

Unbundling of Software Volume Licenses as a New Business Model: A Question of Exhaustion under EU and U.S. Copyright Laws?

Research project

Investigator:

Petra Heindl

Abstract:

Recently, a market for so-called "second-hand software" has emerged in Europe, particularly in Germany. The business model of second-hand software retailers is to purchase all licenses or individual unbundled component-licenses originating from a volume software package from insolvent or downsizing companies and make those licenses available to third parties at discount prices below the prices of any reseller authorized by the software copyright owner. Possibly as a consequence of the upheaval in the financial markets, second-hand licensing has proven to be an issue of legal and practical interest not only in Europe but also around the world. Although the concept of the new business model is economically sound, the legal implications have not yet been settled by either U.S. or EU copyright laws.

At the outset, this paper will provide a brief overview of the ongoing discussions in Europe and the United States on whether licenses to use the target software shall be subject to exhaustion under any of the doctrines applicable in either jurisdiction. According to these doctrines, the copyright owner's exclusive right to distribute the software will essentially expire once a tangible copy of the software has been resold for the first time. With a view to the current legal background of software licensing, this paper undertakes to analyze whether either copyright regime intended the unbundling of volume software license packages and the subsequent resale of such single licenses to second-hand software retailers for further resale to trigger exhaustion.

A study of German case law shows its federal courts recently arrived at contradicting rulings on that legal question. Courts in Munich, finding in favor of Oracle, held that the assignment of software licenses (other than the dissemination of software products) does not trigger exhaustion of the distribution right. Oracle sold software volume license packages to licensee-customers by making its software available for online download through the licensees. UsedSoft GmbH ("UsedSoft") then resold individual unbundled licenses to third parties. Given that no tangible copy of Oracle's software was transferred to the licensees, the Munich courts held that selling second-hand software licenses was prohibited. Yet, the regional court in Hamburg reasoned that the first sale of a software volume license package vests the purchaser with the right to distribute as many copies of the target software as licenses were purchased under that package. Microsoft sold software volume license packages to licensee-customers by handing over a single master copy to the licensees. The Hamburg court ruled that the resale of each individual unbundled license exhausts Microsoft's exclusive distribution right in each of the software licenses sold. Based on this contradicting case law, the German Federal Court of Justice (*Bundesgerichtshof*) has been asked to rule on the questions of whether reselling second-hand software is legitimate, as well as whether exhaustion applies to the online distribution of software. The German Court is expected to announce its decision in February 2011. However, the European Court of Justice (ECJ) has not yet been asked to harmonize the respective European copyright case law in general.

U.S. copyright case law on second-hand software licensing is sparse. Legal research on U.S. copyright law shows that the statutory provisions of the Copyright Act purport to deny the legitimacy of unbundling software license packages for the purpose of redistribution. Furthermore, as economic reasoning so far has played a more substantial role in shaping the contours of U.S. software copyright law than of EU copyright law, this paper will discuss the economic considerations underlying U.S. copyright law that may likely influence respective court rulings in the future. Since U.S. case law appears to deal with the sale of second-hand software in the context of preemption (i.e. whether or not software copyright owners are entitled to enforce provisions in software license agreements prohibiting the unbundling of software volume license packages), this paper will discuss the possible implications of preemption on unbundling volume software packages and reselling individual licenses from a U.S. law perspective.

The overall goal of this paper is to construe the legal and economic parameters that may impact the final rulings of the ECJ or the U.S. Supreme Court in cases dealing with the resale of unbundled second-hand software licenses. The legal outcomes on both sides of the Atlantic can strongly influence not only the emergence of a worldwide "second-hand software industry" but also the resale of digital content in general (e.g. iTunes, music downloads, and videos resold via eBay).

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