



Client Alert

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If your company licenses software, music, movies, or similar intellectual property, two recent federal court decisions may leave you scratching your head as to whether your license is, in reality, a “sale,” allowing your licensee freely to transfer or sell the licensed copy of your intellectual property to others. In light of these decisions, it may be prudent to include license termination provisions triggered by the licensee’s end of use of the licensed work or based on a future date.

The Lawsuits

Traditionally, under copyright law, a license is treated differently from a sale in one crucial respect. A licensee does not have the right to transfer or sell the licensed copy of the copyrighted work. A purchaser of a copy of the copyrighted work, however, is free to further transfer or sell the purchased copy of the work to others under the First Sale Doctrine. Note that neither a licensee nor a purchaser has the right to make additional copies of a copyrighted work; that right remains with the copyright holder unless otherwise assigned.

In *Vernor v. Autodesk*, a lawsuit filed in a federal court in Washington, and *UMG Recordings, Inc. v. Augusto*, a lawsuit filed in a federal court in California, this traditional principle was given a fresh look, and the courts came to a very surprising conclusion.

In the *Vernor* case, the plaintiff sought a declaratory judgment that the used copies of Autodesk software purchased and sold by him on eBay were lawful pursuant to the First Sale Doctrine. Autodesk, of course, disputed this contention because it claimed that its software was “licensed” and that the license agreement allowed only for nonexclusive use of the software, prohibiting the further sale, rent, lease, or transfer of the software.

Similarly, in the *Augusto* case, the plaintiff music recording company brought a copyright infringement suit against an individual who was selling promotional music CDs. The company claimed that the promotional CDs had been provided to a limited number of industry insiders and had been stamped “not for resale,” creating a license only to use the CD. The defendant claimed that he was allowed to sell the CDs under the First Sale Doctrine.

Both courts ruled that the sellers were “owners” for purposes of the First Sale Doctrine, and that their sales of the copyrighted works were lawful. The courts paid short shrift to the license agreement in *Vernon* and the CD stamped not for resale in *Augusto*. Rather, considering the totality of circumstances, the courts found it important that the person to whom the software

or music was originally transferred had been allowed to keep the software or music perpetually. The courts found it crucial that the transferees were not required to *return* the software or music to the licensor. The courts found that the licensee's right perpetually to possess and use the copyrighted work evidenced a sale, and not a license, thus allowing further transfer of the copyrighted work under the First Sale Doctrine.

What This Means For You

The law of intellectual property is constantly changing. While these decisions do not presently constitute the majority view, they may in the future. To safeguard your intellectual property rights, it may make sense to review your licenses and determine whether the operative language gives your licensee the right perpetually to possess the licensed intellectual property. If so, you may want to revise your licensing agreements to include a provision whereby the licensed work must be returned to your company after the licensee terminates its use of that work. Optionally, you may want to include a specific end date by which the licensed work must be returned. While this date may be several years out, this provision could help negate the argument that the licensee has the right perpetually to possess a copy of your intellectual property.

Not if, but how

Arnall Golden Gregory, LLP has significant experience in the area of intellectual property licensing, including drafting licensing agreements and resolving licensing related disputes. Do not hesitate to contact us if we can be of help to you.

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