

# Appeal of the Second Circuit’s *ML Genius Holdings LLC v. Google LLC* Decision May Resolve a Circuit Split on Copyright Act Preemption Tests

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## I. Introduction

In early 2022, the U.S. Court of Appeals for the Second Circuit issued a decision affirming a ruling by the U.S. District Court for the Eastern District of New York that the Copyright Act preempted a website owner’s state law breach of contract and unfair competition claims.<sup>1</sup>

Although the decision was fairly typical and raised no novel issues of law, on August 5, 2022, the disappointed plaintiff, ML Genius Holdings LLC (“Genius”), filed a Petition for Writ of Certiorari requesting the U.S. Supreme Court to resolve a Circuit split on the preemption issue between the Fifth, Seventh, Eighth, Eleventh, and Federal Circuits, on the one side, and the Second and Sixth Circuits, on the other side. If the Supreme Court grants the petition, there is a possibility that the current approach used in the Second and Sixth Circuits will be overturned.

## II. Legal Context

Section 301(a) of the Copyright Act (colloquially known as the “Preemption Clause”) establishes the following:

[A]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright . . . are governed exclusively by this title. . . . [N]o person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.<sup>2</sup>

The Preemption Clause has been regularly used by defendants seeking dismissal of various types of state causes of action, including right of publicity and breach of contract.<sup>3</sup> However, the statute is not entirely clear on what “the general scope of copyright” encompasses.

Section 301(b)(1) of the Copyright Act offers some guidance by referring to 17 U.S.C. § 102 and § 103, which define the categories of works subject to copyright protection. While informative and helpful, this does not address the issue definitively and leaves open whether ancillary rights based on copyrighted works are preempted by § 301(a) of the Copyright Act. Because of this ambiguity and the lack of specificity, judicial interpretations of topics and issues that touch upon this area of law in different jurisdictions have resulted in varying outcomes.

One such area of recent debate is whether state law breach of contract remedies for the unauthorized use of copyrighted works are preempted under 17 U.S.C. § 301(a). Initial decisions on this topic held that the rights created by the contract were not preempted, as they were not considered to be equivalent to exclusive copyright rights. A particularly prominent example of this reasoning was in the 1996 *ProCD v. Zeidenberg* decision.<sup>4</sup>

In *Zeidenberg*, the defendant purchased from the plaintiff computer software that was subject to a shrinkwrap license limiting use of the software to non-commercial purposes. Defendant, however, ignored the license and formed a competing company that resold the information contained within the software.<sup>5</sup> The plaintiff brought suit against the defendant on, among other claims, breach of the license. The district court held that 17 U.S.C. § 301(a) preempted enforcement of the license as a contract.<sup>6</sup> The Seventh Circuit disagreed, determining that, although the computer software data at issue fell “within the subject matter of copyright,” rights created by contract were inherently not equivalent to the exclusive rights within the general scope of copyright; the court explained that “[a] copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create ‘exclusive rights.’”<sup>7</sup> This reasoning is still good law in various federal courts, including the Fifth, Seventh, Eighth, Eleventh, and Federal Circuits.<sup>8</sup>

However, the Seventh Circuit’s reasoning in *Zeidenberg* was only partially adopted by the Sixth Circuit’s 2001 decision in *Wrench Ltd. Liab. Co. v. Taco Bell Corp.*<sup>9</sup> The Sixth Circuit agreed with the Seventh Circuit in *Zeidenberg*, as well as with case law from the Second and Fourth Circuits, that the scope of preemption is broader than the scope of protection provided by the Copyright Act.<sup>10</sup> But this only satisfied what the Sixth Circuit (and other courts before it) called the “subject matter” prong of the two-part preemption test.<sup>11</sup>

Where the Sixth Circuit in *Wrench* diverged from *Zeidenberg* was with respect to the second prong of the test, known as the “equivalency” or “general scope” prong. The Sixth Circuit held that, in evaluating this prong, a state law contract claim escapes preemption only if it contains an “extra element [that] change[s] the nature of the action so that it is qualitatively different from a copyright infringement claim.”<sup>12</sup> For example, a general promise to pay for the services under contract is considered to be sufficient to avoid preemption. However, an implied promise or a claim of rights under quasi-contract would not be.<sup>13</sup> Since the *Wrench* decision, the Sixth Circuit has reaffirmed its commitment to this “extra element” approach to the second prong of the preemption test, and it has also been adopted by the Second Circuit.<sup>14</sup>

As raised in Genius’ petition for certiorari, this split of authority is not unique to federal appellate law, as state court decisions have also fallen on either side of this debate. New York and Ohio currently adhere to the *Zeidenberg* “majority” approach,<sup>15</sup> whereas Indiana prefers the *Wrench* “minority” approach.<sup>16</sup>

As discussed in detail below, the Second Circuit’s decision in *Genius v. Google* added one additional circuit in opposition to the five circuits supporting the *Zeidenberg* majority approach.

### III. *Genius v. Google*

#### A. Facts

Genius owns an internet platform providing users with transcribed song lyrics.<sup>17</sup> Although Genius licenses the right to display these lyrics from music publishers, the publishers do not provide the lyrics to Genius. Instead, the lyrics are uploaded by musicians and music fans.<sup>18</sup> Genius profits from this process by licensing its lyrics database to third parties such as Apple, and by generating advertising revenue through traffic on its website and app.<sup>19</sup> Users of Genius’ platform are bound by its Terms of Service, which include provisions prohibiting users from the unauthorized licensing, copying, modification, sale, or transmission of the lyrics “for any commercial purpose.”<sup>20</sup>

Starting in August 2016, Genius embedded digital watermarks into the song lyrics provided on its website to enable it to track potential misappropriation of its transcriptions.<sup>21</sup> In May 2017, the embedded watermarks began appearing on transcriptions provided by Google LLC (“Google”) in response to user searches. Genius notified Google, which eventually responded that the transcriptions were provided to Google by LyricFind, Inc. (“LyricFind”), a Canadian competitor of Genius.<sup>22</sup>

Genius sent cease and desist letters to LyricFind and Google, but this behavior did not stop. On December 3, 2019, Genius sued LyricFind and Google in New York State Supreme Court (Kings County) for breach of contract, indemnification, unfair competition, and unjust enrichment.<sup>23</sup>

Shortly thereafter, defendants removed the action to the U.S. District Court for the Eastern District of New York, arguing that the claims alleged in Genius’ complaint all arose from the alleged copying and display of copyrighted lyrics, and “are in essence claims for copyright infringement disguised as various state law causes of action.”<sup>24</sup>

Genius sought to remand the action to state court arguing its claims were not preempted by the Copyright Act.<sup>25</sup> However, on August 10, 2020, the district court, concluding that Genius’ claims were preempted by the Copyright Act,

denied remand, and dismissed the complaint for failure to state a claim.<sup>26</sup>

Genius timely appealed the district court's decision to the U.S. Court of Appeals for the Second Circuit.

## B. The Second Circuit Decision

On March 10, 2022, in a unanimous panel decision written by Chief Judge Livingston and joined by Judges Raggi and Vitaliano, the U.S. Court of Appeals for the Second Circuit issued an order affirming the district court's decision that Genius' claims were preempted by the Copyright Act.<sup>27</sup>

### 1. Subject Matter Prong

The Second Circuit explained that the subject matter prong requires an analysis of whether the work-in-question generally falls within the scope of copyright as specified by §§ 102 (which defines the subject matter of copyright) and 103 (which defines the copyright protection afforded to compilations) of the Copyright Act. According to the court, such analysis is not intended to focus on whether the work-in-question complies with all the requirements to obtain a federal copyright registration. Instead, the Second Circuit explained, the analysis is intended to focus on whether the type of work is one that would be copyrightable.<sup>28</sup> Meaning, the "scope of copyright for preemption purposes . . . extends beyond the scope of available copyright protection."<sup>29</sup>

The Second Circuit further reasoned that this broader protection is afforded

because Congress . . . created a regime in which some types of works are copyrightable and others fall into the public domain [and] Section 301's preemption scheme functions properly only if the 'subject matter of copyright' includes all works of a *type* covered by sections 102 and 103, even if federal law does not afford protection to them.<sup>30</sup>

With this in mind, the Second Circuit proceeded to analyze whether Genius' claims fell within these categories. Because "[s]ong lyrics enjoy independent copyright protection as 'literary works,'" the court held that they were covered.<sup>31</sup> Genius argued that its claims were not directed to the lyrics per se, but instead were directed to the time, labor, and resources that it invested in the process of making the transcriptions available to the public. However, the court did not bite, noting that Genius' pleadings alleged defendants "misappropriat[ed] *content* from Genius' website," not the process.<sup>32</sup>

## 2. General Scope Prong

The Second Circuit explained that the general scope prong requires an analysis of whether the right being asserted over the work-in-question is "equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106" of the Copyright Act, which specifies the bundle of exclusive rights that belong to a copyright owner.<sup>33</sup>

The Second Circuit held that this requirement is satisfied when the right being asserted "may be abridged by an act that would . . . infringe one of the exclusive rights provided by federal copyright law"—such as "acts of reproduction, adaptation, performance, distribution or display."<sup>34</sup> That said, the court clarified, a claim is not preempted if it includes "extra elements that make it qualitatively different from a copyright infringement claim"<sup>35</sup>—echoing the reasoning in the Sixth Circuit's *Wrench* decision.

### 3. Genius' Breach of Contract Claims

Turning to Genius' complaint, the Second Circuit began with an analysis of the breach of contract claims. Genius, the court noted, alleged that defendants breached its Terms of Service by copying and reproducing song lyric transcriptions.<sup>36</sup> The court opined that those allegations demonstrate that the right Genius asserts is "coextensive with an exclusive right already safeguarded by the Act—namely, control over reproduction and derivative use of copyrighted material."<sup>37</sup>

The Second Circuit, thus, dismissed Genius' argument that its claims escaped preemption because a breach of contract claim requires proof of mutual assent and valid consideration, and can only be asserted against a contractual counterparty, unlike copyright claims, which do not require those elements and can be asserted against members of the public at large.<sup>38</sup> To find otherwise, the court stated, would create "a per se rule that all breach of contract claims are exempt from preemption."<sup>39</sup>

Given the facts presented, and the relevant clauses of the Terms of Service that do not purport to give Genius any protection beyond that provided by copyright law itself, the court found that the contractual promise itself is not enough to save the claim from preemption.<sup>40</sup>

### 4. Genius' Unfair Competition Claims

Turning to Genius' unfair competition claims, the Second Circuit noted that the essence of such a claim under New York law "is that the defendant has misappropriated the labors and expenditures of another with some element of bad faith."<sup>41</sup>

The court reasoned that, like with Genius' breach of contract claims, "unauthorized publication is the gravamen" of Genius' unfair competition claims, so that the 'right [it]

seek[s] to protect is coextensive with an exclusive right already safeguarded by the Act—namely, control over reproduction and derivative use of copyrighted material.”<sup>42</sup>

Genius pointed out that the bad faith requirement of its unfair competition claims was an extra element that it argued should rescue its claims from preemption.<sup>43</sup> Nonetheless, the Second Circuit was unpersuaded, stating, “[W]hether an unfair competition claim is preempted depends on ‘what the plaintiff seeks to protect, the theories in which the matter is thought to be protected and the rights sought to be enforced.’”<sup>44</sup>

Thus, “unfair competition claims based upon breaches of a confidential relationship, breach of fiduciary duty and trade secrets” are not preempted.<sup>45</sup> But when the alleged “bad faith” consists of “elements such as awareness or intent,” preemption applies.<sup>46</sup>

### 5. ‘Hot News’ Exception

Finally, the Second Circuit considered whether Genius’ claims fell within the “hot news” exception to copyright preemption.<sup>47</sup> This exception is limited to claims where:

- (i) a plaintiff generates or gathers information at a cost; (ii) the information is time sensitive; (iii) a defendant’s use of the information constitutes free-riding on the plaintiff’s efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.<sup>48</sup>

Because Genius had not shown that its song lyric transcriptions constitute time-sensitive information (condition (ii)), the Second Circuit found that the hot news exception did not apply.<sup>49</sup>

### C. Status of the Petition for Writ of Certiorari

On August 5, 2022, Genius filed a Petition of Writ of Certiorari asking: “Does the Copyright Act’s preemption clause allow a business to invoke traditional state-law contract remedies to enforce a promise not to copy and use its content?”<sup>50</sup>

In its petition, Genius claimed that, had its case been brought in the Fifth, Seventh, Eighth, Eleventh, or Federal Circuits, then the result of the preemption test would have been different. Genius also argued that the tests used by the Second and Sixth Circuits, and state courts in California and Indiana, are wrong and should be overturned. As Genius

contented, “Nothing in the text or underlying policy of the Copyright Act suggests that Congress intended to wipe out these sorts of contractual commitments.”<sup>51</sup>

Responses to Genius’ Petition were not filed at the time this article was written, and it is likely we will not know until well into 2023 whether it will be granted.

## IV. Practical Significance

The Second Circuit currently applies the minority approach to determine whether state law claims are preempted by the Copyright Act. This case challenges the validity of that minority approach, and if the Supreme Court grants certiorari, there is a possibility that the approach will be overturned. If so, litigants in the Second Circuit will need to reassess their strategies in copyright cases where preemption is or may be an issue. If certiorari is granted and the court overturns the Second Circuit’s decision, then litigants in the Second and Sixth Circuits, and state courts in California and Indiana, may no longer need to demonstrate “extra elements” in the contract to rescue their claims from preclusion. This outcome would greatly benefit litigants such as Genius, which do not own the copyright to the song lyrics they compile, as they are not the authors. Thus, they must rely on licensing agreements to protect their investment.

Conversely, if certiorari is granted and the Court affirms the Second Circuit’s decision, then litigants with copyright preclusion cases pending in the Fifth, Seventh, Eighth, Eleventh, or Federal Circuits based on contract rights alone may need to file supplemental briefing on possible “extra elements” in the contract to rescue their claims from preclusion.

Of course, the Court may grant certiorari and devise a test that differs from the current test in all circuits, or it may not grant certiorari at all, which would leave the current circuit split intact. Because it is especially difficult to read the tea leaves with respect to Supreme Court decisions these days, the future course of this case is well worth watching.

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## Endnotes

1. *ML Genius Holdings LLC v. Google LLC*, No. 20-3113, 2022 U.S. App. LEXIS 6206 (2d Cir. Mar. 10, 2022).
2. 17 U.S.C. § 301 (a).
3. See, e.g., *Jackson v. Roberts (In re Jackson)*, 972 F.3d 25, 55 (2d Cir. 2020) (state right of publicity claim found preempted); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (defendant sought to invalidate breach of end user license agreement); *Utopia Providers Systems, Inc. v. Pro-Med Medical Systems, LLC*, 596 F.3d 1313 (11th Cir. 2010) (defendant sought to invalidate breach of contract claim).
4. See, e.g., *Zeidenberg*, 86 F.3d at 1454-55 (citing *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 433 (8th Cir. 1993); *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1051 (5th Cir. 1990); and *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988)).
5. See *Zeidenberg*, 86 F.3d at 1450.
6. *Id.* at 1453.
7. *Id.* at 1454-55.
8. See *Real Est. Innovations, Inc. v. Hous. Ass'n. of Realtors, Inc.*, 422 F. App'x 344 (5th Cir. 2011); *Davidson & Assocs. v. Jung*, 422 F.3d 630 (8th Cir. 2005); *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305 (11th Cir. 2001); *Utopia*, 596 F.3d 1313; *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317 (Fed. Cir. 2003).
9. 256 F.3d 446 (6th Cir. 2001).
10. *Id.* at 454 (citing *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 849-50 (2d Cir. 1997); *United States ex rel. Berge v. Bd. of Trustees of the Univ. of Alabama*, 104 F.3d 1453, 1463 (4th Cir. 1997); and *Zeidenberg*, 86 F.3d at 1453).
11. *Wrench*, 256 F.3d at 453.
12. *Id.* at 456.
13. *Id.* at 455-59 (citing Melville B. Nimmer & David Nimmer, 1 *Nimmer on Copyright* § 1.01 (1999), 4 *Nimmer on Copyright* §§ 16.02-16.03, 16.08 (1999)).
14. See *Ritchie v. Williams*, 395 F.3d 283, 287-88 (6th Cir. 2005). See also *Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 306 (2d Cir. 2004); *Jackson v. Roberts (In re Jackson)*, 972 F.3d 25, 42-43 (2d Cir. 2020).
15. See *Myers v. Waverly Fabrics*, 65 N.Y.2d 75 (1985); *TruLogic, Inc. v. Gen. Elec. Co.*, 177 N.E.3d 615 (Ohio Ct. App. 2021).
16. See *Green v. Hendrickson Publishers, Inc.*, 770 N.E.2d 784 (Ind. 2002).
17. *Genius Media Grp. v. Google LLC*, No. 19-CV-7279, 2020 U.S. Dist. LEXIS 173196 at \*2 (E.D.N.Y. Aug. 10, 2020).
18. *Id.* at \*3.
19. *Id.*
20. *Id.* at \*4.
21. *Id.* at \*6.
22. *Id.* at \*6-7.
23. *Id.* at \*8-9.
24. *Id.* at \*10.
25. *Id.* at \*10-11.
26. *Id.* at \*2.
27. *ML Genius Holdings LLC v. Google LLC*, No. 20-3113, 2022 U.S. App. LEXIS 6206 at \*1 (2d Cir. Mar. 10, 2022).
28. *Id.* at \*4.
29. *Id.* (quoting *Forest Park v. Universal TV Network, Inc.*, 683 F.3d 424, 429-30 (2d Cir. 2012)).
30. *Genius*, 2022 U.S. App. LEXIS 6206, at \*4 (emphasis in original) (quoting *Forest Park*, 683 F.3d at 430).
31. *Genius*, 2022 U.S. App. LEXIS 6206, at \*5 (quoting *ABKCO Music, Inc. v. Stellar Records, Inc.*, 96 F.3d 60, 64 (2d Cir. 1996)).
32. *Genius*, 2022 U.S. App. LEXIS 6206, at \*6 (emphasis in original).
33. *Id.* (quoting *Jackson*, 972 F.3d at 43).
34. *Genius*, 2022 U.S. App. LEXIS 6206, at \*7 (quoting *Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 305 (2d Cir. 2004)).
35. *Genius*, 2022 U.S. App. LEXIS 6206, at \*7.
36. *Id.* at \*8-9.
37. *Id.* at \*9 (quoting *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 201 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985)).
38. *Genius*, 2022 U.S. App. LEXIS 6206, at \*10-11.
39. *Id.* at \*10.
40. *Id.* at \*11.
41. *Id.* at \*11 (quoting *Universal Instruments Corp. v. Micro Sys. Eng'g, Inc.*, 924 F.3d 32, 50-51 (2d Cir. 2019)).
42. *Genius*, 2022 U.S. App. LEXIS 6206, at \*12 (quoting *Harper & Row*, 723 F.2d at 201).
43. *Genius*, 2022 U.S. App. LEXIS 6206, at \*12.
44. *Id.* at \*13 (quoting *Briarpatch*, 373 F.3d at 306).
45. *Genius*, 2022 U.S. App. LEXIS 6206, at \*13 (quoting *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992)).
46. *Genius*, 2022 U.S. App. LEXIS 6206, at \*13 (quoting *Computer Assocs.*, 982 F.2d at 716-17).
47. *Genius*, 2022 U.S. App. LEXIS 6206, at \*14-16.
48. *Id.* at \*14-15 (quoting *NBA*, 105 F.3d at 845).
49. *Genius*, 2022 U.S. App. LEXIS 6206, at \*16.
50. Petition for Writ of Certiorari at i, *ML Genius Holdings LLC v. Google LLC*, No. 22-121 (U.S. Aug. 5, 2022).
51. *Id.* at 27-28.