



Trading »Used« Software

Guide

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1 Introduction

For some time, dealers, insolvency administrators, and companies that use software themselves have been offering (their) »used software« or »used software licenses« to the public. These are mainly surplus (»shelfware«) or discarded software programs.

The term »used software« has different meanings. It usually does not refer to the redistribution of original, but used data media containing the software, but rather to rights of use that the rightholders (software producer or other authorized licensors) initially granted a particular person or company and that are now supposed to be transferred to a third party.

Software licensed under rental agreements is excluded from these kinds of transactions – and therefore this kind of licensing model is not part of this guide. Most notably this includes agreements explicitly called leases or rental agreements, as well as SaaS (Software as a Service) offerings and cloud computing, which is becoming increasingly widespread.

The basic background to the discussion in this publication is the question whether digital goods such as software are to be handled in the same way as cars, for example, which can be resold easily by their owners. Unlike the legal situation for cars, the special situation regarding the transfer of software licenses is that software is protected by copyright and therefore the copyright laws need to be adhered to. Since non-physical, virtual products such as software can be copied any number of times without any reduction in quality and thus are particularly susceptible to »piracy«, meaning copyright infringement, the German legislator has established specific provisions protecting software (Articles 69a et sequentia German Copyright Act (UrhG)).

The issue relating to used software is one of the most disputed subject matters in German and European copyright laws. In this context, the Oracle lawsuit against the used software dealer Usedsoft that is still ongoing since 2006 has set a legal precedent in Germany. After the lower courts in Munich (LG München I and OLG München) had dealt with the case, the German Federal Supreme Court (BGH) submitted the case to the Court of Justice of the European Union (CJEU) in Luxembourg.¹ Although – based on the CJEU ruling² – the BGH³ issued many judgmental statements, it referred the case back to the appellate court for decision and gave precise instructions for the new ruling. In the lawsuit brought by the software manufacturer Adobe against the used software dealer Usedsoft, the BGH addressed the subject in the context of volume licensing again, but the BGH's ratio decidendi were not available at the time this guide was published.⁴

Based on the difficulties regarding the legal classification of distributing used goods and the uncertainty for customers, BITKOM considers it useful to analyze the existing case law and to provide some information on the distribution of used software and its legal classification. The aim is to clarify and answer issues that have been settled or for which the supreme court(s) have reached a clear decision, but also to provide an overview of those issues that are either disputed or remain to be addressed.

¹ BGH, case reference I ZR 129/08 »Usedsoft I,« ruling from February 3, 2011.

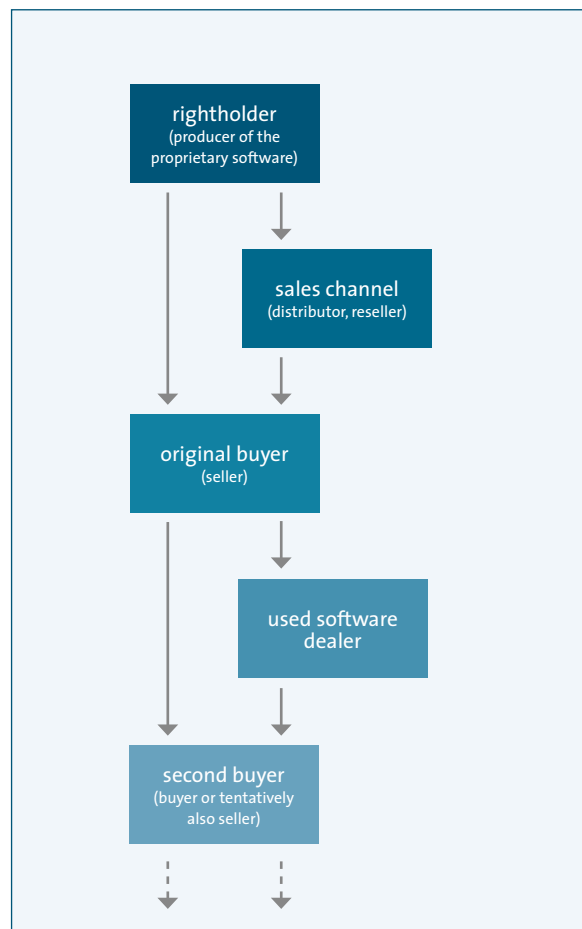
² CJEU, case reference C-128/11, verdict from July 3, 2012.

³ BGH, case reference I ZR 129/08 »Usedsoft II,« verdict from July 17, 2013

⁴ BGH, case reference I ZR 8/13, verdict from December 11, 2014.

Common scenarios in delivering software may be on the one hand the classic delivery of a data medium with software installed on it. On the other hand there may also be a simple granting of the right to use the software for a certain number of work stations, usually by handing over a license certificate, a serial number or a certificate of authenticity. Either the rightholders provide the download of the software themselves (direct sales) or they use a sales channel (e.g. distributors, resellers, etc.). The classic scenario of copying software to physical data media and delivering it is becoming less and less common since internet connections have become faster, meaning that complex software systems can now also be distributed and downloaded via the Internet.

Note on terminology: The term »rightholder« means the producer of the proprietary software. The term »original buyer« means the initial (first) licensee and thereby the initial user of the software. The original buyer may have received the software from the rightholder directly, or via one of its sales channels. The subsequent transfer of the software, which is the significant part of trading »used« software, can either be arranged by the original buyer or by a company referred to herein as a »used software dealer.« In this guide the term »second buyer« means anyone who has received the software from the original buyer in one of the mentioned ways and has or claims to have a right of use with regard to the transferred software. Since second buyers can also resell software again, thereby forming transfer chains, herein all other persons or companies transferring software are called »sellers« and all other receivers are called »buyers.«



terminology used in this guide for the different scenarios of licensing used software

2 Principles under Copyright Law

Regardless of the specific dispute in the context of trading of used software, the applicable copyright laws contain some basic stipulations concerning software licenses that have to be observed by everyone involved, in particular by rightholders and customers:

Firstly, different conditions apply to the lawful use of software than to the use of other works protected by copyright, such as books or music titles. Computer programs can only be used by being installed on a computer's hard disk and loaded to the random access memory (»RAM«) of a computer. The crucial factor is that both when installing and loading to the RAM, the computer program is reproduced. And this is subject to a right of use granted by the rightholder, meaning a license.

According to Article 34 (1) UrhG any right of use, including the right to produce copies (»right of reproduction«) may only be transferred from the original buyer to a third party with the rightholder's consent. In a nutshell: Without the permission of the rightholder, licenses may not be transferred.

However, with regard to the transfer, it is always necessary to differentiate between the transfer of licenses (rights of use only) and the transfer of data media (with the usable object code of the software on it). A rightholder cannot prohibit the further distribution of a data medium if this has previously been brought to the market in the European Economic Area by the rightholder itself or with the consent of the rightholder (Article 69d (3) sentence 2 UrhG). In these cases the rightholder's right of distribution »exhausts«. Given the language in Article 69d (3) sentence 2 UrhG this »Exhaustion Doctrine« only applies to the right to distribute a »copied version«, meaning a physical copy of the software. Nevertheless, the wording does not mention the right to reproduce the software by way of installing and loading it to the RAM. However, every user requires such a right of reproduction to install and to use the software.

Notwithstanding the aforementioned lack of (contractually agreed) reproduction rights, under certain conditions, users are allowed to install software without a contractual right of reproduction. This statutory right of use is stipulated in Article 69d (1) UrhG (see section 4.4 below).

After all – following basic legal principles in German Law – anyone who is using third party copyright protected works must be able to prove that either the rightholder has granted the respective use right(s) or the preconditions of Article 69d (1) UrhG are met (see section 4.5 below for information concerning the burden of proof).

3 Controversial Matters of Law

The legal discussions, most notably caused by technological progress, focus on the following issues, which have only partially been clarified by German and European supreme courts:

- Does the right of distribution also exhaust if the software was originally distributed via a download?
- May the rightholder prohibit or restrict the transfer of the right of reproduction in license agreements based on the requirement of consent in Article 34 (1) UrhG?
- If the transfer of the rights of use was explicitly excluded in the license agreement, does the second buyer acquire at least a statutory right of use in accordance with Article 69d (1) UrhG for the copy transferred to him or her?
- Is the original buyer or the used software dealer obliged to provide the second buyer with a (physical) copy of the software or is it sufficient that the second buyer is able to download the software from the home page of the rights holder?
- Is it permitted to split up volume licenses and transfer them in parts?
- May a second buyer increase his extent of usage of a software already owned by him prior to the used software transaction through the additional purchase of used licenses? (Enhancement of rights of use (licenses) only for an already existing physical copy of the software«)?
- Is the customer at all times required to be able to prove the entire license chain right back to the rightholder?
- Is a notarial certificate adequate to prove that pre-conditions of the »Exhaustion Doctrine« (Article 69d (3) sentence 2 UrhG) and thus for the authorization to use the used software are met?

4 The Rulings of the CJEU and the BGH

The CJEU delivered its first verdict containing answers to a number of open questions regarding the trade of used software licenses in 2012.⁵ Following the CJEU ruling, the BGH took the opportunity to set aside the appellate judgment reached by OLG München in the matter of Oracle vs. Usedsoft⁶ and to remit the case for retrial.⁷ The BGH also gave its judgement in the matter of Adobe vs. Usedsoft⁸ based on the CJEU ruling. Therefore any evaluation of legal issues concerning the trade of used software licenses should be based upon following premises:

The courts state that the different methods of distributing software on data media or via download are comparable from an economic perspective. Therefore the rightholder's right of distribution is exhausted, regardless of how the software was distributed initially; however, this is subject to certain preconditions, which are explained in more detail below. If these preconditions are met, the second buyer may use the software in accordance with its (the computer program's) intended purpose as stipulated in Article 69d (1) UrhG; the second buyer can invoke a statutory right of use. What is considered intended use in terms of Article 69d (1) UrhG depends on the stipulations contained in the license agreement between the rightholder and the original buyer.

■ 4.1 Prerequisites of the Exhaustion Doctrine

According to the BGH, exhaustion is subject to the following strict conditions:

- **Perpetual license grant:** The rightholder must have granted the original buyer the right to use the software perpetually, meaning for an unlimited period of time. This means that leased / rented software cannot be transferred.
- **Payment of an appropriate license fee:** The rightholder must have issued its license in return for payment of a fee that enables him to obtain remuneration corresponding to the economic value of the copy of its work. It is irrelevant whether such remuneration has actually been generated. Rather, the BGH states that it is sufficient that the rightholder had this option at the time at which the software in question was first sold.
- **Deleting or making unusable all copies of the software:** Exhaustion can only occur if the original buyer/seller and the used software dealer, where applicable, have deleted or made unusable their own copies of the software at the time of resale. Software improvements and updates that were embodied in the transferred copy/copies at the time of transfer must have been covered by an effective maintenance agreement concluded between the original buyer or the used software dealer and the rightholder. Both the original buyer or used software dealer and the second buyer must prove that the conditions stated here are met (see section 4.5 below).

⁵ CJEU, case reference C-128/11, verdict from July 3, 2012.

⁶ OLG München, case reference 6 U 2759/07, verdict from July 3, 2008.

⁷ BGH, case reference I ZR 129/08 »Usedsoft II,« verdict from July 17, 2013.

⁸ BGH, case reference I ZR 8/13, verdict from December 11, 2014.

■ 4.2 Legal Consequences

If the above mentioned conditions have been met, the transfer of the software copy is legal. The second buyer of such an »exhausted« program copy is then entitled to use the software in accordance with its (the computer program's) intended purpose (see section 4.4 below) based on his or her statutory right of use as stipulated in Article 69d (1) UrhG.

According to case law, the second buyer is not required to receive exactly the identical program copy that the rightholder originally put on the market or that the original buyer downloaded. Therefore, the second buyer may download his or her own copy also from the home page of the rightholder to then use this copy in accordance with the statutory right of use as stipulated in Article 69d (1) UrhG. However, if this copy contains improvements and/or updates compared with the program copy that the rightholder originally put on the market or that the original buyer downloaded, the second buyer should be aware of the prerequisites to use this improved / updated copy (see section 4.1 above, final paragraph).

■ 4.3 Limitations

Despite the basic decision that trading of used software is allowed in principle the courts have also established several limitations.

The BGH emphasizes that stipulations interdicting the transfer of the licensed software contained in the license terms of many rightholders cannot be generally considered to be void. In case there are legal limitations concerning the used software, the original buyer may not transfer its contractual right of use to the second buyer. Therefore the second buyer does not obtain a contractual use right, but only a statutory right of use (Article 69d (1) UrhG), to use the software in accordance with »its intended purpose« as the BGH stated.⁹ To what extent this »intended purpose« is given has to be clarified on a

case-by-case basis taking into consideration the initial license agreement, meaning that for the second buyer stipulations of the initial license agreement and any agreed individual contractual limitations are of importance (see section 4.4 below).

The above mentioned obligation to destroy or make the own copy / copies unusable, implicates for client/server architectures, that the original buyer or used software dealer may not split up use rights purchased for a certain number of users and sell these use rights in packages (»splitting«). Therefore, client/server licenses may only be resold as a whole or not at all. Since, with regard to the original inextricable link between the program copy put on the market and the associated use rights, such a splitting would result in a prohibited reproduction of the program copy covered by the exhaustion. Neither may the second buyer:

- a) Purchase isolated additional use rights for additional users and thereby use an existing, own program copy for a corresponding larger number of work stations
- b) Purchase used software containing the originally or newly downloaded (meaning exhausted) program copy and the respective use rights but then allow the »individual users« to use an already existing program copy, rather than letting them use the newly acquired program copy (»enhancement of right of use (license)«).

This is because both of these cases result in illegally unlinking the statutory right of use (license) with the (exhausted) program copy. Both the CJEU and the BGH consider the corresponding right of use inextricably linked to the »exhausted copy« of the software program, which in the mentioned cases is not the case.

⁹ BGH, case reference I ZR 129/08 »Usedsoft II,« verdict from July 17, 2013, point 43..

■ 4.4 Extent of the Statutory Right of Use – »Intended Purpose«

According to the BGH, the second buyer's authorization to use the exhausted copy directly results from the statutory rights in Article 69d (1) UrhG. So this is exclusively comprising the right to perform such acts that are necessary for the use of the computer program in accordance with its intended purpose, and the use right(s) explicitly does / do not arise from assigned contractual use right(s). According to the interpretation of the BGH, the statutory rights of use of the second buyer are nevertheless defined in accordance with the license agreement concluded between the rightholder and the original buyer. In other words: The provision in Article 69d (1) UrhG simulates, by law, exactly those rights of use that were granted to the original buyer by the license agreement. Thus, for example, a restriction on the number of users (e.g. only 25 concurrent users) also applies to the second buyer.

However: The rights belonging to the core area of Article 69d (1) UrhG, such as the acts of use required to load and operate the program, may not be contractually excluded.

■ 4.5 Burden of Proof Rules

In order to reduce the risk of abuse, the BGH imposes an extensive burden of proof on both the original buyer or used software dealer and the second buyer. Whoever invokes the exhaustion must prove all prerequisites of exhaustion, meaning:

- The software was purchased against payment
- Perpetual right of use was granted
- The copies of the original buyer and all possible interim buyers have been deleted or made unusable
- Proving the extent and volume of the use rights initially granted by the rights holder

Providing such evidence may prove to be extremely difficult in some cases. The more often the licenses have already been transferred, the more effort is involved in proving the mentioned prerequisites for the entire license chain. It is recommended that anyone interested in acquiring used software asks to see the initial license agreement. This is the only way to check whether an actual existing use right is being sold, and not only some »presumed use right«. The initial license agreement is also the only way to see to which extent the buyers are entitled to use the software (see section 4.4 above). It is advisable here to clarify any ambiguities before purchasing used licenses and involving the rightholder where necessary.

The approach taken by some used software dealers to submit notarial certificates was explicitly considered to be insufficient proof by BGH.

Accordingly, further measures are required to avoid the risk of infringing copyrights. This copyright infringement may be a result of the original buyer or the used software dealer making false statements during the transfer or of another seller not having fully clarified the origin of the program copy. Therefore, it may minimize risks to request the names of all previous buyers from the seller and to seek confirmation from all of them that all copies of the software have been destroyed or made unusable. In this context, the potential archiving of data and its occasional reprocessing using a program copy necessary for this is also to be taken into account.

To reduce potential financial damages, it is useful to demand full indemnification clauses with regard to the claims of the rightholder from both the original buyer and the used software dealer.

5 Open Questions and Outlook

Despite extensive case law, many questions remain unanswered since they relate to individual decisions based on particular business models. Perhaps the pending ratio decidendi in the Adobe case will provide more clarity. It is also likely that there will be future legal disputes based on different business models and license terms. In particular the following questions arise:

- Does the interdiction to split licenses apply to all types of »volume licenses«?

Both the CJEU and the BGH proceedings involving Oracle dealt explicitly with client/server licenses only. These licenses, as outlined above (see section 4.3 above), must not be split. The question to which extent this applies to all types of volume licenses or license packages, for which the user initially acquired the right to install a particular software program on more than one PC, is also still highly disputed in jurisprudence and legal literature. Clarity may only be provided by the BGH's ratio decidendi in the Adobe case, dealing with so called volume licenses.

- What is the effect of the contractual restrictions of use in the initial license agreement?

Since the provisions of the initial license agreement between the rightholder and the original buyer remain effective, the question of which provisions also affect the second buyer arises. In case the transfer of the software to a third party is completely excluded, this does not prevent the second buyer from being able to invoke a statutory right of use. However, the effect of other restrictions concerning the use of the software in the initial license agreements remains unclear (e.g. named users, concurrent users). There is good reason to believe that the buyers of the used software are also bound by these restrictions. As a result, until further Supreme Court decisions have been reached, there is a certain degree of legal uncertainty. However, the BGH's ratio decidendi in

the Adobe case may also provide clarity here. The Adobe case concerned so called »Academic-Licenses« or »Educational Licenses«. It is recommended that companies or end users interested in purchasing and/or using »used« software ask to see the initial license agreement and check it with regard to any restrictions of use, or at least to obtain certification from the original buyer or used software dealer stating that no such restrictions are in force and if there are any, showing which restrictions are contained in the initial license agreement. Therefore, it is advisable to adhere to these restrictions as a precaution. For example, if for client/server software, a named user license was originally granted for 50 users the second buyer should also only allow a maximum of 50 specific, named users to use the software, and not allow any more than 50, even with the provision that only 50 users may concurrently use the software. The latter would be equivalent to a so called concurrent user license, which was not granted in the situation described.

- Are maintenance agreements automatically transferred while purchasing used software?

The maintenance agreement affects the rightholder and the original buyer insofar as all repaired and updated versions that were improved, changed or extended under a valid maintenance agreement are subject to the Exhaustion Doctrine. Therefore, in these cases the second buyer receives the right to use the software copy in its updated, improved state as at the time of resale. Usually only such (current) version may be downloaded from the server of the rights holder.

However, the maintenance agreement is not transferred to the second buyer; to this effect, no authorization whatsoever can be derived for the second buyer from the principle of exhaustion, since with regard to the (maintenance) services provided by the rights holder, the current judgment is that no exhaustion occurs. Therefore, if the second buyer wishes to keep

the purchased »used« licenses under maintenance, this requires an independent conclusion of a maintenance agreement with the rightholder or another service provider authorized to maintain the software.

- How can I prove that the program copies have been destroyed or made unusable?

To date, no supreme court has declared how the term »making unusable« is to be interpreted. The question here is whether it is sufficient to use the deletion tools usually provided by the operating system, or whether additional measures need to be taken to ensure that the copy cannot be restored. Once again, anyone who does not wish to take any risks needs to have all previous buyers outline the measures they have taken.

- What are the ramifications of licensing models granting licenses for temporary use only (»leasing or rental models«)?

For exhaustion to occur a program copy must originally have been sold granting a perpetual use right. For this reason, exhaustion cannot occur for leased / rented software and consequently this software cannot be transferred to a third party without the consent of the rightholder.

Also, the costfree licensing of a test version with a limited period of use might not meet the conditions for exhaustion.

Only in clear attempts of circumvention that are theoretically possible, but irrelevant in practice – for example, the agreement of a lease period of 50 years for software that is released as a new version every three years – could exhaustion occur.

Finally, ASP or SaaS business models in the cloud are not subject to the Exhaustion Doctrine. This is because only temporary non-perpetual licenses are granted. Furthermore, within these business models no program copy is put on the market; only the implementation of certain data processing activities is owed.

6 Checklist

The statements above show that sellers and buyers should act with due diligence when purchasing and selling used software or used software licenses. This checklist provides you with an overview of what you need to consider when purchasing or selling used software from a copyright perspective, to minimize risks.

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- No leased / rented software – evidence required!
 - Software was sold against remuneration in the European Economic Area by the rightholder – evidence required!
 - All copies belonging to all sellers have been destroyed or made unusable – evidence required!
 - Software updates are covered by an effective maintenance agreement between the original buyer and the rightholder – evidence required!
 - The initial license agreement between the original buyer and the rightholder does not have any agreed restrictions of use – if it does, these are to be adhered to!
 - Indemnification regarding claims due to possible copyright infringements by original buyer/seller or used software dealer!
 - Maintenance agreement for the future wanted?
– New conclusion of such an agreement with the rightholder or other entitled party (e.g. service partner) required!
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BITKOM represents more than 2,200 companies in the digital sector, including 1,400 direct members. With more than 700,000 employees, our members generate a domestic turnover of 140 billion Euros a year, exporting high-tech goods and services worth another 50 billion Euros. Comprising 1,000 small and medium-sized businesses as well as more than 250 start-ups and nearly all global players, BITKOM' members offer a wide range of software technologies, IT-services, and telecommunications or internet services. They produce hardware and consumer electronics or operate in the sectors of digital media and the network industry. 76 percent of the companies' headquarters are located in Germany with an additional amount of 10 percent in other countries of the EU and 9 percent in the USA as well as 5 percent in other regions. BITKOM supports an innovative economic policy by focussing the modernization of the education sector and a future-oriented network policy.



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