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INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

# Recent Opinions Address the Equitable Defense of Copyright Misuse

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Copyrights provide a limited monopoly over original works of authorship fixed in a tangible medium of expression. Attempts to extend this monopoly beyond the protection of the Copyright Act through "copyright misuse"—including anti-competitive behavior, restrictive license agreements, and abusive litigation tactics—may render a valid copyright temporarily unenforceable.

Three cases decided this year examine the bounds of copyright misuse, addressing when license restrictions and litigation tactics can constitute misuse. *Oracle USA v. Rimini Street*, 879 F.3d 948 (9th Cir. 2018); *Disney Enters. v. Redbox Automated Retail,* No. CV 17-08655 DDP, 2018 WL 1942139 (C.D. Cal. Feb. 20, 2018); *Energy Intelligence Grp. v. CHS McPherson Refinery*, 300 F. Supp. 3d 1356 (D. Kan. 2018). We report here on the interpretation and application of the copyright misuse doctrine in these cases.

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## The Doctrine of Copyright Misuse

"'Copyright misuse is a judicially crafted affirmative defense to copyright infringement' designed to combat the impermissible extension of a copyright's limited monopoly." *Omega S.A. v. Costco Wholesale Corp.*, 776 F.3d 692, 699 (9th Cir. 2015) (Wardlaw, J., concurring). It is analogous to and derived from the defense of patent misuse, and "is often applied when a defendant can prove either: (1) a violation of the antitrust laws; (2) that the copyright owner otherwise illegally extended its monopoly; or (3) that the copyright owner violated the public policies underlying the copyright laws." *Id.* at 700. Where proven, copyright misuse precludes enforcement of a copyright until the misuse has ceased. *Practice Mgmt. Information Corp. v. Am. Med. Ass'n*, 121 F.3d 516, 520 n.9 (9th Cir. 1997). While powerful, the defense is applied "sparingly." *Apple Inc. v. Psystar Corp.*, 658 F.3d 1150, 1157 (9th Cir. 2011).

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Thus, the cases finding copyright misuse typically involve egregious behavior or overly restrictive license terms that extend the term of a copyright or grant the copyright holder rights beyond what the Copyright Act permits. For example, in *Practice Management*, the American Medical Association (AMA) gave a federal agency a royalty-free license to its copyrighted medical coding system on the condition that the agency not use any competitor's system. 121 F.3d at 517–518. The court held that AMA misused its copyright because the "substantial

and unfair advantage over its competitors" it gained by prohibiting the agency from using competing products was "violative of the public policy embodied in the grant of a copyright." *Id.* at 521. Similarly, in *Lasercomb America v. Reynolds*, licensees of a software product were prohibited from developing similar software for 99 years. 911 F.2d 970, 978 (4th Cir. 1990). The Fourth Circuit held that the terms of this license were "egregious" and "attempt[] to suppress any attempt by the licensee to independently implement the idea which [the software] expresses" and "this anticompetitive restraint exists [for] ninety-nine years, which could be longer than the life of the copyright itself." *Id.*

Notably, because misuse is an equitable defense, an accused infringer's unclean hands may preclude use of the defense. In *Atari Games Corp. v. Nintendo of America*, "Atari lied to the Copyright Office" in representing that it needed a copy of Nintendo's proprietary software to defend against an infringement suit. 975 F.2d 832, 846 (Fed. Cir. 1992). When Nintendo later sued for copyright infringement, the district and appellate courts precluded Atari from asserting copyright misuse, because "Atari's unclean hands prevent it from invoking equity." *Id.*

### 'Disney v. Redbox'

*Disney*, the most recent case to find copyright misuse, like *Practice Management*, did so because the copyright owner attempted to grant itself rights not permitted by the Copyright Act.

Disney sells "Combo Packs" of several well-known movies, including *Frozen*, *Star Wars Episode VII*, and *Guardians of the Galaxy Vol. 2*. These Combo Packs include a DVD, Blu-ray disc, and a piece of paper with a code that allows a user to download or stream a digital copy of that movie from RedeemDigitalMovies and Disney Movies Anywhere. The terms of use of RedeemDigitalMovies requires redeemers to represent that they are currently "the owner of the physical product that accompanied the digital code at the time of purchase." 2018 WL 1942139, at *2. The Movies Anywhere license is similarly restrictive.

Disney alleged that Redbox's practice of purchasing Combo Packs and separately selling the codes constitutes contributory copyright infringement because it encourages end users to make unauthorized reproductions of Disney's copyrighted works in violation of the RedeemDigitalMovies and Movies Anywhere licenses. *Id.* at *5.

The district court denied Disney's motion for a preliminary injunction, finding that Disney had not demonstrated a likelihood of success on the merits because Disney engages in copyright misuse by promulgating the restrictive license terms:

> Combo Pack purchasers cannot access digital movie content, for which they have already paid, without exceeding the scope of the license agreement unless they forego their statutorily-guaranteed right to distribute their physical copies of that same movie as they see fit. This improper leveraging of Disney's copyright in the digital content to restrict secondary transfers of physical copies directly implicates and conflicts with public policy enshrined in the Copyright Act, and constitutes copyright misuse.

*Id.* at *6.

Disney subsequently changed the licensing terms on the download sites to instead require a user to represent that she "obtained the code in an original … package and the code was not purchased separately." 2018 WL 4182483, at *2. The court granted Disney's renewed motion for a preliminary injunction, holding that Redbox's copyright misuse defense "is unlikely to succeed" because the revised license terms "do not encroach upon disc owners' alienation rights or improperly expand Disney's power beyond the sphere of copyright … [n]ow, however, digital access is conditioned not on possession of the discs, but on the manner of Code acquisition." *Id.* at *8.

### 'Oracle v. Rimini'

In contrast to *Disney*, *Oracle* and *EIG* hold that reasonable license restrictions and even aggressive enforcement do not constitute misuse.

Oracle sued Rimini, alleging infringement of Oracle's copyrights covering Oracle's J.D. Edwards, Siebel, and PeopleSoft software applications, among others, and related software updates. *Oracle*, 879 F.3d at 952. Oracle offers annual maintenance contracts for each of these applications, which include software updates that Oracle makes

available online to purchasers of the contracts. To provide maintenance services in competition with Oracle's, Rimini retrieved thousands of copies of Oracle's software updates from Oracle's website by using automated download tools and a fake customer's log-in credentials. *Id.*; Oracle Ans. Br. at 1, 9.

The district court held and the jury found Rimini liable for copyright infringement and other state-computer-law-related claims, for which Oracle was awarded $124,291,396.82.

As construed by the district court, Oracle's J.D. Edwards and Siebel licenses permitted each customer, or third parties on each customer's behalf, to create a reasonable number copies of Oracle's software for archival needs and "to support the customer's use" and perform "related testing" of Oracle's applications. 879 F.3d at 958. The PeopleSoft license further included a limitation restricting copying of the licensed software "to only the [licensee's] facilities." *Id.* at 959.

On appeal, Rimini argued that the district court's construction of the licenses results in copyright misuse, as it "'would foreclose competition in the aftermarket for third-party maintenance' because it would limit copies made by third parties to those made only for archival and emergency backup purposes and because the software could not be serviced simply by making exact copies." *Id.* at 958.

The Ninth Circuit disagreed. Affirming the infringement verdict and the rejection of Rimini's copyright misuse defense, the Ninth Circuit held that the restriction on the number and purpose of copies was not copyright misuse. Rather, the Ninth Circuit agreed with Oracle that "the licenses 'plainly do not preclude third parties from developing competing software or providing competing support services,' but instead 'require third parties to do so in ways that do not disregard Oracle's exclusive rights under copyright law.'" *Id.* Likewise, as to the PeopleSoft license, the Ninth Circuit held that "Rimini's inability to 'local host' may result in inconvenience and expense on its part, but that restriction on its conduct does not amount to copyright misuse." *Id.* at 960.

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### 'EIG v. Refinery'

Refinery purchased subscriptions to Energy Intelligence Group's (EIG) *Oil Daily* and *Petroleum Intelligence Weekly* publications, receiving a single electronic copy of each publication and distributing copies to multiple Refinery employees, in violation of its subscription agreement.

EIG brought suit for copyright infringement. Refinery raised the affirmative defense of copyright misuse, arguing that EIG engaged in copyright misuse through its "abusive litigation tactics to extend its monopoly to minimally-protected composite works" such as filing multiple copyright infringement lawsuits, paying its employees bonuses for reporting copyright infringement, making copyright enforcement a key revenue stream, and attempting to "entrap" its clients into admitting that they are committing copyright infringement. 300 F. Supp. 3d at 1373; Refinery Br. at 15 (Docket No. 102).

The district court granted EIG's motion for summary judgment on Refinery's misuse defense, holding that "Refinery has failed to come forward with any evidence that EIG misused its copyrights by attempting to extend its copyright monopoly to rights its registrations do not protect." 300 F. Supp. 3d at 1374. According to the court, the evidence presented by Refinery did not support its defense of copyright misuse: "[i]t is certainly true that [the plaintiff] has filed a very large number of infringement suits … [b]ut that is what the holders of intellectual property rights do when they are faced with mass infringement." *Id.* Likewise, the court held that "courts have concluded that attempts to negotiate a settlement before filing a copyright infringement lawsuit are not evidence of abuse of process." *Id.*