

Client Alert

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CJEU Rules the Resale of Used Software Licenses Legal

In the future, the resale of software licenses or license packages will be more difficult for software providers to prevent. On 3 July 2012, the Court of Justice of the European Union (CJEU) came to its long awaited decision in *UsedSoft GmbH v. Oracle International Corp* (C-128/11). The CJEU held that the copyright holder's exclusive distribution right in a computer program is exhausted upon the first sale of such program or a license thereto — irrespective of whether the program or license is first sold via a download or incorporated in a physical medium such as a DVD or CD-ROM. This decision and its consequences will be of particular interest not only to software providers seeking to find new ways to restrict the resale of their software but also to resellers of software and licensees who may now be able to more easily purchase inexpensive “used software licenses” with less worries about exposure to disputes with the original software provider.

“After CJEU's ruling in *UsedSoft v. Oracle* allows the resale of ‘used software licenses’ under certain conditions, software providers must seek new ways to restrict resale but resellers should be cautious not to interpret the decision as a blank check.”

Background

The case came to the CJEU from the German Supreme Court (*BGH*), which was to decide on a complaint brought against UsedSoft by Oracle. Oracle sought to enjoin UsedSoft from offering and selling licenses to Oracle software that had been originally acquired from Oracle by third parties who then sold these licenses to UsedSoft for further resale. The software in question was made available by Oracle via download and not in physical form. The delivery was under a nominally perpetual license, and upgrades were supplied under a maintenance agreement. UsedSoft's customers also downloaded the software directly from Oracle's websites which Oracle claimed they were not entitled to do since Oracle's license terms expressly excluded any assignment or transfer of the licenses, prohibiting the download by anyone but the original licensee. German copyright law was generally understood to limit exhaustion of the right to distribute to cases in which physical copies of a work were distributed. While Art. 4 para. 2 of Directive 2009/24 does not clearly limit exhaustion to such cases, the *BGH* asked the CJEU to determine (in different order than actually submitted and summarized):

- Whether the copyright holder's exclusive right to distribute a computer program is exhausted under Art. 4 para. 2 Directive 2009/24 if the purchaser of the software [license] obtains the copy of the software by download.
- Whether a party who may rely on exhaustion of the exclusive right to distribute a computer program is a “lawful acquirer” within the meaning of Art. 5 para. 1 Directive 2009/24.

- Whether the purchaser of a “used software license” for generating a program copy as a “lawful acquirer” can also rely on exhaustion of the right to distribute the copy of the computer program made by the original acquirer with the copyright holder’s consent by downloading the program from the internet onto a data carrier if the original acquirer has erased his program copy or no longer uses it.

Download of software is a “sale” that exhausts the distribution right

The CJEU first determined that a “sale” of a software license within the meaning of Directive 2009/24 is any transaction by which a person acquires ownership of a tangible or intangible asset against payment of a price. The court then found that Oracle had “sold” a copy of the software in question to the original acquirer despite Oracle’s contention that the licensee was only permitted to download and use the software if he had concluded a license agreement with Oracle. Since the license granted by Oracle was perpetual and the download of the software would be useless without the right to use that software, the court regarded the download and perpetual license as an inseparable transaction and consequently as a “sale”. The CJEU does not consider it relevant whether the “sale” concerns a physical copy of a software or a download based on Art. 1 para. 2 Directive 2009/24. If the protection granted for computer programs under the Directive extends to computer programs in any form including intangible form, the court reasoned, exhaustion must also occur irrespective of whether the software is distributed in tangible or intangible form. Furthermore, the CJEU reasoned that the distribution via download and in physical media are comparable economically and functionally. Last but not least, the court expressly stated that limiting “...the principle of the exhaustion of the distribution right... solely to copies of computer programs that are sold on a material medium would allow the copyright holder to control the resale of copies downloaded from the internet and to demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the rightholder to obtain an appropriate remuneration. Such a restriction of the resale of copies of computer programs downloaded from the internet would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned.” The court held consequently that contractual terms to the contrary cannot prevent exhaustion and each purchaser of a copy of software for which the distribution right is exhausted is a “lawful acquirer” within the meaning of the Directive.

Exhaustion extends to updated and patched versions

Oracle contended that the software maintenance agreement concluded with the original purchaser would prevent the distribution right from being exhausted because the software had been updated or patched subsequent to the first “sale” and hence the copy of the software after updates was no longer the copy originally sold. The court ruled that while exhaustion does only extend to the copy originally sold and the maintenance agreement is not “exhausted”, the maintenance of the copy originally purchased cannot prevent exhaustion because the purchaser acquired the right to use the software in its updated form independent of whether the maintenance agreement would be terminated at some point.

Volume licenses may not be unbundled

In stating that the original purchaser who resells his copy of the software must make his own copy unusable at the time of the resale, CJEU clarified that a bundle of licenses may not be split up, *i.e.* the original purchaser of a license for *e.g.* 25 users cannot sell only a part of the license for five users since he would in that case retain a copy of the software while also selling a copy thereof, consequently violating the rightholder’s exclusive right to copy.

Technical measures preventing copying remain permissible

The court recognized that it is difficult for the rightholder to ascertain whether the reseller makes his copy unusable but did not consider that this difficulty was particular to downloaded software since it is equally difficult to ascertain that the reseller of a physical copy of software did not make another copy for himself before the resale. In this context, the court expressly pointed out that the rightholder may employ technical measures to ensure that the original purchaser cannot retain a copy for himself upon reselling.

Consequences and limitations of the decision

The decision obviously and clearly permits the resale of software licenses if (i) the license is perpetual, (ii) it is sold as a whole and (iii) the reseller does not retain a copy of the software for himself. It is also clear that contractual terms cannot limit exhaustion and therefore do not offer a possibility to prevent resale of such software.

However, the decision's consequences in practice may not be as far-reaching as it appears. Firstly, it is important to recognize that the decision only expressly addresses *perpetual* licenses. Hence, licenses granted for a limited period may not result in exhaustion of the distribution right since the grant of such a license may not qualify as a "sale" within the meaning of the Directive.

Also, the decision does not obligate software providers to make such resales possible technically. Software providers can still employ technical measures not only to ensure that their original customers cannot retain a copy of a software they re-sell but also to make it virtually impossible to re-sell because the final purchaser would not be able to use the software, *e.g.* because the software is made available via a download that then binds it to a specific machine or because it cannot run without a connection to the software provider's servers. While this issue has been decided in some jurisdictions, *e.g.* Germany (*cf. e.g. BGH* decision of 11 February 2010, I ZR 178/08 – *Half-Life 2*), where it was held that exhaustion allowing resale does not occur in case the software only runs when connected to the software provider's servers and registration with those servers is only possible once, effectively making it impossible for anyone but the first to register with these servers. It remains to be seen whether this issue will be looked upon differently in other jurisdictions and whether the CJEU will eventually have the opportunity to rule on it as well.

For the time being, software providers should carefully consider their options and offer only time-limited licenses to legally restrict resale. It needs to be kept in mind, however, that the CJEU's decision does not address whether even a time-limited license may qualify as a "sale" and result in exhaustion under certain circumstances. In addition, trademark law may allow software providers to restrict resale. A trademark owner's rights are not exhausted "*where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired.*" (Art. 7 para. 2 Dir. 2008/95/EC). Depending on individual circumstances, *e.g.* if software cannot be updated or maintained after a resale, it could be regarded as "changed or impaired" and the trademark could then be infringed by resale. Resellers and especially their customers must bear in mind the limited scope of the CJEU's decision before engaging in sales and purchases of used software licenses.

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