

Comment: Considering the Reach of *Phelps*

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As the Court in *Quanta*¹ recently confirms, patent and copyright owners have limited rights following voluntary transfers of protected goods. Moreover, as discussed at length by the Second Circuit in *Platt & Munk Co. v. Republic Graphics, Inc.*,² patent owners' rights have long been similarly affected by involuntary transfers.³ *Platt & Munk* finds lack of equivalent copyright rulings remarkable⁴ but does not allow lack of direct precedent to stand in the way of finding that involuntary transferees of copyright-protected goods have the same rights as voluntary transferees.⁵

The Fourth Circuit, in *Christopher Phelps & Assoc., LLC v. Galloway*,⁶ goes one step further. It holds, "under the first sale doctrine, an infringer is entitled to sell, or otherwise dispose of any copy that the court does not order destroyed or otherwise disposed of, without further obligation, once he satisfies the judgment that remedied the infringement, even if the copy was originally pirated."⁷ But those remarks are colored, perhaps more than usual, by the subject of the dispute — defendant's million-dollar house constructed according to unauthorized copies of plaintiff's plans.

After trial, a jury awarded \$20,000 — the fee paid by the party from whom defendant Galloway acquired the plans. The district court judge, however, refused all injunctive relief — with regard not only to completion of the house or its sale or lease, but also to return or destruction of copies of unauthorized plans used to build it.⁸

¹ *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S.Ct. 2109 (2008).

² 315 F.2d 847 (2d Cir. 1963).

³ *Platt & Munk*, 315 F.2d at 853-54.

⁴ *Platt & Munk*, 315 F.2d at 849.

⁵ *Platt & Munk*, 315 F.2d at 854.

⁶ 477 F.3d 128 (4th Cir. 2007).

⁷ *Phelps*, 477 F.3d at 141.

On appeal, plaintiff conceded that the first question concerning injunctive relief⁹ was moot insofar as the house was already completed,¹⁰ but it urged that the remaining refusals of relief encourage infringement and amount to a “judicially-created compulsory license.”¹¹

In response, the court cites *eBay Inc. v. MercExchange, L.L.C.*¹² and, rejecting the idea that plaintiff is *entitled* to injunctive relief, references “the traditional showing that a plaintiff must make to obtain a permanent injunction in any type of case, including a patent or copyright case.”¹³ It reads *eBay* to say that “even upon this showing, whether to grant the injunction still remains in the ‘equitable discretion’ of the court.”¹⁴

The Fourth Circuit nevertheless agrees “with Phelps & Associates’ argument that an award of damages that fully compensates a plaintiff for all damages suffered does not categorically preclude injunctive relief. The damages in this case were awarded for past conduct and the injunctive relief requested is forward-looking.”¹⁵ Yet it finds “[t]he bigger question [to be] whether a future lease or sale of a house, the construction of which has already been subject to a copyright infringement action, will cause an injury for which the Copyright Act provides a [further] remedy.”¹⁶

To answer that question, the court needed to determine Galloway’s rights in the house following payment of the award. For that, the opinion relies on the Restatement (Second) of Torts § 222A and *Platt & Munk*¹⁷ to hold:

⁸ *Phelps*, 477 F.3d at 133.

⁹ Plaintiff also sought, *Phelps*, 477 F.3d at 133, and was refused, 477 F.3d at 138, a new trial on damages, but only injunctive relief is considered here.

¹⁰ *Phelps*, 477 F.3d at 133 and 139. The house was only about half complete, however, when plaintiff first learned that it was under construction; *id.* at 132.

¹¹ *Phelps*, 477 F.3d at 141.

¹² 547 U.S. 388 (2006).

¹³ *Phelps*, 477 F.3d at 139.

¹⁴ *Phelps*, 477 F.3d at 139.

¹⁵ *Phelps*, 477 F.3d at 139.

¹⁶ *Phelps*, 477 F.3d at 140.

¹⁷ *See supra* at notes 2-5.

When the district court entered judgment that awarded Phelps & Associates damages and infringer's profits, if any, and that declined to order the destruction or other disposition of the house, the house became a lawfully made copy. This is because the illegal character of the copy was fully redressed by the remedies requested and granted with respect to the making of the copy. Just as a converter of property obtains good title to the converted property after satisfying a judgment for conversion, so does an infringer obtain good title to the physical copy after satisfaction of the judgment under the Copyright Act.¹⁸

The court also holds that the legislative history of the Copyright Act similarly “suggests that the copyright owner need not *voluntarily* authorize a sale for the first sale doctrine to apply.”¹⁹ But it would be a mistake to ignore evidence that the court was heavily influenced by the nature of the infringing work:

The alternative to giving Galloway rights under the first sale doctrine of § 109(a) would inappropriately expand the scope of Copyright Act remedies in circumstances such as those before us. A house or building, as an expression of the architect's copyrighted plans, usually has a predominantly functional character. This functional character was the reason American copyright law, pre-Berne Convention, denied protection to constructed architectural works.... Those considerations are at their strongest when the architectural structure is completed and inhabited, as here.²⁰

The court earlier notes that infringers run “the risk that the district court will order, in its discretion, the destruction or other disposition of the infringing article.”²¹ But its view of architectural works generally and inhabited houses specifically goes far toward eviscerating that risk. The court continues with less encouraging observations regarding possible injunction against sale or lease of the infringing house:

¹⁸ *Phelps*, 477 F.3d at 141.

¹⁹ *Phelps*, 477 F.3d at 141.

²⁰ *Phelps*, 477 F.3d at 142 (citations omitted).

²¹ *Phelps*, 477 F.3d at 142 (citing § 503(b)).

Moreover, such an injunction would be overbroad, as it would encumber a great deal of property unrelated to the infringement. The materials and labor that went into the Galloway house, in addition to the swimming pool, the fence, and other non-infringing features, as well as the land underneath the house, would be restrained by the requested injunction. As such, the injunction would take on a fundamentally punitive character, which has not been countenanced in the Copyright Act's remedies. In a similar vein, the requested injunction would undermine an ancient reluctance by the courts to restrain the alienability of real property.²²

Thus the court finds, "In short, Phelps & Associates retains its copyright, albeit not the one-house manifestation of it."²³

That did not, however, dispose of plaintiff's rights to have the infringing drawings returned or destroyed. Although the district court had refused on the understanding that plaintiff had been made whole,²⁴ the Fourth Circuit cites the risk of future infringement²⁵ and, faulting the district court's apparent failure to consider traditional factors bearing on equitable relief, vacates that portion of that court's order and remands for further consideration.²⁶

Phelps cites *eBay* early on²⁷ but, given its view of the first-sale doctrine, needs to apply it only at the end of the opinion. Yet neither *eBay* nor exhaustion seem necessary to affirm the district court's refusal to enjoin sale or lease, much less order destruction, of a million-dollar house based on seemingly innocent use of \$20,000 plans. Indeed, on *Phelps*' logic, an injunction tying up non-infringing property, much less real estate, is, if anything, less likely to issue than, say, one ordering removal of isolated architectural features.

Still, were plaintiff to prevail on remand, such relief and a \$20,000 award seem a

²² *Phelps*, 477 F.3d at 142 (citations omitted).

²³ *Phelps*, 477 F.3d at 143.

²⁴ *Phelps*, 477 F.3d at 143.

²⁵ *Phelps*, 477 F.3d at 143.

²⁶ *Phelps*, 477 F.3d at 143.

²⁷ See *supra* at notes 12-14.

comparatively small yield for the likely investment in the litigation. Had Phelps & Associates registered its copyrights prior to learning of Galloway’s infringement,²⁸ however, it could have been better off in terms of remedies.²⁹

Moreover, registration of all of plaintiff’s plans might have headed off a legal misunderstanding that led to one “instruction [that] essentially told the jury that the copyright consisted of the relocation of a dormer window, a few floor plan changes, and the lack of a basement.”³⁰ Although that was found to reflect an erroneous view of plaintiff’s rights in light of differences between an earlier plan and the one that was registered,³¹ the Fourth Circuit regarded its influence on the jury instruction to be harmless.³² Beyond that, however, it may have influenced the district court’s view of the equities in the case and led to its summary refusal to order defendant to return or destroy unauthorized copies of plaintiff’s plans³³ and may have resulted in no award, or even mention, of costs.³⁴

In any event, architects who hope to secure relief equal at least to the cost of suit would do well to promptly register plans that have significant potential for multiple uses.

²⁸ *Phelps*, 477 F.3d at 132.

²⁹ *See* section 412(1), conditioning statutory damages under section 505 and attorney fees under section 505 on having registered prior to infringement.

³⁰ *Phelps*, 477 F.3d at 134.

³¹ *Phelps*, 477 F.3d at 134.

³² *Phelps*, 477 F.3d at 134.

³³ *Phelps*, 477 F.3d at 143. Moreover, had plaintiff promptly registered as discussed *supra* at note 29, it could have influenced a possible award of attorney fees.

³⁴ *See* sections 412 and 505, prompt registration is irrelevant to awards of costs, but such awards are also discretionary.