

With End-User License Agreements, Which Will Prevail: Copyright Rights or Contract Rights?

Article By:

Jaci L. Overmann

Given the ubiquitous nature of end-user license agreements, terms of service, and similar agreements for websites and other software,^[1] it is unsurprising that a company has filed a Petition for Certiorari with the Supreme Court this term (in *Genius v. Google*) asking the Court to consider the extent to which the Copyright Act preempts private contracts involving a promise not to copy digital content.^[2] While the Supreme Court has allowed a well-known circuit split to exist for over 20 years, there's no time like the present for the Court to perhaps resolve it.

History of Copyright Preemption

Historically, copyrighted material was protectable by both federal law and state law.^[3] But Congress amended Section 301(a) of the Copyright Act in 1976 to provide that state law cannot govern legal or equitable rights in copyrightable material if those rights are “equivalent” to the Copyright Act’s “exclusive rights.”^[4] Through Section 301(a), Congress intended to institute “a single Federal system” of copyright protection, but also noted that “[n]othing in the [Act] derogates from the rights of parties to contract with each other and to sue for breaches of contract[.]”^[5]

Division in the Circuit Courts

The Circuit Courts are strictly divided as to whether the Copyright Act preempts breach-of-contract claims arising from a contractual promise not to copy. While all circuits apply the same preemption test (they examine whether a breach-of-contract claim includes an “extra element” that makes it “qualitatively different” from a copyright infringement claim),^[6] the circuits disagree as to whether the mere existence of a contractual promise itself is an “extra element” sufficient to avoid copyright preemption.

The Fifth, Seventh, and Eleventh Circuits have all suggested that a contractual promise itself is an “extra element” sufficient to avoid preemption,^[7] reasoning that “[a] copyright is a right against the world” and “[c]ontracts, by contrast, generally affect only their parties[.]”^[8] Thus, in those Circuits, a breach-of-contract claim arising from a contractual promise not to copy would not be preempted.

In contrast, the Sixth Circuit^[1] and Second Circuit have applied a more flexible rule: those courts examine on a case-by-case basis whether the specific contractual rights at issue are qualitatively

different from the Copyright Act's exclusive rights.^[9] In those Circuits, a breach-of-contract claim arising from a contractual promise not to copy would be preempted, but claims arising from promises to pay,^[10] for example, are not preempted.

A few circuits have suggested, but not expressly held in a breach-of-contract case, that they would follow the Sixth and Second Circuit approach. For example, the D.C. Circuit cited Sixth Circuit precedent positively when it decided that a plaintiff's tortious interference with contract claim was not preempted.^[11] Likewise, the Ninth Circuit suggested that it would adopt the Sixth and Second Circuit's approach when it decided that a case involving an implied contractual right was not preempted due to the plaintiff's "bilateral expectation" of compensation, an "essential element" that separated the claim from "preempted claims for use of copyrighted material."^[12]

On the other hand, the Federal Circuit, applying First Circuit law, has cited Seventh Circuit precedent favorably and suggested that "the mutual assent and consideration required by a contract claim" renders it "qualitatively different from copyright infringement."^[13] But in that same case, the Federal Circuit ultimately decided that the breach-of-contract claim was not preempted because it was based on a license agreement which prohibited reverse engineering, and thus the contract included "protection encompassing but more extensive than copyright protection[.]"^[14]

Likewise, the Eighth Circuit appears to align with the Fifth, Seventh, and Eleventh Circuit, in that it has held that a contractual restriction on use of a licensed program constitutes an "extra element" rendering a cause of action "qualitatively different" from an action for copyright,^[15] but the court also clearly found that "[b]ecause we decide that the specific contract right [the plaintiff] seeks to enforce is not equivalent to any of the copyright rights, we do not need to decide whether a breach of contract claim based on a wrongful exercise of one of the exclusive copyright rights is preempted."^[16]

While the remainder of the Circuits (the First, Third, Fourth, and Tenth Circuits) apply the same extra element test as the other Circuits, those Circuits have not clearly indicated one way or another where they would land on this particular issue.^[17]

It's worth noting that while it may seem clear from this article that a particular Circuit is on one side of the split (e.g., that the Seventh Circuit finds that breach of contract claims are never preempted based on the mutual assent required), federal courts,^[18] and indeed, Google in its brief,^[19] nonetheless cite those same cases in support of the opposite conclusion (e.g., the Seventh Circuit agrees that preemption rules are not categorical).^[20] And, as one court has noted, case law on this issue "is not always consistent, either between circuits or within the same circuit."^[21]

What's Next

For those who support a bright-line test to protect breach of contract claims from copyright preemption, Genius's case appears to be the perfect vehicle for the Supreme Court to adopt one. Genius transcribes popular song lyrics and provides those lyrics on its website.^[22] Because Genius licenses the right to transcribe and display its lyrics from the relevant copyright holders, Genius does not hold any copyright on its content.^[23] Rather, Genius attempts to protect its content through its terms of service, which allegedly secure a website visitor's promise not to copy its content for competing commercial purposes.^[24] Google allegedly accepted those terms, but then allegedly stole Genius's lyrics and used them in connection with its own competing site.^[25]

When Genius filed a breach-of-contract claim against Google, seeking to recover the \$50 million in losses it allegedly sustained, the trial court held that Genius's claim was preempted by the Copyright

Act, and the Second Circuit agreed.^[26] Thus, Genius finds itself thoroughly hampered by the law: it cannot sue Google for copyright infringement because it does not own any copyright to its content, but it also cannot sue Google for breach of contract because copyright law preempts its claim.

Should the Court take the case, it will likely decide to either adopt the unyielding and inflexible bright line rule or the difficult-to-apply, but flexible, qualitative analysis endorsed by the Second Circuit.

The bright-line rule would be easy for private parties and courts to apply, but may allow for some unjust applications. For example, under a bright-line rule a copyright holder could avoid unfavorable federal law (e.g., statute of limitations) by suing for a breach of contract under state law, even when the copyright holder's breach of contract claim is *exactly the same* as its copyright infringement claim (e.g., unauthorized copying). But a flexible, factors-based analysis might also lead to injustices, as demonstrated by Genius's case. Further, a flexible test makes it more likely that courts may come to different decisions in similar cases, and would also increase uncertainty for private parties contracting over copyrightable material.

Should the Court take the case, its decision would have the potential to drastically alter the way that parties approach enforcement of copyright rights and analogous breach of contract rights. On the other hand, should the Court decline to take the case, private businesses should carefully review all of their contracts over copyrightable material to ensure they include relevant forum selection clauses based on the continuing circuit split.

FOOTNOTES

[1] While state courts in Kentucky, Michigan, and Tennessee have not weighed in on the Circuit split over copyright preemption of breach-of-contract claims, *see, e.g., Deo v. Gilbert*, No. 260847, 2005 Mich. App. LEXIS 2285, at *8 (Ct. App. Sep. 22, 2005) (suggesting that it might align with the Sixth Circuit in connection with an unfair competition claim); *Wells v. Chattanooga Bakery, Inc.*, 448 S.W.3d 381, 391 (Tenn. Ct. App. 2014) (citing *Wrench* when finding an unjust enrichment claim preempted), Ohio state courts apply the same qualitatively different test as the Sixth Circuit, and closely examine whether a particular contract “extended beyond the scope of copyright protections[.]” *State v. Perry*, 83 Ohio St.3d 41, 45–46 (1998). Ohio courts frequently find that if a breach-of-contract claim involves more than wrongful copying, such as a promise to pay, then it is not preempted. *See Am. Software, Inc. v. James I. Black & Co.*, 2011-Ohio-3376, ¶ 10 (Ct. App.); *McCants v. Tolliver*, 2014-Ohio-3478, ¶¶ 12–13 (Ct. App.); *TruLogic, Inc. v. GE*, 2021-Ohio-2860, ¶¶ 62–65 (Ct. App.) (declining to preempt a breach-of-contract claim based on a software license agreement when the contract prohibited reverse engineering). Ohio courts do not appear to adopt the broad view that a contractual promise itself is enough to avoid copyright preemption. *TruLogic*, 2021-Ohio-2860 at ¶ 59 (“We are not stating that preemption is unwarranted in all or even many cases; we are simply indicating that such agreements can involve different considerations than those that arise under the Copyright Act[.]”).

[1] *See, e.g., Apple Inc. v. Psystar Corp.*, 658 F.3d 1150, 1155 (9th Cir.2011) (noting that “[s]oftware licensing agreements * * * have become ubiquitous in the software industry”); *Adobe Sys. v. Christenson*, 809 F.3d 1071, 1078 (9th Cir. 2015) (citing *Psystar*, 658 F.3d at 1155); Mulligan, *Licenses and the Property/Contract Interface*, 93 Ind. L.J. 1073 (2018) (“Almost every time one acquires software, digital media content, or software-embedded goods, such as digital cameras, new appliances, or even new cars, one receives a license agreement...that purports to specify how the software or digital work may be used.”).

[2] Pet. for Cert. at i, *ML Genius Holdings LLC v. Google LLC*, Sup. Ct. No. 22-121 (Aug. 5, 2022).

[3] *Goldstein v. California*, 412 U.S. 546, 559–60 (1973).

[4] 17 U.S.C. § 301(a) (emphasis added).

[5] H.R. Rep. No. 94-1476, at 129–30, 132 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5745.

[6] *See generally* n. 7–17, *infra*.

[7] *See Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990) (“This action for breach of contract involves an element in addition to mere reproduction, distribution, or display: the contract promise made by Taquino[.]”); *Real Estate Innovations, Inc. v. Houston Assn. of Realtors, Inc.*, 422 F.App’x 344, 349 (5th Cir.2011) (citing *Taquino* and noting that “[t]his court has held that breach of contract claims are not preempted by the Copyright Act”); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454–55 (7th Cir. 1996) (“But whether a particular license is generous or restrictive, a simple two-party contract is not ‘equivalent to any exclusive rights within the general scope of copyright’ and therefore may be enforced.”); *Utopia Providers Sys., Inc. v. Pro-Med Clinical Sys., LLC*, 596 F.3d 1313, 1327 (11th Cir. 2010) (“The ‘extra element’ test was satisfied by Law Bulletin’s need to show the existence of a valid contract between the parties.”).

[8] *ProCD*, 86 F.3d at 1454–55.

[9] *Wrench Ltd. Liab. Co. v. Taco Bell Corp.*, 256 F.3d 446, 456 (6th Cir.2001); *Universal Instruments Corp. v. Micro Sys. Eng’g, Inc.*, 924 F.3d 32, 48–49 (2d Cir. 2019) (citing *Forest Park Pictures v. Universal TV Network, Inc.*, 683 F.3d 424, 428–33 (2d Cir. 2012)) (contrasting *Forest Park* and noting “[h]ere, by contrast, there is no dispute over payment...[w]hat remains of [Plaintiff’s] breach of contract claim is that [Defendant’s] modification of the source code exceeded the scope of the license contained in the EPA. This claim does not include an ‘extra element’ that is different from those of its copyright infringement claim.”); *MLGenius Holdings LLC v. Google LLC*, 2d Cir. No. 20-3113, 2022 U.S. App. LEXIS 6206, at *9–11 (Mar. 10, 2022).

[10] *Wrench Ltd. Liab. Co.*, 256 F.3d at 456.

[11] *Sturdza v. U.A.E.*, 281 F.3d 1287, 1304–05 (D.C. Cir. 2002) (emphasis in original) (applying *Wrench* to an intentional interference with contract claim and noting that “[a]lthough tortious interference with contract claims are typically found preempted” when the claim rests on a party’s “unauthorized copying[.]” a “different result is warranted where defendant interferes with the plaintiff’s contractual rights through conduct *other than* ‘reproduction...’”).

[12] *Montz v. Pilgrim Films & TV, Inc.*, 649 F.3d 975, 977 (9th Cir.2011) (addressing an implied contractual right holding that “copyright law does not preempt a contract claim where plaintiff alleges a bilateral expectation that he would be compensated for use of [an] idea, the essential element...that separates [such a claim] from preempted claims for the use of copyrighted material.”). *But see Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1090 (9th Cir. 2005) (emphasis in original) (noting that “[m]ost courts have held that the Copyright Act does *not* preempt the enforcement of contractual rights” and holding that “[a] state law tort claim concerning the unauthorized use of [a] software’s end-product is not within the rights protected by the federal Copyright Act[.]”).

[13] *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1325 (Fed. Cir. 2003) (citing *ProCD*, 86 F.3d at

1454).

[14] *Id.* at 1325–27 (Fed. Cir. 2003).

[15] *National Car Rental Sys. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426, 431 (8th Cir. 1993).

[16] *Id.* at n.6.

[17] **First Circuit:** See, e.g., *Cambridge Literary Props., Ltd. v. W. Goebel Porzellanfabrik G.m.b.H. & Co. Kg.*, 510 F.3d 77, 102 (1st Cir. 2007) (applying the extra element test to a state-law accounting claim); *Micro Focus (US), Inc. v. Genesys Software Sys.*, No. 14-14049-NMG, 2015 U.S. Dist. LEXIS 44247, at *6–7 (D. Mass. Apr. 3, 2015);

Third Circuit: See, e.g., *Dun & Bradstreet Software Servs. v. Grace Consulting, Inc.*, 307 F.3d 197, 217–18 (3d Cir. 2002); *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 210 F. Supp. 2d 552, 566–67 (D.N.J. 2002); *Tartan Software, Inc. v. DRS Sensors & Targeting Sys.*, No. 06-1147, 2007 U.S. Dist. LEXIS 75657, at *11–14 (W.D. Pa. Oct. 11, 2007).

Fourth Circuit: See, e.g., *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988); *OpenRisk, LLC v. MicroStrategy Servs. Corp.*, 876 F.3d 518, 524-25 (4th Cir. 2017); *Forest2Market, Inc. v. Am. Forest Mgmt.*, No. 3:05cv423, 2008 U.S. Dist. LEXIS 33185, at *14-17 (W.D.N.C. Apr. 21, 2008); *Madison River Mgmt. Co. v. Bus. Mgmt. Software Corp.*, 351 F. Supp. 2d 436, 443-44 (M.D.N.C. 2005).

Tenth Circuit: See, e.g., *Gates Rubber Co. v. Bando Chem. Indus.*, 9 F.3d 823, 847 (10th Cir. 1993); *Health Grades, Inc. v. Robert Wood Johnson Univ. Hosp., Inc.*, 634 F. Supp. 2d 1226, 1244-46 (D. Colo. 2009); *Chalfant v. Tubb*, 453 F. Supp. 2d 1308, 1320–21 (N.D. Okla. 2006).

[18] See, e.g., *Health Grades, Inc. v. Robert Wood Johnson Univ. Hosp., Inc.*, 634 F. Supp. 2d 1226, 1244-45 (D. Colo. 2009).

[19] Brief in Opp. to Pet. for Cert. at 12–20, *ML Genius Holdings LLC v. Google LLC*, Sup. Ct. No. 22-121 (Nov. 7, 2022).

[20] See *id.*

[21] *Out of the Box Developers, LLC v. LogicBit Corp.*, No. 10 CVS 8327, 2012 NCBC LEXIS 55, *19–20 (N.C. Super. Ct. Oct. 30, 2012) (citation omitted).

[22] Pet. for Cert. at 2, *ML Genius Holdings LLC v. Google LLC*, Sup. Ct. No. 22-121 (Aug. 5, 2022).

[23] *Id.*

[24] *Id.*

[25] *Id.*

[26] *Id.* at 2, 12–13.

Arlene Boruchowitz also contributed to this article.

National Law Review, Volume XII, Number 336

Source URL: <https://natlawreview.com/article/end-user-license-agreements-which-will-prevail-copyright-rights-or-contract-rights>