All License Breaches May Not Constitute Copyright Infringement

By Christopher Barnett

At the conclusion of software audits where it appears that software products were installed and used without adequate licensing, many companies find themselves confronting two challenges. First, there is the fact that the software publisher likely is demanding that the company pay penalties or otherwise steep rates to obtain the previously un-purchased licenses, upon threat of license termination. In addition, however, in most cases the publisher also will bellow that its intellectual property rights have been violated and will threaten the company with copyright-infringement exposure. Both can be serious threats for most companies. However, just because a license may have been breached, it does not necessarily follow that a copyright has been infringed.

In 2011, the Ninth Circuit Court of Appeals held that in order for a license breach to constitute an infringement, the breach must touch one of the copyright holder's exclusive rights under U.S. law. It stated:

> To recover for copyright infringement based on breach of a license agreement, (1) the copying must exceed the scope of the defendant's license and (2) the copyright owner's complaint must be grounded in an exclusive right of copyright (*e.g.*, unlawful reproduction or distribution).
> MDY Indus., LLC v. Blizzard Entm't, Inc., 2011 U.S. App. LEXIS 3428, 17 (9th Cir. Feb. 17, 2011)

Under the U.S. Copyright Act, copyright owners enjoy the following six exclusive rights:

> (1) to reproduce the copyrighted work in copies or phonorecords;
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> (2) to prepare derivative works based upon the copyrighted work;
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> (3) 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;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
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> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
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> (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

Thus, according to the Ninth Circuit, if a company violates a license's prohibition against installing more copies of a product than the number of licenses previously purchased, that violation directly affects the first of the exclusive rights and could form the basis of an infringement claim. However, if a company violates a license by, for example, failing to purchase additional licenses through the publisher, instead of through an otherwise authorized reseller, then the violation could form the basis of a breach-of-contract claim, but not a copyright claim – none of the exclusive rights would be affected by failure to follow specified payment or transaction terms.

Other kinds of violations – such as hosting a product for third-party access over the Internet – may be closer questions. In most hosting scenarios, there are no copies made of any products. Instead, they often merely are accessed by remote clients. Nothing is distributed or transferred, no derivative works are created, and it is a stretch to argue that the product is being "displayed" or "performed" (even if you consider software to be a literary work, which may also be a stretch).

Thus, when faced with threats of copyright-related exposure, it is important for a company to work closely with counsel to explore the specific allegations being raised and the extent to which those allegations may fall outside the scope of the software publisher's exclusive rights.

About the author Christopher Barnett:

Christopher represents clients in a variety of business, intellectual property and IT-related contexts, with matters involving trademark registration and enforcement, software and licensing disputes and litigation, and mergers, divestments and service transactions. Christopher's practice includes substantial attention to concerns faced by media & technology companies and to disputes involving new media, especially the fast-evolving content on the Internet.

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