Considering the Reach of *Phelps*

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Patent and copyright owners can ordinarily prevent unauthorized sales of protected goods, but, following a voluntary sale, transferees can resell. Moreover, as discussed at length in Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 853-54 (2d Cir. 1963) (Platt & Munk), following an involuntary transfer, transferees of patented goods have long had an unencumbered right to sell. *Platt & Munk* finds lack of precedent remarkable but not to stand in the way of applying the same rule in a copyright case.

For infringers to acquire vending rights, however, may seem more noteworthy. That is precisely what happened in Christopher Phelps & Assoc., LLC v. Galloway, 477 F.3d 128 (4th Cir. 2007) (Phelps), when Galloway built a million-dollar house based on unauthorized copies of plans provided by a third party authorized to use them. After a jury awarded only $20,000 — the fee paid for the authorized plans — and the trial court refused all injunctive relief, plaintiff appealed.

Regarding the issue of primary interest here, the court of appeal cites the Restatement (Second) of Torts § 222A and *Platt & Munk, supra.* With those as principal authority, it writes at 141: "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." Moreover, nothing was found in the legislative history of the Copyright Act to suggest that the first-sale doctrine of § 109(a) requires *voluntary* transfer (emphasis in original). Thus, the court concludes, at 143, "In short, Phelps & Associates retains its copyright, albeit not the one-house manifestation of it."

Plaintiff urged that denying injunctive relief encourages infringement and amounts to a "judicially-created compulsory license." With regard to the former point, *Phelps,* at 142, states that infringers run "the risk that the district court will order, in its discretion, the destruction or other disposition of the infringing article."

Based on the court's holding with regard to architectural works in general and houses in particular, however, that rings hollow. First, *Phelps* finds the subject matter in issue atypical for copyright, particularly "when the architectural structure is completed and inhabited, as here." *Id.* That is followed with less encouraging observations specific to the relief sought — an injunction against sale or lease of the infringing house under 17 U.S.C. § 502, rather than destruction under § 503(b)

For example, the court finds, at 142, that "such an injunction would be overbroad, as it would encumber a great deal of property unrelated to the infringement" and "would undermine an ancient reluctance by the courts to restrain the alienability of real property." *Id. Phelps* also regards an injunction against alienation as punitive and agrees with the Seventh Circuit that punitive remedies beyond those specified in the Copyright Act are unavailable. *Id.*

Indeed, the absence of any reference to statutory damages warrants mention. Had the pre-infringement-registration condition of § 412(1) been satisfied, it would surely have been otherwise. Although not directly related, plaintiff also paid a price for failing to register earlier plans very similar to those in issue.

As seen by the trial court, failure to register the earlier plans acutely narrowed plaintiff's rights. This is highlighted by plaintiff's complaint on appeal that one "instruction 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." 477 F.3d at 134. *Phelps* disapproves of so regarding of the scope of plaintiff's copyright, holding that

registration affects only jurisdiction, not existence of copyright in unregistered predecessor plans. Even though the court finds the error in the instruction harmless, *id.,* the case is noteworthy on that basis alone.

The trial court's misunderstanding of plaintiff's rights may have been harmless as part of a jury instruction, but it surely influenced the judge's choice to withhold all injunctive relief. Absent that, it is doubtful that *Phelps* would have seen fit to reverse in any respect. Probably because of that misunderstanding, however, it needed to reverse and remand (solely) "for further consideration, in light of *eBay,* … with respect to the return or destruction of the infringing plans." 477 F.3d at 143.

Phelps cites *eBay* only at the end of the opinion, but its view of injunctive relief seems wholly consistent — particularly given that *eBay* relied heavily on dicta in copyright cases. eBay, Inc. v. MercExchange, L.L.C., 126 S.Ct. 1837, 1840 (2006). Moreover, *Phelps'* holding on exhaustion of rights is unlikely to have much effect beyond the type of work in issue there. Even before *eBay,* a court is unlikely to have ordered destruction of a million-dollar house based on seemingly innocent use of $20,000 plans.

Any expectation that enjoining sale of such a house might be more acceptable than relief under § 503(b) is dashed by *Phelps.* Indeed, on its logic, tying up non-infringing property, much less real estate, is, if anything, less acceptable than, say, ordering removal of some protected feature.

Thus, if architects hope to receive relief at least equal to the cost of suit, they would be well advised to promptly register plans that have potential for multiple uses.