

Notes

Copyright Reform and the Author's Right To "Vend": The Case of the Unpaid Manufacturer

I. INTRODUCTION

One who agrees to sell or manufacture goods for a customer has a panoply of remedies available to him in the event the customer refuses to pay the contract price.¹ One such remedy, the right to resell the goods, has been a part of commercial practice since the early common law.² However, when the goods in question are protected by copyright, the manufacturer's right of resale comes into conflict with the copyright holder's exclusive right to "vend" his work.³ To resolve this conflict a court must either subordinate the state law remedy to the federally protected right,⁴ or develop an

¹The Uniform Commercial Code provides:

Where the buyer wrongfully rejects or revokes acceptance of goods or fails to make a payment due on or before delivery or repudiates with respect to a part or the whole, then with respect to any goods directly affected and, if the breach is of the whole contract (Section 2-612), then also with respect to the whole undelivered balance, the aggrieved seller may

- (a) withhold delivery of such goods;
- (b) stop delivery by any bailee as hereafter provided (Section 2-705);
- (c) proceed under the next section respecting goods still unidentified to the contract;
- (d) resell and recover damages as hereafter provided (Section 2-706);
- (e) recover damages for non-acceptance (Section 2-708) or in a proper case the price (Section 2-709);
- (f) cancel.

U.C.C. § 2-703.

Throughout this note the terms "seller" and "manufacturer" are used synonymously to designate one who has contracted to manufacture, produce, or assemble goods which in their final form represent an accurate reproduction of a copyrighted work. The person with whom the seller has contracted is the holder of the copyright, either by assignment, license, or because he is the creator of the original work. The terms "buyer," "author," "copyright proprietor," or "rights holder" will be used to refer to the holder of the copyright protecting the goods manufactured under the terms of such a contract.

²3 S. WILLISTON, SALES § 546 (rev. ed. 1948).

³See notes 20-30 *infra*.

⁴Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 855 (2d Cir. 1963), suggested this solution. *But see* notes 100-10 and accompanying text *infra*.

interpretive compromise between the conflicting rights which will protect the expectations of both parties to such a contract.

The purpose of this Note is to analyze the approach to this problem taken by the courts, and to determine whether the precedential value of past decisions will be affected by the recent copyright revision, Public Law 94-553.⁵

II. THE RIGHT OF RESALE

The common law never doubted that a merchant holding title and possession of goods had the right to resell the goods when the buyer refused to make payment.⁶ When title, but not possession, had already passed to the defaulting buyer, the merchant was said to have a lien on the goods to the extent of the unpaid purchase price, which could be enforced by reselling the goods to a more cooperative buyer.⁷

Under the Uniform Sales Act, the disappointed seller found his common law remedies codified, specifically the right of resale when title had already passed to the buyer.⁸ While the Uniform Sales Act did impose certain conditions precedent on the right of resale, the Act did not hold the seller accountable for resale profits in excess of the original contract price.⁹

Today, every state but one has adopted the Uniform Commercial Code which provides an explicit right of resale free of the conditions imposed by the Uniform Sales Act, but like the prior Act, also free of accountability for excess profits on resale.¹⁰ The Code rejects the "title" concept in establishing the rights of the parties, and the drafters specifically warn that there is no longer any need to distinguish between resale on the strength of the merchant's title and resale by virtue of a lien where title has passed.¹¹

⁵Copyright Act of 1976, Pub. L. No. 94-553, § 101, 90 Stat. 2541 (1976) (to be codified in 17 U.S.C. § 101). The 1976 Act provides in section 102 of the Transitional and Supplementary Provisions that the effective date for most provisions of the new Act is January 1, 1978. Consequently, an extended discussion of the 1909 Copyright Act and the cases arising during its reign is of more than historical interest. The only sections of the 1976 Act which took effect on January 1, 1977 are: § 118 treating licensing agreements between noncommercial broadcasters and copyright owners; § 304(b) granting a seventy-five year copyright term, from the date of creation, for copyrights in their renewal term, or registered for renewal between December 31, 1976, and December 31, 1977; and §§ 801-10 creating the Copyright Royalty Tribunal.

⁶*E.g.*, *Johnson v. Powell*, 9 Ind. 566 (1857).

⁷*Perrine v. Barnard*, 142 Ind. 448 (1895); *Sherry v. Picken*, 10 Ind. 375 (1858). When the buyer was guilty of misrepresentation or concealment, the seller was permitted to reclaim the goods after delivery. *Brower v. Goodyer*, 88 Ind. 572 (1883). *Cf.* U.C.C. § 2-702(2).

⁸UNIFORM SALES ACT § 60.

⁹*Id.* § 60(1).

¹⁰U.C.C. § 2-706.

¹¹*Id.*, Comment 3.

When the injured party is not a merchant selling goods, but rather an artisan who increases the value of a chattel by providing common law artisan's lien.¹² This lien is possessory in nature; while the artisan continues in possession, his lien is perfected against all other interests, but delivery of the chattel to the owner results in the loss of the lien.¹³ At common law the artisan had no right to resell the chattel, but had to reduce his claim to judgment before levy of execution and sale were proper.¹⁴ A number of states have codified the artisan's lien, some giving the lienholder the right to sell the chattel directly, and others giving him the right to foreclose his lien by judicial process.¹⁵ Significantly, the Uniform Commercial Code preserves the effectiveness of the artisan's lien by excluding such liens from the scope of Article Nine and by giving the artisan's lien priority over earlier, perfected security interests in the chattel.¹⁶

The importance to the unpaid manufacturer of deciding whether his right of resale arises under the Code or under the artisan's lien law should not be underestimated. The Code establishes definite guidelines for public and private resales, while the various lien laws may require public sale only, or foreclosure by judicial proceedings before sale is permitted.¹⁷ An improper resale may leave the

¹²Walls v. Long, 2 Ind. App. 202, 28 N.E. 101 (1891).

¹³Tucker v. Taylor, 53 Ind. 93 (1876).

¹⁴RESTATEMENT OF SECURITY § 72, Comments a, b, d (1941).

¹⁵*Id.* The most common form of statute requires notice to the owner of the chattel, followed by public sale, with a period of redemption before sale. Some statutes provide for a deficiency judgment in the event the sale price is insufficient to compensate the artisan. Compare N.Y. LIEN LAW §§ 180, 200 (McKinney Supp. 1968), with IND. CODE §§ 32-8-30-1 to -2 (Burns 1973).

¹⁶U.C.C. §§ 9-104(c), 9-310.

¹⁷See note 15 *supra*. See also U.C.C. § 9-501(1), giving a secured party the option of proceeding against the collateral by judicial foreclosure.

The resale provisions of Article Two, governing an injured seller, read in full:

(1) Under the conditions stated in Section 2-703 on seller's remedies, the seller may resell the goods concerned or the undelivered balance thereof. Where the resale is made in good faith and in a commercially reasonable manner the seller may recover the difference between the resale price and the contract price together with any incidental damages allowed under the provisions of this Article (Section 2-710), but less expenses saved in consequence of the buyer's breach.

(2) Except as otherwise provided in subsection (3) or unless otherwise agreed resale may be at public or private sale including sale by way of one or more contracts to sell or of identification to an existing contract of the seller. Sale may be as a unit or in parcels and at any time and place and on any terms but every aspect of the sale including the method, manner, time, place and terms must be commercially reasonable. The resale must be reasonably identified as referring to the broken contract, but it is not necessary that the goods be in existence or that any or all of them have been identified to the contract before the breach.

(3) Where the resale is at private sale the seller must give the buyer reasonable notification of his intention to resell.

labor and/or materials, the remedy for a customer's default is the manufacturer with no other remedy but an action for the contract price—an unhappy result if the buyer is defaulting because of insolvency.¹⁸

In any case, when the defaulting buyer is also the holder of a copyright protecting the manufactured articles, the unpaid manufacturer must not only have the right to resell under state law, he must, additionally, circumvent the copyright holder's exclusive right to "vend" the copyrighted work.¹⁹ The manufacturer's success depends on his appreciation of the nature and scope of his adversary's federally created rights.

III. THE RIGHT TO VEND

The United States copyright laws derive from the constitutional authorization to "promote the Progress of Science and useful Arts, by

(4) Where the resale is at public sale

(a) only identified goods can be sold except where there is a recognized market for a public sale of futures in goods of the kind; and

(b) it must be made at a usual place or market for public sale if one is reasonably available and except in the case of goods which are perishable or threaten to decline in value speedily the seller must give the buyer reasonable notice of the time and place of the resale; and

(c) if the goods are not to be within the view of those attending the sale the notification of sale must state the place where the goods are located and provide for their reasonable inspection by prospective bidders; and

(d) the seller may buy.

(5) A purchaser who buys in good faith at a resale takes the goods free of any rights of the original buyer even though the seller fails to comply with one or more of the requirements of this section.

(6) The seller is not accountable to the buyer for any profit made on any resale. A person in the position of a seller (Section 2-707) or a buyer who has rightfully rejected or justifiably revoked acceptance must account for any excess over the amount of his security interest, as hereinafter defined (subsection (3) of Section 2-711).

U.C.C. § 2-706.

¹⁸*Braswell v. American Nat'l Bank*, 117 Ga. App. 699, 161 S.E.2d 420 (1968), held that a sale conducted without notice to the debtor would deny the secured party, selling under § 9-504 of the Code, any right to a deficiency judgment. *Accord*, *Jefferson Credit Corp. v. Marcano*, 60 Misc. 2d 138, 302 N.Y.S.2d 390 (N.Y. Civ. Ct. 1969). *Contra*, *Mutual Finance Co. v. Politzer*, 21 Ohio St. 2d 177, 256 N.E.2d 606 (1970).

While the *Poltzer*, *Marcano*, and *Braswell* decisions were concerned with the sale of collateral by a secured party under Article Nine of the Code, it is predictable that cases discussing the requirement of a "commercially reasonable" sale found in § 9-504 will be influential in defining a "commercially reasonable" resale under § 2-706. *See generally* J. WHITE & R. SUMMERS, HANDBOOK OF THE LAW UNDER THE UNIFORM COMMERCIAL CODE § 7-6 (1972) [hereinafter cited as WHITE & SUMMERS].

¹⁹See notes 38-41 *infra* and accompanying text.

securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."²⁰ The 1909 Copyright Act gives an author the right to "print, reprint, publish, copy, and vend" his protected works.²¹ Of these enumerated rights, it has been correctly stated that the right to vend and the right to publish differ from all of the other rights granted to an author, in that vending and publishing deal directly with the public distribution of a work, while the other rights concern distribution only indirectly because they are all concerned with reproducing the work.²² Thus, in the first instance, distribution is controlled by deciding how many copies of a given work will be reproduced for future sale to the public. The right to vend and the right to publish allow an author to further control the distribution of his work by deciding when, for what price, to whom, and how many of the authorized copies will then be transferred. In this light, the right to vend may be seen as complementing the rights of reproduction, making it possible for an author to control, or even to prevent, the distribution of his copyrighted work.²³

Standing alone, the author's right to vend has been carefully defined by judicial opinion.²⁴ The vending monopoly allows an author to control the disposition of particular copies²⁵ of his work until he has parted with title to those copies.²⁶ Thereafter, in the absence of a valid contractual restriction, the transferee may dispose of those copies as he pleases.²⁷ It must be emphasized, however, that while the subsequent disposal of the copies by the transferee does not infringe the author's vending right, the transferee does not have the privilege of making additional copies, or of doing any of the other acts granted exclusively to the author with respect to the work itself.²⁸

This critical limitation on the transferee's interest in the copyright, as well as the unlimited right of disposal as to the particular copies transferred, stems from the unique distinction between a copyright and the objects protected thereby. The transfer of a copyrighted object is a transfer of the object only, and not a transfer

²⁰U.S. CONST. art. I, § 8, cl. 8.

²¹17 U.S.C. § 1 (1970) (amended 1976).

²²M. NIMMER, NIMMER ON COPYRIGHT § 103.31 (1963) [hereinafter cited as NIMMER].

²³*Id.*

²⁴*E.g.*, *Blazon, Inc. v. DeLuxe Game Corp.*, 268 F. Supp. 416, 433-34 (S.D.N.Y. 1965).

²⁵For the rationale of applying the vending monopoly only to copies of the work, see *Corcoran v. Montgomery Ward & Co.*, 121 F.2d 572 (9th Cir. 1941).

²⁶*Henry Bill Publ. Co. v. Smythe*, 27 F. 914 (C.C.S.D. Ohio 1886).

²⁷*Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908); *Independent News Co. v. Williams*, 293 F.2d 510 (3d Cir. 1961).

²⁸*Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir. 1960); *National Geographic Soc'y v. Classified Geographic, Inc.*, 27 F. Supp. 655 (D. Mass. 1939).

of any of the author's rights.²⁹ The reason that resale of a protected copy by the transferee is no infringement of the right to vend is because that particular monopoly ceases to exist after the initial transfer, and not because the transferee has obtained from the author an exclusive right to vend that copy.³⁰

The distinction between the copyrighted object and the copyright itself was codified in section 27 of the 1909 Copyright Act.³¹ After stating that the transfer of the object is not a transfer of the copyright, and conversely, the assignment of the copyright is not a transfer of the material object, section 27 continues: "[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."³²

While the first clause of section 27 seems never to have disturbed the courts, the "but nothing" clause has met with less than consistent interpretation.³³ The difficulty stems from the language of the "but nothing" clause which speaks in terms of lawful possession. The Committee Report which accompanies section 27, on the other hand, implies that lawful possession will result only from a "first sale" by the author.³⁴

This unfortunate divergence in terminology provides authority for the conflicting positions of both the unpaid manufacturer and the defaulting buyer in a disputed resale of copyrighted goods. Predictably, the unpaid manufacturer will argue that his possession is "lawful," in literal compliance with section 27, so that a resale in the event of breach is no infringement of the right to vend. The copyright holder will argue that the Committee Report indicates the impropriety of a literal reading of the "but nothing" clause. Since the defaulting buyer has not yet had the privilege of voluntarily making the "first sale" of the particular articles, he will insist that his right to vend those articles has not been lost.

Faced with these conflicting interpretations, the United States Court of Appeals for the Second Circuit rejected both arguments, holding in *Platt & Munk Co. v. Republic Graphics, Inc.*³⁵ that the "first sale" referred to in the Committee Report need not be "voluntary," but could be involuntary, based on implied consent or estoppel.³⁶

²⁹*Stephens v. Cady*, 55 U.S. (14 How.) 528 (1852).

³⁰*United States v. Wells*, 176 F. Supp. 630 (S.D. Tex. 1959).

³¹17 U.S.C. § 27 (1970) (amended 1976).

³²*Id.*

³³Compare *United States v. Wells*, 176 F. Supp. 630 (S.D. Tex. 1959), with *Creative Arts, Inc. v. Abady & Sultan, Inc.*, 134 U.S.P.Q. 388 (S.D. Fla. 1962).

³⁴H.R. REP. NO. 2222, 60th Cong., 2d Sess. 19 (1909).

³⁵315 F.2d 847 (2d Cir. 1963).

³⁶*Id.* at 854.

The plaintiff, Platt & Munk, had entered into a series of contracts with defendant, Republic Graphics, obligating Republic to manufacture and deliver to Platt & Munk a shipment of educational toys and games which were protected by a copyright in plaintiff's name. When plaintiff refused to accept the shipments, claiming the goods were defective, Republic notified plaintiff of its intention to resell the goods. Plaintiff then sought and received a preliminary injunction restraining the sales.³⁷

On appeal, Republic contended that under section 141 of the New York Personal Property Law,³⁸ it had the right of resale given an unpaid seller of goods. Further, since Republic's possession of the goods was "lawfully obtained," the vending monopoly could not "forbid, prevent or restrict the transfer" of the copyrighted articles.³⁹ In rejecting this contention, the court noted that the argument proved too much. Throughout the manufacturing and distribution process, copyrighted goods pass through the hands of shippers and other bailees whose possession is "lawful," but who have no authority to sell the goods.⁴⁰ While an unauthorized sale by a bailee in possession would be grounds for an action in conversion, the copyright holder's vending rights would be lost to him, leaving an unanticipated hiatus in the rights and remedies created by the federal statute.⁴¹

Relying on the Committee Report's reference to "first sale" and the further statement therein that section 27 was "not intended to change in any way existing law," the *Platt & Munk* court held that lawful possession was not enough to permit the vending of copyrighted goods against the copyright holder's wishes.⁴² However, the court also rejected plaintiff's contention that the "first sale" language meant, literally, a first sale voluntarily made for adequate consideration.⁴³ Such a view would immunize copyrighted goods from creditor process and commercial obligations, a view once adhered to in decisions of the last century but long since rejected.⁴⁴ Instead, the correct view in the court's opinion was that the first sale required to terminate the vending monopoly could be either voluntary or

³⁷*Id.* at 850.

³⁸This statute was identical to § 60 of the Sales Act, repealed by the adoption of the Uniform Commercial Code. See N.Y. U.C.C. § 2-706 (McKinney 1964).

³⁹315 F.2d at 851.

⁴⁰*Id.* The court's apprehension on this score was not entirely groundless. See *Kipling v. G.P. Putnam's Sons*, 120 F. 631 (2d Cir. 1903).

⁴¹17 U.S.C. § 101 (1970) (amended 1976). See generally NIMMER, *supra* note 22, § 103.31.

⁴²315 F.2d at 851.

⁴³*Id.* at 853-54.

⁴⁴Compare *Dart v. Woodhouse*, 40 Mich. 399, 29 Am. R. 544 (1879), with *Wilder v. Kent*, 15 F. 217 (C.C.W.D. Pa. 1883). See Note, *Creditors' Rights Against Interests in Patents and Copyrights*, 26 VA. L. REV. 1038 (1940).

involuntary, as in the case of seizure by creditors, based on a theory of implied consent or estoppel.⁴⁵ When the holder of a copyright has unjustifiably refused to pay the contract price for copies of his work, the court continued, the "first sale" requirement is satisfied, and the unpaid manufacturer has the right to resell the goods. However, when the copyright holder asserts that he is justified in withholding payment, the manufacturer must be restrained from reselling the goods until he proves to the court that he is not the perpetrator, but the victim of the breach.⁴⁶

While the *Platt & Munk* court's adoption of the "first sale" language has been criticized,⁴⁷ that criticism weakens when two aspects of the decision are placed in perspective: first, the court's actual treatment or interpretation of the "first sale" doctrine; and second, the court's requirement that a copyright holder be permitted to enjoin resale on the strength of a good faith claim that his refusal to pay was justified.⁴⁸

The court's treatment of the "first sale" doctrine must, in turn, be analyzed on two levels to appreciate its superiority over the "lawful possession" approach: (a) the justification or rationale for requiring a first sale at all; and (b) the definition of first sale as applied by the court.

A. Rationale of First Sale Doctrine

The earliest cases discussing "first sale" under a prior Copyright Act,⁴⁹ indicate the obvious conclusion that the doctrine is a double-edged sword demarcating the boundary between the author's right to control the distribution of copies of his work, on one side, and the policies against restraints on trade and those favoring the free alienation of property, on the other side.⁵⁰

In *Henry Bill Publishing Co. v. Smythe*,⁵¹ a copyrightee sold books by private subscription only. When the author's agent placed several books with a book dealer—an act beyond the agent's scope of authority—the author was able to enjoin the dealer from selling the

⁴⁵315 F.2d at 854. The *Platt & Munk* court cited *Henry Bill Publ. Co. v. Smythe*, 27 F. 914 (C.C.S.D. Ohio 1886), in support of the estoppel theory, but *Smythe* merely treated the estoppel question by way of dictum. 27 F. at 918. For an excellent advancement of the theory that an unpaid manufacturer has an implied license to resell copyrighted articles, see Note, *The Manufacturer's Right To Resell Patented and Copyrighted Goods*, 38 N.Y.U. L. REV. 948 (1963).

⁴⁶315 F.2d at 855.

⁴⁷NIMMER, *supra* note 22, § 103.323.

⁴⁸315 F.2d at 855.

⁴⁹Act of Feb. 3, 1831, ch. 16, § 1, 4 Stat. 436.

⁵⁰*Cf.* NIMMER, *supra* note 22, § 103.31.

⁵¹27 F. 914 (C.C.S.D. Ohio 1886).

books, based on an infringement of the copyright. The defendant's contention that the plaintiff had lost the vending monopoly as to the copies in question when the books had been first sold was dismissed by the court: "[T]he absence of [plaintiff's] authority to sell his literary property constitutes the defect of [defendant's] title, no matter how that want of authority arises."⁵² By way of dictum, the *Smythe* court indicated that plaintiff might have been estopped from denying a "first sale" had he placed the books with brokers or distributors for general sale.⁵³

On the other hand, the copyright holder in *Harrison v. Maynard, Merrill & Co.*⁵⁴ was held to have lost his vending monopoly when he allowed a book binder to sell, for scrap only, fire damaged copies which the purchaser promptly rebound and sold as second hand books. Once the author had parted with title, held the court, he could not restrain the purchaser's use of that particular copy by asserting copyright infringement.⁵⁵

Likewise, in *Bobbs-Merrill Co. v. Straus*,⁵⁶ the United States Supreme Court held that a publisher who sold books to the defendant, a department store, could not assert copyright infringement when the defendant sold the books at less than the agreed-upon resale price which plaintiff had printed in the front of the books. Once the "first sale" was made, the Court held, plaintiff was limited to an action in contract and had no further vending monopoly as to the particular copies he had sold.⁵⁷

The following year, partially in response to *Bobbs-Merrill*, Congress codified the first sale doctrine in the "but nothing" clause to

make it clear that there is no intention to enlarge in any way the construction to be given to the word 'vend' 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.⁵⁸

Against this authority, the court in *Platt & Munk Co. v. Republic Graphics, Inc.*⁵⁹ measured the likely aftermath of adopting the language of lawful possession found in the "but nothing" clause. Deciding that a literal reading would permit bailees to escape

⁵²*Id.* at 918.

⁵³*Id.* See discussion of *Smythe* in note 45 *supra*.

⁵⁴61 F. 689 (2d Cir. 1894).

⁵⁵*Id.* at 691.

⁵⁶210 U.S. 339 (1908).

⁵⁷*Id.* at 350.

⁵⁸H.R. REP. No. 2222, 60th Cong., 2d Sess. 19 (1909).

⁵⁹315 F.2d 847 (2d Cir. 1963).

infringement actions for unauthorized sales of an author's work, the court concluded that language of "possession" had been used to demonstrate that the "but nothing" clause was intended as a limitation on the first half of section 27.⁶⁰

This reasoning seems correct when it is noted that the first half of section 27 speaks of "the sale or conveyance, by gift or otherwise, of the material object . . ." ⁶¹ Thus, to apply the "but nothing" clause to the various types of conveyances other than sales, Congress employed general language of possession, rather than of purchase. It cannot be gainsaid that a bailment is not a conveyance.⁶² The former is a mere entrusting, while the latter is a transfer of title.⁶³

However, Republic, the defendant in *Platt & Munk*, asserted that it had title to the goods because it had supplied the raw materials used in the manufacturing process, and since Platt & Munk had not taken delivery, the vending right never attached.⁶⁴ Rejecting this contention, the court disparaged the idea that "copyright protection should turn on which party has furnished the physical stuff to which the copyrighted conception is affixed . . ." ⁶⁵

The language used by the court in rejecting Republic's "title theory" contains two key ideas which the court failed to pursue. The first, that Republic furnished the "physical stuff," correctly differentiates between the tangible and intangible components of copyrighted articles.⁶⁶ Republic had title to the physical stuff, but it did not have title to Platt & Munk's copyright component. Therefore, so

⁶⁰*Id.* at 851.

⁶¹17 U.S.C. § 27 (1970) (amended 1976) (emphasis added).

⁶²*Compare* Lyon v. Lenon, 106 Ind. 567, 7 N.E. 311 (1886), with Hagey v. Schroeder, 30 Ind. App. 151, 65 N.E. 598 (1902).

⁶³R. BROWN, THE LAW OF PERSONAL PROPERTY § 10.5 (3d ed. 1975).

⁶⁴Brief for Appellant at 3-6, *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963).

⁶⁵315 F.2d at 854.

⁶⁶This attack on the manufacturer's title theory is mounted in Note, *The Manufacturer's Right To Resell Patented and Copyrighted Goods*, 38 N.Y.U. L. REV. 948 (1963). The commentator there argues that a manufacturer has title to the physical goods, not the author's copyright component. Hence, the manufacturer cannot resell the goods because his title is defective as to the combined tangible and intangible elements. *Id.* at 960. This argument clearly ignores the statutory distinction between copyright and the tangible objects protected thereby. 17 U.S.C. § 27 (1970) (amended 1976). The *Platt & Munk* court, too, stumbled on its rejection of the title theory. The court gave no explanation of why the theory was unacceptable, but merely dismissed it as "exceedingly odd." 315 F.2d at 854.

A conceptually smoother approach would concede a manufacturer's title to the goods, while holding that an attempted resale will, nonetheless, infringe the vending monopoly, unless title was obtained by a transfer from the author. See notes 131-33 *infra* and accompanying text.

The language of section 27, the Committee Report, and the discussion in *Platt & Munk* are each sufficiently broad to permit this restriction on the manufacturer's title.

long as the two components were united in the goods, Republic had only two alternatives: disassemble the goods and sell the material as scrap,⁶⁷ or claim that Platt & Munk's conduct somehow resulted in a conveyance to Republic of the entire product, thereby giving Republic title to not just the goods, but to the *copyrighted* goods.⁶⁸

The second idea touched upon by the court lurks in the statement that the "copyrighted conception is affixed" to the physical stuff. This view strongly implies, and other cases have held,⁶⁹ that the manufacturer of copyrighted goods is not a seller, but rather an artisan who increases the value of a chattel by the addition of labor or material, or both.⁷⁰

In *North American Leisure Corp. v. A & B Duplicators, Ltd.*,⁷¹ the manufacturer, A & B, had reproduced from NAL's master tape a huge inventory of sound recordings. The tape, cartridges, and packages had been supplied by the manufacturer. A & B kept the inventory in its control and received assurances from NAL that the manufacturer had a lien on the inventory for the unpaid purchase price. During NAL's bankruptcy proceedings the referee found, and was affirmed by the district court, that A & B had a vendor's lien because it had provided the raw materials making up the goods. On appeal, nine years after skirting the issue in *Platt & Munk*, the Court of Appeals for the Second Circuit decided that A & B had an artisan's lien, not a vendor's lien.⁷²

Such an approach has the further advantage of accurately reflecting the underlying policies of the vending monopoly itself. See text accompanying notes 22, 23 and 49-60 *supra*. Where the terms of the contract indicate an intention to make the manufacturer the owner of the copies, or where the author's refusal to pay the contract price is unjustified, there is no objection to finding that the contract or conduct, respectively, constitutes a transfer of title from the author, thereby ending the right to vend.

Finally, this view of title does no violence to existing case law because the contract terms or conduct of the parties is the touchstone of the manufacturer's right to resell copyrighted goods, under either view of the title question. Compare *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963), with *United States v. Wells*, 176 F. Supp. 630, 633 (S.D. Tex. 1959).

⁶⁷This was the apparent result suggested by *Sawin v. Guild*, 21 F. Cas. 554 (C.C.D. Mass. 1813) (No. 12, 391). There, Justice Story held that a sheriff who sold patented machines pursuant to an execution against the patentee had sold only the material, not any part of the patent. Since the right of "use" granted by the patent laws, now codified at 35 U.S.C. § 154 (1970), was not a part of the sale, Justice Story's decision avoided an infringement action against the sheriff, but left the purchaser at execution sale with little more than scrap metal.

⁶⁸See note 66 *supra*, and the text accompanying notes 132-34 *infra*.

⁶⁹See discussion in note 72 *infra*.

⁷⁰See text accompanying notes 12-14 *supra*.

⁷¹468 F.2d 695 (2d Cir. 1972).

⁷²Why the issue was not squarely faced in *Platt & Munk* is somewhat mysterious. The authority relied upon in deciding *A & B Duplicators* was already available when

Obviously, had the Second Circuit decided in *Platt & Munk* that Republic was an artisan, as the lower court had done,⁷³ the higher court could have ended Republic's title theory with little effort. In that event, title to the goods would have been lodged in *Platt & Munk*, subject only to a lien for the unpaid debt. Instead, the court directed that Republic, on remand, have a speedy trial on the issue of whether Platt & Munk's refusal to pay was justified, or whether Platt & Munk had been in default in the payment of the price for an unreasonable time.⁷⁴ The former question applied to artisan's liens, the latter to seller's remedies under the Sales Act.

Still, the rationale underlying the first sale doctrine was left intact because, regardless of Republic's status, the central question in the view of the Second Circuit was whether a manufacturer should be permitted to resell copyrighted goods merely on the strength of his lawful possession, or whether the balancing of an author's rights against the policy favoring the free alienation of property, in this instance, required something more (*i.e.*, a first sale) on the author's part.⁷⁵ Opting for a first sale requirement, it remained for the court to determine just what actions by the author would constitute such a conveyance.

the *Platt & Munk* decision was written. *William H. Wise & Co. v. Rand McNally & Co.*, 195 F. Supp. 621 (S.D.N.Y. 1961), had held that a book printer provides a service, not a sale of goods, when he affixes the publisher's literary property to the physical copies.

Somewhat earlier, the same conclusion had been reached in *Gross Income Tax Division v. W. B. Conkey Co.*, 228 Ind. 352, 90 N.E.2d 805 (1950), *cert. denied*, 340 U.S. 941 (1951). There, the Indiana Supreme Court held that since a printer provided services, not a sale of goods, the state could tax the printer's business transactions without restricting the "sale of goods" in interstate commerce.

Although *A & B Duplicators*, *Wise*, and *Conkey* focused on taxation or creditors' rights rather than copyright infringement, it seems anomalous to say that a manufacturer of copyrighted goods has an artisan's lien when his adversary is another creditor of the copyright holder, but a vendor's lien when the adversary is the copyright holder himself.

Part of the court's reluctance to find that Republic was an artisan may have stemmed from the fact that Republic had attempted to resell the goods privately rather than publicly as required by the New York Lien Law. Furthermore, where the contract does not require payment until delivery, a possessory lien does not (indeed, could not) arise. *Newark Slip Cont. Co. v. New York Credit Men's Adjustment Bureau, Inc.*, 186 F.2d 152 (2d Cir. 1951). The court may have hesitated to restrict manufacturers of copyrighted goods to an artisan's lien when the bulk of such manufacturing contracts no doubt call for delivery before payment. In Republic's case, however, possession had been regained following Platt & Munk's rejection of the goods, so that the artisan's lien would still be effective security for the unpaid debt. *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 849-50 (2d Cir. 1963).

⁷³315 F.2d at 855 n.4.

⁷⁴*Id.* at 855.

⁷⁵*Id.* at 852.

B. Definition of First Sale Doctrine

In addition to what was quoted above, the Committee Report which accompanied section 27 of the 1909 Act clearly indicated that the statutory language was "not intended to change in any way existing law, but simply to recognize the distinction, long established, between the material object and the right to produce copies thereof."⁷⁶

As early as 1852, the Supreme Court held in *Stephens v. Cady*⁷⁷ that copperplates of a copyrighted map purchased at execution sale could not be used to print copies of the map. The defendant had purchased only the material object at the sale, said the Court, not the intangible copyright; hence he had no right to produce copies, since "copying" is part of the copyright which still remained in the plaintiff, the copyright holder.⁷⁸ By way of dictum, the Court did suggest that a creditor's bill in equity, with personal jurisdiction over the copyright holder, and a court-compelled transfer of the intangible copyright might overcome the hurdle of the tangible-intangible distinction.⁷⁹

Stephens v. Cady and a number of other state and federal opinions⁸⁰ left the impression that an author's intangible copyright could not be subjected to creditor process for the payment of the author's debts. However, in *Ager v. Murray*,⁸¹ a patent case,⁸² the Supreme Court indicated that federally protected rights were indeed subject to creditor process by holding that an equity court, having

⁷⁶H.R. REP. NO. 2222, 60th Cong., 2d Sess. 19 (1909).

⁷⁷55 U.S. (14 How.) 528 (1852).

⁷⁸*Id.* at 530-31.

⁷⁹*Id.* at 531-32.

⁸⁰*See, e.g.,* Stevens v. Gladding, 58 U.S. (17 How.) 447 (1854); Dart v. Woodhouse, 40 Mich. 399, 29 Am. Rep. 544 (1879). *See generally* Note, *Creditors' Rights Against Interests in Patents and Copyrights*, 26 VA. L. REV. 1038 (1940).

⁸¹105 U.S. 127 (1881).

⁸²it is not uncommon to find courts relying on patent cases in rendering copyright opinions. The many similarities between the rights of an author and those of an inventor make this practice acceptable. *Compare* 17 U.S.C. § 1 (1970), *as amended by* Copyright Act of 1976, Pub. L. No. 94-553, § 101, 90 Stat. 2541 (copyright), *with* 35 U.S.C. § 154 (1970) (patent). While patent law is beyond the scope of this note, one difference from copyright must be noted. In addition to the right to vend, an inventor enjoys the exclusive right to "use" his invention. This right, like the others, may be assigned or licensed separately. *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873).

When an unpaid manufacturer of patented goods attempts to resell, he must not only overcome the patentee's vending monopoly, he must additionally seek a court-compelled transfer of the right of "use." Without this added effort, the purchaser at resale may find that any attempt to use the article will be met with an infringement action, reducing the practical value of the article to scrap value only. *See* note 67 *supra*.

jurisdiction over the rights holder, could compel a transfer of the intangible patent rights, giving the purchaser the full value of his purchase.⁸³

Following this lead, a lower federal court carried the purchaser's rights one step further. In *Wilder v. Kent*,⁸⁴ the defendant had purchased two patented machines at a sheriff's sale, held pursuant to a writ of execution against the plaintiff, whose assignment from the patentee gave him the exclusive right of use in his territory. In holding that the defendant had not infringed the plaintiff's rights, the court reasoned that the purchaser at a sheriff's sale ought to succeed to the interests of the debtor.⁸⁵ Because the purchaser claimed no rights in the patent, only in the machines, there should be no difference between a voluntary sale by the plaintiff, and an involuntary sale by the sheriff, and the purchaser would have whatever interest in the machines the debtor had had before the sale.⁸⁶

If execution and sheriff's sale are the equivalent of a voluntary sale by the rights holder, the conclusion is inescapable that other state processes, such as lien foreclosures or the resale rights of an unpaid manufacturer may just as well fulfill the requirement of a "first sale" by an author in copyright cases. It was so held by the *Platt & Munk* court which referred to *Wilder v. Kent* as the "sensible rule."⁸⁷

The question to be asked, said the *Platt & Munk* court, was whether the copyright holder had "received from his creditor some value for which the copyrighted . . . article is now demanded unless the debt is paid."⁸⁸ The answer must be in the affirmative when a manufacturer has fulfilled his contract obligations by producing the goods and then seeks payment from a defaulting copyright holder. The buyer, having received the benefit of the contract, should not be placed in a position to demand more favorable terms from the manufacturer by withholding payment, knowing that the manufacturer cannot look to the goods for security because they are protected by copyright. By equating the buyer's breach with a "first sale" on his part, the court effectively shifted any unwarranted

⁸³105 U.S. at 130-31.

⁸⁴15 F. 217 (C.C.W.D. Pa. 1883).

⁸⁵*Id.* at 219. This conclusion, no doubt, was based on the theory that a sale by the patentee will usually eliminate the right of use if so stated in the contract. *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852).

⁸⁶This reasoning is sound as applied to copyrights, but the court erred in its treatment of the right of "use," since no court-compelled transfer of this intangible right had been obtained. See discussion in note 82 *supra*.

⁸⁷315 F.2d at 854.

⁸⁸*Id.*

bargaining leverage away from a potentially dishonest buyer.⁸⁹ This is particularly important when the buyer's financial status is shaky, making a resale of the goods the only remedy realistically available to the manufacturer.⁹⁰

The essence of a first sale, then, as defined by the *Platt & Munk* court is that the author has received a benefit from the manufacturer, just as the author would have received a benefit from the outright sale of copies of his work.⁹¹ In either case, having received the quid pro quo, the author must make delivery. When the creditor already has the copies, the author's failure to meet his obligations constitutes the "conveyance" making the creditor's possession "lawful."⁹² When the copies are not in the creditor's possession, the state law process of levy and execution makes the sheriff's possession lawful, so that the purchaser at execution sale receives the copies free from the vending rights of the author.⁹³ However, since the first sale doctrine ends only the vending monopoly, the purchaser from the sheriff (or from the reselling manufacturer) may not copy, exhibit, make new versions, or exercise any of the other exclusive rights which remain in the author.⁹⁴ These other intangible rights remain subject to the *Ager v. Murray* requirements of personal jurisdiction and court-compelled transfer before the purchaser attempting to exercise these rights will be safe from infringement suits.⁹⁵

Viewed in this fashion, the *Platt & Munk* requirement of a "first sale" is superior to the literal "lawful possession" approach because the latter interpretation would create a gap in the copyright remedies against dishonest bailees.⁹⁶ At the same time, the court's forward looking definition of "first sale" as a voluntary or involuntary

⁸⁹See text accompanying notes 104-11 *infra*.

⁹⁰*Id.*

⁹¹"In such event . . . the copyright owner has received 'his reward' . . ." 315 F.2d at 855.

⁹²*Id.*

⁹³See, e.g., *Independent Film Distrib., Ltd. v. Chesapeake Indus., Inc.*, 148 F. Supp. 611 (S.D.N.Y. 1957), *rev'd on other grounds*, 250 F.2d 951 (2d Cir. 1958).

⁹⁴See text accompanying note 28 *supra*.

⁹⁵In *Independent Film Distrib., Ltd. v. Chesapeake Indus., Inc.*, 148 F. Supp. 611 (S.D.N.Y. 1957), the defendant, a film processor, had foreclosed a statutory lien given an unpaid processor on the film, the exhibition and the distribution rights. N.Y. LIEN LAW § 188 (McKinney Supp. 1968). When defendant attempted to sell the film and the rights following a default judgment against the rights holder, the rights holder sued alleging infringement. The court held that jurisdiction, obtained by substituted service, had been insufficient to pass the intangible copyright. *Cf. Ager v. Murray*, 105 U.S. 127 (1881).

⁹⁶NIMMER, *supra* note 22, § 103.31 at 385.1 n.73. Interestingly, Nimmer appears to change course when he later criticizes *Platt & Munk* for its adoption of the "first sale" doctrine. There, he argues that an action in conversion or breach of contract would be an adequate remedy when faced by a dishonest bailee. *Id.* § 103.323, at 386.

payment for benefits received, protects unpaid manufacturers against overreaching copyright proprietors.⁹⁷

By making the buyer's breach of contract the equivalent of a "first sale," the *Platt & Munk* court permanently resolved the legal question, but created a question of fact requiring resolution with each new case in which the fact is controverted by the parties.⁹⁸ Thus, the court was forced to develop a method of resolving the issue of breach which would not tip the scales it had delicately balanced in resolving the legal issues. The court's solution was to limit the manufacturer's state law remedy of self-help by permitting a buyer to challenge and enjoin the threatened resale of copyrighted goods, and to grant the parties a speedy resolution of the factual issue of breach.⁹⁹ This formula is the second aspect of the court's decision which enables it to overcome the criticism leveled at the first sale requirement.

The *Platt & Munk* court, while deciding that in a proper case the right of resale "must yield to the federally created right,"¹⁰⁰ qualified that statement by saying that this subordination would only occur "where the copyright owner makes a good faith claim that its failure to pay for the goods was justified . . ." ¹⁰¹ When the author admits his default by doing nothing, or when he seeks an injunction but cannot marshal sufficient evidence for even a "good faith claim," the unpaid manufacturer may exercise the right of resale.¹⁰² However, the right of resale is not an absolute right to be exercised unilaterally by a manufacturer in every situation. In a proper case the buyer with a valid objection can move to protect his contract rights, as well as his copyright.¹⁰³

Under the Uniform Sales Act, a buyer had the right to seek specific performance of the contract. The Sales Act intended to liberalize this buyer's remedy by not requiring that the buyer demonstrate the inadequacy of his legal remedy or the uniqueness of the goods.¹⁰⁴ Instead, the granting of relief was left to the informed discretion of the court.¹⁰⁵ The Uniform Commercial Code has carried

⁹⁷See notes 104-11 *infra* and accompanying text.

⁹⁸The court rationalized: "The difficulty comes from the fact that the law gives an unpaid manufacturer a right to sell *without prior adjudication of the merits of his claim.*" *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 855 (2d Cir. 1963) (emphasis added).

⁹⁹*Id.* at 855.

¹⁰⁰*Id.*

¹⁰¹*Id.*

¹⁰²Admittedly, this conclusion is drawn by negative implication, but this conclusion hardly seems debatable in view of the court's own language: "*Where* the copyright owner makes a good faith claim." *Id.* (emphasis added).

¹⁰³U.C.C. § 2-716(1).

¹⁰⁴UNIFORM SALES ACT § 68.

¹⁰⁵*Id.* But see *Eastern Rolling Mill Co. v. Michlovitz*, 157 Md. 51, 145 A. 378 (1929); *Manchester Dairy System, Inc. v. Hayward*, 82 N.H. 193, 132 A. 12 (1926).

forward the liberal approach of the Sales Act by permitting specific performance "where the goods are unique or in other proper circumstances."¹⁰⁶ Presumably, a buyer who invokes this particular remedy combined with a count to enjoin a resale by the manufacturer must still post bond and demonstrate the likelihood that he will ultimately prevail in the dispute.¹⁰⁷

The *Platt & Munk* court, however, would appear to sanction the granting of an injunction on a lesser showing than that traditionally required of the moving party. The test there announced was that the buyer need only make "a good faith claim that . . . failure to pay for the goods was justified."¹⁰⁸

Conceivably, when faced with the issue, a federal district court might well equate the two standards. That is, a buyer who cannot demonstrate the likelihood that he will prevail is not making a good faith claim. Such an approach not only borders on circuitry, it runs the risk of reversal in light of the Second Circuit's statement that, to this extent, "state contract or lien law must yield to the federally created right."¹⁰⁹ Assuming that the higher court was not unmindful of a maligned buyer's right to enjoin resale in a proper case, it becomes evident that the yielding, or subordination of state law to federal law was an alteration in degree rather than substance.

Furthermore, whether the buyer of goods is an author with a federally protected right, or a non-copyright buyer with a state law right to have his goods delivered, a breaching seller cannot seriously expect to deprive his buyer of something substantial without being forced into litigation. Conversely, when the buyer is the breaching party, he will seldom attempt to block the seller's efforts to salvage what he can by reselling the goods, because the proceeds of resale will mitigate the buyer's damage liability.¹¹⁰ It is only where the basis of a dispute is genuine and the goods in question are unique (*e.g.*, copyrighted goods) that the buyer will want to enjoin the resale.

Permitting the buyer in copyright disputes to enjoin an

Apparently, the courts were reluctant to take advantage of the Sales Act's liberal approach to specific performance in sales of goods cases. See generally WHITE & SUMMERS *supra* note 18, § 6-6.

¹⁰⁶U.C.C. § 2-716(1).

¹⁰⁷Prior to 1970, the posting of bond was required by statute in Indiana. Act of April 7, ch. 38 § 183, 1881 Indiana Acts 240 (repealed by Act of March 13, ch. 191 § 3, 1969 Indiana Acts 723). Currently, the applicable statute provides: "Upon the granting or continuing of an injunction, such terms and conditions may be imposed upon the party obtaining it, as may be deemed equitable." IND. CODE § 34-1-10-5 (Burns 1973).

¹⁰⁸315 F.2d at 855.

¹⁰⁹*Id.*

¹¹⁰U.C.C. § 2-706(1). Cf. *National Importing Co. v. California Prune & Apricot Growers, Inc.*, 85 Ind. App. 315, 151 N.E. 626 (1926).

attempted resale on the good faith claim that his refusal to pay was justified, is a defensible solution which, in practice, should work to the benefit of both parties while protecting their respective interests.

The benefits to the author are obvious; where his position is ultimately vindicated, the preliminary injunction has preserved his vending monopoly as to the copies in question. The lesser showing required by the *Platt & Munk* court permits an author to act quickly and decisively to protect his copyright before resale has begun. Even though the author might recover damages in a subsequent infringement action against both the manufacturer and the resale buyers (if they in turn attempt to market the copies), the fact remains that without the injunction the author would have lost his right to control or prevent the public distribution of his work.¹¹¹ An additional protection for the buyer is that a dishonest seller attempting to elevate a minor contract dispute to the level of a full blown breach (as a basis for resale) will not be able to extort concessions or totally overreach a financially marginal buyer with the threat of resale, when the buyer can easily enjoin the resale by asserting his good faith claim. The traditional requirement that the buyer show the likelihood of ultimate victory, by contrast, puts leverage in the hands of a dishonest manufacturer.¹¹²

The legitimate seller, on the other hand, also benefits from an early adjudication of a genuine dispute. By notifying the buyer that he intends to resell the goods, the seller establishes a basis for asserting a laches or estoppel defense if the buyer acquiesces in the resale, but later brings an infringement action.¹¹³ If the author moves to enjoin the resale, but cannot establish even a good faith

¹¹¹See notes 41 and 96 *supra*.

¹¹²On the other hand, there are factors which might persuade a dishonest manufacturer that an attempted resale is unwise. A resale without justification would constitute criminal infringement. 17 U.S.C. § 104 (Supp. IV 1974), *as amended by* Copyright Act of 1976, Pub. L. No. 94-553, § 506, 90 Stat. 2541. Furthermore, should the author prevail on the issue of contract breach, he could conceivably recover both his contract damages and the manufacturer's resale profits under 17 U.S.C. § 101 (Supp. I 1971), *as amended by* Copyright Act of 1976, Pub. L. No. 94-553, § 504, 90 Stat. 2541. *See, e.g., Sheldon v. Metro-Goldwyn Pictures Corp.*, 309 U.S. 390 (1940).

¹¹³It is frequently stated that mere inaction, or silence where there is no affirmative duty to speak, will not raise an estoppel. *Lavengood v. Lavengood*, 225 Ind. 206, 73 N.E.2d 685 (1947); *French v. National Ref. Co.*, 217 Ind. 121, 26 N.E.2d 47 (1940). In practice, however, equity will measure the facts involved in deciding whether a party's conduct should prevent his recovery. *See, e.g., Kelley v. Fisk*, 110 Ind. 552, 11 N.E. 453 (1887).

Laches is a particularly appropriate defense to a belated infringement action where the manufacturer must give notice of his intended resale under § 2-706 of the Uniform Commercial Code, or under the notice requirements of the typical artisan's lien statute. *See* note 15 *supra*. As with estoppel, the successful laches defense will turn on the facts of each case. *Harwood v. Railroad Co.*, 84 U.S. 78 (1872).

claim, the seller may proceed. In either situation the marketability of the goods, and the consequent asking price, are enhanced because the chances of a subsequent infringement action against the resale purchaser have been reduced. Admittedly, a dishonest buyer with at least a colorable claim may be in a position to extract concessions by threatening to enjoin the resale, but this weapon is blunted by the requirement that the buyer post bond.¹¹⁴ The bonding requirement adequately protects a seller when the value of the goods depends upon timely marketing, as with seasonal items or perishable commodities.

The result of the *Platt & Munk* requirement that the contract issues be quickly adjudicated when the buyer has a colorable claim is that effective restraints have been placed on both the dishonest buyer and the dishonest seller, while eliminating any unwarranted leverage in the hands of either. Concurrently, the early adjudication requirement works to the benefit of both parties if the dispute is legitimate and if the rights asserted by the buyer and seller are substantial enough to justify litigation on self help.

Taken together, the early adjudication requirement and the court's insistence on a "first sale," albeit involuntary, successfully balance the privileges of an author's copyright against the commercial expectations of a manufacturer of copyrighted articles. Whether this delicate balance will survive the new copyright revision, Public Law 94-553, remains to be seen.

IV. COPYRIGHT REVISION

The drafters of Public Law 94-553 can hardly be said to have written on a *tabula rasa*, since this particular copyright revision is merely the culmination of what must be described as the most tenacious effort at copyright reform in congressional history.

A concentrated attempt to clarify the more confusing aspects of the 1909 Copyright Act and to codify the case law developed under that Act, was begun most recently in 1955 when the Copyright Office initiated thirty-five studies on various facets of copyright law.¹¹⁵ The report of the Register of Copyright was issued in 1961; and in 1963 the Copyright Office published a preliminary draft of a proposed revision bill. The following year the proposed bill was modified and submitted to both Houses of Congress on July 20, 1964.¹¹⁶

Beginning with the 88th Congress, each succeeding Congress had

¹¹⁴See discussion in note 107 *supra*.

¹¹⁵CAMBRIDGE RESEARCH INSTITUTE, OMNIBUS COPYRIGHT REVISION: COMPARATIVE ANALYSIS OF THE ISSUES 21 (1973) [hereinafter cited as CAMBRIDGE RESEARCH INSTITUTE, OMNIBUS REVISION].

¹¹⁶H.R. 11947, S. 3008, 88th Cong., 2d Sess. (1964).

attempted, but failed, to produce a bill for Presidential signature.¹¹⁷ The balancing of interests which occurred in *Platt & Munk* represents only one of many potential conflicts between authors and non-authors concerning the numerous uses of the copyright. Any statutory reform "must simultaneously protect the rights of authors, preserve the incentives of publishers, and give the general public access to the new creations."¹¹⁸ While such a delicate balance may be difficult, it is not impossible. The three most recent proposals, including the new Act, have been strikingly similar, and the previous inability to achieve final passage appears to have centered around the debate over such rapidly changing technologies as cable television, photocopying, and computer programs.¹¹⁹

Nonetheless, all of the proposed revisions since 1964 had been in agreement on at least a few basic tenets of copyright philosophy which are relevant to the problem of the unpaid manufacturer of copyrighted goods: the exclusive right of an author to vend copies of his work; the divisibility of the copyright into tangible and intangible components; and the susceptibility of both the tangible and intangible copyright to the demands and obligations of commercial life.¹²⁰

The word "vend" is not used in Public Law 94-553, nor was it used in the proposed revision which preceded the new Act, Senate Bill 1361. Instead, section 106 of the new Act is identical to section 106 of Senate Bill 1361, which enumerates the exclusive rights of an author, including the exclusive right "to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending."¹²¹ Obviously, Public Law 94-553 has improved upon the vague generality of the single word "vend," by specifically setting out the types of conveyances which will be protected by federal statute. Furthermore, those conveyances will now include rental arrangements not included as part of the previous vending monopoly.¹²²

However, the exclusive rights granted an author by section 106 of the new Act are subject to specific limitations set out in sections 107 through 117, dealing with fair use, photocopying, cable television, and other uses of the copyright by non-authors which proved a

¹¹⁷*Id.*; H.R. 4347, 89th Cong., 1st Sess. (1965); H.R. 2512, 90th Cong., 1st Sess. (1967); S. 543, 91st Cong., 1st Sess. (1969); S. 644, 92d Cong., 1st Sess. (1971); S. 1361, 93d Cong., 1st Sess. (1973).

¹¹⁸CAMBRIDGE RESEARCH INSTITUTE, OMNIBUS REVISION, *supra* note 115, at 5.

¹¹⁹*Id.* at 22, 23.

¹²⁰Sections 106, 107, 108, and 202, dealing with these concepts have appeared in identical language in the three latest proposed reform bills. See note 117 *supra*.

¹²¹Copyright Act of 1976, Pub. L. No. 94-553, § 106, 90 Stat. 2541 (1976).

¹²²See *Bauer et Cie v. O'Donnell*, 229 U.S. 1, 13 (1913).

constant source of infringement litigation under the 1909 Copyright Act.¹²³

One such limitation on the new right to vend is found in section 109, which replaces the troublesome "but nothing" clause found in section 27 of the 1909 Act.¹²⁴ Section 109 gives the owner of a particular copy the right to sell or dispose of the possession of that copy without the author's permission. However, this power to transfer copies free of the vending monopoly is itself limited to those having ownership, not merely possession of the copies.¹²⁵ The language of section 109 is an effective response to those litigants who have argued that the reference to lawful possession in the former section 27 permits a bailee, or manufacturer, to resell copyrighted goods without infringing the author's vending monopoly.¹²⁶ Notably, the new section 109 is also a codification of two cases which at least one copyright authority considered to be in conflict in their interpretations of the former section 27.¹²⁷ One, of course, is *Platt & Munk* which rejected the lawful possession theory of defendant, holding that an author must have made a first sale of the protected copies before the right to vend is terminated — but holding further that such a sale could be voluntary or involuntary by operation of law. The second case, apparently in conflict with *Platt & Munk*, is *United States v. Wells*.¹²⁸

The *Wells* court was faced with the question of whether the defendant, who had a license to make and use as many maps as he wished from a negative supplied by the copyright holder, had infringed the right to vend by selling copies of the map so produced. The license had specifically prohibited the defendant from selling or transferring his copies, but did permit the defendant to reproduce the maps for his own use for "such time as [he] deems fit."¹²⁹ In holding that defendant had not infringed the vending monopoly, the *Wells* court pointed out that ownership of the authorized copies was in the defendant, not the copyright holder. While violation of the license might be a breach of contract, it could not be a basis for infringement because the license had failed to state that ownership of any and all copies would remain in the author.¹³⁰ The court hinted,

¹²³See, e.g., *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974); *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973), *aff'd*, 420 U.S. 376 (1975); *Benny v. Loew's Inc.*, 239 F.2d 532 (9th Cir. 1956), *aff'd*, 356 U.S. 43 (1958).

¹²⁴17 U.S.C. § 27 (1970) (amended 1976).

¹²⁵Copyright Act of 1976, Pub. L. No. 94-553 § 109, 90 Stat. 2541 (1976).

¹²⁶*Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 851 (2d Cir. 1963).

¹²⁷NIMMER, *supra* note 22, § 103.323.

¹²⁸176 F. Supp. 630 (S.D. Tex. 1959).

¹²⁹*Id.* at 632.

¹³⁰*Id.* at 634.

and would have been correct in holding, that the terms of the license, and the consideration received for the granting thereof, constituted a "first sale" by the copyright holder of the copies produced by the defendant.¹³¹

The reliance on ownership in *Wells* could easily be viewed as conflicting with the *Platt & Munk* court's rejection of the "title theory" advanced by the defendant in the latter case.¹³² The distinction which makes the two cases compatible is that ownership in *Wells* resulted from the author's transfer of title under the terms of the license, while the title asserted by the defendant in *Platt & Munk* resulted from its position as a seller of goods under the Uniform Sales Act, not from any act of transfer on the part of the author.¹³³ Hence, Republic's right to resell the goods was contingent on some act of transfer by the author which would give Republic "ownership." The *Platt & Munk* court found this transfer in an author's refusal to pay for the benefits of the manufacturer's performance.¹³⁴

While the language of the new section 109 gives no hint of any qualification of the "ownership" a reselling manufacturer might need to escape an infringement charge, it is submitted that the Committee Report which accompanied the new Copyright Act, and the title of section 109 itself indicate that the author must *transfer* a particular copy before losing the exclusive right to vend that copy.¹³⁵ Fortunately, by substituting "transfer" for "first sale," the new Act should avoid the arguments formerly presented by copyright proprietors that "first sale" means voluntarily, for adequate consideration.¹³⁶ The terminology of transfer is sufficiently broad to cover conveyances ranging from true sales to the commercial law "involuntary sale" developed in *Wilder v. Kent*,¹³⁷ and adopted in *Platt & Munk*. This view is supported by the definition given "transfer" in the new Act, as well as by the provisions of Chapter Two of Public Law 94-553: "Copyright Ownership and Transfer."¹³⁸

¹³¹The court suggested:

[I]t can be argued that the copyright proprietor exhausted his right to vend such copies by granting and selling to the licensee the right to publish them. Thus he would have had the opportunity to exercise one time his exclusive right to vend . . . such copies by the act of granting the license and receiving a consideration therefor.

Id. at 635.

¹³²See note 65 *supra* and accompanying text.

¹³³315 F.2d at 855.

¹³⁴*Id.*

¹³⁵S. REP. NO. 94-473, 94th Cong., 1st Sess. 71 (1975). The title of § 109 is "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord."

¹³⁶315 F.2d at 854.

¹³⁷15 F. 217 (C.C.W.D. Pa. 1883).

¹³⁸Copyright Act of 1976, Pub. L. No. 94-553, ch. 2, 90 Stat. 2541 (1976).

Section 202 of the new Act restates, in simple terms, the fundamental difference between copyright and the material object to which copyright attaches, leaving unchanged the substance of the present section 27.¹³⁹ However, in the immediately preceding section 201, Congress has clarified and changed significantly the former law regarding the transfer of the intangible element of the author's copyright. Section 201(d) states: "The ownership of a copyright may be transferred in whole or in part *by any means of conveyance or by operation of law*, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession."¹⁴⁰

The distinct reference in the second clause to testate and intestate succession clearly indicates that the separate preceding reference to transfers by "operation of law" is a codification of the case law holding that intangible copyrights are susceptible to creditor process.¹⁴¹ In truth, the new Act will liberalize this creditor process because the new section 204 which requires a signed writing to transfer copyright ownership makes an exception for transfers by operation of law.¹⁴² Under existing case law, when a transfer of an author's intangible copyrights was sought, *Ager v. Murray* required personal jurisdiction over the author and a court-compelled transfer, in writing, signed by the author or his court-directed legal representative.¹⁴³

The relaxation of this formality indicates a welcome recognition of the principle enunciated in *Platt & Munk* that a copyright holder should not be able to shield his assets from the ordinary obligations of commercial life just because those assets are, or have had attached to them, intangible rights created by federal statute. The balancing of interests sought to be achieved by the new Act would have been lopsided indeed had it failed to recognize the just demands of those who do business with the author.

How, then, does one explain subsection (e) of the new section 201, prohibiting involuntary transfers—the very heart of *Platt & Munk* and most other transfers "by operation of law"? Subsection (e) reads:

(e) INVOLUNTARY TRANSFER — When an individual author's ownership of a copyright, or of any of the exclusive rights under a copyright, has not previously been

¹³⁹CAMBRIDGE RESEARCH INSTITUTE, OMNIBUS REVISION, *supra* note 115, at 222.

¹⁴⁰Copyright Act of 1976, Pub. L. No. 94-553, § 201(d), 90 Stat. 2541 (1976).

¹⁴¹See notes 80-84 *supra*.

¹⁴²This section reads: "A transfer of copyright ownership, *other than by operation of law*, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or his duly authorized agent." Copyright Act of 1976, Pub. L. No. 94-553, § 204(a), 90 Stat. 2541 (1976) (emphasis added).

¹⁴³See note 81 *supra*.

transferred voluntarily by him, no action by any governmental body or other official or organization purporting to seize, expropriate, transfer or exercise rights of ownership with respect to the copyright, or any of the exclusive rights under a copyright, shall be given effect under this title.¹⁴⁴

At first blush, subsection (e) reads like a resurrection of century-old case law—with a vengeance. However, the new Committee Report indicates that subsection (e) does not apply to “[t]raditional legal actions, such as bankruptcy proceedings and mortgage foreclosures . . . since the author has, in one way or another, *consented to these legal processes by his actions.*”¹⁴⁵

Further references in the Committee Report to “foreign authors” and “foreign countries”¹⁴⁶ would indicate that subsection (e) is a careless incorporation of an earlier bill introduced by Senator McClellan in the Ninety-Third Congress.¹⁴⁷ That bill, Senate Bill 1359, was intended to circumvent oppression of dissident authors by the Soviet Union.¹⁴⁸ Though the aim of Senate Bill 1359 is laudable, its emergence in Public Law 94-553 in such general statutory language is an open invitation for specious arguments in creditor process actions. Any court faced with a defense based on subsection (e) should be quick to point out the caveat of the Committee Report, as well as the unequivocal statements in sections 201 and 204 permitting transfers of copyright ownership by operation of law.¹⁴⁹

When the various sections of the new Act relating to transfers are construed together, it becomes apparent that Congress has adopted the view expressed in existing case law, that authors too must be financially responsible in commercial transactions. The new Act gives an author the right to distribute his work to the public on his own terms, but terminates this right as to particular copies after the author has transferred ownership of those copies to a second party.¹⁵⁰ By giving “transfer” the broad definition it deserves, Congress has streamlined the procedures and eliminated the pitfalls of creditor process against copyright assets.¹⁵¹ The prohibition in section 201 (e) of involuntary transfers of an author’s copyright must be regarded as circumventing the oppression of free speech, not as avoiding the just demands of creditors and unpaid manufacturers.

¹⁴⁴Copyright Act of 1976, Pub. L. No. 94-553, § 201(e), 90 Stat. 2541 (1976).

¹⁴⁵S. REP. NO. 94-473, 94th Cong., 1st Sess. 107 (1975) (emphasis added).

¹⁴⁶*Id.*

¹⁴⁷S. 1359, 93d Cong., 1st Sess. (1973).

¹⁴⁸CAMBRIDGE RESEARCH INSTITUTE, OMNIBUS REVISION, *supra* note 115, at 24.

¹⁴⁹See notes 142-44 *supra* and accompanying text.

¹⁵⁰See note 125 *supra*.

¹⁵¹See, e.g., *Sawin v. Guild*, 21 F. Cas. 554 (C.C.D. Mass. 1813) (No. 12, 391).

V. CONCLUSION

Under the 1909 Copyright Act an author has the exclusive right to make the first sale of copies of his work. However, the first sale may be involuntary, as by execution and sheriff's sale, or as the result of state contract or lien law giving an unpaid manufacturer the right to resell copyrighted goods when the author refuses to pay the contract price. Because the breach of contract issue is critical to the right of resale, early resolution of that issue benefits both parties, particularly where the dispute is genuine and the rights involved are substantial. Permitting an author to enjoin a threatened resale on a lesser showing than normally required for obtaining injunctions in non-copyright cases, achieves a delicate but necessary balance between federally created copyrights and state law commercial remedies.

The 1976 Copyright Act, Public Law 94-553, adopts both the rationale and the approach of existing case law in maintaining the balance between authors and non-authors. The extreme positions available to the defaulting buyer and the unpaid manufacturer under prior law will be exorcised by the elimination, respectively, of first sale and lawful possession language used in the 1909 Act. Instead, by adopting the more precise language of "ownership," "transfer," and "transfer by operation of law," the new Act proposes to shift the conflict between buyer and manufacturer to the state law battlefield where it originated.¹⁵²

With the exception of section 201(e), believed to be inapplicable to contract disputes between buyer and seller, the 1976 Act does not directly treat the question whether an unpaid manufacturer is the "owner" of copyrighted goods. Consequently, the procedure adopted by the court in *Platt & Munk* should remain viable. Under the new Act the manufacturer will need to demonstrate his ownership by setting up the buyer's default as an act of transfer. To protect the author against groundless claims and dishonest manufacturers, the resale should be vulnerable to an injunction where the buyer asserts a good faith claim that his refusal to pay is justified. Finally, as in *Platt & Munk*, the issue of breach will be pivotal to the right of resale, and should be resolved as quickly as possible.

GREGORY A. TROXELL

¹⁵²Presumably, state law will furnish the definition of ownership, transfers, and conveyances. However, the new Act does define a "transfer of copyright ownership." See Copyright Act of 1976, Pub. L. No. 94-553, § 101, 90 Stat. 2541 (1976). Because unpaid manufacturers of copyrighted goods will seldom need to transfer any intangible rights along with the goods, section 101 will not apply. *But see* *Stephens v. Cady*, 55 U.S. (14 How.) 528 (1852).