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Copyrights-Limitations on Proprietor's Exclusive Right to Vend

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COPYRIGHTS—LIMITATIONS ON PROPRIETOR'S EXCLUSIVE RIGHT TO VEND—Plaintiff was the sole proprietor of copyrights on several educational toys. It had ordered a large number of these toys to be made by defendant manufacturer, but refused to accept them when tendered, claiming they were so defective in quality that their sale would impair plaintiff's reputation. When defendant manufacturer began selling the rejected toys to the co-defendants in order to recover its own investment in them, the plaintiff obtained a temporary restraining order against all defendants prohibiting further sales of the toys pending a determination of a motion for permanent injunction. The district court granted a preliminary injunction of indefinite duration on the ground that the threatened sales might violate plaintiff proprietor's exclusive right to vend its copyrighted works.[1] The defendants appealed, contending that section 27 of the Copyright Code[2] permitted them to sell the goods pursuant to New York state law.[3] On appeal, *held,* order affirmed with modification to the extent that no injunction issue covering goods which the district court, in a further proceeding, should find the plaintiff was unjustified in rejecting. A proprietor retains an exclusive right to vend goods embodying his copyrighted conception until he has received a "fair reward." *Platt & Munk Co. v. Republic Graphics, Inc.,* 315 F.2d 847 (2d Cir. 1963).

Every copyrighted object is subject to two occasionally inconsistent sets

1 17 U.S.C. § 1(a) (1958).

2 17 U.S.C. § 27 (1958).

3 Defendants primarily relied on N.Y. PERS. PROP. LAW § 141, which allows an unpaid seller to resell the goods in order to mitigate the buyer's damages. This section is practically identical to UNIFORM SALES ACT § 60. The Court indicated that N.Y. LIEN LAW §§ 180, 200-05, which stipulates certain conditions required for existence of a lien on personal property and which qualifies the right of a creditor to sell the goods to satisfy the lien, were also applicable to the defendant's argument.

of legal rules.[4] The Federal Copyright Code[5] has established special rules to govern copyrighted objects.[6] However, these objects are also subject to state property law[7] to the extent the latter is not in conflict with the Federal Copyright Code.[8] In the principal case the defendant claimed the right to sell the copyrighted goods in its possession pursuant to state property law, while the plaintiff attempted to controvert this right by claiming an exclusive right to sell such goods pursuant to the Copyright Code. Because the validity of state authority to sell the goods depended upon the absence of conflicting copyright law, it was necessary for the court first to determine with precision the extent of plaintiff's authority, derived from federal copyright law, to sell the goods in question.

Section 1(a) of the Copyright Code[9] establishes a comprehensive rule that the copyright proprietor has the exclusive right to vend all objects which bear his copyright. However, section 27 of the Code,[10] as interpreted by the House Committee on Patents[11] and the courts,[12] extinguishes this exclusive right to vend a particular copy when that copy has once been sold by the proprietor. This "first sale" limitation on the copyright proprietor's exclusive right to vend a particular copy has, since its promulgation, received an increasingly liberal interpretation, with the result that

4 Comment, *Creditors and Copyrights*, 12 MERCER L. REV. 239, 243 (1960).

5 17 U.S.C. §§ 1-216 (1958 & Supp. IV, 1963).

6 U.S. CONST. art. 1, § 8, cl. 8, gives Congress power to "promote the Progress of Science and useful Arts, by securing . . . to authors . . . the exclusive Right to their respective Writings. . . ." The word "writings" has been gradually expanded so that it now includes the design of certain three dimensional utilitarian objects. See Mazer v. Stein, 347 U.S. 201 (1954); King Features Syndicate v. Fleischer, 299 Fed. 533 (2d Cir. 1924); LATMAN, HOWELL'S COPYRIGHT LAW 12-15 (rev. ed. 1962).

7 BROWN, PERSONAL PROPERTY § 5 (2d ed. 1955).

8 The supremacy of the Copyright Code over state property law is derived from U.S. CONST. art. VI: "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land . . . any Thing in the . . . Laws of any State to the Contrary notwithstanding."

9 "Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right: to print, reprint, publish, copy, and *vend* the copyrighted work . . . ." 17 U.S.C. § 1(a) (1958). (Emphasis added.)

10 "[B]ut nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained." 17 U.S.C. § 27 (1958).

11 "Your committee feels that it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the *first sale*." (Emphasis added.) H.R. REP. No. 2222, 60th Cong., 2d Sess. (1909). Although this interpretation pertains to the Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1084, that section is practically identical with 17 U.S.C. § 27 (1958).

12 See, *e.g.*, Independent News Co. v. Williams, 293 F.2d 510, 517 (3d Cir. 1961); Harrison v. Maynard, Merrill & Co., 61 Fed. 689, 691 (2d Cir. 1894); United States v. Wells, 176 F. Supp. 630, 633 (S.D. Tex. 1959). See generally BALL, COPYRIGHT AND LITERARY PROPERTY § 200 (1944). A literal interpretation of § 27 would cause the proprietor's exclusive right to vend his copyrighted objects to terminate as soon as another merely acquires lawful physical *possession* of those copies. However, no court has ever given § 27 this interpretation because it is not likely that Congress intended this right to be destroyed simply because the proprietor permits a manufacturer, shipper, or processor to handle his goods. Principal case at 851.

it is no longer necessary for the proprietor personally and voluntarily to execute the sale in order for his exclusive right to vend that copy to be extinguished. Instead, a "first sale" sufficient to invoke section 27 may be effected by certain others whom, for various policy reasons, the law has authorized to execute a binding first sale for the proprietor.[13] In the principal case the court attempted to qualify the "first sale" test by announcing that it would not recognize a first sale by one other than the proprietor unless that sale returned to the proprietor a "fair reward" for the use of his copyrighted expression in the copies sold.[14] Although one of the purposes of Congress in giving this exclusive right to the copyright proprietor was to provide him with a feasible way to extract a fair reward for the use of his copyrighted expression,[15] it would seem to be neither accurate nor equitable to assert that section 27 will never operate to limit this right unless the proprietor receives a fair reward for the use of his expression in the copies sold.[16]

In most cases it makes no difference whether the receipt of a "fair reward" is made an essential prerequisite to finding an "authorized first sale," because ordinarily when there is a sale of a copyrighted object the proprietor does receive a fair reward for the use therein of his expression or design.[17] Moreover, use of the "fair reward" criterion does not affect the outcome in situations where an infringer makes copies of the proprietor's copyrighted expression and unlawfully sells them to a bona fide purchaser. In this situation it is apparent that the proprietor has not received any compensation for the use of his expression in the unauthorized copies. However, it is also obvious that he has not authorized the sale of the goods; nor has he conducted himself in a manner which would cause the law to authorize another to make a "first sale" for him.[18] Consequently, the proprietor retains the exclusive right to vend the copies even though the bona fide purchaser may hold good title to the physical material comprising the body of the goods.[19] The copyright proprietor, therefore, is able to enjoin the bona fide purchaser from reselling the offending copies, but he is not

13 See, *e.g.*, Kipling v. G. P. Putnam's Sons, 120 Fed. 631 (2d Cir. 1903); Wilder v. Kent, 15 Fed. 217 (W.D. Pa. 1883).

14 Principal case at 854.

15 See BALL, *op. cit. supra* note 12, at 46.

16 The court relied exclusively on United States v. Masonite Corp., 316 U.S. 265 (1942), for the promulgation of the "fair reward" test. However, this case involved a patent proprietor rather than a copyright proprietor, and the proprietor, by exercising his exclusive right to sell a patented object, established a monopoly in violation of the Sherman Act. The Court frequently qualified the application of the "fair reward" test with the words, "so far as the Sherman Act is concerned . . . ." *Id.* at 279, 280.

17 Occasionally a court will use both ideas within a single sentence. Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 351 (1908).

18 See Henry Bill Publishing Co. v. Smythe, 27 Fed. 914, 917 (S.D. Ohio 1886).

19 Shapiro, Bernstein & Co. v. Goody, 248 F.2d 260 (2d Cir. 1957), *cert. denied*, 355 U.S. 952 (1958); F. W. Woolworth Co. v. Contemporary Arts, Inc., 193 F.2d 162 (1st Cir. 1951), *aff'd*, 344 U.S. 228 (1952). See generally Latman & Tager, *Liability of Innocent Infringers of Copyrights* (Study No. 25), in U.S. COPYRIGHT OFFICE, COPYRIGHT LAW REVISION STUDIES (1960).

able to maintain an action in replevin to obtain possession of them because the Copyright Code does not give him the exclusive right to use or possess goods protected by his copyright.[20]

In other situations, however, the case law is difficult to reconcile with a "fair reward" test. When a copyright proprietor is unwilling or unable to pay his debts, the court is able to authorize the sheriff to attach and sell the copyrighted goods for him in order to satisfy his creditors.[21] The court in the principal case reasoned that the proprietor receives a "fair reward" for the use of his copyrighted design in this situation, even though he may receive no direct remuneration from the sale, because he is benefited by the reduction of his outstanding debts to the extent of the proceeds from the sale.[22] However, this ignores the practical reality that goods sold at a sheriff's sale seldom bring their fair market value and that it therefore is unlikely that such a sale really provides the proprietor with a "fair" reward. Nevertheless, the sheriff is authorized to execute a binding first sale for the proprietor.[23] This interpretation of section 27 reflects the concern of the law that a debtor pay his debts even if such payment deprives him of a "fair reward" for the use of his copyrighted expression.

There is another situation in which the "fair reward" criterion cannot adequately explain the case law. When a copyright proprietor entrusts his copyrighted goods to an agent, and the agent, acting within the general scope of his apparent authority but contrary to instructions, sells them to a bona fide purchaser, this will probably be held a "first sale" sufficient to terminate the proprietor's further right to vend the copies, even though they are sold at a price which returns little or no reward to him for the use therein of his copyrighted expression.[24] Motivated by the policy that in certain situations the principal ought to be bound by the actions of his agent when dealing with bona fide purchasers,[25] the courts have found the agent authorized by law to execute the necessary "first sale" for the pro-

20 See note 9 *supra*.

21 See WEIL, COPYRIGHT LAW 534, 542 (1917); Comment, *Creditors and Copyrights*, 12 MERCER L. REV. 239, 252-53 (1960); *cf.* McClaskey v. Harbison-Walker Refractories Co., 138 F.2d 493 (3d Cir. 1943); Wilder v. Kent, 15 Fed. 217 (W.D. Pa. 1883); Wilson v. Martin-Wilson Automatic Fire Alarm Co., 151 Mass. 515, 24 N.E. 784 (1890). *But cf. In re* Progress Lektro Shave Corp., 35 F. Supp. 915 (D. Conn. 1940). This should be compared with Dart v. Woodhouse, 40 Mich. 399 (1879); Comment, *supra* at 245-51 where the copyrights are common-law copyrights and not statutory copyrights. In these cases the courts deny even judicial sales of the copyrighted material, if it is against the proprietor's wishes, to protect his privacy. With statutory copyrights the proprietor waives his rights to privacy by publicly registering his conception.

22 Principal case as 854.

23 *Cf.* McClaskey v. Harbison-Walker Refractories Co., 138 F.2d 493, 499 (3d Cir. 1943); Wilder v. Kent, 15 Fed. 217, 219 (W.D. Pa. 1883).

24 See Kipling v. G. P. Putnam's Sons, 120 Fed. 631, 634 (2d Cir. 1903); *cf.* Independent News Co. v. Williams, 293 F.2d 510 (3d Cir. 1961). *Contra*, Henry Bill Publishing Co. v. Smythe, 27 Fed. 914 (S.D. Ohio 1886), although there is some evidence that in this case the court did not believe the new purchasers were actually bona fide purchasers. *Id.* at 921.

25 See RESTATEMENT (SECOND), AGENCY § 175 (1958).

prietor.[26] Rather than trying to reconcile this result with the "fair reward" criterion, the court in the principal case chose to deny that such a sale would constitute an authorized first sale sufficient to extinguish the proprietor's exclusive right to vend those copies.[27] However, the court's position probably represents neither the majority nor the better reasoned rule.

The situation confronting the court in the principal case required further analysis of the authority of others to execute a "first sale" for the proprietor sufficient to terminate his exclusive right to vend the copies sold. In order to collect compensation for losses suffered when the plaintiff allegedly breached a contract to pay for the goods, defendant manufacturer sought authority to execute a "first sale" for the plaintiff without going through the judicial procedure necessary to invoke a sheriff's sale. The court was willing to recognize that the defendant had such authority, but only if the sale would return a "fair reward" to the proprietor for the use of its copyrighted design in the goods sold. With reasoning similar to that applicable to the sheriff's sale situation,[28] the court concluded that the manufacturer's sale would return a "fair reward" to the proprietor only if the proprietor had actually incurred a liability to the manufacturer against which the proceeds of the sale could be applied.[29] Consequently, the manufacturer's right to sell the goods arises only if the proprietor is the party in default. If the proprietor makes a claim in good faith that it is not the party in default, as in this case, the court will issue an injunction restraining the sale of the goods until this issue has been determined in a judicial proceeding. Presumably the proprietor could also contest its liability after the sale and, should it then prevail, it could collect damages against the manufacturer for violating its copyright even though it had not sought an injunction in the first instance.[30]

Even without reliance upon the "fair reward" theory, the policy justifications for authorizing the manufacturer to make a binding first sale if the proprietor is in default seem as persuasive as those which prevail in the sheriff's sale situation discussed earlier.[31] If the proprietor is liable to the manufacturer it seems desirable to provide an expeditious remedy.[32] Permitting the manufacturer to rely on a self-help remedy rather than judicial aid will save time and money for both parties and reduce the likelihood that the copyrighted objects will decline in value before they are

26 See Authors & Newspapers Ass'n v. O'Gorman Co., 147 Fed. 616, 619-20 (D.R.I. 1906).

27 Principal case at 854. The court was probably relying on Henry Bill Publishing Co. v. Smythe, 27 Fed. 914 (S.D. Ohio 1886). For criticism of that decision, see WEIL, *op. cit. supra* note 21, at 538-39. In addition, there is some evidence that the agent did not sell to a bona fide purchaser there. Henry Bill Publishing Co. v. Smythe, *supra* at 921.

28 See notes 21, 23 *supra*.

29 Principal case at 855.

30 However, it is possible in this situation that the proprietor's actions would estop him from later suing for violation of his copyright.

31 See notes 21-23 *supra* and accompanying text.

32 This policy, at least in a non-copyright situation, is clearly evidenced in UNIFORM COMMERCIAL CODE § 2-703 and UNIFORM SALES ACT § 60.

finally sold. This remedy will not unduly deprive the copyright proprietor of its copyright protection because an injunction can be obtained which will force the manufacturer to litigate the issue of the proprietor's liability on the contract by asserting, in good faith, a justification for its refusal to accept and pay for the goods. Furthermore, the proprietor can probably still obtain damages for the wrongful invasion of its copyright in a judicial proceeding subsequent to sale if that proceeding should absolve it of liability on the contract.

Regardless of the court's rationale, the principal case represents a further recognition of creditors' rights at the expense of the rights of the copyright proprietor. The step taken is a small one, but it is toward, rather than away from, more complete justice. The step is small because, should the copyright proprietor assert in good faith a defense for its refusal to accept and pay for the goods, an injunction could be obtained to force the manufacturer to a full court proceeding similar to that in the sheriff's sale situation.[33]

Even if the copyright proprietor should not attempt to enjoin the sale of the goods, the manufacturer might still prefer to seek a judicial remedy rather than resort to self-help, because there would remain the danger of a suit subsequent to the resale in which the manufacturer might ultimately be proved the party in default on the contract and might be subjected to substantial liability for violating the proprietor's copyright. However, the manufacturer may be willing to assume this risk if he feels certain that he is not the party in default. Furthermore, if the proprietor has no other substantial assets and the copyrighted goods held by the manufacturer as security are rapidly declining in value, it seems quite likely that the manufacturer would prefer the risk of violating the proprietor's copyright to the possibility of a judgment against the proprietor which could not be satisfied.

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[33] See 7 MOORE, FEDERAL PRACTICE ¶ 65.09 (2d ed. 1955).