The University of New Hampshire Law Review

Volume 7
Number 1 *Pierce Law Review*

Article 6

December 2008

Considering the Reach of Phelps

Thomas G. Field Jr.
Franklin Pierce Law Center, Concord, NH

Considering the Reach of *Phelps*

THOMAS G. FIELD, JR.*

As the Supreme Court recently confirmed in *Quanta Computer, Inc. v. LG Electronics, Inc.*,[1] 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 the lack of equivalent copyright rulings remarkable,[4] 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]

Initially, the Fourth Circuit, in *Christopher Phelps & Associates, LLC v. Galloway*,[6] went one step further. Citing *Platt & Munk* and the *Restatement (Second) of Torts*, it held, "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—the defendant's million-dollar house, constructed according to unauthorized copies of the plaintiff's plans. After trial, a jury had awarded $20,000—the fee previously paid for the authorized plans—but the district court refused all injunctive relief with regard not only to completion of the house or its sale or lease, but also to the return or destruction of copies of the unauthorized plans used to build it.[8]

Perhaps stung by criticism later offered by William Patry,[9] the court withdrew that opinion and substituted another,[10] stating:

---

* Founding Professor, Franklin Pierce Law Center; J.D., West Virginia University (1969); LL.M., Trade Regulation, New York University (1970); A.B., Chemistry, West Virginia University (1964).

1. 128 S. Ct. 2109 (2008).
2. 315 F.2d 847 (2d Cir. 1963).
3. *Id.* at 853–54.
4. *Id.* at 849.
5. *Id.* at 854.
6. 477 F.3d 128 (*Phelps I*) (4th Cir. 2007), *superseded on rehearing*, 492 F.3d 532 (4th Cir. 2007).
7. *Id.* at 141 (citing RESTATEMENT (SECOND) OF TORTS § 222A cmt. c.; *Platt & Munk, Co.*, 315 F.2d at 854).
8. *Id.* at 138.
9. *See* William Patry, The Patry Copyright Blog: What Did the 4th Circuit Eat for Breakfast? (Feb. 13, 2007), http://williampatry.blogspot.com/2007_02_01_archive.html [hereinafter Patry, Breakfast?].
10. Christopher Phelps & Assoc., LLC v. Galloway (*Phelps II*), 492 F.3d 532 (4th Cir. 2007).

> Upon satisfaction of th[e judgment], Galloway will be entitled to peaceful ownership of the house, with good and marketable title. This is consistent with the result reached when a converter of property satisfies a judgment: if the judgment does not order return of the property, but rather other relief, the converter obtains good and marketable title to the property after satisfying the judgment. *See* Restatement (Second) of Torts § 222A, cmt. (c) . . . . The same policies of promoting clear property rights and finality apply in the case of copyright actions involving single copies of completed structures. Indeed, they are perhaps stronger, as we are promoting the alienability of *real* property.[11]

But Patry was unsatisfied:

> The prior opinion held, in a first, that when an award for infringement is satisfied, the infringing copy becomes a lawful copy, and therefore may be transferred without the copyright owner's permission. This holding is absent from the new opinion, but the same result is achieved but now without any basis in law at all . . . .[12]

That seems harsh because the *Restatement*, if not the Copyright Act, is offered in support.[13] Moreover, in both opinions the court relies heavily on *eBay Inc. v. MercExchange, LLC*,[14] for the proposition that a plaintiff is not entitled to injunctive relief absent "the traditional showing that a plaintiff must make to obtain a permanent injunction in any type of case, including a patent or copyright case . . . ."[15] The Fourth Circuit reads *eBay* to say that "even upon this showing, whether to grant the injunction still remains in the 'equitable discretion' of the court."[16]

Why it needed to go beyond that is unclear. In both opinions, the court notes that infringers run "the risk that the district court will order, in its discretion, the destruction or other disposition of the infringing article."[17] But its view of architectural works generally, and inhabited houses specifically, goes far toward eviscerating that risk. The court continues with less

11. *Id.* at 545 (citations omitted).

12. William Patry, The Patry Copyright Blog: The Fourth Circuit Eats Breakfast Again (July 6, 2007), http://williampatry.blogspot.com/2007_07_01_archive.html.

13. *Phelps II*, 492 F.3d at 545.

14. 547 U.S. 388 (2006).

15. *Phelps II*, 492 F.3d at 543; Christopher Phelps & Assoc., LLC v. Galloway (*Phelps I*), 477 F.3d 128, 139 (4th Cir. 2007).

16. *Phelps II*, 492 F.3d at 543; *Phelps I*, 477 F.3d at 139.

17. *Phelps II*, 492 F.3d at 546 (citing 17 U.S.C. § 503(b) (2006)); *Phelps I*, 477 F.3d at 142.

encouraging observations regarding possible injunctions that would interfere with alienation of an infringing house:

> [A]n injunction against sale of the house 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.[18]

Disposition of rights in the house did not, however, dispose of rights in the purloined drawings. Although the district court had refused to have the infringing drawings returned or destroyed on the understanding that the plaintiff had been made whole,[19] the Fourth Circuit cites the risk of future infringement.[20] Again citing *eBay* but faulting the district court's apparent failure to consider traditional factors bearing on equitable relief, it therefore vacated that portion of the district court's order and remanded for further consideration.[21]

Yet resorting to *eBay* hardly seems necessary to justify application of the traditional factors bearing on the right to injunctions in either instance. Moreover, an injunction tying up non-infringing property—much less real estate—seems, if anything, less likely to issue than, say, one ordering removal of isolated architectural features.

Still, were the plaintiff to prevail on remand with regard to the drawings, that along with a $20,000 award seems like a comparatively small yield for the likely investment in the litigation. Had Phelps & Associates registered its copyrights prior to learning of Galloway's infringement, however, it could have been better off in terms of remedies.[22]

Moreover, registration of all of the 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 win-

18. *Phelps II*, 492 F.3d at 545 (citations omitted) (echoing *Phelps I*, 477 F.3d at 142).
19. *Id.* at 546.
20. *Id.* at 547.
21. *Id.*
22. *See* 17 U.S.C. § 412(1) (2006) (conditioning statutory damages—under 17 U.S.C. § 504(c)—and attorney fees—under 17 U.S.C. § 505—on registration prior to infringement).

dow, a few floor plan changes, and the lack of a basement . . . ."[23] Although that instruction was found to reflect an erroneous view of the plaintiff's rights in light of differences between an earlier plan and the one that was registered,[24] the Fourth Circuit regarded its influence on the jury to be harmless.[25] The instruction, however, may have influenced the district court's view of the equities in the case, led to its summary refusal to order the defendant to return or destroy unauthorized copies of plaintiff's plans,[26] and may have resulted in no award—or even mention—of costs.[27]

In any event, architects who hope to secure relief equal to at least the cost of the suit would do well to promptly register plans[28] that have significant potential for multiple uses.

23. *Phelps II*, 492 F.3d at 538.

24. *Id.*

25. *Id.* at 539.

26. *See id.* at 546.

27. *See* 17 U.S.C. §§ 412, 505 (2006). The latter refers to discretionary awards of both costs and attorney fees, but the former explicitly precludes only fee awards for failure to register promptly. *Id.*

28. One of the more peculiar aspects of this case concerns the Copyright Office's registration requirements. As Patry stated,

> Copyright Office regulations are crystal clear that two separate registrations are required, one for the architectural plans and one for the architectural work. If plaintiff has failed to obtain both registrations, the court lacks subject matter jurisdiction of the work for which registration has not been obtained and obviously has no power to award any relief for such a work.

Patry, Breakfast?, *supra* note 9. That would mean that relief could be awarded for the drawings but not the house.

It is difficult to see how architects might register buildings before they are constructed, but an attempt to learn more at the Copyright Office website led to a page referring to "Circular 41, Copyright Claims in Architectural Works." Architectural Works, http://www.copyright.gov/register/va-architecture.html (last visited Nov. 21, 2008). An attempt to examine that circular, however, led to a small window stating, "This circular is being revised and is temporarily unavailable. Please refer to Circular 1, Copyright Basics, for information about copyright registration and procedures. We apologize for the inconvenience." Circular Unavailable, http://www.copyright.gov/circs/circ41.html (last visited Nov. 21, 2008).