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EU Court Rules on the Resale of "Used" Computer Programs in *UsedSoft GmbH v. Oracle Intl. Corp.*

On July 3, 2012, the Court of Justice of the European Union (the "EU") released its much-anticipated ruling in *UsedSoft GmbH v. Oracle International Corp.*[1] Under EU law, the distribution right of a software copyrightholder is exhausted after the first authorized sale, so that a lawful acquirer is entitled to resell software. The Court held that this right applies regardless of whether the software was originally distributed on a physical medium or as a download from the copyrightholder's website. Taking a different approach than U.S. courts, the Court also held that a copy of a computer program is deemed "sold" where the acquirer obtains the right to use its copy for an "unlimited period" of time in return for the payment of a "fee" enabling it to obtain a "remuneration corresponding to the economic value" of such copy, even if the acquirer enters into a license purporting to restrict transfers by the acquirer.[2]

1. BACKGROUND

Oracle distributes most of the software it markets, including the software in question in this case, as downloads from its website rather than on a physical medium such as a CD/DVD-ROM. Customers who enter into a license agreement with Oracle and pay a one-time fee are granted the right to download and store a copy of the software on their equipment and to use the software for an unlimited period of time. Oracle's license agreements provide that these rights are non-transferable.

UsedSoft is in the business of acquiring and reselling "used" software licenses (or parts of them) directly from customers of software publishers, including Oracle. After acquiring a license to Oracle software, UsedSoft customers simply download a copy of the program directly from Oracle's website onto their equipment.

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1 Case C-128/11, *UsedSoft GmbH v. Oracle International Corp.*, July 3, 2012 (not yet published), available at http://goo.gl/L9F2m.

2 The Court of Appeals for the Ninth Circuit held that "*a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer the software, and (3) imposes notable use restrictions*". *Vernor v. Autodesk*, 555 F. Supp. 2d 1164; and Adobe Systems, Inc. v. Hoops Enterprise, LLC, No. 10-2769 (N.D. Cal. Feb. 1, 2012).

Oracle objected to UsedSoft's resale of Oracle software and sought an injunction from a German court, the Landgericht München I. After the German court granted Oracle's injunction and UsedSoft's appeal was dismissed, UsedSoft appealed to the Bundesgerichtshof. Although the Bundesgerichtshof was of the opinion that UsedSoft and its customers infringed Oracle's exclusive right of reproduction under Oracle's license agreement, it referred the case to the Court of Justice for a preliminary ruling on several questions relating to the interpretation of the EU Software Copyright Directive[3] and Online Copyright Directive.[4]

The Software Copyright Directive was adopted in 1991 with a view to harmonizing the legal protection afforded to software across the EU. It provides that Member States must protect computer programs by copyright as literary works within the meaning of the Berne Convention. The Online Copyright Directive was adopted in 2001 to harmonize certain aspects of copyright and related rights in the information society across the EU. These directives provide that the first sale in the EU of a copy of a protected work by the copyrightholder or with its consent exhausts the right to control resale of that work in the EU.

2. RULING OF THE COURT

2.1 *"Sale" rather than "license"*

As noted, the Software Copyright Directive provides that "*the first sale in the [EU] of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the [EU] of that copy*" (Article 4.2).

In the request for a preliminary ruling, the Court was asked to clarify when a transaction is a "sale" leading to exhaustion of a copyright in software for purposes of the Software Copyright Directive. The Court held that a "sale" occurs where a customer of a copyright holder downloads a copy of the program and enters into an agreement relating to that copy under which the customer (i) receives a right to use that copy for an unlimited period, (ii) in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work.

Accordingly, the acquirer of a copy of a program in relation to which the copyrightholder's distribution right is exhausted should be regarded as a "lawful acquirer"

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[3] Directive 91/250/EEC, *O.J.*, May 17, 1991, L 122/42 as amended by Directive 93/98/EEC, *O.J.* November 24, 1993, L 290/9, consolidated in Directive 2009/24 on the legal protection of computer programs, *O.J.*, May 5, 2009, L 111/16.

[4] Directive 2001/29 on the harmonisation of certain aspects of copyright and related rights in the information society, *O.J.*, June 22, 2001, L 167/10.

with all the benefits attaching to this status under the Software Copyright Directive, including the right to reproduce the program without the copyrightholder's consent where necessary to use the program in accordance with its intended purpose.

The Court noted that the effectiveness of the exhaustion principle under the Software Copyright Directive would be undermined if copyrightholders could circumvent the directive merely by calling a contract a "license" rather than a "sale" agreement.

2.2 *Application to tangible and intangible copies alike*

The Court rejected the argument based on the Online Copyright Directive (Article 4 and Recitals 28 and 29[4]) that the exhaustion principle relates only to tangible property and not to intangible copies of computer programs downloaded from the internet. The Court noted that the Online Copyright Directive makes no explicit distinction between tangible and intangible copies, and in any case the governing law in this case is the Software Copyright Directive.

2.3 *Exhaustion extends to corrected and updated copies*

The Court similarly rejected Oracle's argument that exhaustion should not apply to corrected and updated copies of the original program downloaded by the original acquirer under its maintenance agreement with Oracle. The Court held that corrections and updates form an integral part of the copy originally downloaded and can be used by the original acquirer for an unlimited period of time, even if the customer does not renew the maintenance agreement.

2.4 *The right to resell is conditioned on the original copy being made unusable*

The Court held that an original acquirer who resells a tangible or intangible copy of a computer program for which the copyrightholder's distribution right is exhausted must make his or her own copy unusable. The copyrightholder is entitled, in the event of download of the copy from his website, to ensure by all technical means that the original copy is made unusable upon resale. Although the Court did not discuss what these means might involve, software publishers could potentially include notice requirements or provide for audit rights in their agreements.

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[4] Article 4 provides that the distribution right shall be exhausted "*... where the first sale or other transfer of ownership in the [EU] of that* object *is made by the rightholder or with his consent.*" Recital 28 and 29 state respectively that "*[c]opyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a* tangible *article*" and that "*[t]he question of exhaustion does not arise in the case of* services *and* on-line services *in particular*" (emphasis added).

The Court noted, however, that an original acquirer is not entitled to divide a multiple-user license and to resell only any excess user rights, since in this case the original acquirer's copy(ies) would not be rendered unusable. Similarly, an existing licensed user of a copy of the program who does not have to carry out a new installation could not acquire rights for additional seats from another licensed user, as these additional rights would not relate to the resold copy.

3. IMPLICATIONS

3.1 *Possible software industry reactions*

Software producers may react to *UsedSoft* in a number of ways. For example, software producers may adjust their contract structures to avoid their license agreements being construed as sales. Software producers may for instance link their license fees to the period or intensity of use or provide for running royalties instead of fixed up-front fees.

Software publishers might also resort to technological protection measures intended to ensure that no resale can occur unless the original acquirer retains no usable copy. For instance, license agreements could be revised to require an original acquirer to notify the producer and provide for remote disabling of the program on the first acquirer's system prior to any resale.

Software producers may also seek to migrate their programs to the cloud, where they would be offered as services rather than products.[5]

In view of the Court's concern to avoid circumvention of the Software Copyright Directive by a change in legal form from a sale agreement to a license agreement, it is doubtful whether a prohibition on resale contained in a separate agreement, such as maintenance agreement, would be enforceable. However, less restrictive provisions, such as a requirement that an acquirer offer to sell its software back to the original seller at a pre-agreed price prior to offering it for resale to third parties, might be upheld.

3.2 *Other types of digital content*

As the Court repeatedly stated, the provisions of the Online Copyright Directive do not affect those of the Software Copyright Directive. Accordingly, the Court's conclusions in relation to computer programs covered by the Software Copyright Directive do not necessarily apply to other types of digital content covered by the Online Copyright Directive, such as music, movies and e-books. It is likely, however, that the concept of

[5] EU law does not provide for exhaustion in the case of (on-line) services (such as licensing of content for broadcasting, making available through streaming, software-as-a-service, or other cloud-based services, for example). See Recital 29 of the Software Copyright Directive.

"first sale" under the Online Copyright Directive will be interpreted in light of the *UsedSoft* ruling. Until the Court is asked to rule on this specific issue, publishers of literary works might resort to technological protection measures to limit the resale of their works.

If you have any questions, please feel free to contact any of your regular contacts at the firm or any of our partners and counsel listed under "Antitrust and Competition" or "Intellectual Property" under the "Practices" section of our website at http://www.clearygottlieb.com.

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