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On July 3, the Court of Justice of the European Union ("CJEU") held that Oracle could not oppose the resale of copies of its software programs by UsedSoft, a company that acquired the software from Oracle licensees in the European Union ("EU").[1] This decision, which contrasts with decisions by a majority of U.S. courts that have considered the same issue, will apply retroactively to software previously distributed by U.S. companies to users in the EU. However, U.S. companies may take one or more steps to mitigate the impact of the UsedSoft decision on future software agreements with EU users.

The *UsedSoft* decision

Although Article 4.2 of the Directive on the Legal Protection of Computer Programs 2009/24 ("Directive 2009/24") states that the sale of a computer program exhausts the exclusive distribution rights of the owner of the program, Oracle asserted that exhaustion did not apply because its customers were required to enter into a license agreement that granted only a nontransferable right to use the programs for a limited period of time. The CJEU rejected this argument, finding that where the license contemplates an indefinite right of use, it equates to a "sale" for purposes of Directive 2009/24, noting:

> … [I]f the term "sale" within the meaning of Article 4(2) of Directive 2009/24 were not given a broad interpretation as encompassing all forms of product marketing characterised by the grant of a right to use a copy of a computer program, for an unlimited period, 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 of which he is the proprietor, the effectiveness of that provision would be undermined, since suppliers would merely have to call the contract a "licence" rather than a "sale" in order to circumvent the rule of exhaustion and divest it of all scope.[2]

Oracle next asserted that it was providing a service when it allowed customers to electronically download its software programs from the Internet, and that the provision of such a service did not give rise to exhaustion of its exclusive distribution right. Even though the Directive on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society 2001/29 ("Directive 2001/29") states that the provision of services over the Internet does not cause exhaustion of rights, the CJEU rejected this argument, finding that it made no difference whether the copy of the program was made available by means of a download or by means of a material medium such as CD-ROM or DVD.

Oracle also argued that Article 4(2) of Directive 2009/24 does not relate to contracts for services, such as maintenance agreements, and that the exhaustion doctrine should not be extended to allow the resale of computer programs that include updates and enhancements that were provided by way of a separate maintenance agreement. The CJEU disagreed, noting that:

> Even if the maintenance agreement is for a limited period, the functionalities corrected, altered or added on the basis of such an agreement form an integral part of the copy originally downloaded and can be used by the acquirer of the copy for an unlimited period, even in the event that the acquirer subsequently decides not to renew the maintenance agreement. In such circumstances, the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 extends to the copy of the computer program sold as corrected and updated by the copyright holder.[3]

However, the CJEU did place some restrictions on the right of such licensees to resell the Oracle software programs. First, it held that the exhaustion doctrine does not permit a licensee to resell only a portion of the license. Second, the CJEU noted that an original acquirer who resells its program must make its own copy unusable at the time of the resale.

The CJEU decision contrasts with U.S. law

The CJEU decision contrasts with the majority of U.S. courts which have considered the issue whether a licensee of a software program has the right to resell that program notwithstanding a contractual prohibition against transfer. Although the U.S. Copyright Act includes a provision similar to Article 4.2 of Directive 2009/24, that the sale of a copyrighted work exhausts the distribution right of the owner of the work,[4] §109(d) expressly states that exhaustion does not "extend to any person who has acquired possession of the copy … by rental, lease, loan or otherwise, without acquiring ownership of it."

In a recent decision, a reseller of used copies of certain Autodesk programs brought a declaratory judgment action against Autodesk to establish his right to resell these programs. The Federal Court of Appeals for the Ninth Circuit held that a user is a licensee rather than an owner of a copy of a software program 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.[5] Applying that test to the facts of the case, the court concluded that Vernor was a licensee rather than an owner of Autodesk's software and therefore was not entitled to resell the used programs in violation of the restriction against transfer in the license.

Effect of CJEU decision on U.S. software companies

As a result of the CJEU decision, which is not appealable, U.S. software companies that have licensed software in the EU for an indefinite term will no longer be able to oppose the resale of copies of their software, including any updates and enhancements provided under a separate maintenance or support agreement, by EU licensees, even if their license agreements prohibit such transfers.[6]

It is not clear whether U.S. software companies will be able to stop the resale of a software program in the U.S. by EU licensees. Because Article 4(2) only provides that a sale of a software program within the EU exhausts all rights within the EU, U.S. exhaustion law will determine whether the re-importation and sale of software programs in the U.S. will be allowed. In *Quality King Distributors, Inc., v. L'Anza Research International, Inc.,* the U.S. Supreme Court permitted the reimportation and sale of products that were originally produced in the U.S. and resold for shipment overseas at a reduced price.[7] However, in light of 17 U.S.C. §109(d) which prohibits applying the first sale doctrine to licenses, even if a court were to find that the first sale by a right-holder in the EU exhausted U.S. copyright, an importer would still have to convince a U.S. court that the CJEU holding should be applied to imported software that was licensed rather than sold.[8]

Recommendations

We recommend that U.S. software companies that are distributing their programs to EU users consider taking one or more of the following steps to mitigate the impact of the UsedSoft decision.

1. Use Fixed Term Licenses. The CJEU ruling made clear that its decision was based on Oracle's grant of a license for an unlimited duration at a fee designed to obtain the economic value of a sale. As a result, software companies that continue to license software to EU residents should consider licensing the software for a fixed, rather than indefinite, term, although a merely formal time period that exceeds the likely useful life of the software (e.g., 25 or 50 years) is unlikely to work.

2. License Blocks of Users. The CJEU ruling also made clear that a licensee will not be permitted to sell less than its entire license to a third party. As a result, software companies should consider licensing on a volume basis for a block of users or nodes, or enterprise-wide, rather than providing separate licenses for individual users, which will be easier for a licensee to resell.

3. Prohibit Transfer of Maintenance Agreements; Limit Maintenance to Approved Transferees. The CJEU ruling does not require software companies to allow licensees to transfer maintenance agreements associated with the transferred software. As a result, software companies should be sure to include prohibitions against transfer in their maintenance and support agreements. Since the value of software depreciates over time unless it is continuously updated, software companies may also wish to decline to provide maintenance to subsequent transferees of software programs.

4. Accelerate Transition to SaaS Model. Many U.S. software companies have been offering software as a service ("SAAS"), where access to software is provided on a subscription basis, as an alternative to the more traditional software license, and some have been transitioning to SaaS as their exclusive distribution model. Even if U.S. software companies continue to offer a license alternative to U.S. customers, they may wish to use SaaS exclusively for EU customers. In a true SaaS model, software is not delivered, and as a result, the company should be able to rely on Directive 2001/29, which states that the provision of services over the Internet will not cause exhaustion.

Notes

1 Case C-128/11, *UsedSoft GmbH v. Oracle International Corp.,* 2012 EUR-Lex CE LEX LEXIS _ (July 3, 2012).

2 Id, Para. 49.

3 Id, Para. 67, 68.

4 17 U.S.C. §109(a).

5 *Vernor v. Autodesk,* 621 F. 3d 1102 (2010), cert. den. 132 S. Ct. 105 (2011).

6 It is not clear, however, whether subsequent transferees are bound by the terms of the original license. The CJEU ruling notes that Article 5(1) of Directive 2009/24 provides that, "in the absence of specific contractual provisions, the reproduction of a computer program does not require authorisation by the author of the program where that reproduction is necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction." Presumably, the courts will look to the original license to determine the "intended purpose" of the use.

7 532 U.S. 135 (1998).

8 Raymond L. Sweigart, **Could Software Imports from Europe Bypass U.S. First Sale and IP Exhaustion Laws?**, JDSupra (2012).

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