

License vs. Sale

A. The First Sale Doctrine

The theory of the First Sale Doctrine under the Copyright Act 17 U.S.C. 101 *et. seq.* is that an individual who *purchases* an authorized copy may use and resell that particular copy free of any restraint by the copyright owner. 17 U.S.C. § 109(a) (emphasis supplied). See *Bobbs Merrill Co. v. Straus*, 210 U.S. 339 (1908). A copyright owner's sale of an authorized copy "exhausts" the copyright owner's exclusive distribution and display rights, such that the purchaser may use, resell, or display that copy free of any claim of infringement. 17 U.S.C. § 109(a).¹ In short, the First Sale Doctrine addresses a *copy owner's rights* as opposed to the *copyright owner's rights*.

The First Sale Doctrine does not apply, however, to the separate exclusive rights of copying, derivative work preparation, and public display or performance. See 17 U.S.C. § 106 (which sets forth five separate and distinct rights). See, e.g., *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275, 280 (4th Cir. 1989) and *Columbia Pictures Industries, Inc., v. Aveco, Inc.*, 800 F.2d 59, 64 (3d Cir. 1986). See also 17 U.S.C. § 109(e) (which, to legislatively overrule *Red Baron*, permits display of copyrighted video games in coin-operated equipment). The First Sale Doctrine only applies to the *copyright owner's* exclusive rights of distribution and display in its copyrighted work which are "automatically" conveyed to the buyer or the copy owner upon sale. 17 U.S.C. § 109(a) and (c).²

Section 106(3) provides that the copyright owner has the exclusive right to distribute and to authorize distribution of copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership or by rental, lease, or lending. Section 106(4) and (5) give the copyright owner the exclusive right to publicly perform or display a literary, musical, dramatic, or choreographic work or a pantomime, motion picture, or other audiovisual work. Section 106(6) gives the copyright owner the exclusive right to perform

1. Section 109(a) codifies the First Sale Doctrine, which provides "Notwithstanding the provisions of Section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of that copy or phonorecord."

2. The owner of a copyright embodying the copyright work receives only the right to display that physical copy where it is located. 17 U.S.C. § 109(a)

a sound recording work publicly by means of a digital audio transmission. To prove infringement, the copyright holder must demonstrate only that it possesses a valid copyright, that the copyrighted material was registered for copyright and show unauthorized copying. The principal means of showing unauthorized copying is through access and substantial similarity. *Ford Motor Co. v. Summit Motor Products*, 930 F.2d 277, 290-91 (3d. Cir. 1990). (copying is shorthand for violating any of the five exclusive rights of copyright owners)

Software developers, in order to avoid application of the First Sale Doctrine and retain control over redistribution of their programs, have typically distributed even mass-market software under license, rather than through an outright sale, in order to prevent the First Sale Doctrine from severing control over redistribution. See *Microsoft Corp. v. Software Wholesale Club, Inc.*, 129 F. Supp.2d 995 (S.D. Tex. 2000) (first sale doctrine not applicable to licensed software); *Adobe Systems, Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1089 (N.D. Cal. 2000) (“First sale doctrine is only triggered by an actual sale.”); *Allen-Myland, Inc. v. International Business Mach. Corp.*, 746 F. Supp. 520 (E.D. Pa. 1990) (first sale doctrine does not apply to computer programs).

For computer software, Section 109(b) limits the First Sale Doctrine and the rights of copy owners in three ways. First, adaptations may not be transferred without permission of the copyright owner. This is true even under the First Sale Doctrine as there is no right to create derivative works. Second, under Section 117 the owner of a program may make an archival copy or that any adaptation of the program is essential to use of the original by a computer, and that the creator of the copy may only transfer it as part of lease, sale, or other transfer of rights in the underlying program. Exact copies authorized to be made under Section 117 may be transferred without permission of the copyright owner only as part of a transfer of all rights in the underlying program. The distribution right conveyed to the buyer does not, for example, include the right to make further copies for resale.

Third, it provides that the owner of a copy of computer software cannot lend or rent that copy to third parties without permission from the copyright owner. See *Microsoft v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208 (E.D.N.Y. 1994) (unauthorized distributor of a copy of software not entitled to protection under First Sale Doctrine because owner licensed not sold software to distributor’s supplier); *Triad Systems Corp. v. Southeastern Express Co.*, 64 F.3d 1330 (9th Cir. 1995), cert. denied, 516 U.S. 1145 (1996) (software sold to customers is subject to 17 U.S.C. § 117 protection while copies that are licensed are not); and *Stenograph LLC v. Sims*, 2000 WL 964748, 55 U.S.P.O. 2d 1436 (E.D. Pa. 2000) (first sale doctrine does not apply to gifts).

Known as the Computer Software Rental Amendments Act of 1990, Section 109(b) also addresses computer software rentals. It provides that, unless authorized by the owner of the copyright in a software program (including any tape, disk, or other medium embodying such program), no person in possession of a particular copy of software program (including any tape, disk, or other medium embodying such program) may, for the purposes of direct or indirect commercial advantage, dispose of or authorize the disposal of the possession of that computer software (including any tape, disk, or other medium embodying such program) by rental, lease, or lending, or any similar act. Section 109(b)

specifically excludes nonprofit libraries and nonprofit educational institutions from its prohibitions on renting, leasing, or lending copies of copyrighted software. In short, Section 109 prohibits the rental of a copy of a computer program by the owner of a copy without the permission of the licensor. 17 U.S.C. § 107. See generally, *Central Point Software, Inc v. Global Software & Access, Inc.*, 880 F. Supp. 957 (E.D.N.Y. 1995).

Section 109(d) further limits the scope of application of the First Sale Doctrine by providing that, unless authorized by the copyright owner, the provisions of 17 U.S.C. § 109 (a) and (c) do not extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without also acquiring ownership of it.

B. Transfer of Intellectual Property Rights

In general, there are two means of conveying intellectual property rights: assignments and licenses (17 U.S.C. § 201(d)(1) and (2)). A license applies to *intangible* property rights while a “sale” applies to the transfer of *tangible* property. 17 U.S.C. § 202; see also *Chamberlain v. Cocola Assoc.*, 958 F.2d 282 (9th Cir. 1992).

The First Sale Doctrine, which applies to the sale of a tangible *copy* of software, provides that such sale conveys certain rights to the buyer in the purchased tangible copy of the software, namely the buyer’s right to resell the software copy. 17 U.S.C. § 109(a). This right is in derogation of the overall copyright and it is also “automatically” transferred to a new buyer if the copy is resold. 17 U.S.C. § 117. Any transfer of ownership in a copyright must be through an unambiguous written agreement. *Davis v. Meridian Films, Inc.*, 2001 WL 758765 (4th Cir. 2001).

Typically, the sale of software is not a “sale” of a copy (or anything else) within the meaning of Section 109. The only thing that is sold when software is “sold” at retail is the media on which the copyrighted work is fixed. Certain rights inherent in the work are licensed in conjunction with the sale. A copyright owner who grants a nonexclusive license to use copyrighted material generally waives the right to sue the licensee for a copyright infringement to the extent of the license granted. *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115 (9th Cir. 1999).

An assignment is an absolute conveyance of the intangible rights and equates to a “sale,” with the caveat that a sale typically only conveys the absolute right of distribution and, subject to certain exceptions, the right to display and use. *MacLean Assoc., Inc. v. William M. Mercer-Meidinger-Hanson, Inc.*, 952 F.2d 769 (3d Cir. 1991). A “sale” does not include, for example, the rights of performance or preparation of derivative works rights.

Similar to an assignment, an exclusive license, even if limited in time or place of effect, can amount to a “transfer of copyright ownership.” 17 U.S.C. § 201(d)(2). Under the Copyright Act, transfer of an exclusive license is considered to be a conveyance of copyright ownership to the extent granted in the license. 17 U.S.C. § 201(d)(2).

6 A Practical Guide to Software Licensing for Licensees and Licensors

In short, entering into a license agreement in which the licensor reserves title is not a “sale” for purposes of the Copyright Act. For example, a licensee cannot distribute the licensor’s software without the licensor’s authorization, because the licensor is still the owner of the intellectual property. *Relational Design & Technology, Inc. v. Brock*, 1993 WL 191323 (D. Kan. 1993).

See Chapters 3.A.7 and 3.B for a more detailed discussion.