

***Autodesk* Decision Gives Software Companies Tool to Prevent Resale of Licensed Software by Unauthorized Third Parties**

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On September 10, the U.S. Court of Appeals for the Ninth Circuit held in *Vernor v. Autodesk*¹ that the first sale and the essential step doctrines do not apply to purchasers of a copy of software when the software was initially provided under a restrictive license. The *Autodesk* decision provides software companies with a useful tool under the U.S. Copyright Act of 1976 (the Copyright Act) to prevent unauthorized third parties from reselling licensed software.

The plaintiff in *Autodesk* purchased several used copies of Autodesk's AutoCAD software from an Autodesk customer and attempted to resell the software on eBay. Autodesk asserted that the attempted sale violated its exclusive right to distribute its software under the Copyright Act. The plaintiff filed a declaratory judgment action requesting that the court hold that his sale was not infringing on the basis of, among other defenses, the affirmative defenses known as the first sale doctrine, which precludes the copyright owner from restrictions after the first sale of the product, and the essential step doctrine, which allows owners of a copy of software to reproduce such software to the extent essential to its use.

While the trial court on cross motions for summary judgment found in the plaintiff's favor based on the first sale doctrine, the Ninth Circuit reversed this decision, holding that any resale of the software was not protected under the first sale doctrine and did not fall within the essential step doctrine. The court's decision rests on a finding that Autodesk's initial customer only licensed the software pursuant to a controlling agreement, rendering the asserted affirmative defenses inapplicable.

Autodesk distributes its software with a written license agreement that appears on the software packaging and on the user's screen during installation of the software. The agreement contained, among other provisions, that Autodesk retains title to all copies and that customers only have a nonexclusive, nontransferable license to the software. The license also imposed significant transfer and use restrictions prohibiting any rental, lease, or transfer of the software without the consent of Autodesk, and barring any use or transfer outside the Western hemisphere. In particular, the license agreement provided for automatic termination of the license if the customer fails to comply with the restrictions.

¹ *Timothy S. Vernor v. Autodesk, Inc.*, No. 09-35969, 555 F. Supp. 2d 1164, 1170-71, 1175 (W.D. Wash. 2010).

In order for the first sale doctrine to apply, the Ninth Circuit held that the user must *own* rather than license the software. To assess whether a customer owned or licensed software, the court articulated a three-part inquiry: 1) Does the copyright owner grant the user a license; 2) Does that license significantly restrict the user's ability to transfer the software; and 3) Does that license impose use restrictions?

After *Autodesk*, when a customer is bound by such a restrictive license agreement, that customer likely will be deemed a licensee and not entitled to avail itself of the first sale doctrine.

In its application of this test to *Autodesk*, the court found that the initial user was only a licensee because Autodesk retained title to the software and sufficiently restricted transfer and use of the software. The case was remanded for the district court, however, to consider whether Autodesk had misused its copyright. (As the court states, "misuse is an equitable defense to copyright infringement which precludes the copyright holder's enforcement of its copyright during the misuse period.")

This decision does not mean that transfers of desktop software are never allowed. Instead, when software is licensed, the transferability of the software will be dictated by the terms of the license, rather than the first sale doctrine.

In light of this decision, it is advisable for copyright owners to reassess their own software license agreements to confirm they provide restrictions that will allow for enforcement in this manner, and to reassess their enforcement policies for unauthorized resale of software licenses. Potential licensees of software should consider whether proposed license terms are commercially reasonable based on their business needs and plans before accepting those terms. Users should not assume that "shrink-wrap" agreements for desktop software can never be negotiated.

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