U.S. Court of Appeals for the 4th Circuit—other than as an interesting copyright decision on architectural works. A closer look, however, reveals more far-reaching implications for all copyright actions. *Christopher Phelps & Associates LLC v. Galloway*, decided by the 4th Circuit on Feb. 12, 2007, marks the first time that a federal appeals court has withheld an automatic permanent injunction to a prevailing plaintiff in a copyright-infringement action. In doing so, the 4th Circuit followed the suggestions of the 9th and 2nd Circuits after the Supreme Court decision in *eBay Inc. v. MercExchange LLC* (2006) and may have established a precedent that all copyright practitioners would be ill-advised to ignore.

The plaintiff in *Galloway*, Phelps & Associates, is an architectural firm that designs upscale custom homes. Defendant R. Wayne Galloway obtained the architectural plans for one such home from the homeowner and, after slightly modifying the plans, began building his retirement home near Charlotte, N.C. If he had instead commissioned those plans from Phelps & Associates, they would have cost him \$20,000.

Upon learning of the construction of Galloway’s home, Phelps & Associates sued for copyright infringement, seeking

damages and injunctive relief. The jury found in favor of the firm and awarded \$20,000 in actual damages. Phelps & Associates then asked the district court for injunctive relief to prohibit the completion of the house, to enjoin permanently the lease or sale of the house, and to require the destruction or return of the infringing plans.

The district court denied all of the injunctive relief requested, stating that the damages award alone had made the plaintiff “whole.” Phelps & Associates appealed, arguing that when copyright infringement has been proved and there is a threat of continuing infringement, the plaintiff is automatically entitled to an injunction.

The 4th Circuit definitively rejected that argument. It held that plaintiffs, even in copyright cases, must make the traditional showing that a permanent injunction is warranted, namely (1) that the plaintiff has suffered an irreparable injury; (2) that the remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of the hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. Moreover, the court held that even upon this showing, the decision whether to grant the injunction still remains in the equitable discretion of the court.

Turning to a review of the injunctive relief requested, the 4th Circuit found that Phelps & Associates’ request to prohibit completion of the house was moot because Galloway had already finished building by the time the appeal was heard. In addition, the 4th Circuit affirmed the district court’s order denying an injunction against the future sale or lease of the house because such an injunction would be overbroad, punitive in nature, and precluded by the first-sale doctrine (which says that someone who lawfully owns a copy of a copyrighted work may transfer that copy to another).

The 4th Circuit vacated the district court's order, however, denying the return or destruction of the infringing plans as an abuse of discretion. The trial court had, contrary to its obligation, failed to consider the traditional four factors for equitable relief with respect to the specific issue of those plans. The 4th Circuit remanded the case for further consideration.

PATENTLY LED

The 4th Circuit was following, and cited, last year's much-discussed Supreme Court decision in *eBay v. MercExchange*, which involved a patent (not a copyright). In that case, MercExchange had brought suit against the leading Internet auction operator, eBay, for infringement of MercExchange's business-method patent for an electronic market system. MercExchange, which did not practice this patent commercially, had tried to license it to eBay prior to filing suit.

The jury found that MercExchange's patent was valid, that eBay had infringed it, and that a damages award was appropriate. The district court, however, denied MercExchange's motion for a permanent injunction to stop eBay from continuing to operate online with MercExchange's technology.

The district court recited the four-factor test, but also adopted a categorical rule that a plaintiff's willingness to license its patents, combined with its failure to practice the patents itself, was sufficient to show that the plaintiff would not suffer irreparable harm without an injunction. The Federal Circuit reversed, articulating a general rule that courts *must* issue permanent injunctions against patent infringers absent exceptional circumstances.

The Supreme Court then reversed the Federal Circuit, reaffirming the four-factor test and remanding the case for further proceedings. The Court held that "the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards."

In truth, it is not surprising that the 4th Circuit cited *eBay* in its own *Galloway* decision, even though the latter case involved a copyright. The Supreme Court had stated in *eBay* that its holding on injunctive relief in patent cases "is consistent with our treatment of injunctions under the Copyright Act." Prior Supreme Court decisions bear out this statement. But more interestingly, those prior cases were themselves likely influenced by federal appellate cases.

CALIFORNIA'S CUTTING EDGE

The 9th Circuit was actually the first court to break major ground in the copyright context, in *Abend v. MCA Inc.* (1988). Sheldon Abend owned the renewal copyright on the original story on which the classic Alfred Hitchcock movie "Rear Window" was based. Abend sued MCA for copyright infringement and sought to permanently enjoin MCA from re-releasing the film.

On hearing cross-appeals for summary judgment, the 9th

Circuit held that MCA was liable for infringement absent any affirmative defenses, but even so, a permanent injunction was not appropriate. Without expressly applying the four-factor test, the court nevertheless noted that an injunction is a "harsh and drastic" discretionary remedy, never an absolute right. In 1990 the Supreme Court affirmed the case (as *Stewart v. Abend*) on other grounds, without addressing the 9th Circuit's holding on injunctive relief.

Some years later, the Supreme Court alluded to the 9th Circuit's holding again in deciding *Campbell v. Acuff-Rose Music Inc.* (1994), a copyright-infringement case that dealt with rap group 2 Live Crew's parody of Roy Orbison's song "Oh, Pretty Woman." The issue before the Court was what constitutes parody and fair use, not the relief requested.

But in Footnote 10 the Court said that "the goals of copyright law . . . are not always best served by automatically granting injunctive relief." The Court cited, among other things, the *Abend* case. In addition, Footnote 10 stressed the courts' discretionary power under the Copyright Act, noting that a court "may . . . grant . . . injunctions on such terms as it may deem reasonable to prevent or restrain infringement" (emphasis added). It was this footnote that may, in fact, have sent the law of intellectual-property injunctive relief down an entirely new path.

THAT FOOTNOTE

The 2nd Circuit followed the Supreme Court's lead in *Campbell* and also dropped a footnote on the issue of injunctive relief in a copyright context. In *American Geophysical Union v. Texaco Inc.* (1994), the American Geophysical Union, which publishes scientific journals, brought a copyright-infringement action against Texaco for systematic photocopying and distribution to Texaco's research scientists of the publisher's articles. Texaco defended itself on the ground of fair use, but the district court was not convinced. The 2nd Circuit affirmed the trial court's holding of no fair use.

More to the point here, the 2nd Circuit noted at the end of its lengthy opinion, "Though neither the limited trial nor this appeal requires consideration of the publishers' remedy if infringement is ultimately found, we note that the context of this dispute appears to make ill-advised an injunction, which, in any event, has not been sought. If the dispute is not now settled, this appears to be an appropriate case for exploration of the possibility of a court-imposed compulsory license." The court cited Footnote 10 in *Campbell*.

The Supreme Court itself revisited the issue in *New York Times Co. v. Tasini* (2001). *Tasini* involved the republication of articles by freelance authors. The writers were being compensated only for publication in the original print format, but the print publishers, including *The New York Times*, were selling the articles for inclusion in electronic databases, such as Lexis-Nexis. The authors brought suit against the print publishers and the electronic publishers for copyright infringement, the key issue being whether the republication online was defensible under the copyright privilege for "collective works" (such as newspapers).

The Supreme Court upheld the 2nd Circuit's holding of copyright infringement and remanded the case to the district court on the proper remedy, although it suggested to the lower court, "[I]t hardly follows from [our] decision that an injunction against inclusion of these Articles in [electronic databases] must issue." Again, Footnote 10 from *Campbell* was cited.

Once upon a time, the comments in *Abend*, *Campbell*, *Texaco*, and *Tasini* were merely nonbinding precedent for plaintiffs seeking injunctive relief in copyright cases. But now, the 4th Circuit's decision in *Galloway* sends a clear message that prevailing plaintiffs in copyright actions, too, are not automatically entitled to a permanent injunction. It is more than likely that other appellate courts will follow the 4th Circuit's lead and apply the *eBay* decision to copyright cases.

A word to the wise: A copyright plaintiff should carefully assess beforehand whether a permanent injunction, among other forms of relief, is a desired—or necessary—remedy. If it is, the plaintiff (and his or her lawyers) should not just concentrate on winning the infringement argument but also be prepared to make a strong showing of the traditional four factors for a permanent injunction. If not, victory on liability could truly be fleeting.

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