

WHEN DOES A WORK INFRINGE THE DERIVATIVE WORKS RIGHT OF A COPYRIGHT OWNER?

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Consider the following fact situation: *A*, an artist, designs art work and registers the copyright in that art work. *A* then licenses *P* to publish note cards using the art work. The note cards are published by *P* and distributed to retail card stores. *T* purchases several hundred cards and then takes each card, glues it carefully to a ceramic tile, and sells the tiles for a profit as “tile art” that purchasers can use to decorate walls, counters, even floors. If *A* now sues *T* for copyright infringement, how should the court rule? Has *T* infringed *A*’s copyright?

In addressing cases involving facts much like these, the courts have split. In *Mirage Editions v. Albuquerque A.R.T. Co.*,¹ the Ninth Circuit ruled that the creator of the tile art had infringed the artist’s exclusive right to prepare derivative works based upon her copyrighted art work.² That decision has been followed by two district courts in the Ninth Circuit in *Munoz v. Albuquerque A.R.T. Co.*³ and *Greenwich Workshop v. Timber Creations*.⁴ On the other hand, in *Lee v. A.R.T. Co.*,⁵ the Seventh Circuit ruled in favor of the tile art creator, concluding that the tile art was not an infringing derivative work and that the defendant was entitled to make and sell the tile art without incurring liability to the artist in accordance with the

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¹ 856 F.2d 1341 (9th Cir. 1988).

² As provided by section 106(2) of the Copyright Act of 1976, the copyright owner has “the exclusive right to do and to authorize” the preparation of “derivative works based upon the copyrighted work.” 17 U.S.C. § 106(2) (1994). A “derivative work” is defined by the statute to be

a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, a “derivative work”.

Id. § 101 (definition of “derivative work”).

³ 829 F. Supp. 309 (D. Alaska 1993), *aff’d*, 38 F.3d 1218 (9th Cir. 1994).

⁴ 932 F. Supp. 1210 (C.D. Cal. 1996).

⁵ 125 F.3d 580 (7th Cir. 1997).

first sale doctrine reflected in section 109(a)⁶ of the Copyright Act of 1976 ("1976 Copyright Act" or "1976 Act").

These differing outcomes have implications for copyright law that go far beyond the simple fact pattern involved. In fact, many of the policy assumptions that underlie copyright law are at stake in deciding which of these outcomes is proper. At its core, this fact pattern forces the courts to address the question of just what it means to provide an artist with copyright protection. Is the artist thereby ensured that any meaningful economic exploitation of the copyrighted work is subject to her control, or is copyright protection to be defined more narrowly, and if so, subject to what limitations? What are the limits of the personal property rights of those who purchase material objects that contain works protected by copyright?

This Article will address these questions, using the tile art scenario as the focal point. Part I describes generally the goals of copyright law and the historical development of the copyright owner's right to control the creation of so-called "derivative works." Part II focuses on the *Mirage* and *Lee* decisions and the reasoning used by these courts to reach their different outcomes. Part III critiques both of these decisions and places them in the context of other pertinent case law and commentary. Part IV provides an alternative approach to analyzing these issues.

I. THE HISTORY OF THE DERIVATIVE WORKS RIGHT

A. *General Background on Purposes of Copyright Law*

It is considered axiomatic that copyright law is intended to provide authors with sufficient protection so that they will be able to reap economic rewards from their creations. This protection is justified not merely to compensate authors for their labors, but to provide potential authors with the incentive to create works in order to enrich public knowledge and well-being.⁷ As the Constitu-

⁶ Section 109(a) of the Copyright Act provides: Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 109(a).

⁷ See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349-50 (1991) ("The primary objective of copyright is not to reward the labors of authors, but '[t]o promote the progress of science and the useful arts.' [T]o this end, copyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work.") (citation omitted); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) ("This limited grant [of copyright] is a means by which an important public purpose may be achieved. It is intended to motivate the

tion provides, Congress is given the power to ensure for limited times the rights of authors and inventors in order to “promote the progress of science and the useful arts.”⁸ This balance between compensating authors and promoting the public interest in access to works of authorship has been described as the “incentives-access paradigm.”⁹

Throughout the history of American copyright law Congress and the courts have struggled to define the right way to balance the author’s interest in compensation and the public’s interest in access. At every point along the line of copyright decision making, the question of balancing incentives and access has played a role, be it in the context of determining the scope of protectable subject matter,¹⁰ the duration of copyright,¹¹ or the standards used to de-

creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired”). See generally Jane C. Ginsburg, *Creation and Commercial Value: Copyright Protection of Works of Information*, 90 COLUM. L. REV. 1805, 1866 (1990); William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 326 (1989); Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 990-95 (1997); Stewart E. Sterk, *Rhetoric and Reality in Copyright Law*, 94 MICH. L. REV. 1197, 1197-1204 (1996); Christine Wallace, *Overlapping Interest in Derivative Works and Compilations*, 35 CASE W. RES. L. REV. 103, 104-07 (1984).

⁸ U.S. CONST. art. I, § 8, cl. 8.

⁹ Glynn Lunney, Jr., *Reexamining Copyright’s Incentives-Access Paradigm*, 49 VAND. L. REV. 483 (1996). Professor Lunney critiques the law’s reliance on the incentives-access paradigm by illustrating, in economic terms, its underlying paradox: to the extent the law limits copyright protection for those works most valued in order to serve the interests in public access, it also limits the incentives available to authors to create those most valued works. See *id.* at 554-71. Professor Lunney suggests that instead of relying on the incentives-access paradigm, copyright law should be shaped by notions of allocative efficiency. He argues that copyright law should provide only that degree of protection necessary to promote parity between the economic value of copyrightable works and other products which have comparable social value. To the extent copyright law provides too much protection, it encourages overproduction of works at the expense of other valuable products; on the other hand, if copyright protection is too narrow, then there will be underproduction of copyrighted works and overproduction of other products. According to Professor Lunney, the limited empirical evidence available suggests that copyright law should prohibit only exact or nearly exact duplication in order to strike the right balance and promote allocative efficiency. See *id.* at 594-656. See also Lemley, *supra* note 7, at 993-1000, 1013-29 (analyzing the economic incentives justification and its effect on the creation of derivative works); Sterk, *supra* note 7, at 1204-09.

¹⁰ For example, in *Nash v. CBS, Inc.*, 899 F.2d 1537 (7th Cir. 1990), Judge Easterbrook, in analyzing the scope of protection granted to nonfiction works, observed that

[i]ntellectual (and artistic) progress is possible only if each author builds on the work of others. . . . Once a work has been written and published, any rule requiring people to compensate the author slows progress in literature and art, making useful expressions “too expensive,” forcing authors to re-invent the wheel and so on. . . .

Yet to deny authors all reward for the value their labors contribute to the works of others *also* will lead to inefficiently little writing, just as surely as excessively broad rights will do.

Id. at 1540-41. Having recognized this paradox and the need for the law to strike an appropriate balance as best it can, the court relied on the idea-expression dichotomy and the differences between fictional and nonfictional works to rule in favor of the defendant. See

termine infringement. Our focus will be on this last question, and more particularly, on the question of what kinds of uses of copyrighted material will infringe the copyright in that material in addition to actual copying of the work itself.

B. *Historical Development of the Author's Right to Control the Preparation of Derivative Works*

In the early American copyright statutes the description of the rights provided to copyright owners was quite narrow. The first statute provided to authors of "any map, chart, book or books" the sole rights only of "printing, reprinting, publishing or vending" those works.¹² Even when musical compositions were added to the list of protectable works in 1831, the author of such works was not given a right to control performances of those works, but only the rights of "printing, reprinting, publishing or vending" sheet music representing those compositions.¹³

As applied by the courts, these rights did not even protect an author against an unauthorized translation of her work into another language, as Harriet Beecher Stowe learned when she unsuccessfully sued the author of an unauthorized German translation of her classic novel, *Uncle Tom's Cabin*.¹⁴ In rejecting her claim, the court reasoned that the "only property . . . which the law gives to [the copyright owner] is the exclusive right to multiply copies of the particular combination of characters which exhibits to the eyes of another the ideas intended to be conveyed."¹⁵ In other words, copyright protected against only visually perceptible reproductions

also Warner Bros. v. American Broad. Co., 720 F.2d 231, 240 (2d Cir. 1983) (analyzing the scope of protection afforded characters and observing that copyright law "has the capacity both to augment and diminish creativity. By assuring the author of an original work the exclusive benefits of whatever commercial success his or her work enjoys, the law obviously promotes creativity. At the same time, it can deter the creation of new works if authors are fearful that their creations will too readily be found to be substantially similar to preexisting works."). See generally Landes & Posner, *supra* note 7, at 347-53; Lunney, *supra* note 9, at 506-26.

¹¹ In justifying the change, from the Copyright Act of 1909 to the Copyright Act of 1976, to a term of copyright measured by the life of the author plus 50 years, Congress relied upon both longer life expectancy of authors, see H.R. REP. NO. 94-1476, at 134 (1976) ("The present 56-year term is not long enough to insure an author and his dependents the fair economic benefits from his works."), and the effect an insufficiently long term would have on authors' incentives to produce, and thus the public interest in the production of, and access to, works of authorship, see *id.* ("[T]oo short a term harms the author without giving any substantial benefit to the public. . . . In some cases the lack of copyright protection actually restrains dissemination of the work, since publishers and other users cannot risk investing in the work unless assured of exclusive rights.").

¹² Act of May 31, 1790, ch. 15, 1 Stat. 124 (repealed 1831).

¹³ See Act of Feb. 3, 1831, ch. 16, § 1, 4 Stat. 436.

¹⁴ See *Stowe v. Thomas*, 23 F. Cas. 201 (C.C.E.D. Pa. 1835) (No. 13,514).

¹⁵ *Id.* at 206-07.

of the copyrighted work. "A translation may, in loose phraseology, be called a transcript or copy of her thoughts or conceptions, but in no correct sense can it be called a copy of her book."¹⁶

It was not until 1856 that Congress began to expand the scope of the copyright owner's rights, albeit slowly. In 1856 Congress for the first time provided that dramatic compositions could obtain copyright protection and further provided that the owner of such a copyright had the "sole right to act, perform, or represent the same, or cause it to be acted, performed, or represented, on any stage or public place."¹⁷ That is, even where no physical copy had been made of that dramatic composition, one who performed the work on any stage or public place without the permission of the copyright owner would infringe the copyright. Thus, it was no longer an essential element of every form of copyright infringement that the plaintiff prove that the defendant had "multipl[ied] copies of the particular combination of characters"¹⁸ used by the plaintiff. Even more significant changes came in 1870, when Congress provided that "authors may reserve the right to dramatize or translate their . . . works,"¹⁹ and in 1891, when Congress granted to authors the automatic rights of dramatization and translation of literary works, without the need of reservation.²⁰ Thus, by the end of the nineteenth century Congress was beginning to expand the scope of the copyright owners' rights; it was now clear that copyright law could be used to protect against more than just verbatim copies of an author's works.

The really dramatic shift in the scope of protection occurred, however, early in the twentieth century when Congress enacted the 1909 Copyright Act and provided explicitly that a copyright owner had the exclusive right not only to "print, reprint, publish, copy and vend the copyrighted work,"²¹ but also to

translate the copyrighted work into other languages or dialects, or *make any other version thereof*, if it be a literary work; to dramatize it if it be a non-dramatic work; to convert it into a novel or other non-dramatic work if it be a drama; to arrange or adapt it if it be a musical work; to complete, execute, and finish it if it be a model or design for a work of art²²

¹⁶ *Id.* at 208.

¹⁷ Act of Aug. 18, 1856, ch. 169, 11 Stat. 138 (repealed 1870).

¹⁸ *Stowe*, 23 F. Cas. at 207.

¹⁹ Act of July 8, 1870, ch. 230, § 86, 16 Stat. 212 (repealed 1909).

²⁰ *See* Act of Mar. 3, 1891, ch. 565, 26 Stat. 1107 (repealed 1909).

²¹ Act of Mar. 4, 1909, ch. 320, § 1(a), 35 Stat. 1175 (repealed 1976).

²² *Id.* § 1(b) (emphasis added). The expansion of the copyright owner's rights to include a derivative works right is also described in Ralph S. Brown, *The Widening Gyre: Are*

In other words, a copyright could be infringed when a two-dimensional design was transformed into a three-dimensional work or when a piece of music was adapted or arranged for use with different instruments or voices or when a literary work was changed from one language to another or from one category to another (dramatic to non-dramatic or vice-versa).

This expansion of the copyright owner's rights can be explained in both philosophical terms and economic terms. It may reflect an expanded idea of the nature of art and the creative process;²³ it may also reflect a recognition of new economic markets that authors could exploit, for example, motion pictures or sound recordings, and that Congress thought should be reserved to authors and not to the public at large.²⁴ Whatever the explanation, it is clear that the author's rights were expanded and that courts now had new problems to solve in determining infringement of those rights. Just how similar did a dramatization have to be in order to infringe the rights in a novel? Did the plaintiff's actual language have to appear, for example, as dialogue in the dramatization, or were just plot and character similarities sufficient? As the courts struggled with these questions, some were conservative, only finding infringement in limited circumstances,²⁵ but as more time

Derivative Works Getting Out of Hand?, 3 CARDOZO ARTS & ENT. L.J. 1, 2 (1984); Ginsburg, *supra* note 7, at 1874, 1886-88; Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. COPYRIGHT SOC'Y 209, 211-15 (1983); Lunney, *supra* note 9, at 534-46; Naomi Abe Voegtli, *Rethinking Derivative Rights*, 63 BROOK. L. REV. 1213, 1233-39 (1997); Wallace, *supra* note 7, at 105-10; Michael Wurzer, Note, *Infringement of the Exclusive Right to Prepare Derivative Works: Reducing Uncertainty*, 73 MINN. L. REV. 1521, 1522-26 (1989).

²³ See Amy B. Cohen, *Copyright Law and the Myth of Objectivity: The Idea-Expression Dichotomy and the Inevitability of Artistic Value Judgments*, 66 IND. L.J. 175, 203-10 (1990); Ginsburg, *supra* note 7, at 1881-90; Voegtli, *supra* note 22, at 1254-55.

²⁴ See Goldstein, *supra* note 22, at 211, 216-18 ("[T]he subsequent growth in legitimate theaters, motion pictures and television opened vast new markets for derivative uses, impelling Congress to grant derivative rights to copyrighted works and to grant copyright protection to the derivative works created . . ."); Voegtli, *supra* note 22, at 1237-38.

²⁵ In several early cases involving motion pictures which were alleged to infringe literary works, the courts found no infringement. In so doing, these courts found that the similarities in theme or in common plot devices were insufficient to find infringement. The reasoning did not rely so much on notions of the idea-expression dichotomy as on a standard for infringement which required that an ordinary observer recognize that the film was taken from or based upon the plaintiff's copyrighted work. See, e.g., *Kustoff v. Chaplin*, 120 F.2d 551, 559-60 (9th Cir. 1941); *Harold Lloyd Corp. v. Witwer*, 65 F.2d 1, 27-28 (9th Cir. 1933); *Roe-Lawton v. Hal E. Roach Studios*, 18 F.2d 126, 128 (S.D. Cal. 1927). See generally Lunney, *supra* note 9, at 537-40.

On the other hand, in *King Features Syndicate v. Fleischer*, 299 F. 533 (2d Cir. 1924), the court found that the defendant had infringed the plaintiff's cartoon character by manufacturing toy figures which resembled that cartoon. The court's definition of the scope of copyright protection given pursuant to the 1909 Copyright Act was quite broad: "Copying is not confined to a literary repetition, but includes various modes in which the matter of any publication may be adopted, imitated or transferred with more or less colorable alterations. The disguise of the source from which the material was derived does not defeat the protection of the copyright . . ." *Id.* at 535. Thus, this court did not focus on audience

passed, courts became more willing to find infringement based on less obvious similarities between the new work and the work upon which it was based.²⁶ The trend of expanding copyright owners' rights thus continued.

Balanced against this expansion of the copyright owner's rights, however, were certain legal doctrines that provided limitations on those rights and certain protection for those who used copyrighted works. One of the most fundamental of those limitations is reflected in the legal doctrine known as the "first sale" doctrine.

C. *First Sale Doctrine*

In the nineteenth century courts recognized that the exclusive right of the copyright owner to vend copies of the copyrighted work was not limitless. In *Henry Bill Publishing Co. v. Smythe*,²⁷ the court reasoned that the copyright owner's right to the intangible interest in the intellectual property was to be distinguished from a legitimate purchaser's rights in the personal property that contained that intellectual property.

This copyright incident of control over the sale, if I may call it so, as contradistinguished from the sale incident to ownership in all property[]—copyrighted articles like any other[]—is a thing that belongs alone to the owner of the copyright itself, and as to him *so long as and to the extent that he owns the particular copies involved. Whenever he parts with that ownership, the ordinary incident of alienation attaches to the particular copy parted with, in favor of the transferee, and he cannot be deprived of it.*²⁸

This reasoning was later relied upon in *Harrison v. Maynard, Merrill & Co.*,²⁹ where the court concluded that there was no copyright infringement claim against a party who resold damaged

recognition but on whether plaintiff's expression had been taken, even if altered and disguised.

²⁶ See, e.g., *Twentieth Century-Fox Film Corp. v. MCA, Inc.*, 715 F.2d 1327 (9th Cir. 1983) (denying defendant's motion for summary judgment based on plot and thematic similarities between *Star Wars* and *Battlestar Galactica*); *Twentieth Century-Fox Film Corp. v. Stonesifer*, 140 F.2d 579 (9th Cir. 1944) (holding that defendant's film infringed plaintiff's play, based on plot and thematic similarities); *Universal City Studios v. Film Ventures Int'l, Inc.*, 543 F. Supp. 1134 (C.D. Cal. 1982) (granting plaintiff preliminary injunction against defendant based on plot and thematic similarities between *Jaws* and *Great White*); *Metro-Goldwyn-Mayer, Inc. v. Showcase Atlanta Co-op Prods. Inc.*, 479 F. Supp. 351 (N.D. Ga. 1979) (holding that musical-comedy condensed version of *Gone With the Wind* was an infringement). See generally Cohen, *supra* note 23, at 220-29; Lunney, *supra* note 9, at 544-46.

²⁷ 27 F. 914 (C.C.S.D. Ohio 1886).

²⁸ *Id.* at 925 (emphasis added).

²⁹ 61 F. 689 (2d Cir. 1894).

books salvaged after a warehouse fire where the copyright owner had already conveyed title to those books to the warehouse owner.

[T]he right to restrain the sale of a particular copy of the book by virtue of the copyright statutes has gone when the owner of the copyright and that copy has parted with all his title to it, and has conferred an absolute title to the copy upon a purchaser, although with an agreement for a restricted use. The exclusive right to vend the particular copy no longer remains in the owner of the copyright by the copyright statutes. The new purchaser cannot reprint the copy. He cannot print or publish a new edition of the book; but, the copy having been absolutely sold to him, the ordinary incidents of ownership in personal property, among which is the right of alienation, attach to it.³⁰

The Supreme Court first addressed this issue in 1908 in *Bobbs-Merrill Company v. Straus*,³¹ agreeing with these lower courts that once the copyright owner had sold the tangible object in which the copyrighted work was expressed, the owner of that tangible object had a right to alienate that object without accounting to the copyright owner. The Court reasoned that the main purpose of the copyright statutes was “to secure the author the right to multiply copies of his work”³² and that the statutory grant to the copyright owner of the “sole right” to vend copies of the work must be read in light of that purpose. As so read, the Court concluded that selling a legitimately acquired copyrighted book for less than the retail price required by the copyright owner might be a breach of contract in some circumstances, but was not itself an infringement of the copyright owner’s sole right to vend the copyrighted work.

This so-called “first sale” doctrine was included as part of the federal copyright statute in the 1909 Copyright Act. Section 27 of that Act provided:

The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but *nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyright work the possession of which has been lawfully obtained.*³³

³⁰ *Id.* at 691.

³¹ 210 U.S. 339 (1908).

³² *Id.* at 347.

³³ Act of Mar. 4, 1909, ch. 320, § 27, 35 Stat. 1175 (repealed 1976) (emphasis added). The copyright owner’s right to distribute the work was reflected in section 1 of the 1909

Thus, the law recognized that there was a difference between the property interest in the copyrighted work expressed in a material object and the property interest in the material object itself and that the ownership interests in these two property interests could be entirely separate and independent of each other. The copyright owner did not automatically have a property interest in the material object and thus could not on the basis of the copyright statute control further sales or transfers of that object by one who had a legitimate property interest therein.

As construed by the courts, this section and the doctrine it reflected provided significant protection to those accused of copyright infringement. It was held, for example, that overhauling and reconstructing secondhand sets of the copyright owner's books was not copyright infringement;³⁴ that rebinding and combining the copyright owner's comic books with other comic books was not copyright infringement;³⁵ and that repainting and then selling the copyright owner's hobby horse was not copyright infringement.³⁶ In each case the court focused on the defendant's title to the material object containing the copyrighted work and the plaintiff's failure to prove copying by that defendant.³⁷

This doctrine imposed some limits thereby on the rights of the copyright owner to control all the economic benefits that are derived from copyrighted works. Since the legitimate owner of a copyrighted book, for example, is free to resell that book and not account to the copyright owner for any portion of that resale, the copyright owner is denied potential earnings from the sales of his or her work. This doctrine is thus an instance where the law chose to favor the interests in public access over the interest in maximizing the incentives provided to copyright owners.

D. *The 1976 Act*

Both the exclusive right of the copyright owner to prepare de-

Copyright Act, which provided the copyright owner with the right to "print, reprint, *publish*, copy and *vend* the copyrighted work." *Id.* § 1 (emphasis added).

³⁴ See *Bureau of National Literature v. Sells*, 211 F. 379 (W.D. Wash. 1914).

³⁵ See *Fawcett Publications v. Elliot Publ'g Co.*, 46 F. Supp. 717 (S.D.N.Y. 1942).

³⁶ See *Blazon v. DeLuxe Game Corp.*, 268 F. Supp. 416 (S.D.N.Y. 1965).

³⁷ See *id.* at 420 ("[B]efore there can be infringement there must be both an averment and some proof of copying . . . , and as a matter of logic there can be no copying in the case at bar where the horse seized and alleged to copy [plaintiff's hobby horse] is in fact [plaintiff's hobby horse]"); *Fawcett Publications.*, 46 F. Supp. at 718 ("[T]he defendant has not multiplied copies but merely resold the plaintiff's under a different cover. . . . The Defendant is not charged with copying, reprinting or rearranging the copyrighted material"); *Bureau of Nat'l Literature*, 211 F. at 382 ("[Plaintiff's] exclusive right of sale of a particular copy is gone when it parts with the title to such copy.").

rivative works and the first sale doctrine were included by Congress in its major revision of the federal copyright statute in 1976. Section 106(2) of the 1976 Act explicitly provides that the copyright owner has the exclusive right to "prepare derivative works based upon the copyrighted work"³⁸ and to authorize such preparation by others. The Act defines a "derivative work" as

a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work."³⁹

Congress used language broader than that used in the 1909 Act, for not only are additional specific types of derivative works mentioned, but the language also includes as a derivative work "any other form in which a work may be recast, transformed, or adapted," a general catchall phrase presumably intended to cover those types of derivative works not specifically identified. In this way Congress broadened the copyright owner's rights and incentives.

On the other hand, the 1976 Act also specifically provided for the first sale doctrine. Although the Act provides the copyright owner with the exclusive right to "distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending,"⁴⁰ that right is subject to the limitations provided for in section 109(a) of the Act:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.⁴¹

³⁸ 17 U.S.C. § 106(2) (1994).

³⁹ *Id.* § 101 (definition of "derivative work").

⁴⁰ *Id.* § 106(3).

⁴¹ *Id.* § 109(a). Since the original enactment of the 1976 Act, Congress has amended section 109 to limit the scope of the first sale doctrine with respect to commercial rentals of certain types of works. Section 109 now provides in pertinent part:

Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program (including any tape, disk, or other medium embodying such program), and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (including any tape, disk,

What happens when this first sale doctrine and the rights it provides to personal property owners clash with the derivative works right and the protection it is intended to provide to copyright owners? That is, in legal terms, what the tile art situation is all about: do the rights of the copyright owner to prepare derivative works outweigh the rights of the personal property owner to alter and resell the note cards that it has legitimately purchased?

II. *MIRAGE* AND *LEE* AND THEIR ANTECEDENTS?

A. *Cases Decided under the 1909 Copyright Act*

The difficult questions that arise when the derivative works right conflicts with the first sale doctrine are clearly illustrated by two older cases addressing similar fact situations and reaching opposite conclusions. First, in *National Geographic Society v. Classified Geographic, Inc.*,⁴² the District Court of Massachusetts ruled that the defendant had infringed the plaintiff's copyrights in its magazines by cutting out articles, compiling and binding together articles on similar subjects, and then selling these bound volumes to the public. Even though the defendant had not copied any of the plaintiff's articles, but had just resold the pages cut from magazines that the defendant had legally acquired, the court concluded that the defendant had infringed the plaintiff's copyright by violating the plaintiff's exclusive right to "compile, adapt or arrange its copyrighted work."⁴³ The court rejected the suggestion that, as owners of lawfully acquired secondhand copies of the plaintiff's magazine, the defendants were entitled, on the basis of the first sale doctrine, to create and sell these adaptations.

In contrast, three years later in *Fawcett Publications, Inc. v. Elliot Publishing Co.*,⁴⁴ the District Court for the Southern District of New York relied on the first sale doctrine in concluding that the defendant in that case was not liable for copyright infringement when it purchased secondhand copies of the plaintiff's copyrighted comic books and rebound them with other comics, some belonging to the plaintiff and some to third parties. The court observed that

or other medium embodying such program) may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program . . . by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. . . .

17 U.S.C. § 109(b)(1)(A). These changes indicate some expansion of the copyright owner's rights and some contraction of the personal property owner's rights.

⁴² 27 F. Supp. 655 (D. Mass. 1939).

⁴³ *Id.* at 659.

⁴⁴ 46 F. Supp. 717 (S.D.N.Y. 1942).

“the defendant has not multiplied copies but merely resold the plaintiff’s under a different cover. The exclusive right to vend is limited. It is confined to the first sale of any one copy and exerts no restriction on the future sale of that copy.”⁴⁵

The court neither cited nor referred to the *National Geographic* case, though it did conclude its opinion by stating that the defendant had not been charged with “copying, reprinting or *rearranging* the copyrighted material.”⁴⁶ Unlike the defendant in *National Geographic*, which had separated articles from the issues in which they appeared and then combined with other articles from other issues, the defendant in *Fawcett* had taken whole comic books and combined them with other whole comic books without taking anything apart. Although that factual difference can explain the different outcomes, it is also possible to argue that the individual magazine articles as separate whole works were no more “rearranged” than the *Fawcett* comic books.⁴⁷

That critical point has been the key distinguishing issue between those cases that have ruled in favor of plaintiffs and those ruling in favor of defendants when the derivative works right has clashed with the first sale doctrine. The outcome in these cases most often has depended on whether or not the court has treated the defendant’s use as a “rearrangement” or “transformation” infringing the derivative works right.

For example, in *C.M. Paula Co. v. Logan*,⁴⁸ the first “tile art” case, the defendant had used a process to transfer the plaintiff’s art work, expressed on cards and other objects purchased by the defendant, to ceramic plaques. First, the court considered whether this process involved copying. The court concluded that it did not, as it involved the use of plaintiff’s actual image on the ceramic plaque. In reaching this conclusion, the court also considered it significant that “[e]ach ceramic plaque sold by defendant with a Paula print affixed thereto requires the purchase and use of an individual piece of artwork marketed by the plaintiff.”⁴⁹ In other words, Paula would receive compensation for every copy of her work used and sold by the defendant.

⁴⁵ *Id.* at 718.

⁴⁶ *Id.* (emphasis added).

⁴⁷ See *Princeton Univ. Press v. Michigan Document Servs., Inc.*, 99 F.3d 1381, 1389 (6th Cir. 1996) (en banc) (“If you make verbatim copies of 95 pages of a 316-page book, you have not transformed the 95 pages very much—even if you juxtapose them to excerpts from other works and package everything conveniently.”). See also *Hustler Magazine, Inc. v. Moral Majority, Inc.*, 796 F.2d 1148 (9th Cir. 1986) (treating one article in magazine as “whole work” for purposes of fair use analysis).

⁴⁸ 355 F. Supp. 189 (N.D. Tex. 1973).

⁴⁹ *Id.* at 191.

The court rejected the plaintiff's claim that defendant's ceramic plaques were adaptations over which the plaintiff was given exclusive rights pursuant to section 7 of the 1909 Copyright Act. In response to the plaintiff's reliance on *National Geographic*, the court noted that that case had never been cited with approval. The court concluded that the process used by the defendant did not result in a "compilation, adaptation, or arrangement as those terms are contemplated by Section 7 of the [1909] Copyright Act,"⁵⁰ and that "while an individual is afforded the protection necessary to allow exploitation of other media,"⁵¹ the law did not proscribe the actions taken by the defendant in creating the ceramic plaques using the plaintiff's copyrighted art. Beyond that, the court did not explain why the use of the art on the plaques did not fall within that area of protection afforded copyright owners.

Finally, the court relied on the first sale doctrine to protect the defendant against the plaintiff's claim that its exclusive right to vend its copyrighted work had been infringed. The court observed that once the copyright owner has consented to the sale of copies of its work,

continued control over the vending of copies is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property which embodies the copyrighted work. Therefore, at this point the policy favoring the copyright monopoly for authors gives way to the policy opposing restraints of trade and to restraints on alienation.⁵²

As we will see in the next section, addressing cases decided under the 1976 Copyright Act, not all courts tipped the scales in this same direction.

B. *Mirage and Its Progeny*

In *Mirage Editions v. Albuquerque A.R.T. Co.*,⁵³ the Ninth Circuit considered a fact situation remarkably similar to that addressed by the *Paula* court. The defendant had purchased books containing copyrighted art prints and then cut out the prints, glued them to ceramic tiles, and sold the tiles. The plaintiffs were the copyright owners and licensees of the prints used by the defendant, and claimed that the defendant, by creating the tile art, had, *inter alia*,

⁵⁰ *Id.* at 192.

⁵¹ *Id.*

⁵² *Id.* at 191 (quoting M. NIMMER, COPYRIGHT § 103.3 (1972)).

⁵³ 856 F.2d 1341 (9th Cir. 1988).

infringed the derivative works rights of the copyright owner. The court agreed:

What [defendant] has clearly done here is to make another version of [plaintiff's] art works, . . . and that amounts to preparation of a derivative work. By borrowing and mounting the preexisting, copyrighted individual art images without the consent of the copyright proprietors . . . [defendant] has prepared a derivative work and infringed the subject copyrights.⁵⁴

In response to the defendant's contention that the tile art was not a derivative work, the court pointed to the language in section 101 of the 1976 Act defining a derivative work as one in which a work is "recast, transformed or adapted," and concluded:

By removing the individual images from the book and placing them on tiles, perhaps the [defendant] has not accomplished reproduction. We conclude, though, that [defendant] has certainly recast or transformed the individual images by incorporating them into its tile-preparing process.⁵⁵

The court also rejected the defendant's assertion that the first sale doctrine protected its further sales of the art prints contained in the books that had been legally acquired. The court reasoned that the first sale doctrine did not provide the personal property owner with a right to prepare derivative works, but only the right to transfer the material object itself. "The mere sale of the book to the [defendant] without a specific transfer by the copyright holder of its exclusive right to prepare derivative works, does not transfer that right to the [defendant]."⁵⁶

Thus, by treating the tile art as a "derivative work," the court could find infringement and avoid the protection given personal property owners through the first sale doctrine. In two subsequent decisions involving similar facts, the district courts within the Ninth Circuit have followed *Mirage* and ruled for the plaintiffs. First, in *Muñoz v. Albuquerque A.R.T. Co.*,⁵⁷ the same defendant had taken individual note cards which contained the plaintiff's copyright art work and had mounted those cards on ceramic tiles. The defendant then made the same arguments made in *Mirage*: that the tile art was not a derivative work and thus was protected by the first sale doctrine. The defendant this time claimed that the tile art was

⁵⁴ *Id.* at 1343 (citations omitted).

⁵⁵ *Id.* at 1344.

⁵⁶ *Id.*

⁵⁷ 829 F. Supp. 309 (D. Alaska 1993), *aff'd*, 38 F.3d 1218 (1994).

merely a means of displaying the art work, no different from placing art work in a frame. The court disagreed:

Placing a print or painting in a frame and covering it with glass does not recast or transform the work of art. It is commonly understood that this amounts to only a method of display. Moreover, it is a relatively simple matter to remove the print or painting and display it differently if the owner chooses to do so. Neither of these things is true of the art work affixed to a ceramic tile. Moreover, these tiles lend themselves to other uses such as trivets (individually) or wall coverings (collectively).⁵⁸

The court thus concluded that the tile art was an infringing derivative work and ruled in the plaintiff's favor.

Similarly, in *Greenwich Workshop v. Timber Creations*,⁵⁹ the District Court of the Central District of California ruled in the plaintiff's favor, relying on both *Mirage* and *Muñoz*, even though the facts in this case were somewhat different. In *Greenwich*, small scale reproductions of watercolor paintings were published in a book in which the plaintiff owned the copyright. The defendant had cut the reproductions out of the book and then transposed them on to canvas, matted, framed and sold them as individual pictures. The plaintiff claimed that by so doing, the defendant had created unauthorized derivative works and thus infringed its copyright.

The defendant responded by relying on the language in *Muñoz*, which distinguished the infringing tile art from the non-infringing act of framing a picture for display. The defendant argued that its conduct amounted to nothing more than an "alternative method of display"⁶⁰ and was not the creation of a derivative work. The defendant further asserted that to be a derivative work, something "substantially different"⁶¹ had to be created. The plaintiff responded by distinguishing framing a work from defendant's conduct, which involved permanently removing the art reproductions from the book first and adapting them into works to be hung from the wall.

The court agreed with the plaintiff that the defendant had created derivative works and thus infringed its copyright. The court reasoned that the defendant had "clearly 'recast' and 'transformed' [the book] by physically removing the pages and adapting them into works of art to hang on the wall,"⁶² and that this conduct

⁵⁸ *Id.* at 314.

⁵⁹ 932 F. Supp. 1210 (C.D. Cal. 1996).

⁶⁰ *Id.* at 1213.

⁶¹ *Id.*

⁶² *Id.* at 1215.

was “not equivalent to simply framing a work of art for display purposes.”⁶³

These cases demonstrate how, by broadly defining the derivative works right, the courts can provide the copyright owner with expansive protection and limit the effects of the first sale doctrine. In the next section, we examine a case in which the court took a different approach; by imposing a higher threshold for defining a derivative work, the court provided narrower protection to copyright owners and broader rights to the personal property owner relying on the first sale doctrine.

C. *Lee v. A.R.T. Co.*

In the most recent “tile art” case, the District Court for the Northern District of Illinois, and then the Seventh Circuit, took a different approach to the issues dealt with in *Mirage* and its progeny. In *Lee v. A.R.T. Co.*,⁶⁴ the defendant had purchased the plaintiff’s copyrighted note cards and then mounted them on to ceramic tiles and sold them as “tile art.” The plaintiff sued for copyright infringement, arguing that her right to prepare derivative works had been infringed and citing *Mirage* and *Munoz* as support.

The district court first rejected the distinction between framing art and mounting it on tiles that had been relied on in *Munoz*. The district court reasoned that

[b]oth framing and tiling utilize the same works purchased from the copyright holder and do not involve “copying” as defined by the Copyright Act. Both processes involve trimming the original image to fit it to the appropriate size of the tile or frame respectively, securing the image to the tile or mat with some type adhesive [sic] or clip, and covering the art with a clear covering, epoxy resin and glass respectively.⁶⁵

The district court further observed that “the eventual manner of display and the ‘use’ of a product is not dispositive”⁶⁶ of the issue of whether a work is a derivative work.

According to the district court, “the only relevant query for the court is whether ART’s ceramic tile process *transforms, adapts or recasts* Annie Lee’s original work into a new and different *original*

⁶³ *Id.*

⁶⁴ *Lee v. Deck the Walls*, 925 F. Supp. 576 (N.D. Ill. 1996), *aff’d sub nom. Lee v. A.R.T. Co.*, 125 F.3d 580 (7th Cir. 1997).

⁶⁵ *Lee v. Deck the Walls*, 925 F. Supp. at 580.

⁶⁶ *Id.*

work.”⁶⁷ The district court concluded that unless the defendant’s work was itself sufficiently original to be copyrightable, it could not be a derivative work and thus could not be an infringement of the plaintiff’s exclusive right to prepare derivative works.⁶⁸

Having concluded that a work was not an infringing derivative work unless it was original, the district court then applied the standard to the tile art created by defendants and concluded that since it was not original, it was not infringing.

The mundane act of placing notecards onto a ceramic tile falls into the narrow category of works in which no creative spark exists. Thus, the ceramic tiles are not a new and different original work, but the same exact work placed onto a different background. ART did not display any creativity in gluing Annie Lee’s work onto the separate surface. . . . No intellectual effort or creativity was necessary to transfer the notecard to the tile. It does not meet the definition of a “derivative work.”⁶⁹

Ironically, since the defendants were not creative, they were granted more protection against liability than if they had been.

Since the defendants had not infringed the derivative works right as analyzed by the district court, they were then able to rely on the first sale doctrine to insulate themselves from liability for merely reselling the material objects they had legitimately acquired when purchasing the plaintiff’s note cards. The district court observed that

ART made no changes, alterations, reproductions, transformations, or adaptations of the notecards and, instead, resold the

⁶⁷ *Id.* (emphasis added).

⁶⁸ The district court based this conclusion on the statutory definition of a “derivative work” and on *C.M. Paula Co. v. Logan*, 355 F. Supp. 189 (N.D. Tex. 1973), discussed *supra* notes 48-52, and a more recent case, *Paramount Pictures Corp. v. Video Broad. Sys.*, 724 F. Supp. 808 (D. Kan. 1989).

In *Paramount*, the defendant had added commercials to the blank lead-in tape on videocassettes containing plaintiff’s copyrighted motion pictures, and plaintiff sued, claiming that defendant had infringed its exclusive right to prepare derivative works. The court rejected the claim that adding the commercials constituted creation of a derivative work because “[t]he plaintiff has not presented any authority to support the conclusion that the mere addition of a commercial to the front of a videocassette recasts, transforms, or adapts the motion picture into what could represent an ‘original work of authorship.’” *Id.* at 821 (emphasis added).

Interestingly, the *Paramount* court had distinguished the case before it from *Mirage*, finding that adding commercials to a videocassette did “not resemble in any way the removing of a page from an artwork book and mounting it onto a tile as a separate piece of art for sale.” *Id.* The *Lee* court failed to mention that observation in its own reliance on *Paramount*. Instead, the *Lee* court placed weight on the use of the word “original” by the *Paramount* court in concluding that a work could only be considered an infringing derivative work if it met the standards of originality. See also *infra* text accompanying notes 107-111.

⁶⁹ *Lee v. Deck the Walls*, 925 F. Supp. at 581.

same notecards using a different method of display. This resale is permissible under the Copyright Act.⁷⁰

On appeal, the Seventh Circuit affirmed the summary judgment for the defendant, though on slightly different grounds.⁷¹ First, Judge Easterbrook, writing for the court, seemed to conclude that even if the “tile art” was itself a “derivative work,” it should not be considered an infringement of Lee’s copyright because “an alteration that includes (or consumes) the original lacks economic significance.”⁷² As in the *Paula* case, the court found it significant that the defendant had to purchase a copy of the plaintiff’s art for every piece of tile art it sold. The court reasoned that “[b]ecause the artist could capture the value of her art’s contribution to the finished product as part of the price of the original transaction, the economic rationale for protecting an adaptation as ‘derivative’ is absent.”⁷³ The court therefore seemed to be urging an economic effects analysis as the best test for determining when a use of a copyrighted work constituted an infringement of the derivative works right.

The court did not, however, end its analysis there. It went on to consider whether in fact the tile art was a “derivative work” as defined by the statute. Judge Easterbrook agreed with the district judge that there was no difference between framing a work of art and mounting it on tiles for purposes of determining copyright infringement, and that therefore the Ninth Circuit’s reliance on that distinction was misplaced. Judge Easterbrook went further in criticizing the reasoning of the Ninth Circuit by observing that that court had “erred in assuming that normal means of mounting and displaying art are easily reversible. A painting is placed on a wooden ‘stretcher’ as part of the framing process; this leads to some punctures . . . , may entail trimming the edges of the canvas, and may affect the surface of the painting as well.”⁷⁴ The Seventh Circuit rejected the notion that the permanence of the changes made by the derivative artist should determine whether or not the work made is a derivative work.

⁷⁰ *Id.* at 582. The District Court of Puerto Rico has agreed with the *Lee* district court that a derivative work must itself be original in order to be infringing. See *Precious Moments, Inc. v. La Infantil*, 971 F. Supp. 66 (D.P.R. 1997) (holding that bedding items manufactured with lawfully acquired fabric with plaintiff’s copyrighted design were non-infringing derivative works due to absence of any originality in such bedding items).

⁷¹ See *Lee v. A.R.T.*, 125 F.3d 580 (7th Cir. 1997).

⁷² *Id.* at 581.

⁷³ *Id.* This view has recently been criticized in Note, *Copyright Law—Derivative Works—Seventh Circuit Holds That Mounting Copyrighted Notecards on Ceramic Tiles Does Not Constitute Preparation of Derivative Works in Violation of the Copyright Act*, 111 HARV. L. REV. 1365 (1998).

⁷⁴ *Lee*, 125 F.3d at 581.

The Seventh Circuit did not, however, rely on the lower court's demanding definition of "derivative work" to justify judgment for the defendant. Judge Easterbrook recognized that there was a split in the case law and in scholarly commentary with respect to whether a new work itself had to be "original" in order to infringe the derivative works right, but then concluded that "[f]ortunately, it is not necessary for us to choose sides."⁷⁵ For purposes of the decision, the court instead assumed that a non-original work could be an infringing derivative work if it fit within the first sentence of the statutory definition of a derivative work, i.e., "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which the work may be recast, transformed or adapted."⁷⁶ The court then concluded that the tile art did not fall into any of the specified categories, nor did it "recast", "transform" or "adapt" the plaintiff's art work. Judge Easterbrook observed that "[t]he art was bonded to a slab of ceramic, but it was not changed in the process. It still depicts exactly what it depicted when it left Lee's studio."⁷⁷ To hold such a minor alteration infringing would lead to a slippery slope, the court feared, resulting in liability for those who used the note cards as note paper on which to write or as coasters for their drinks. The Seventh Circuit refused to define copyright law in a way that would allow artists to "block any modification of their work of which they disapprove"⁷⁸ and affirmed the district court's judgment for the defendant.

The *Lee* case thus reflects a far different approach to the balance between the derivative works right and the first sale doctrine than that taken by the *Mirage* court and its progeny. By imposing a more demanding test for when the use of a copyrighted work will infringe the derivative works right, the Seventh Circuit granted less protection to copyright owners and more to those who purchase copyrighted works.

Thus, the differences between the approach of the Ninth Circuit and that of the Seventh Circuit reflect different choices as to how to balance the rights of copyright owners to control uses of their works by others and the rights of others to use and to profit

⁷⁵ *Id.* at 582.

⁷⁶ 17 U.S.C. § 101 (1994) (definition of "derivative work").

⁷⁷ *Lee*, 125 F.3d at 582.

⁷⁸ *Id.*

from further distribution of such works.⁷⁹ A look at the scholarly comment in this area may help to determine how best to make the correct choice in striking that balance.

III. BALANCING THE "DERIVATIVE WORKS RIGHT" AND THE PUBLIC INTEREST IN CREATING DERIVATIVE WORKS

We have seen that originally copyright owners were only protected against literal copying of their works; even translating a work into another language did not infringe the copyright. Certainly transforming a work into another medium did not infringe.⁸⁰ Similarly, copyright law has long provided that once the copyright owner has sold copies of its work, those who acquire those copies legally are entitled to distribute those particular copies again, whether for a price or not.⁸¹

We have also seen, however, that over the last 100 years or so, copyright law has expanded the protection given to copyright owners by providing increased rights to control adaptations and transformations of their works from one medium to another.⁸² Today that right is reflected in section 106(2) of the 1976 Act and its provision that the copyright owner has the exclusive right to prepare and to authorize the preparation of derivative works.⁸³ As construed by some courts, that right has given copyright owners tremendous control over those who use their works, even when the copies have been legally acquired.⁸⁴

This expansion comes at a cost, both generally to society and specifically to those who would create derivative works. In order to understand this consequence of the expanded derivative works right, it is important to return to the incentives-access paradigm and our fundamental beliefs about the importance of copyright.

The traditional explanation for copyright protection rests on an economic rationale: copyright protection is necessary, especially given the availability of easy and low cost copying technology, because copyright owners would face direct competition by those

⁷⁹ One author has distinguished the cases factually and reconciled them on that basis. Specifically, the author found it significant that in *Mirage* the defendant had cut the art work out of a book whereas in *Lee* the defendant had mounted notecards sold as individual works. The author reasoned that a copyright owner who permits his or her work to be included in a collective work does not thereby give away the right to "decompile" that collective work and sell the works individually. See Steve Lauff, *Decompilation of Collective Works: When the First Sale Doctrine Is a Mirage*, 76 TEX. L. REV. 1365 (1998).

⁸⁰ See *supra* text accompanying notes 12-16.

⁸¹ See *supra* text accompanying notes 27-37.

⁸² See *supra* notes 17-26 and accompanying text.

⁸³ 17 U.S.C. § 106(2) (1994).

⁸⁴ See *supra* text accompanying notes 53-63.

copyists who would “free ride” on the copyright owner’s creative expression and bear only those minimal copying costs. This competition would undermine substantially the copyright owner’s opportunity to reap financial rewards from the work and thereby undermine the incentives to create that work in the first place.⁸⁵

Professor Paul Goldstein, one of the leading copyright scholars, has argued that in applying the derivative works right, the courts have failed to pay sufficient attention to the incentives structure underlying the copyright system.⁸⁶ Goldstein suggested that the proper approach to use in determining whether the derivative works rights has been infringed “is [to inquire] whether the grant of such a right is needed [1] to attract the appropriate amount of investment to the underlying work’s expression and [2] to channel this investment in appropriate directions.”⁸⁷ Unlike a reproduction, a derivative work may not directly compete with the underlying work and may in fact provide additional benefits to the public by building on that original. Before giving the creator of the underlying work too much control, these factors should be taken into consideration.

Professor Stewart Sterk in fact criticized on economic terms the expansion of copyright protection through the derivative works right.⁸⁸ He described the incentives justification for such expanded protection as flawed. Although he agreed that “[i]f free-riding copyists could appropriate the gain associated with works of authorship, some authors would find it worthwhile to abandon authorship for other pursuits,”⁸⁹ he also stressed the costs of copyright protection and the extent to which it may discourage, rather than encourage, creative efforts: “expanded copyright protection increases the cost to authors by requiring them to obtain permission when they seek to build upon existing work.”⁹⁰ He concluded that “the optimal copyright system would not seek to maximize the number of works created, but, in recognition of the costs of copyright, would withdraw protection even when marginally more protection would result in a marginal increase in creative activity.”⁹¹

As it was then applied to current doctrine, Sterk found that

⁸⁵ See *supra* notes 7-11 and accompanying text.

⁸⁶ See Goldstein, *supra* note 22, at 252; see also 2 PAUL GOLDSTEIN, COPYRIGHT § 5.3 at 5:79 (2d ed. 1998) (“Derivative rights enable prospective copyright owners to proportion their investment to the returns they hope to receive not only from the market in which their work will be first published, but from other, derivative, markets as well”).

⁸⁷ Goldstein, *supra* note 22, at 230.

⁸⁸ See Sterk, *supra* note 7, at 1204-26.

⁸⁹ *Id.* at 1207.

⁹⁰ *Id.*

⁹¹ *Id.* at 1209.

copyright law was tipping too far in favor of protection without giving due consideration to those costs.⁹² In the specific case of derivative works, Sterk concluded that “[t]he broad protection copyright doctrine extends to derivative works . . . appears generally inconsistent with the incentive justification for copyright.”⁹³ He reasoned that, except in those cases where the expected earnings from derivative works are disproportionately large compared to the expected earnings from the underlying work, a derivative works right is not needed to provide the economic incentives to create that underlying work.⁹⁴ The creator will be motivated sufficiently by the earnings expected from that underlying work.

Professor Glynn Lunney would also define the derivative works right more narrowly and would impose a demanding test for infringement of that right. Specifically, Professor Lunney would impose a standard of infringement that would require the copyright owner to show exact or nearly exact duplication of the underlying work. “[A]ny significant transformation of or variation from the underlying work should preclude a finding of infringement even if the underlying work remains recognizable.”⁹⁵ Professor Lunney justified this demanding test based on notions of allocative efficiency; he concluded that granting the copyright owner broader protection would result in the inefficient overproduction of works of authorship.⁹⁶ Of course, by relieving derivative users of liability where significant changes are made to the underlying work, Professor Lunney’s approach would, ironically, also encourage the creation of those new derivative works.

Professor Mark Lemley made a broader point with respect to the policy ramifications of the expanded derivative works right. He argued that such expanded protection undermines the public interest in the progress of science and the useful arts by placing ob-

⁹² See *id.* at 1209-25.

⁹³ *Id.* at 1217.

⁹⁴ See *id.* at 1215-16. Sterk also rejected two other economic justifications for the derivative works right, which had been suggested in Landes & Posner, *supra* note 7. The first, that a derivative works right enables an author to release a work without delaying to prepare derivative works, Sterk considered flawed based on the argument that with the derivative works rights authors might delay production of derivative works in order to ensure greater sales of the underlying work. See Sterk, *supra* note 7, at 1216-17. As for the second Landes and Posner economic justification—that a derivative works right is efficient because it reduces transaction costs by enabling licensees of derivative works to deal with only one copyright holder—Sterk pointed out that without that right, licensees would not have to deal with the underlying work’s owner at all. See *id.* at 1217. Cf. Landes & Posner, *supra* note 7, at 354-55. See also Voegtli, *supra* note 22, at 1240-47 (agreeing with Sterk that derivative rights are not easily justifiable based on economic incentives theory).

⁹⁵ Lunney, *supra* note 9, at 650.

⁹⁶ *Id.* at 646-54.

stacles in front of those seeking to create "improvements."⁹⁷ Like Professors Lunney, Sterk, and Goldstein, he reasoned that copyright law can be justified on an economic incentive basis "only to the extent that on balance [it] encourage[s] enough creation and dissemination to offset [the] cost[]" of limiting dissemination of ideas and raising the price of those works.⁹⁸ Moreover, Lemley focused on the social costs such rights impose on the creation of new works that build upon and improve the underlying works: "[E]fficient creation of new works requires access to and use of old works. And since 'improvements' may in many cases dwarf the original work in terms of their practical significance, dynamic market efficiency over different generations demands such access as well."⁹⁹ Because the derivative works right impedes such access by those who seek to improve a copyrighted work and, more importantly, denies copyright protection for most improvements if done without the permission of the owner of the copyright in the underlying work, according to Lemley, this allows the copyright owner to capture too much value: not only the value of the underlying work but of the improvements as well.¹⁰⁰

He concluded that this result is inefficient and based on flawed assumptions about how copyright owners will behave in licensing the creation of "improvements," that is, derivative works. Lemley argues that given the realities of the licensing marketplace, for example, the transaction costs, the uncertainties, the difficulties locating improvers, and the resulting undervaluing of improvements, the current scheme gives too much economic power to copyright owners, leading to underproduction of derivative works or "improvements."¹⁰¹

Lemley would remedy this situation by modifying copyright law to create a doctrine parallel to the "blocking patent" rule, which provides patent protection for inventions added to already patented inventions while still holding that new inventor liable for infringing the existing patent.¹⁰² Lemley would incorporate this concept into copyright law in part by granting copyright protection to the original aspects of derivative works even if those works also

⁹⁷ Lemley, *supra* note 7, at 1074.

⁹⁸ *Id.* at 997.

⁹⁹ *Id.* (citations omitted).

¹⁰⁰ *Id.* at 1018-24. Lemley contrasts this to the doctrine of "blocking patents" in patent law, *see id.* at 1000-13, and finds no basis for the difference in treatment in copyright law, *see id.* at 1029-42.

¹⁰¹ *See id.* at 1046-72.

¹⁰² *See id.* at 1000-13.

infringe the copyright in the underlying work.¹⁰³ By adopting such a rule, Lemley reasons that the creator of the derivative work will have increased bargaining power, thus leading to greater efficiency and more appropriate valuation of derivative works.¹⁰⁴

Thus, there is significant commentary criticizing in economic and policy terms an overly broad derivative works right. Given this recognition of the need to limit the derivative works rights of the creator of the underlying work in order to provide access for new works or “improvements” to be made by others,¹⁰⁵ it is important to return to the district court’s analysis in the *Lee* case and that court’s test for what constitutes an infringing derivative work. As we have seen in the *Lee* district court opinion, the test is whether or not the defendant’s work itself is an original work of authorship. If the derivative user has not added something “new and different,” something “original” to the underlying copyrighted work, then according to the *Lee* district court, there is no “derivative work” as defined by the statute, and thus the copyright owner’s exclusive right to create derivative works has not been infringed.¹⁰⁶

¹⁰³ See *id.* at 1073-77. Lemley also argues for using the fair use doctrine to protect “radical improvers,” i.e., those who make such a major transformation of the underlying work that the added value relative to the amount of the underlying work copied justifies a holding of nonliability even in the case of a showing of direct harm to the copyright owner. See *id.* at 1077-83. This concept would not aid the creators of tile art since under Lemley’s definition it is not a radical improvement over the underlying art work. See also Wallace, *supra* note 7, at 126-31 (arguing that the creator of a derivative work should get copyright protection for original contributions, but not for mere transformation of a work into a new form or medium).

¹⁰⁴ Lemley, *supra* note 7, at 1075.

¹⁰⁵ Some of those who see copyright owners as entitled to broad protection may justify it on the basis of a natural or personal rights theory. That is, as creator, the author should have some control over how and in what form his or her creation is used. Under this view an artist is not motivated purely by the desire for economic rewards, but also by the sense of personal satisfaction that comes with artistic and personal expression and the public’s recognition of the work’s aesthetic value. That artist may therefore feel entitled to stop those who place her art in a commercial context, such as tile art, which offends that artist’s sense of propriety, regardless of the economics of the matter. See 2 GOLDSTEIN, *supra* note 86, § 5.3 at 5:80-81; Edward J. Damich, *The Right of Personality: A Common-Law Basis for the Protection of the Moral Rights of Authors*, 23 GA. L. REV. 1, 25-47 (1988); Ginsburg, *supra* note 7, at 1867; Alfred C. Yen, *Restoring the Natural Law: Copyright as Labor and Possession*, 51 OHIO ST. L.J. 517 (1990).

One response is that that is not the concern of copyright law, that American copyright law does not itself recognize moral rights or reputational interests, but is entirely concerned with providing only sufficient economic rewards to provide incentives to create in the interest of public betterment. An artist whose concern is reputational harm should instead rely on the law of unfair competition or, in those limited circumstances where it applies, the Visual Artists Rights Act, 17 U.S.C. § 106A (1994). See, e.g., *Lee v. A.R.T.*, 125 F.3d 580, 582-83 (7th Cir. 1997) (discussing moral rights in tile art context). See also Lemley, *supra* note 7, at 1031-34 (concluding that derivative works right serves economic purposes and is not based on moral rights notions); Sterk, *supra* note 7, at 1230-40 (criticizing non-economic justifications for copyright); Voegtli, *supra* note 22, at 1250-60.

¹⁰⁶ See *Lee v. Deck the Walls*, 925 F. Supp. 576, 580-82 (N.D. Ill. 1996), *aff’d sub nom. Lee v. A.R.T.*, 125 F.3d 580 (7th Cir. 1997).

In reaching this conclusion, the *Lee* district court relied on the statutory definition of a “derivative work” in section 101 of the 1976 Act, which provides in pertinent part that “[a] ‘derivative work’ is a work based upon one or more preexisting works . . . or [upon] any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an *original work of authorship*, is a ‘derivative work.’”¹⁰⁷ The first sentence does not even mention originality; only in the second sentence of the definition does Congress specifically mention originality as a requirement. While the *Lee* court and others¹⁰⁸ read this originality requirement to apply in determining if the derivative works right had been infringed, it is better to read that requirement as applicable only in determining if a particular work is *copyrightable* as a derivative work. Although the statute does not make this explicit, it makes more sense to require originality only in the context of determining copyrightability.

Moreover, the sources relied upon by the *Lee* district court only discuss the requirement of originality for a derivative work to be *copyrightable*. The legislative history of the 1976 Copyright Act stated that a derivative work “is *copyrightable* if it represents an ‘original work of authorship.’”¹⁰⁹ The cases which were cited by the *Lee* district court are cases in which the courts had ruled that a derivative work is not copyrightable unless it is original.¹¹⁰

It is entirely consistent with the general scheme of copyright law to require originality before granting copyright protection to a

¹⁰⁷ 17 U.S.C. § 101 (1994) (definition of “derivative work”) (emphasis added).

¹⁰⁸ Professor Goldstein had disagreed with the notion that to be infringing, a derivative work had to be original, and concluded that the statute did not support such a conclusion. See Goldstein, *supra* note 22, at 229-31 & n.75. In his more recent treatise, however, he seems now to believe that for a work to infringe the derivative works right, it must itself contain original work. “[F]or the derivative right to be infringed, defendant must have created a derivative work, and for a derivative work to have been created, the Act requires the contribution of expressive content capable of standing on its own as a copyrightable work.” 2 GOLDSTEIN, *supra* note 86, § 5.3 at 5:82. For this reason, Professor Goldstein concluded that *Mirage* had been incorrectly decided. See *id.* See also 2 NIMMER ON COPYRIGHT § 8.12[C] (1998) (criticizing *Mirage* for concluding that first sale doctrine did not apply because the tile art constituted an adaptation); Voegtli, *supra* note 22, at 1267-69 (author would restrict definition of derivative works, in part by including only one that “exhibits little originality of its own or that [] unduly diminishes economic prospects of the works used”).

¹⁰⁹ H.R. REP. NO. 94-1476, at 57 (1976) (emphasis added).

¹¹⁰ These cases did not involve infringement of the right to prepare derivative works, but the eligibility of certain works for copyright protection as derivative works. See *Woods v. Bourne Co.*, 60 F.3d 978 (2d Cir. 1995) (concerning whether musical arrangement qualifies as a derivative work for purposes of statutory protection against termination of transfers); *American Dental Ass'n v. Delta Dental Plans Ass'n*, 39 U.S.P.Q.2d 1714 (N.D. Ill. 1996), available in 1996 U.S. Dist. LEXIS 5809, No. 92 Civ. 5909 (May 1, 1996) (concerning copyrightability of dental coding system), *vacated*, 126 F.3d 977 (7th Cir. 1997).

work; it is a completely different matter when the issue is infringement. This rigid and unrealistic insistence that the definition of a derivative work for purposes of determining copyrightability also be applied when the issue is infringement has also been criticized by others.¹¹¹

In fact, it makes little sense to hold only the most creative users of copyrighted material liable. Professor Lemley, for example, would not apply his "blocking" rule to what he labels "minor improvers."¹¹² By this he means derivative works which add nothing sufficiently original to be considered copyrightable.¹¹³ The creators of these works would therefore not get the benefits of the increased bargaining power and, under Lemley's scheme, the copyright owner of the underlying work would be entitled to capture the full value of that "minor" improvement. As applied to the "tile art" scenario, it would thus seem that the owner of the underlying artwork should be entitled to hold the "tile art" creators liable for copyright infringement, assuming that adding the art work to tile is not considered sufficiently original to be copyrightable and is thus just a "minor improvement."¹¹⁴

Both Professors Lunney and Lemley would provide more protection to the derivative user who has made some significant

¹¹¹ See Elisa Alcabes, *Unauthorized Photographs of Theatrical Works: Do They Infringe the Copyright*, 87 COLUM. L. REV. 1032, 1036-38 (1987); Wallace, *supra* note 7, at 114. Both of these authors concluded that the law should impose a different standard for defining an infringing derivative work (substantial similarity) than for defining a copyrightable derivative work (originality). According to Wallace, "[p]roof of infringement should be more difficult, because the protection it gives to authors may impede the free flow of information and ideas." Wallace, *supra* note 7, at 114 (citation omitted). Similarly, Alcabes noted that "[t]he higher 'infringement standard' discourages the over-monopolization of original expression by requiring an author to show more than mere copyrightability in order to prove infringement of his derivative rights." Alcabes, *supra*, at 1036-37. These authors clearly did not conclude that the statutory definition of a derivative work defined the test for infringement of the derivative works right. See also *Eden Toys v. Florelee Undergarment Co.*, 697 F.2d 27, 34 (2d Cir. 1982) ("A work which makes non-trivial contributions to an existing one may be copyrighted as a derivative work and yet, because it retains the 'same aesthetic appeal' as the original work, render the holder liable for infringement of the original copyright if the derivative work were to be published without permission from the owner of the original copyright."); *Puddu v. Buonamici Statuary*, 450 F.2d 401, 402 (2d Cir. 1971) ("The tests for eligibility for copyright and avoidance of infringement are not the same.")

¹¹² Lemley, *supra* note 7, at 1074.

¹¹³ See *id.* at 1019-20.

¹¹⁴ See *Lee v. Deck the Walls*, 925 F. Supp. 576, 581 (N.D. Ill. 1996), *aff'd sub nom. Lee v. A.R.T.*, 125 F.3d 580 (7th Cir. 1997). Thus, Lemley's approach is the opposite of that taken in *Lee*: a creator of an original derivative work is given *more*, not *less*, protection in infringement actions. Lemley, however, noted that the approach of those courts, such as the Ninth Circuit in *Mirage*, which allows the derivative works right to "preclude owners of a particular copy of a work from altering or transforming that copy notwithstanding the first sale doctrine . . . has been controversial." Lemley, *supra* note 7, at 1018. He also recognized, however, that the first sale doctrine as provided for in section 109(a) of the 1976 Copyright Act does not apply to the creation of derivative works from the copy obtained after that first sale. See *id.* at 1018 & n.143.

changes to the underlying work than to one who has made no or only trivial changes.¹¹⁵ The less a defendant has contributed to the “progress of the useful arts and sciences,” the more willing the law should be to hold that defendant liable. The approach of the district court in *Lee* does just the opposite: it penalizes *only* the user who has made an original contribution. Thus, from both a policy and statutory point of view, the approach taken by the *Lee* district court is questionable. Requiring the plaintiff to demonstrate that the defendant has made an original contribution before holding that defendant liable does not make a great deal of sense. Non-original derivative works should also be considered potentially infringing.

On appeal, the approach taken by the Seventh Circuit in the *Lee* case avoided the issue of originality by concluding that the tile art was not a derivative work because it did not “recast, transform or adapt” the underlying work, since what was depicted in that underlying work had not been changed. Unfortunately, it is not clear what the court meant by “changing” what has been “depicted.” Would a two dimensional photograph of a sculpture “change” what that sculpture depicted? Would a photograph change what a painting depicted, for that matter? Such uses of art have generally been considered infringing, though neither is truly a “copy” of the underlying work.¹¹⁶ The Seventh Circuit’s interpretation of “recast, transformed or adapted” does not shed much light on where the line should be drawn between a use that infringes the derivative works right and one that does not.

On the other hand, the approach taken by the *Mirage*, *Munoz*, and *Greenwich* courts to define “recast, transformed or adapted” is also subject to criticism. These courts concluded that cutting art work out of a book and matting it or placing note cards on ceramic tiles was infringing, as the art work was thereby “transformed.” The opinions distinguished these activities from simply framing a picture based in part on the permanence of the change made by the

¹¹⁵ See *supra* notes 95-96 & 102-04 and accompanying text.

¹¹⁶ See, e.g., *Bracken v. Rosenthal*, 151 F. 136 (N.D. Ill. 1907) (holding that photograph of statue infringes copyright in statue). Cf. *Leigh v. Warner Bros.*, 10 F. Supp.2d 1371 (S.D. Ga. 1998) (holding that party was not lawfully allowed to photograph sculpture in cemetery without owner’s permission); *Morita v. Omni Publications Int’l*, 741 F. Supp. 1107 (S.D.N.Y. 1990) (finding photograph of sculpture to be a derivative work based on that sculpture), *vacated*, 760 F. Supp. 45 (S.D.N.Y. 1991); *Varon v. The Santa Fe Reporter*, 218 U.S.P.Q. 716 (D.N.M. 1982), *available in* 1982 U.S. Dist. LEXIS 17359 (concluding that artist had right to require permission before her paintings were photographed); *M.J. Golden & Company v. Pittsburgh Brewing Co.*, 137 F. Supp. 455 (W.D. Pa. 1956) (holding sketch of three-dimensional plaque to be infringement of copyright in plaque).

derivative works creator.¹¹⁷ That distinction is not persuasive. It is true that once the note cards are glued and lacquered to tiles they cannot be used as note cards again; it is also true that reproductions once cut out of a book cannot be returned to that book. A framed picture, on the other hand, can usually be taken out of the frame or reframed. But why does this distinction matter in terms of determining infringement? The courts simply state without further explanation that one is a transformation and the other is not. Where is the line to be drawn, and why? Would these courts consider it an infringing transformation if the framer had used an adhesive such as Superglue to attach the mat, glass and frame to the art work? That would make the change as permanent as gluing it to tile, but should that be enough to render that framer liable? As correctly pointed out by Judge Easterbrook in the *Lee* opinion,¹¹⁸ the focus on the permanence of the change would seem to lead to ridiculous hairsplitting. Furthermore, it seems to have no connection with the underlying concerns of copyright law. The permanence of the change itself does not seem to have a connection to either the incentives provided to copyright owners or the public interest in access to the underlying work.

Thus, the question remains as to how to define "recast, transformed or adapted." In applying that language to a particular work, it is first important to recognize that derivative uses can either "consume" the underlying work by incorporating an actual copy¹¹⁹ of that work into the derivative work, or can exploit that work in a "public goods" mode, meaning uses that allow the derivative user to purchase only one copy of the underlying work and then "replicate the attraction of the underlying work from a single copy . . . to satisfy many derivative consumers with only one copy of the underlying work."¹²⁰ With public goods uses, the derivative user need not incorporate an actual copy of the underlying work into each copy of the derivative work produced. When a derivative work does not "consume" an actual copy of the underlying work, but uses that work in a public goods mode, almost by definition that underlying work has been "recast, transformed or adapted,"

¹¹⁷ See *supra* notes 53-63 and accompanying text.

¹¹⁸ See *supra* notes 71-78 and accompanying text.

¹¹⁹ In this context an "actual copy" refers to the copy of the work as fixed by or under the authority of the copyright owner into a material object, not a duplication of that copy by someone else. Thus, when an artist produces prints of her art work, each print is an "actual copy." If someone was to take one of those prints and make duplications by photocopying or otherwise, those duplicates would not be "actual copies" as referred to herein, but reproductions of the actual copy.

¹²⁰ Lunney, *supra* note 9, at 634.

since it is being used in a different format or medium. For example, a book turned into a movie or a cartoon character turned into a plush toy has certainly been "recast, transformed, or adapted." Thus, those public goods uses can certainly be considered to fit within the statutory definition of a derivative work.

Should all such uses be considered infringing regardless of their originality?¹²¹ Professors Goldstein, Sterk, Lunney, and Lemley seem to suggest that such a view could overcompensate the copyright owner of the underlying work and cause undesirable costs for society, either in terms of general allocation of resources or in terms of failing to stimulate the creation of new works based on the underlying works.¹²² The debate over the actual need for copyright protection to stimulate creative efforts is not new,¹²³ and as long as copyright protection continues to exist, there can be no real test of copyright's role in stimulating authors to create works of authorship. When it comes to public goods uses, however, a derivative user who can make and distribute multiple copies of a derivative work without purchasing a copy of the underlying work for each derivative work distributed is reaping significant benefits, which should at least be shared with the copyright owner of that underlying work. By assuming such users to be liable for copyright infringement, the law encourages negotiation between the copyright owner and the derivative user instead of allowing the derivative user to use the work without compensating the copyright owner. As both would seem to gain from a license allowing the derivative use, a fair accommodation compensating both parties may in fact result. Obviously, this is what does occur in the case of most films based on novels and most plush toys based on cartoon characters: a license agreement satisfactory to both sides is negotiated, and the public benefits from the creation of the new work. There does not appear to be a need to deny the copyright owner protection in order to stimulate the creation of these new deriva-

¹²¹ For purposes of this analysis, it is assumed that enough of the original expression in the underlying work has been copied by the derivative user so that the derivative work is "substantially similar" to the underlying work. See generally Amy B. Cohen, *Masking Copyright Decisionmaking: The Meaninglessness of Substantial Similarity*, 20 U.C. DAVIS L. REV. 719 (1987).

¹²² See *supra* notes 86-104 and accompanying text.

¹²³ See generally Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies and Computer Programs*, 84 HARV. L. REV. 281, 322 (1970) ("[T]he case for copyright . . . rests not upon proven need, but rather upon uncertainty as to what would happen if protection were removed."). Compare Barry Tyerman, *The Economic Rationale for Copyright Protection for Published Books: A Reply to Professor Breyer*, 18 UCLA L. REV. 1100 (1971), with Stephen Breyer, *Copyright: A Rejoinder*, 20 UCLA L. REV. 75 (1972). See also Landes & Posner, *supra* note 7.

tive works.¹²⁴

On the other hand, the issues are different when a derivative work does not make a public goods use but instead “consumes” an actual copy of the underlying work for each derivative work created. Even in such cases, as is the case with tile art, the underlying work has arguably been “adapted” and even “transformed” or “re-cast,” as the Ninth Circuit concluded in *Mirage*.¹²⁵ There are, however, policy reasons to treat these derivative uses differently. Professor Lunney argued that the derivative works right must be limited to allow copyright owners to control only those uses that reflect a “public good” aspect. Uses that require the derivative user to purchase a number of copies of the underlying work reasonably proportionate to the number of derivative consumers to be satisfied, as in the case of tile art, should not be infringing, according to Professor Lunney, because such uses do not affect copyright owners significantly or differently in economic terms from derivative uses of other types of products.¹²⁶

Thus, Professor Lunney would not find the creation of “tile art” as described in *Mirage* and *Lee* to be infringing because it does not exploit this “public good” aspect of works of authorship.¹²⁷ As pointed out long ago in the *Paula* decision,¹²⁸ for every piece of tile art created, the defendant must have purchased a copy of the plaintiff’s copyrighted art work. In this way the plaintiff has some control in terms of reaping economic rewards; the copyright owner has the benefits of that first sale. That distinguishes this situation, for example, from the situation in which the novelist’s book is turned into a film; that defendant need not purchase a copy of the book for every film made. Thus, the novelist has much less of an opportunity to control the economic rewards to be derived from her work. With tile art, on the other hand, the compensation derived from the first sale may be sufficient to reward the copyright owner of that art work.¹²⁹ The tile art creator, even if not consid-

¹²⁴ Professor Lemley’s suggestion may be an even better solution: give the derivative user copyright protection for any original contributions even if that user is technically infringing the copyright in the underlying work. See Lemley, *supra* note 7, at 1073-77. Such an approach might more fairly balance the negotiations between the copyright owner of the underlying work and the derivative user.

¹²⁵ 856 F.2d 1341, 1344 (9th Cir. 1988).

¹²⁶ See Lunney, *supra* note 9, at 634-43.

¹²⁷ See *id.* at 641-43 & 641 n.506.

¹²⁸ See *supra* notes 48-52 and accompanying text. Under this analysis the economic rationale does little to justify an expanded derivative works right in general and certainly does not provide a basis for concluding that “tile art” is infringing.

¹²⁹ This is similar to the concern expressed in Professor Sterk’s comment that a derivative works right is not needed except where the expected earnings from the derivative works are disproportionately large when compared to the expected earnings from the un-

ered "original," has paid that price and the other costs of manufacturing that tile.

This conclusion, however, is itself based on some questionable assumptions. Future artists may now be able to anticipate uses of note cards in the form of tile art, but did Lee? Was she able to reap the economic rewards of this use of her art by charging an appropriate price for its use on the note cards? In *Lee*, Judge Easterbrook wrote about the opportunity that the artist had "to capture the value of her art's contribution to the finished product as part of the price for the original transaction,"¹³⁰ but was that in fact true in that case? Returning to the hypothetical posed at the start of this article, when *A* licensed *P* to use her art on note cards, did *A* anticipate the extra profits that could be made by *T* in making and selling tile art? Did *P* anticipate that value in pricing the note cards themselves?

These questions bring us back to a point made by the *Munoz* court in distinguishing framing a picture from placing a picture on ceramic tile. The court considered the first to be a "commonly understood . . . method of display" of the art work whereas the second was not.¹³¹ Cases interpreting "infringement" have generally not reflected a concern with customary usage of copyrighted works or the expectations of the copyright owner. Rather, that inquiry has generally focused on the degree and type of similarity between the works.¹³² An alternative approach relied upon by a few courts¹³³ and favored by some commentators¹³⁴ asks whether the new work supplants demand for the original copyrighted work. Although that approach may at first glance seem related to this notion of customary use, its focus is on the effect of the new work

derlying work. As applied to the "tile art" scenario, this reasoning could result in a finding of no infringement. The expected earnings from the art work itself might not be outweighed by the expected earnings of the "tile art." The artist would not be discouraged from creating the artwork if denied the tile art earnings, as long as the rewards from the sales of the art work itself were under his or her control.

¹³⁰ *Lee v. A.R.T.*, 125 F.3d 580, 581 (7th Cir. 1997).

¹³¹ *Munoz v. Albuquerque A.R.T. Co.*, 829 F. Supp. 309, 314 (D. Alaska 1993), *aff'd*, 38 F.3d 1218 (9th Cir. 1994).

¹³² See generally Cohen, *supra* note 121; Goldstein, *supra* note 22, at 224-26.

¹³³ See, e.g., *West Publ'g Co. v. Mead Data, Inc.* 799 F.2d 1219 (8th Cir. 1986) (stating that Mead's use of West's page numbers would infringe West's copyright in part because "consumers would no longer need to purchase West's reporters to get every aspect of West's arrangement"); *Midway Mfg. Co. v. Arctic Int'l, Inc.*, 704 F.2d 1009 (7th Cir. 1983) (holding that circuit boards which speed up the play of copyrighted video games infringe those copyrights in part based on demand for speeded up versions of such games).

¹³⁴ See, e.g., Michael Wurzer, *Infringement of the Exclusive Right to Prepare Derivative Works: Reducing Uncertainty*, 73 MINN. L. REV. 1521 (1989); Nadan, *A Proposal to Recognize Component Works: How a Teddy Bears on the Competing Ends of Copyright Law*, 78 CAL. L. REV. 1633, 1655 (1990).

on demand for the original work, not on whether the new format used to present the original work is one that the copyright owner would ordinarily expect. Professor Goldstein, however, has suggested that the derivative works right in general, as opposed to the right to reproduce,¹³⁵ will be infringed when new expressive elements have been added (making it thereby more than a reproduction) and a new market has been created.¹³⁶ Thus, Goldstein suggests that a work, to infringe the derivative works right, must appeal to a market different from the one to which the underlying work appeals.¹³⁷ This question, like that asked by the Ninth Circuit in *Mirage*, seems to focus on whether the derivative user has found a new way of exploiting the work, a use perhaps not anticipated by the creator of the underlying work in determining the price to be charged for the sale or use of that underlying work.

Perhaps there is in this reasoning a way of reconciling the approaches of the Ninth and Seventh Circuits. In determining if the derivative works user should have to compensate the creator of the underlying work for a particular use, Judge Easterbrook would ask whether the creator had an opportunity to "capture the value of her art's contribution" to that derivative use. If the derivative use is a customary non-public goods use of such a work, then it is reasonable to assume that the creator had such an opportunity, but if the derivative use is not customary or is a public goods use of the work, then that opportunity to charge a price reflecting that value did not exist. Framing a painting is a customary way to resell art work, and thus, the creator of that art work should charge a price that reflects the value to the framer/reseller of that underlying art when resold as framed art. Placing note cards on tile and reselling it as "tile art" was arguably not customary and thus constituted a new market that the artist did not anticipate when she determined

¹³⁵ The 1976 Copyright Act provides the copyright owner with the exclusive right to "reproduce the copyrighted work in copies or phonorecords." 17 U.S.C. § 106(1) (1994).

¹³⁶ See Goldstein, *supra* note 22, at 217.

¹³⁷ See *id.* at 227-32. In addition to his attention to incentive theory and the market for derivative works, see *supra* text accompanying notes 86-87, Goldstein also argues that determining infringement of the derivative works right should focus principally on the degree and type of similarities in expression between the underlying work and the derivative work and whether or not they are substantial. He would limit the copyright owner's control to uses of the protectable expression in the underlying work; only derivative uses that substantially reproduce that expression or transform it as necessary to the change in medium will be infringing. See Goldstein, *supra* note 22, at 231-32. Goldstein also argued that copyright remedies for infringing the derivative works right should be applied carefully so as not to provide the copyright owner with more than is necessary to protect its investment in the underlying work. See *id.* at 236-239. Like Lemley, he would provide some greater protection to those who create original derivative works than the law currently provides. See *id.* at 243.

the price for her note cards. Thus, when a non-public goods derivative use is not a customary use, the copyright owner should arguably be entitled to compensation.

In her discussion of a common law tort for misappropriation of intellectual property, Professor Wendy Gordon seemed to suggest a rule that would have the opposite effect.¹³⁸ One element of her suggested tort of "malcompetitive copying" is that the defendant's copying must "take[] sales from plaintiff's actual or expected market." Professor Gordon reasoned that if the defendant's use had no "competitive nexus" to the plaintiff's actual or expected market, then the defendant had not harmed the plaintiff in a way that would entitle that plaintiff to restitution.¹³⁹

The competition requirement works to assure that defendant's gain is at plaintiff's expense because if the plaintiff is serving, or is about to enter the market where the free rider is selling elements of the plaintiff's work, then allowing the free rider to continue likely will hurt the plaintiff by taking her customers.¹⁴⁰

Professor Gordon, however, also recognized the limitations of this principle and has observed that in the case of copyright and derivative works, Congress had taken a broader approach.¹⁴¹ Gordon has written elsewhere that copyright owners should be entitled to revenues beyond these actual or expected markets in certain circumstances because "it is desirable for authors to be responsive to the public demand in new areas as well as established ones, and a rule of law that denied authors compensation except to their 'expected' markets could cause line-drawing problems that would dampen the incentive that new markets would bring."¹⁴² Thus, copyright owners arguably are entitled to compensation for harm done by copying in new markets as well as in actual and expected markets.

The Supreme Court has not addressed this specific issue, but it has spoken about the copyright owner's rights to claim harm to the "potential market for or value of the copyrighted work"¹⁴³ in the context of fair use determinations. These decisions shed some light on what the Court considers to be the market that a copyright

¹³⁸ See Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutory Impulse*, 78 VA. L. REV. 149 (1992).

¹³⁹ *Id.* at 238-42.

¹⁴⁰ *Id.* at 239-40 (citations omitted).

¹⁴¹ See *id.* at 247-48 & 248 n.377.

¹⁴² Wendy J. Gordon, *An Inquiry Into the Merits of Copyright: The Challenges of Consistency, Consent, and Encouragement Theory*, 41 STAN. L. REV. 1343, 1385 (1989) (citations omitted).

¹⁴³ 17 U.S.C. § 107(4) (1994).

owner is entitled to control and to preclude others from invading or harming. For example, in *Harper & Row Publishers, Inc. v. Nation Enterprises*,¹⁴⁴ the Supreme Court observed that “the fair use doctrine was predicated on the author’s implied consent to ‘reasonable and customary use’ when he released his work for public consumption.”¹⁴⁵ Thus, a use outside of what is reasonable and customary would generally not be considered a protected fair use. Moreover, in *Campbell v. Acuff-Rose Music, Inc.*,¹⁴⁶ the Court reasoned that a copyright owner does not necessarily suffer lost license fees from a parody of its work because the copyright owner presumably would never have licensed a parody in the first place. The Court observed that “[t]he market for potential derivative uses includes only those the creators of original works would in general develop or license others to develop.”¹⁴⁷ The Court thus did not limit the copyright owner to uses already anticipated and licensed. Rather, it would in addition grant protection in markets that the copyright owner was *likely* to develop. A parody may not be licensed because of the unflattering way it presents a copyrighted work; but a non-traditional presentation of a work, such as a rap version of the copyrighted work at issue in *Campbell*, was considered a market that the copyright owner could protect, even though there were no plans to exploit that market at the time of the defendant’s allegedly infringing use.

As applied in the context of the derivative works right, these opinions seem to suggest that a derivative use will infringe as long as that use invades a market that the copyright owner would be likely to exploit if he or she knew about it. In the context of derivative works which “consume” the underlying work, that is, non-public goods uses, the derivative user may be able to argue that the copyright owner was already compensated for uses it should have expected when pricing the first sale of the copyrighted work. However, that argument falters when the derivative use falls outside of those markets and creates a market that the copyright owner did not contemplate in pricing the first sale of the copyrighted work, but to which the copyright owner is entitled as a market he or she would have been likely to develop.

Thus, the ultimate question to ask in determining if the derivative works right has been infringed by a non-public goods use of a work is not, “Is the derivative work original?” or, “Has a permanent

¹⁴⁴ 471 U.S. 539 (1985).

¹⁴⁵ *Id.* at 592.

¹⁴⁶ 510 U.S. 569 (1994).

¹⁴⁷ *Id.* at 592.

change been made?" but rather, "Was this a customary use of a particular work?" This is obviously a fact question appropriately determined by relevant evidence as to what were customary uses of such works.¹⁴⁸ It would seem best to place the burden of proof on the copyright owner to prove that a certain use was not customary and that therefore the copyright owner did not anticipate the value that his or her art could have when used in that way. By allocating the burden in that way, the law will assume that ordinarily the copyright owner has been able to anticipate such value and has priced its works accordingly to capture that value. Only where the proof shows otherwise should the copyright owner be able to seek damages from the derivative user to compensate for that lost value.

IV. CONCLUSION

Both courts and commentators have struggled to define the best approach to use in balancing the rights of copyright owners with the rights of derivative users in order to best serve the public interest in creation of and access to original works of authorship. Giving copyright owners too little control may inhibit the creation of works by denying those owners the economic rewards needed to stimulate creation; giving copyright owners too much control may prevent derivative users from being able to improve and build upon those underlying works and thus to create new works of authorship. Thus, striking the balance in the right way has implications not only for creators of works of authorship, but also for the public, which benefits from the creation of such works.

In order to strike that balance appropriately, first one must ask whether the derivative use was a public goods use or not. When the derivative use is of the "public goods" variety, for example, a film based on a novel or a plush toy based on a cartoon character, the creator of that underlying work has not been compensated directly for each use of its work by the derivative user. In such cases, the derivative use should be considered infringing because the copyright owner will lose some of the value of his or her art's contribution to the derivative work. In statutory terms, the underlying

¹⁴⁸ The concept of "customary use" is not foreign to copyright law. The Supreme Court in *Harper & Row*, 471 U.S. 539, observed that "the fair use doctrine was predicated on the author's implied consent to 'reasonable and customary use' when he released his work for public consumption." See also *Williams & Wilkins Co. v. United States*, 487 F.2d 1345, 1350 (Ct. Cl. 1973), *aff'd*, 420 U.S. 376 (1975) (stating that scholar's handwritten copy of copyrighted article would be fair use as a "customary fact[] of copyright-life"); Harry N. Rosenfield, *Customary Use as "Fair Use" in Copyright Law*, 25 *BUFF. L. REV.* 220 (1975) (arguing that customary use of copyrighted works in non-commercial context should be considered *per se* fair use).

work can easily be considered to have been “recast, transformed or adapted” since by definition some expressive element of that work is now appearing in a different format or medium. This is so because an actual copy of the work is not in fact incorporated within that derivative work. It should not matter whether the change is itself “original.”

On the other hand, where the derivative use does incorporate an actual copy of the underlying work into each copy of the derivative work, the concerns are different. In those cases, as long as that derivative use is a customary or reasonably expected use of such works, the copyright owner has had, at least in theory, an opportunity to calculate the potential value of his or her art’s contribution to such derivative uses and could have priced that work accordingly to capture that value. Thus, the law should not allow the copyright owner to hold that derivative user liable, unless the copyright owner can prove that the derivative use was not customary or reasonably expected and that therefore there was no realistic opportunity for the copyright owner to receive compensation for that use of his or her work.

Returning finally to the tile art scenario at issue in *Mirage* and *Lee*, the use of the note cards is clearly not a public goods use since every piece of tile art incorporates an actual copy of the underlying art work. Thus, that use should not be considered infringing, unless the artist can prove by a preponderance of the evidence that that use was not customary or reasonably expected at the time the underlying work was created and distributed.