

When a License is Not a License, Software Manufacturer May be Forced to Tolerate eBay Resales

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On May 20, 2008, in *Vernor v. Autodesk, Inc.*, the U.S. District Court for the Western District of Washington held that that agreements styled as software “licenses” may actually constitute software “sales,” a decision with potentially powerful implications for third party rights to resell the software. If other jurisdictions follow this court’s lead, software publishers may be forced to rethink their license agreements.

Autodesk’s design software allows architects to use 2D and 3D technologies to visualize their work in the design process. One of Autodesk’s software packages is called AutoCAD. Cardwell/Thomas Associates (“CTA”), a Seattle architecture firm, obtained several copies of the AutoCAD packages from Autodesk under a “license” that was explicitly nontransferable.

Vernor purchased these packages on a number of occasions, including from CTA and at a garage sale. In 2005 and 2007, Vernor attempted to resell these AutoCAD packages on eBay. Autodesk sent Digital Millennium Copyright Act (“DMCA”) notices to eBay, which promptly suspended the auctions. Vernor sent counter-notices and the auctions were reinstated.

eBay suspended Vernor’s account for a month after his fourth attempt to sell an AutoCAD package met resistance from Autodesk. In correspondence between the parties, Autodesk threatened “to take further action” if Vernor continued his sales activities.

With two more AutoCAD packages purchased from CTA to sell, Vernor filed a declaratory judgment suit, trying to preempt legal action from Autodesk. Autodesk responded with a request that the court grant summary judgment in its favor. The district court denied Autodesk’s motion, holding that Vernor could invoke the first sale doctrine under copyright law in seeking a declaration of his rights to resell Autodesk’s software on eBay.

As the court saw it, the dispute centered on whether the first sale doctrine could limit Autodesk’s rights in the software packages at issue. The first sale doctrine extinguishes certain of a copyright holder’s rights in its work. While it does not permit a purchaser to copy the work freely, it does allow the purchaser to resell the copy it lawfully owns. 17 U.S.C. § 109(a).

Thus, the court had to decide whether CTA “bought” or “licensed” the AutoCAD packages. This would not, the court explained, be governed simply by the title of the agreement, but would hinge on specific terms of the agreement between Autodesk and CTA.

The district court examined several Ninth Circuit cases, concluding that it must rely on *United States v. Wise*, 550 F.2d 1180 (9th Cir. 1977), which dealt with the rights arising out of agreements between movie studios and the transferees of movie prints. The district court held generally that when the copyright holder requires return of the work, a license exists, and when the copyright holder does not require return of the work, it has likely made a sale. Copyright holders may put restrictions on sales, but if they have sold their copies rather than licensed them, they may be subject to the first sale doctrine. While they may sue their direct purchasers for breach of a sales contract, they will not be able to prevent downstream resale by third parties with whom they have no contractual relationship.

The district court held that because the agreement between Autodesk and CTA involved a single payment for software that CTA was entitled to retain, the transaction amounted to a sale with contractual restrictions. As a result, the first sale doctrine applied. Vernor owned his copies of the software, and his actions simply involved selling packages that contained copyrighted materials.

Autodesk may yet assert that its license agreement with CTA is binding upon Vernor, a legal theory that the court has not ruled out. The court seems skeptical about this, however, in light of the provision stating that the license is non-transferable.

While the district court's order is subject to appeal and may not resonate in other jurisdictions, it sounds alarm bells for software companies operating under the belief that they can prevent downstream sales of their technology simply through using the word "license" in agreements with their customers. If other jurisdictions take this approach, software manufacturers must rethink the way they style their transactions. If they attempt to form true "licenses," as this district court defines them, they face the potential burden of policing software-return clauses.

On the other hand, if manufacturers continue to enter into "sales" with customers who then resell software to third parties, they may encounter administrative difficulties in identifying and enforcing their rights against a third party's customers who improperly copy and distribute their software products.

Software companies and other copyright licensors should examine the terms of their "licenses" through the lens of a court that might consider them "sales," and consider how best to protect their intellectual property. ✧